



This is where it all comes together.

2014 SILICON LABS ANNUAL REPORT



To Our Shareholders

Silicon Labs exited 2014 with growing momentum, achieving record revenue of \$621M and growing seven percent from 2013. Broad-Based products targeting Internet of Things (IoT) and Internet Infrastructure applications led the way, and now represent over half our revenue as we continue to gain share in these large and dynamic markets. Geographically, we saw growth across all regions led by the Americas, fueled by expansion in industrial and consumer markets as we increase our leadership in the IoT. Year-on-year design win activity increased almost 20 percent, and our customer base grew nearly 30 percent to approximately 25,000. Broadcast and Access delivered strong results as well, reflecting the differentiation and sustainability of these products.

Silicon Labs was founded on principles of conservative financial management, and has delivered solid operating performance through semiconductor cycles. As a result, cash flow from operations has been positive for nearly every quarter since we went public in 2000. In 2014, the company established a new record, with operating cash flows of \$137 million. Strong cash generation enabled the company to repurchase approximately \$72 million in shares, and the company ended the year with \$343 million in cash, cash equivalents and investments.

The company's operating expenses continue to reflect significant investment in R&D, primarily related to products, software and

solutions to address the IoT market. Our multi-year investment strategy is yielding results, where we have strengthened our portfolio organically and through key acquisitions. Unlike vertical markets dominated by a few large customers, the IoT is a green field of tens of thousands of prospective customers, ranging from Kickstarter funded start-ups to established brand names. We saw over 20% annual growth in our MCU, wireless and sensor revenue as we continue to gain traction in IoT related applications including home automation, security systems, wearables and smart metering.

Our goal is to provide complete solutions for the IoT market where our IC is at the heart of the system and we can control the integration path. Our solutions begin with a comprehensive portfolio of energy-friendly MCUs, diverse wireless connectivity options, and smart sensors. We believe Silicon Labs is one of the few semiconductor companies today with the ability to integrate these essential silicon building blocks into system-on-chip platforms to serve this broad market opportunity.

We are driving the future of wireless connectivity for the IoT as a leading supplier of ZigBee and sub-GHz solutions, a founding member of the Thread Group, and now a prominent provider of Bluetooth and Wi-Fi modules and software with our recent acquisition of Bluegiga. Our customers are now able to leverage our ICs, software, modules, development

Non-GAAP Financials*

In thousands, except per share data

	Q1	Q2	Q3	Q4	FY2014
REVENUE (000'S)	\$145,691	\$154,918	\$158,144	\$161,951	\$620,704
% GROWTH	-0.4%	6.3%	2.1%	2.4%	7.0%
GROSS MARGIN	\$87,690	\$99,231	\$96,702	\$97,299	\$380,922
% OF REVENUE	60.2%	64.1%	61.1%	60.1%	61.4%
R&D	\$34,997	\$34,413	\$34,796	\$37,225	\$141,431
% OF REVENUE	24.0%	22.2%	22.0%	23.0%	22.8%
SG&A	\$28,492	\$31,333	\$32,078	\$32,294	\$124,197
% OF REVENUE	19.6%	20.3%	20.2%	19.9%	20.0%
OPERATING EXPENSES	\$63,489	\$65,746	\$66,874	\$69,519	\$265,628
% OF REVENUE	43.6%	42.5%	42.2%	42.9%	42.8%
OPERATING INCOME	\$24,201	\$33,485	\$29,828	\$27,780	\$115,294
% OF REVENUE	16.6%	21.6%	18.9%	17.2%	18.6%
NET INCOME	\$18,420	\$25,540	\$22,954	\$24,458	\$91,372
% OF REVENUE	12.6%	16.5%	14.5%	15.1%	14.7%
EARNINGS	\$0.42	\$0.58	\$0.52	\$0.57	\$2.09

*Please see the supplemental tables provided in this report for a reconciliation of GAAP to non-GAAP results in Appendix I. Past performance does not guarantee future results. This Annual Report to Shareholders contains forward-looking statements, and actual results could differ materially. Risk factors that could cause actual results to differ are set forth in the "Risk Factors" section and throughout our 2014 Form 10-K, which is included in this Annual Report.

kits and Simplicity Studio to advance quickly from design idea to final product.

Accelerating demands for bandwidth are driving the transition to higher speed networks. Timing technology is essential for network upgrades, and Silicon Labs is a leading supplier of timing products for Internet infrastructure. Further market penetration and a strong pipeline of new product introductions drove record 2014 design wins in Timing as we continue to expand our high-performance, frequency-flexible portfolio and development tools to meet the stringent demands of data center, wireless base station and core network applications.

Our Broadcast products continue to deliver strong results with industry-leading performance, scalability and integration. Delivering 45 percent growth year-on-year, our automotive radio products continue to gain traction in the market with a growing list of design wins at tier 1 suppliers to automotive OEMs in the Americas, Europe and the Asia-Pacific region. Our TV tuners achieved more than 55 percent share of the worldwide TV market in 2014.

Looking ahead to 2015, we are very excited about our product pipeline. We see many opportunities ahead in the IoT market where we plan to deliver platform solutions that will give us a technology edge over our competitors, while making the “things” in our lives smart, connected and energy

friendly. By targeting the largest growth segments of the IoT and expanding our portfolio into new markets such as Bluetooth Smart and wireless modules, we will expand our SAM and further differentiate ourselves as the leading IoT semiconductor company.

It’s exhilarating to be at the forefront of the IoT. We believe we have the core products and technologies in place and are now focused on execution. We are well positioned for growth in 2015 and beyond and look forward to introducing new and disruptive silicon and software solutions that solve our customers’ toughest challenges.

We appreciate your investment in Silicon Labs.

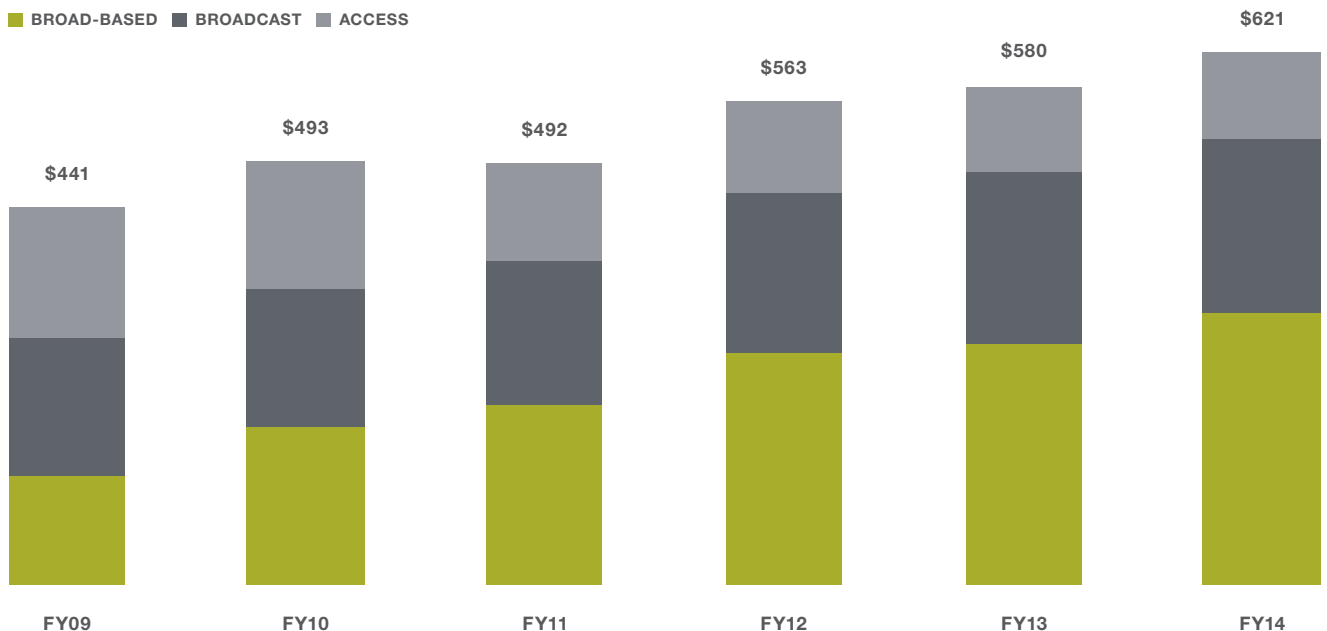


Tyson Tuttle
Tyson Tuttle
Chief Executive Officer

Nav Sooch
Nav Sooch
Chairman

Revenue

In millions



We're not interested in good enough.

Good enough doesn't move the needle.
It doesn't push the envelope. Good enough
didn't get us to the moon.

It's not enough to imagine the world we want to live in—we have to build it. Driven by relentless curiosity and a passion for exceeding expectations we set out to solve the unsolvable. We know we can do things that have never been done before because we've done them.

Imagine. Tinker. Innovate. Integrate. Build.

Your success isn't defined by any singular metric. Neither is ours. Power, size, cost, reliability and performance are non-negotiable. You expect features and efficiency, you need to do more with less and you demand performance without penalty.

At Silicon Labs we create the silicon, software and tools that become your unfair advantage. We make it simple for engineers and designers to create products that disrupt industries. Because today's challenges don't require a bigger hammer—just a sharper nail.

Together we will do incredible things.





Sixth-generation TV Tuners

Nine out of the world's top ten TV makers have adopted Silicon Labs' TV tuner technology, now in its sixth generation. Optimized for the China market, the Si2151/41 TV tuner family provides unsurpassed RF performance, the smallest footprint and BOM cost, and the lowest power consumption for TV and set-top box designs.



Automotive Radio Tuners

Designed to be a truly global automotive radio solution, the Si4790x tuner family supports all leading broadcast standards worldwide. Our scalable architecture enables infotainment system suppliers to leverage their investments across multiple product lines ranging from entry-level car radios to cutting-edge multi-tuner, multi-antenna radios for premium vehicles.



Clock-Tree-on-a-Chip

The Si534x family offers the most frequency-flexible clock solution with the lowest jitter and highest integration for high-speed networking, communications and data center equipment providing the foundation for Internet infrastructure. The combination of clock synthesis and jitter attenuation simplifies "clock trees" for complex timing applications.

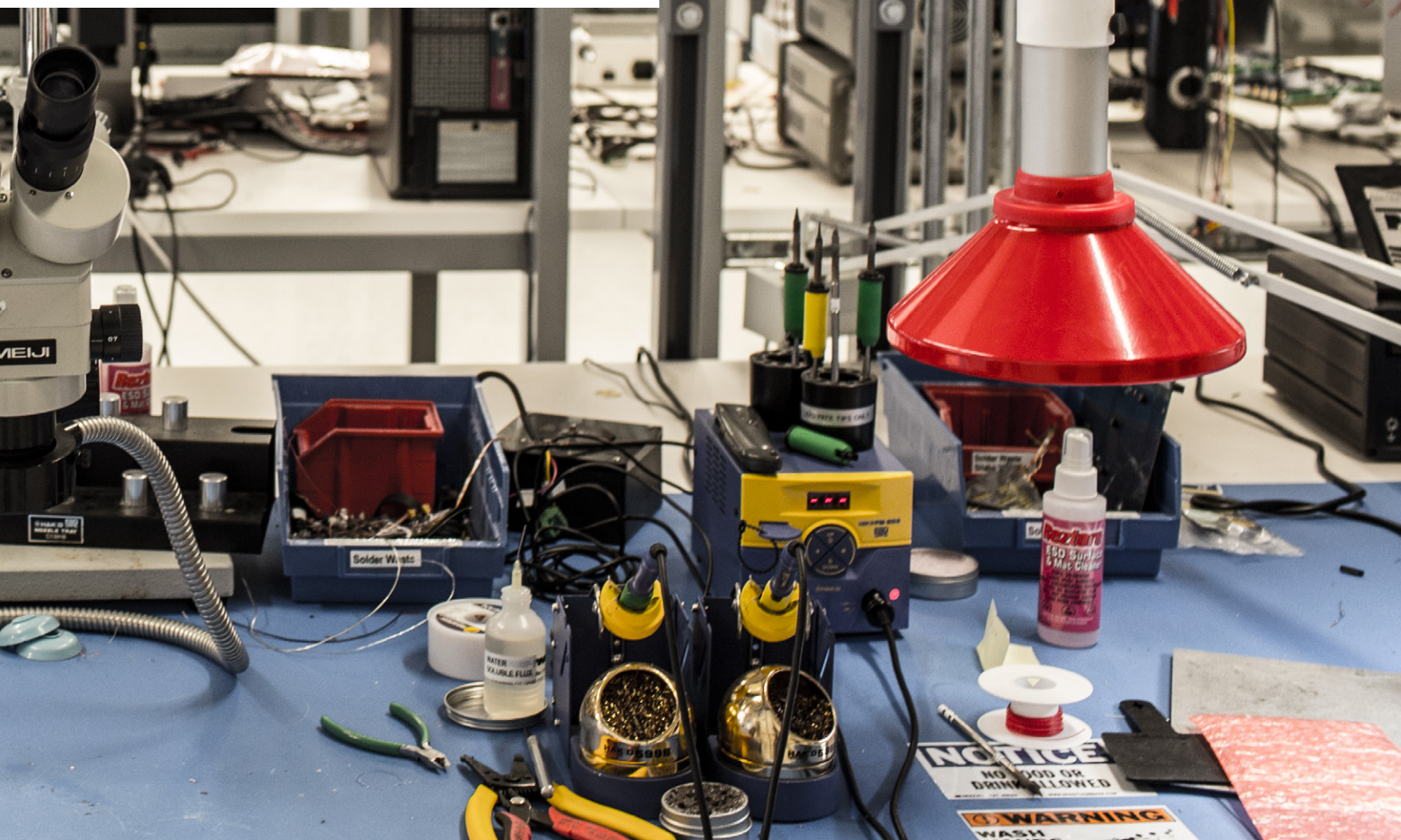
We believe that engineering is ultimately about humanity.

It's about solving today's problems with solutions that don't exist—yet.

We are a family of engineers, designers and innovators dedicated to solving our customers' toughest challenges with energy-friendly MCU and wireless solutions. We make it simple for engineers and designers to create the next generation of devices that push the limits of possibility. With unmatched simplicity, performance and reliability we help them get to market faster and give them the tools and support to maintain their competitive edge.

Because we know that the technology isn't all that matters—it's what you're able to do with it. And seeing what you do with our software and solutions inspires us. This is what drives us ahead. It's what moves us forward.

We are engineers.



Jinwen Xiao

Director of Engineering, Microcontroller and Wireless Products

Jinwen Xiao directs the development of Silicon Labs' next-generation, energy-friendly MCUs and wireless connectivity solutions that will accelerate the promise of the IoT. For nearly a decade, Jinwen has been a leader in MCU technology innovation at Silicon Labs and holds 15 patents with 6 patents pending. She has a Ph.D. in Electrical Engineering and Computer Science from the University of California at Berkeley.

“While time to market is critical to our industry, innovation is the lifeblood of a technology company. Designers must have a high sense of urgency in today’s competitive environment and continue to push boundaries. Innovations that provide superior performance, significant cost reduction and breakthroughs in bottleneck issues are the goal of successful engineers everywhere.”



Augustus “Skip” Ashton

Vice President of Software Engineering

Skip Ashton is a driving force behind Silicon Labs' software solutions for the IoT including ZigBee, Thread and sub-GHz wireless and MCU driver software and libraries. A nationally recognized expert in wireless technology, Skip has focused on wireless mesh networking and ZigBee technology for more than a decade. He is a board member for the ZigBee and Connected Lighting alliances, and he chairs the ZigBee Technical Committee and Test and Certification Committee. Skip also serves as Vice President of Technology for the Thread Group, which is guiding the future of IP-based mesh networking. His team developed the industry's first version of Thread protocol for the connected home.

“While some engineers approach the IoT from the ‘I’ or Internet level, we tackle IoT challenges at the “T” level—creating “things” that connect seamlessly to the Internet. IoT devices are amazingly complex under the cover, but they must masquerade to consumers as very simple devices, and they must operate simply and flawlessly. The key to this simplicity is software.”

Scott Caudle

Manager, Corporate Product and Test Engineering

Scott leads a team of operations engineers who are dedicated to delivering our products at the highest quality and the lowest cost. He and his team designed test equipment and best practices using Silicon Labs' own technology to produce products to the exacting standards that our customers expect. Scott joined Silicon Labs in 2003 as a software engineer, before transitioning to test engineering and also spent two years mentoring our engineers in Singapore.

“The IoT doesn’t just connect things; it gives us more ways of using things to connect humans. A more connected human world accelerates innovation, collaboration, and cultural understanding. I’m passionate about discovering simple, elegant, and efficient solutions to complex problems. This is truly a golden age for engineering.”



We make it look easy.

**Mathematics and passion. Physics and
inspiration. Power and efficiency.**

There was a time when all you needed was an idea and a workbench in the garage. While the Internet of Things (IoT) has created unprecedented opportunity, It has also introduced much greater technical challenges making the barriers to entry higher. We know what engineers and designers are up against.

Existing at the intersection of science and creativity—we thrive in solving the toughest engineering challenges. Our products are designed by some of the world's best engineers—not by a marketing department.

With a proven track record of deep mixed-signal integration, we combine MCU, wireless and CMOS to create the highest performing low-power solutions available. The resulting longer battery life and increased functionality enable entirely new categories of devices to be realized.

This ability to deliver highly-integrated SoC solutions will continue to be our key differentiator. We build the silicon, software and tools that are the foundation of the Internet of Things.

We are innovators.





Biometric Sensors

Our newest optical sensors are the industry's first single-chip digital ultraviolet index sensor ICs designed to track UV sun exposure, heart rate and blood oximetry. This unprecedented mix of functionality makes these sensors ideal for UV index and biometric sensing applications used in fitness trackers, smart watches and smartphone handsets.



Thread Mesh Network Software

As a founding member of the Thread Group, Silicon Labs is spearheading the development of Thread software for IP-based mesh networks in smart homes. Silicon Labs is the first to develop a Thread software stack, up and running on Silicon Labs' wireless MCUs at key customers.



Multiprotocol Wireless Technology

Our EZRadioPRO® ICs offer a versatile multiprotocol wireless connectivity platform for an array of IoT applications. Operable on a single coin-cell battery, our latest radios offer the highest levels of RF performance and single-chip integration in the sub-GHz wireless IC market.

This is where it all comes together.

We are delivering the building blocks that power the IoT.

Modern system solutions need to increasingly draw less power. These system solutions must support high performance, high bandwidth networks, and they have to be able to capture more data about their environment, and then communicate that data across reliable networks.

We are extraordinarily well positioned in the key growth areas of home automation, security, wearables and smart metering. The IoT market offers many exciting opportunities as we deliver new platform solutions that will give us a technology edge over our competitors, while making the “things” in our lives smart, connected and energy-friendly.

The future is all about connectivity, and all about the IoT.

We are Silicon Labs.



Compute

Our mixed-signal 8-bit and 32-bit MCUs enable ultra low power and energy-friendly smart applications.



Connect

We offer the world's most integrated, robust, reliable and designer-friendly wireless and RF IC solutions.



Sense

Our sensor portfolio streamlines the development of IoT products by enabling easy measurement of key environmental factors.



**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 3, 2015

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)

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

74-2793174

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

78701

(Zip Code)

(512) 416-8500

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 27, 2014) was \$1,981,015,271 (assuming, for this purpose, that only directors and officers are deemed affiliates).

There were 42,137,503 shares of the registrant's common stock issued and outstanding as of January 27, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

		<u>Page Number</u>
<i>Part I</i>		
Item 1.	Business	2
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	26
Item 2.	Properties	27
Item 3.	Legal Proceedings	27
Item 4.	Mine Safety Disclosures	28
<i>Part II</i>		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
Item 6.	Selected Financial Data	31
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	46
Item 8.	Financial Statements and Supplementary Data	46
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	46
Item 9A.	Controls and Procedures	47
Item 9B.	Other Information	47
<i>Part III</i>		
Item 10.	Directors, Executive Officers and Corporate Governance	48
Item 11.	Executive Compensation	51
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 13.	Certain Relationships and Related Transactions, and Director Independence	51
Item 14.	Principal Accounting Fees and Services	51
<i>Part IV</i>		
Item 15.	Exhibits and Financial Statement Schedules	52

Cautionary Statement

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

Part I

Item 1. Business

General

Silicon Laboratories Inc. designs and develops proprietary, analog-intensive, mixed-signal integrated circuits (ICs) for a broad range of applications. Mixed-signal ICs are electronic components that convert real-world analog signals, such as sound and radio waves, into digital signals that electronic products can process. Therefore, mixed-signal ICs are critical components in products addressing a variety of markets, including communications, consumer, industrial and automotive.

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

Industry Background

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

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

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

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

Products

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

- Require less printed circuit board (PCB) 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 microcontroller (MCU), wireless and sensor products, timing products (clocks and oscillators), and power and isolation devices;
- Broadcast products, which include our broadcast audio and video products; and
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) devices.

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

<u>Product Areas and Description</u>	<u>Applications</u>
<i>Broad-based Products</i>	
<i>Microcontrollers</i>	
We offer a family of products ideal for embedded systems that include, 8-bit mixed-signal microcontrollers, 32-bit wireless MCUs and ultra low-power 32-bit MCUs based on scalable, ARM® Cortex-M0/M3/M4 cores, as well as peripheral devices such as our EZRadio® family of fully integrated, low power transceivers. These products generally integrate intelligent data capture, high performance processing, and communication interfaces in a single system on a chip. This family of products addresses a variety of end-markets, including the IoT, automotive, communications, consumer, industrial, medical and power management markets.	<ul style="list-style-type: none">• Connected devices for the IoT• Home automation• Security systems• Smart energy• Automotive sensors and controls• Medical instrumentation• Electronic test and measurement equipment• Industrial automation and control• Consumer electronics• Wearables• Computer peripherals• White goods• Smart metering• Remote controls

Product Areas and Description

Applications

Timing Devices

Robust demand for bandwidth is driving the deployment of next-generation Internet infrastructure equipment to deliver higher speed, higher performance and more flexible networks. This transition puts unique requirements on the clocks and oscillators used to provide timing and synchronization for the equipment responsible for switching, transporting, processing and storing network traffic. To meet this need, we provide low jitter, frequency flexible, easily customizable timing solutions that simplify design, minimize cost and improve system reliability. Our high-performance “clock-tree-on-a-chip” family offers highly integrated single-chip IC solutions for clock synthesis and jitter attenuation, offering superior jitter performance and frequency flexibility for high data rate applications.

- Networking equipment
- Telecommunications
- Optical networking
- Wireless base stations and backhaul
- Broadcast video systems
- Servers and storage systems
- Test and measurement equipment
- HDTV cameras
- High-speed data acquisition

Power and Isolation Products

Our isolation techniques enable customers to meet safety standards for isolation and solve difficult electronic noise issues. Products include multi-channel isolators and isolated drivers that simplify design, improve reliability, minimize noise emissions, and reduce system cost.

- Motor control
- Solar inverters
- Hybrid / Electric automotive drive trains
- Industrial networking
- Switch mode power supplies
- Isolated analog data acquisition
- Electronic ballasts for lighting

Sensors

Our sensor products include optical, proximity, ambient light and relative humidity (RH) / temperature sensors. These devices leverage our mixed-signal capability to provide high accuracy, quicker response time and lower power consumption than competing parts.

- Smart home sensing
- Consumer health & fitness (wearables)
- Industrial controls
- Toys and consumer electronics
- Monitors and lavatory controls

Broadcast Products

Video Tuners and Demodulators

Our complete, globally-compliant hybrid TV tuners with analog TV demodulator in a single CMOS IC leverage our proven digital low-IF architecture and exceed the performance of traditional discrete TV tuners, enabling TV makers to deliver improved picture quality and better reception for both analog and digital broadcasts. Our small, low power and high performance digital video demodulators support DVB-T/T2, DVB-S/S2, and/or DVB-C/C2 in a single chip and are ideal for equipment receiving digital terrestrial, satellite and/or cable services.

- Integrated digital televisions (iDTV)
- Free-to-Air (FtA) or pay-TV set-top box receivers
- PC-TV applications
- DVD/HDD personal video recorders

Product Areas and Description

Applications

Broadcast Radio Receivers and Transmitters

Our AM and FM receivers deliver the entire tuner from antenna input to audio output in a single chip. The broadcast audio products are based on an innovative digital architecture that enables significant improvements in performance, which translates to a better consumer experience, while reducing system cost and board space for our customers.

- Automotive infotainment systems
- Stand-alone AM/FM radios
- Portable audio devices
- MP3/digital media players
- Navigation/GPS devices
- Satellite radios
- Home stereos

Access Products

ProSLIC® Subscriber Line Interface Circuits for VoIP

Our ProSLIC provides the analog subscriber line interface on the source end of the telephone which generates dial tone, busy tone, caller ID and ring signal. Our offerings are well suited for the rapidly expanding market for Voice over IP telephony applications deployed over cable, DSL, optical and wireless fixed terminal networks.

- Voice functionality for cable, DSL and optical digital modems and terminal adapters
- VoIP residential gateways
- Wireless local loop remote access systems
- PBXs

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, compact analog modem for embedded applications.

- Fax machines and multi-function printers
- Industrial monitoring
- Postage meters
- Security systems
- Remote medical monitoring
- Point of sale (POS) terminals

Power over Ethernet

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

- Enterprise networking routers and switches
- Wireless access points (WAP)
- VoIP phones
- Radio frequency identification (RFID) tag readers
- POS terminals
- Security cameras

Revenues during fiscal 2014, 2013 and 2012 were generated predominately by sales of our mixed-signal products. The following summarizes our revenue by product category (in thousands):

	Fiscal Year		
	2014	2013	2012
Broad-based	\$317,128	\$281,777	\$270,098
Broadcast	204,256	199,837	186,067
Access	99,320	98,473	107,129
Revenues	<u>\$620,704</u>	<u>\$580,087</u>	<u>\$563,294</u>

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 20% and 12% of our revenues during fiscal 2014, respectively. No other distributor accounted for 10% or more of revenues for fiscal 2014.

During fiscal 2014, our ten largest end customers accounted for 36% of our revenues. We had one customer, Samsung, whose purchases across a variety of product areas represented 12% of our revenues during this period. Our major customers include Cisco, Garmin, Harman Becker, Huawei, LG Electronics, Pace, Samsung, Technicolor, Varian Medical Systems and ZTE.

We maintain numerous sales offices in North America, Europe and Asia. Revenue is attributed to a geographic area based on the shipped-to location. The percentage of our revenues derived from outside of the United States was 86% in fiscal 2014. For further information regarding our revenues and long-lived assets by geographic area, see Note 18, *Segment Information*, to the Consolidated Financial Statements.

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

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

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

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

Research and Development

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

Research and development expenses were \$173.0 million, \$157.8 million and \$138.0 million in fiscal 2014, 2013 and 2012, respectively.

Technology

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

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

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

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

Analog and RF Design Expertise in CMOS

We believe that our most significant core competency is world-class analog and RF design capability. Additionally, we strive to design substantially all of our ICs in standard CMOS processes. While it is often significantly more difficult to design analog ICs in CMOS, CMOS provides multiple benefits versus existing alternatives, including significantly reduced cost, reduced technology risk and greater worldwide foundry capacity. CMOS is the most commonly used process technology for manufacturing digital ICs and as a result is most likely to be used for the manufacturing of ICs with finer line geometries. These finer line geometries can enable smaller and faster ICs. By designing our ICs in CMOS, we enable our products to benefit from this trend towards finer line geometries, which allows us to integrate more digital functionality into our mixed-signal ICs.

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

Digital Signal Processing, Firmware and System Design Expertise

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

Microcontroller and System on a Chip Design Expertise

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

Software Expertise

Our software expertise allows us to develop products for markets where intelligent data capture, high-performance processing and communication are increasingly important product differentiators. The software we have developed to address these markets enable machine-to-machine communications,

providing intelligence to electronic systems. Our products integrate high-performance, low-power wireless and microcontroller ICs with reliable and scalable software into a flexible and robust networking platform.

The demand for low-power, small-footprint wireless technology is accelerating as more and more IP-enabled end points are being connected to the Internet of Things (IoT). Our software enables a broad range of power-sensitive applications for the IoT, including smart energy, home automation, security and other connected products. We believe that the combination of our software and IC design expertise differentiates us from many of our competitors.

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 industrial applications and telecom networks;
- Frequency synthesis, which is core technology for wireless and clocking applications;
- Integration, which enables the elimination of discrete components in a system; and
- Signal processing and precision analog, which forms the heart of consumer, industrial, medical and automotive electronics applications.

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

Manufacturing

As a fabless semiconductor company, we conduct IC design and development in our facilities and electronically transfer our proprietary IC designs to third-party semiconductor fabricators who process silicon wafers to produce the ICs that we design. Our IC designs typically use industry-standard CMOS manufacturing process technology to achieve a level of performance normally associated with more expensive special-purpose IC fabrication technology. We believe the use of CMOS technology facilitates the rapid production of our ICs within a lower cost framework. Our IC production employs submicron process geometries which are readily available from leading foundry suppliers worldwide, thus increasing the likelihood that manufacturing capacity will be available throughout our products' life cycles. We currently partner with Taiwan Semiconductor Manufacturing Co. (TSMC) or TSMC's affiliates and Semiconductor Manufacturing International Corporation (SMIC) to manufacture the majority of 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 2014, 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 2015.

Backlog

As of January 3, 2015, our backlog was approximately \$122.4 million, compared to approximately \$109.9 million as of December 28, 2013. We include in backlog accepted product purchase orders from customers and worldwide distributor stocking orders. We only include orders with an expected shipping date from us within six months. Product orders in our backlog are subject to changes in delivery schedules or cancellation at the option of the purchaser typically without penalty. Our backlog may fluctuate significantly depending upon customer order patterns which may, in turn, vary considerably based on rapidly changing business circumstances. Shipments to distributors are not recognized as revenue until the products are sold by the distributors. Additionally, our arrangements with distributors typically provide for price protection and stock rotation activities. Accordingly, we do not believe that our backlog at any time is necessarily representative of actual sales for any succeeding period.

Competition

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

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

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

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

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

Intellectual Property

Our future success depends in part upon our proprietary technology. We seek to protect our technology through a combination of patents, copyrights, trade secrets, trademarks and confidentiality procedures. As of January 3, 2015, we had approximately 1,484 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.

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 3, 2015, we employed 1,107 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 website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors

Risks Related to our Business

We may not be able to maintain our historical growth and may experience significant period-to-period fluctuations in our revenues and operating results, which may result in volatility in our stock price

Although we have generally experienced revenue growth in our history, we may not be able to sustain this growth. We may also experience significant period-to-period fluctuations in our revenues and operating results in the future due to a number of factors, and any such variations may cause our stock price to fluctuate. In some future period our revenues or operating results may be below the expectations of public market analysts or investors. If this occurs, our stock price may drop, perhaps significantly.

A number of factors, in addition to those cited in other risk factors applicable to our business, may contribute to fluctuations in our revenues and operating results, including:

- The timing and volume of orders received from our customers;
- The timeliness of our new product introductions and the rate at which our new products may cannibalize our older products;
- The rate of acceptance of our products by our customers, including the acceptance of new products we may develop for integration in the products manufactured by such customers, which we refer to as “design wins”;
- The time lag and realization rate between “design wins” and production orders;
- The demand for, and life cycles of, the products incorporating our ICs;
- The rate of adoption of mixed-signal ICs in the markets we target;
- Deferrals or reductions of customer orders in anticipation of new products or product enhancements from us or our competitors or other providers of ICs;
- Changes in product mix;
- The average selling prices for our products could drop suddenly due to competitive offerings or competitive predatory pricing;
- The average selling prices for our products generally decline over time;
- Changes in market standards;
- Impairment charges related to inventory, equipment or other long-lived assets;
- The software used in our products, including software provided by third parties, may not meet the needs of our customers;

- Significant legal costs to defend our intellectual property rights or respond to claims against us; and
- The rate at which new markets emerge for products we are currently developing or for which our design expertise can be utilized to develop products for these new markets.

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

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

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

- Requirements of customers;
- Accurate prediction of market and technical requirements;
- Timely completion and introduction of new designs;
- Timely qualification and certification of our ICs for use in our customers' products;
- Commercial acceptance and volume production of the products into which our ICs will be incorporated;
- Availability of foundry, assembly and test capacity;
- Achievement of high manufacturing yields;
- Quality, price, performance, power use and size of our products;
- Availability, quality, price and performance of competing products and technologies;
- Our customer service, application support capabilities and responsiveness;
- Successful development of our relationships with existing and potential customers;
- Technology, industry standards or end-user preferences; and
- Cooperation of third-party software providers and our semiconductor vendors to support our chips within a system.

We cannot provide any assurance that products which we recently have developed or may develop in the future will achieve market acceptance. We have introduced to market or are in development of many ICs. If our ICs fail to achieve market acceptance, or if we fail to develop new products on a timely basis that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected. The growth of the Internet of Things (IoT) market is dependent

on the adoption of industry standards to permit devices to connect and communicate with each other. If the industry cannot agree on a common set of standards, then the growth of the IoT market may be slower than expected.

Our research and development efforts are focused on a limited number of new technologies and products, and any delay in the development, or abandonment, of these technologies or products by industry participants, or their failure to achieve market acceptance, could compromise our competitive position

Our ICs are used as components in electronic devices in various markets. As a result, we have devoted and expect to continue to devote a large amount of resources to develop products based on new and emerging technologies and standards that will be commercially introduced in the future. Research and development expense during fiscal 2014 was \$173.0 million, or 27.9% 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 2014, 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 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. We are currently involved in litigation with Cresta Technology in which we and certain of our customers have been accused of patent infringement related to our television tuner products. 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. 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.

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.

In contrast to the ICs that we have historically developed, our acquisition of Bluegiga will entail additional efforts to develop modules, which are products that incorporate ICs as well as additional software. We have limited experience with developing modules. Modules tend to have higher average selling prices but lower overall gross margins than ICs. Bluegiga's modules currently incorporate products from some of our competitors. Any disruption in supply of those products would adversely affect our business.

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.

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. During fiscal 2014, 62% of our revenue was derived from distributors. As we execute our indirect sales strategy, we must manage the potential conflicts that may arise with our direct sales efforts. For example, conflicts with a distributor may arise when a customer begins purchasing directly from us rather than through the distributor. The inability to successfully execute or manage a multi-channel sales strategy could impede our future growth. In addition, relationships with our distributors often involve the use of price protection and inventory return rights. This often requires a significant amount of sales management's time and system resources to manage properly.

We are subject to increased inventory risks and costs because we build our products based on forecasts provided by customers before receiving purchase orders for the products

In order to ensure availability of our products for some of our largest customers, we start the manufacturing of our products in advance of receiving purchase orders based on forecasts provided by these customers. However, these forecasts do not represent binding purchase commitments and we do not recognize sales for these products until they are shipped to the customer. As a result, we incur inventory and manufacturing costs in advance of anticipated sales. Because demand for our products

may not materialize, manufacturing based on forecasts subjects us to increased risks of high inventory carrying costs, increased obsolescence and increased operating costs. These inventory risks are exacerbated when our customers purchase indirectly through contract manufacturers or hold component inventory levels greater than their consumption rate because this causes us to have less visibility regarding the accumulated levels of inventory for such customers. A resulting write-off of unusable or excess inventories would adversely affect our operating results.

Our products are complex and may contain errors which could lead to product liability, an increase in our costs and/or a reduction in our revenues

Our products are complex and may contain errors, particularly when first introduced or as new versions are released. Our new products are increasingly being designed in more complex processes which further increases the risk of errors. We rely primarily on our in-house testing personnel to design test operations and procedures to detect any errors prior to delivery of our products to our customers. Because our products are manufactured by third parties, should problems occur in the operation or performance of our ICs, we may experience delays in meeting key introduction dates or scheduled delivery dates to our customers. These errors also could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations and business reputation problems. Any defects could require product replacement or recall or we could be obligated to accept product returns. Any of the foregoing could impose substantial costs and harm our business.

Product liability claims may be asserted with respect to our products. Our products are typically sold at prices that are significantly lower than the cost of the end-products into which they are incorporated. A defect or failure in our product could cause failure in our customer's end-product, so we could face claims for damages that are disproportionately higher than the revenues and profits we receive from the products involved. Furthermore, product liability risks are particularly significant with respect to medical and automotive applications because of the risk of serious harm to users of these products. There can be no assurance that any insurance we maintain will sufficiently protect us from any such claims.

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.

Most of the silicon wafers for the products that we sold during fiscal 2014 were manufactured either by Taiwan Semiconductor Manufacturing Co. (TSMC) or TSMC's affiliates or by Semiconductor Manufacturing International Corporation (SMIC). 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.

We monitor the financial condition of our third-party foundries and subcontractor partners. In August 2014, we received notice that Telefunken Semiconductors GmbH & Co (TSG), a wafer supplier for our high-voltage products, had filed an insolvency proceeding in Germany. Currently, the operations of TSG are being managed by a trustee appointed by the local court of Heilbronn, Germany.

It is unclear whether TSG will emerge from its insolvency as an ongoing business. We have negotiated with the trustee to purchase a limited number of wafers from TSG through the end of the first quarter of 2015 in an attempt to mitigate the impact of TSG's insolvency on our customers. In addition, we have expedited our previously-planned transition of the manufacturing of certain high-voltage products to another of our foundry partners, Vanguard International Semiconductor Corporation. If there is a disruption in the supply of wafers or if our customers or their end-customers take longer than expected to qualify our replacement products, we may experience a short term decline in revenue or a longer term decline in revenue if our customers shift their demand to alternative suppliers. Either of these conditions would adversely affect our operating results.

Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales

Prior to purchasing our products, our customers require that our products undergo an extensive qualification process, which involves testing of the products in the customer's system as well as rigorous reliability testing. This qualification process may continue for six months or longer. However, qualification of a product by a customer does not ensure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the IC or software, changes in the IC's manufacturing process or the selection of a new supplier by us may

require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take an additional six months or more before the customer commences volume production of components or devices that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, toward qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, such failure or delay would preclude or delay sales of such product to the customer, which may impede our growth and cause our business to suffer.

We have substantial international activities, which subjects us to additional business risks including logistical and financial complexity, political instability and currency fluctuations

We have established international subsidiaries and have opened offices in international markets to support our activities in Europe and Asia. This has included the establishment of a headquarters in Singapore for non-U.S. operations. The percentage of our revenues derived from outside of the United States was 86% during fiscal 2014. We may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including:

- Complexity and costs of managing international operations and related tax obligations, including our headquarters for non-U.S. operations in Singapore;
- Protectionist laws and business practices that favor local competition in some countries;
- Difficulties related to the protection of our intellectual property rights in some countries;
- Multiple, conflicting and changing tax and other laws and regulations that may impact both our international and domestic tax and other liabilities and result in increased complexity and costs;
- Longer sales cycles;
- Greater difficulty in accounts receivable collection and longer collection periods;
- High levels of distributor inventory subject to price protection and rights of return to us;
- Political and economic instability;
- Greater difficulty in hiring and retaining qualified technical sales and applications engineers and administrative personnel; and
- The need to have business and operations systems that can meet the needs of our international business and operating structure.

To date, all of our sales to international customers and purchases of components from international suppliers have been denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for our international customers to purchase, thus rendering our products less competitive. Similarly, a decrease in the value of the U.S. dollar could reduce our buying power with respect to international suppliers.

Our products incorporate technology licensed from third parties

We incorporate technology (including software) licensed from third parties in our products. We could be subjected to claims of infringement regardless of our lack of involvement in the development of the licensed technology. Although a third-party licensor is typically obligated to indemnify us if the licensed technology infringes on another party's intellectual property rights, such indemnification is typically limited in amount and may be worthless if the licensor becomes insolvent. See *Significant litigation over intellectual property in our industry may cause us to become involved in costly and lengthy litigation which could seriously harm our business*. Furthermore, any failure of third-party technology to perform properly would adversely affect sales of our products incorporating such technology.

Our inability to manage growth could materially and adversely affect our business

Our past growth has placed, and any future growth of our operations will continue to place, a significant strain on our management personnel, systems and resources. We anticipate that we will need to implement a variety of new and upgraded sales, operational and financial enterprise-wide systems, information technology infrastructure, procedures and controls, including the improvement of our accounting and other internal management systems to manage this growth and maintain compliance with regulatory guidelines, including Sarbanes-Oxley Act requirements. To the extent our business grows, our internal management systems and processes will need to improve to ensure that we remain in compliance. We also expect that we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort, and we anticipate that we will require additional management personnel and internal processes to manage these efforts and to plan for the succession from time to time of certain persons who have been key management and technical personnel. If we are unable to effectively manage our expanding global operations, including our international headquarters in Singapore, our business could be materially and adversely affected.

We are subject to risks relating to product concentration

We derive a substantial portion of our revenues from a limited number of products, and we expect these products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of these products, is therefore, critical to our future success. In addition, substantially all of our products that we have sold include technology related to one or more of our issued U.S. patents. If these patents are found to be invalid or unenforceable, our competitors could introduce competitive products that could reduce both the volume and price per unit of our products. Our business, operating results, financial condition and cash flows could therefore be adversely affected by:

- A decline in demand for any of our more significant products;
- Failure of our products to achieve continued market acceptance;
- Competitive products;
- New technological standards or changes to existing standards that we are unable to address with our products;
- A failure to release new products or enhanced versions of our existing products on a timely basis; and
- The failure of our new products to achieve market acceptance.

We are subject to credit risks related to our accounts receivable

We do not generally obtain letters of credit or other security for payment from customers, distributors or contract manufacturers. Accordingly, we are not protected against accounts receivable default or bankruptcy by these entities. Our ten largest customers or distributors represent a substantial majority of our accounts receivable. If any such customer or distributor, or a material portion of our smaller customers or distributors, were to become insolvent or otherwise not satisfy their obligations to us, we could be materially harmed.

We depend on our key personnel to manage our business effectively in a rapidly changing market, and if we are unable to retain our current personnel and hire additional personnel, our ability to develop and successfully market our products could be harmed

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing personnel. We believe that our future success will

be dependent on retaining the services of our key personnel, developing their successors and certain internal processes to reduce our reliance on specific individuals, and on properly managing the transition of key roles when they occur. There is currently a shortage of qualified personnel with significant experience in the design, development, manufacturing, marketing and sales of analog and mixed-signal ICs. In particular, there is a shortage of engineers who are familiar with the intricacies of the design and manufacturability of analog elements, and competition for such personnel is intense. Our key technical personnel represent a significant asset and serve as the primary source for our technological and product innovations. We may not be successful in attracting and retaining sufficient numbers of technical personnel to support our anticipated growth. The loss of any of our key employees or the inability to attract or retain qualified personnel both in the United States and internationally, including engineers, sales, applications and marketing personnel, could delay the development and introduction of, and negatively impact our ability to sell, our products.

Any dispositions could harm our financial condition

Any disposition of a product line would entail a number of risks that could materially and adversely affect our business and operating results, including:

- Diversion of management's time and attention from our core business;
- Difficulties separating the divested business;
- Risks to relations with customers who previously purchased products from our disposed product line;
- Reduced leverage with suppliers due to reduced aggregate volume;
- Risks related to employee relations;
- Risks associated with the transfer and licensing of intellectual property;
- Security risks and other liabilities related to the transition services provided in connection with the disposition;
- Tax issues associated with dispositions; and
- Disposition-related disputes, including disputes over earn-outs and escrows.

Our stock price may be volatile

The market price of our common stock has been volatile in the past and may be volatile in the future. The market price of our common stock may be significantly affected by the following factors:

- Actual or anticipated fluctuations in our operating results;
- Changes in financial estimates by securities analysts or our failure to perform in line with such estimates;
- Changes in market valuations of other technology companies, particularly semiconductor companies;
- Announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Introduction of technologies or product enhancements that reduce the need for our products;
- The loss of, or decrease in sales to, one or more key customers;
- A large sale of stock by a significant shareholder;

- Dilution from the issuance of our stock in connection with acquisitions;
- The addition or removal of our stock to or from a stock index fund;
- Departures of key personnel; and
- The required expensing of stock awards.

The stock market has experienced extreme volatility that often has been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our performance.

Most of our current manufacturers, assemblers, test service providers, distributors and customers are concentrated in the same geographic region, which increases the risk that a natural disaster, epidemic, labor strike, war or political unrest could disrupt our operations or sales

Most of our foundries and several of our assembly and test subcontractors' sites are located in Taiwan and most of our other foundry, assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located in the Pacific Rim region. The risk of earthquakes in Taiwan and the Pacific Rim region is significant due to the proximity of major earthquake fault lines in the area. Earthquakes, tsunamis, fire, flooding, lack of water or other natural disasters, an epidemic, political unrest, war, labor strikes or work stoppages in countries where our semiconductor manufacturers, assemblers and test subcontractors are located, likely would result in the disruption of our foundry, assembly or test capacity. There can be no assurance that alternate capacity could be obtained on favorable terms, if at all.

A natural disaster, epidemic, labor strike, war or political unrest where our customers' facilities are located would likely reduce our sales to such customers. North Korea's geopolitical maneuverings have created unrest. Such unrest could create economic uncertainty or instability, could escalate to war or otherwise adversely affect South Korea and our South Korean customers and reduce our sales to such customers, which would materially and adversely affect our operating results. In addition, a significant portion of the assembly and testing of our products occurs in South Korea. Any disruption resulting from these events could also cause significant delays in shipments of our products until we are able to shift our manufacturing, assembling or testing from the affected subcontractor to another third-party vendor.

The semiconductor manufacturing process is highly complex and, from time to time, manufacturing yields may fall below our expectations, which could result in our inability to satisfy demand for our products in a timely manner and may decrease our gross margins due to higher unit costs

The manufacturing of our products is a highly complex and technologically demanding process. Although we work closely with our foundries and assemblers to minimize the likelihood of reduced manufacturing yields, we have from time to time experienced lower than anticipated manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials could result in lower than anticipated manufacturing yields or unacceptable performance deficiencies, which could lower our gross margins. If our foundries fail to deliver fabricated silicon wafers of satisfactory quality in a timely manner, we will be unable to meet our customers' demand for our products in a timely manner, which would adversely affect our operating results and damage our customer relationships. Additionally, we are beginning to utilize microelectromechanical systems (MEMS) in certain of our timing products rather than the pure CMOS manufacturing process that we have traditionally utilized. We have less operating history with MEMS IC design and MEMS IC manufacturing processes. If we are unable to successfully execute the design and product qualification of MEMS-based products we may encounter lower yields and reduced manufacturing capacity.

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

We rely on our customers to provide hardware, software, intellectual property indemnification and other technical support for the products supplied by our customers. If our customers do not provide the required functionality or if our customers do not provide satisfactory support for their products, the demand for these devices that incorporate our products may diminish or we may otherwise be materially adversely affected. Any reduction in the demand for these devices would significantly reduce our revenues.

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

Our debt could adversely affect our operations and financial condition

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

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

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

We are a relatively small company with limited resources compared to some of our current and potential competitors and we may not be able to compete effectively and increase market share

Some of our current and potential competitors have longer operating histories, significantly greater resources and name recognition and a larger base of customers than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours. In addition, some of our current and potential competitors have already established supplier or joint development relationships with the decision makers at our current or potential customers. These competitors may be able to leverage their existing relationships to discourage their customers from purchasing products from us or persuade them to replace our products with their products. Our competitors may also offer bundled solutions offering a more complete product despite the technical merits or advantages of our products. These competitors may elect not to support our products which could complicate our sales efforts. These and other

competitive pressures may prevent us from competing successfully against current or future competitors, and may materially harm our business. Competition could decrease our prices, reduce our sales, lower our gross margins and/or decrease our market share.

Provisions in our charter documents and Delaware law could prevent, delay or impede a change in control of us and may reduce the market price of our common stock

Provisions of our certificate of incorporation and bylaws could have the effect of discouraging, delaying or preventing a merger or acquisition that a stockholder may consider favorable. For example, our certificate of incorporation and bylaws provide for:

- The division of our Board of Directors into three classes to be elected on a staggered basis, one class each year;
- The ability of our Board of Directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;
- A prohibition on stockholder action by written consent;
- Elimination of the right of stockholders to call a special meeting of stockholders;
- A requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders; and
- A requirement that a supermajority vote be obtained to amend or repeal certain provisions of our certificate of incorporation.

We also are subject to the anti-takeover laws of Delaware which may discourage, delay or prevent someone from acquiring or merging with us, which may adversely affect the market price of our common stock.

Risks related to our industry

We are subject to the cyclical nature of the semiconductor industry, which has been subject to significant fluctuations

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry has experienced significant fluctuations, often connected with, or in anticipation of, maturing product cycles and new product introductions of both semiconductor companies' and their customers' products and fluctuations in general economic conditions. Deteriorating general worldwide economic conditions, including reduced economic activity, concerns about credit and inflation, increased energy costs, decreased consumer confidence, reduced corporate profits, decreased spending and similar adverse business conditions, would make it very difficult for our customers, our vendors, and us to accurately forecast and plan future business activities and could cause U.S. and foreign businesses to slow spending on our products. We cannot predict the timing, strength, or duration of any economic slowdown or economic recovery. If the economy or markets in which we operate deteriorate, our business, financial condition, and results of operations would likely be materially and adversely affected.

Downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. In the recent past, we believe the semiconductor industry suffered a downturn due in large part to adverse conditions in the global credit and financial markets, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increased unemployment rates and general uncertainty

regarding the economy. Such downturns may have a material adverse effect on our business and operating results.

Upturns have been characterized by increased product demand and production capacity constraints created by increased competition for access to third-party foundry, assembly and test capacity. We are dependent on the availability of such capacity to manufacture, assemble and test our ICs. None of our third-party foundry, assembly or test subcontractors have provided assurances that adequate capacity will be available to us.

The average selling prices of our products could decrease rapidly which may negatively impact our revenues and gross margins

We may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices. We have reduced the average unit price of our products in anticipation of or in response to competitive pricing pressures, new product introductions by us or our competitors and other factors. If we are unable to offset any such reductions in our average selling prices by increasing our sales volumes, increasing our sales content per application or reducing production costs, our gross margins and revenues will suffer. To maintain our gross margin percentage, we will need to develop and introduce new products and product enhancements on a timely basis and continually reduce our costs. Our failure to do so could cause our revenues and gross margin percentage to decline.

Competition within the numerous markets we target may reduce sales of our products and reduce our market share

The markets for semiconductors in general, and for mixed-signal ICs in particular, are intensely competitive. We expect that the market for our products will continually evolve and will be subject to rapid technological change. In addition, as we target and supply products to numerous markets and applications, we face competition from a relatively large number of competitors. We compete with Analog Devices, Atmel, Conexant, Cypress, Epson, Freescale, IDT, Lantiq, Maxim Integrated Products, Marvell Technology Group, MaxLinear, Microchip, Microsemi, NXP Semiconductors, Renesas, STMicroelectronics, Texas Instruments, Vectron International and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and start-up semiconductor design companies. As the markets for communications products grow, we also may face competition from traditional communications device companies. These companies may enter the mixed-signal semiconductor market by introducing their own ICs or by entering into strategic relationships with or acquiring other existing providers of semiconductor products. In addition, large companies may restructure their operations to create separate companies or may acquire new businesses that are focused on providing the types of products we produce or acquire our customers.

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

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

Products for certain applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins.

Our pursuit of necessary technological advances may require substantial time and expense. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. If our ICs fail to achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected.

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters, housing engineering, sales and marketing, administration and test operations, is located in Austin, Texas. Our headquarters facilities consist of two buildings, which we purchased in 2012, that are located on land which we have leased through 2099. The buildings contain approximately 441,000 square feet of floor space, of which approximately 141,000 square feet were leased to other tenants. In addition to these properties, we lease smaller facilities in various locations in the United States, China, France, Germany, Hungary, India, Italy, Japan, Norway, Singapore, South Korea, Taiwan and the United Kingdom for engineering, sales and marketing, administrative and manufacturing support activities. We believe that these facilities are suitable and adequate to meet our current operating needs.

Item 3. Legal Proceedings

Patent Litigation

On January 21, 2014, Cresta Technology Corporation (“Cresta Technology”), a Delaware corporation, filed a lawsuit against us, Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., LG Electronics Inc. and LG Electronics U.S.A., Inc. in the United States District Court in the District of Delaware, alleging infringement of United States Patent Nos. 7,075,585, 7,265,792 and 7,251,466. The lawsuit relates to our family of television tuner products. Cresta Technology seeks unspecified compensatory and enhanced damages, attorney fees and a permanent injunction. On January 28, 2014, Cresta Technology also filed a complaint with the United States International Trade Commission (“ITC”) alleging infringement of the same patents against us, Samsung and LG Electronics and seeking to prevent the importation and sale of allegedly infringing products in the United States. The ITC instituted an investigation based on Cresta Technology’s complaint on February 27, 2014. An evidentiary hearing in this ITC investigation concluded on December 5, 2014. The ITC Administrative Law Judge is scheduled to issue an Initial Determination on February 27, 2015, and the Final Determination by the ITC is scheduled to issue on June 29, 2015. The Delaware District Court action has been stayed pending completion of the proceedings in the ITC. We intend to vigorously defend against these allegations.

On April 11, 2014, we filed a lawsuit against Cresta Technology in the United States District Court in the Western District of Texas, Austin Division, alleging infringement of United States Patent Nos. 6,308,055, 6,965,761 and 7,353,011. On July 14, 2014, the Court dismissed the lawsuit without prejudice due to the lack of commercial activity by Cresta Technology in the Western District of Texas. On July 16, 2014, we refiled our claims for the ‘055, ‘761 and ‘011 patents in a lawsuit in the United States District Court in the Northern District of California. In addition, we added additional claims alleging infringement of United States Patent Nos. 6,304,146, 6,137,372 and 6,233,441. We are seeking a permanent injunction stopping the sale of all allegedly infringing Cresta Technology products and an award of damages and attorney fees.

On May 6, 2014, we filed a complaint with the ITC alleging infringement of United States Patent Nos. 6,137,372 and 6,233,441 against Cresta Technology, Hauppauge Digital, Inc., Hauppauge Computer Works, Inc., PCTV Systems, S.a.r.l., Luxembourg and PCTV Systems S.a.r.l., seeking to prevent the importation and sale of allegedly infringing products in the United States. On June 6, 2014, the ITC instituted an investigation based on our complaint. On June 13, 2014, Cresta Technology proposed a consent order whereby Cresta Technology will not sell for importation, import or sell in the United States television tuners that infringe the patent claims asserted by us. On July 1, 2014, the Administrative Law Judge accepted the proposed consent order. Accordingly, this ITC investigation has been terminated in its entirety. Under the consent order, Cresta Technology is prohibited from selling for importation, importing or selling in the United States television tuners that infringe our United States Patent Nos. 6,137,372 and 6,233,441.

As is customary in the semiconductor industry, we provide indemnification protection to our customers for intellectual property claims related to our products. We have not accrued any material liability on our consolidated balance sheet related to such indemnification obligations in connection with the Cresta Technology litigation.

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

Other

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market Information and Holders

Our registration statement (Registration No. 333-94853) under the Securities Act of 1933, as amended, relating to our initial public offering of our common stock became effective on March 23, 2000. Our common stock is quoted on the NASDAQ National Market (NASDAQ) under the symbol “SLAB”. The table below shows the high and low per-share sales prices of our common stock for the periods indicated, as reported by NASDAQ. As of January 27, 2015, there were 97 holders of record of our common stock.

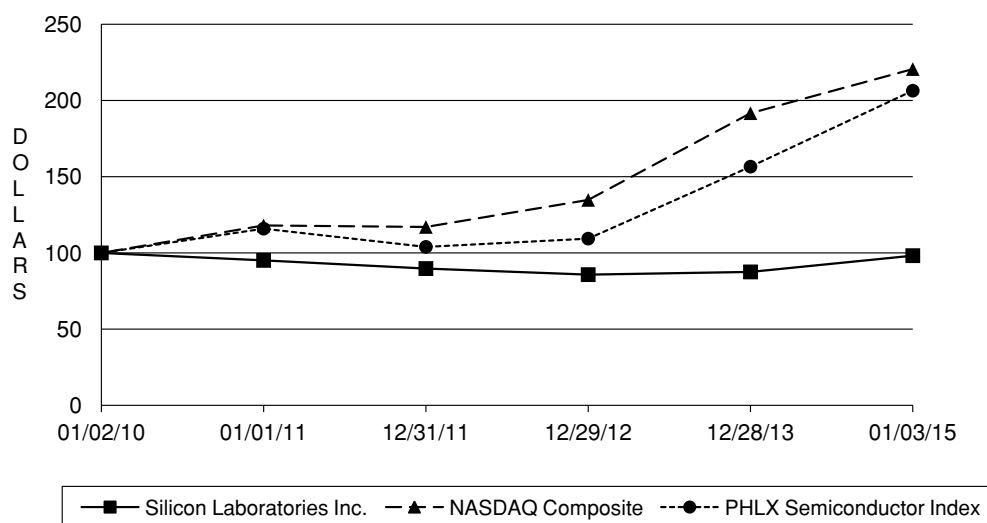
	<u>High</u>	<u>Low</u>
Fiscal Year 2013		
First Quarter	\$47.41	\$39.65
Second Quarter	44.00	38.04
Third Quarter	46.21	38.16
Fourth Quarter	44.19	37.57
Fiscal Year 2014		
First Quarter	\$54.00	\$41.19
Second Quarter	53.78	42.41
Third Quarter	50.05	39.28
Fourth Quarter	48.50	36.29

Dividend Policy

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

Stock Performance Graph

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



<u>Company / Index</u>	<u>01/02/10</u>	<u>01/01/11</u>	<u>12/31/11</u>	<u>12/29/12</u>	<u>12/28/13</u>	<u>01/03/15</u>
Silicon Laboratories Inc.	\$100.00	\$ 95.12	\$ 89.75	\$ 85.76	\$ 87.54	\$ 98.20
NASDAQ Composite	\$100.00	\$118.02	\$117.04	\$134.77	\$191.67	\$220.62
PHLX Semiconductor Index	\$100.00	\$115.90	\$103.96	\$109.37	\$156.59	\$206.44

- (1) The graph assumes that \$100 was invested in our common stock and in each index at the market close on January 2, 2010, 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.

Issuer Purchases of Equity Securities

The following table summarizes repurchases of our common stock during the three months ended January 3, 2015 (in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
September 28, 2014 - October 25, 2014 . .	263	\$40.01	263	\$100,000
October 26, 2014 - November 22, 2014 . .	63	\$44.74	63	\$ 97,197
November 23, 2014 - January 3, 2015 . . .	98	\$44.82	98	\$ 92,785
Total	424	\$41.83	424	

In October 2014, the Board of Directors authorized a program to repurchase up to \$100 million of our common stock through December 2015 (and terminated the \$35.6 million remaining authorization under the previously announced share repurchase program). The programs allow for repurchases to be made in the open market or in private transactions, including structured or accelerated transactions, subject to applicable legal requirements and market conditions.

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				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
<i>Consolidated Statements of Income Data</i>					
Revenues	\$ 620,704	\$580,087	\$563,294	\$491,625	\$493,341
Operating income	\$ 51,421	\$ 64,310	\$ 85,675	\$ 50,074	\$ 86,671
Net income	\$ 38,021	\$ 49,819	\$ 63,548	\$ 35,472	\$ 73,242
Earnings per share:					
Basic	\$ 0.88	\$ 1.17	\$ 1.51	\$ 0.82	\$ 1.63
Diluted	\$ 0.87	\$ 1.14	\$ 1.47	\$ 0.79	\$ 1.57
<i>Consolidated Balance Sheet Data</i>					
Cash, cash equivalents and investments (1) . .	\$ 342,614	\$286,025	\$293,360	\$324,967	\$383,362
Working capital	365,223	350,170	361,304	370,211	414,073
Total assets	1,042,561	991,150	871,966	705,991	727,658
Long-term obligations	121,191	143,441	115,615	24,214	22,372
Total stockholders’ equity	758,056	738,562	649,973	598,939	625,430

(1) Reflects repurchases of \$72 million, \$26 million, \$62 million, \$110 million and \$140 million of our common stock in fiscal 2014, 2013, 2012, 2011 and 2010, respectively.

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 2014 was a 53-week year with the extra week occurring in the fourth quarter of the year and ended on January 3, 2015. Fiscal 2013 and 2012 were 52-week years and ended on December 28, 2013 and December 29, 2012, respectively.

Overview

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

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

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

- Broad-based products, which include our microcontroller (MCU), wireless and sensor products, timing products (clocks and oscillators), and power and isolation devices;
- Broadcast products, which include our broadcast audio and video products; and
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) 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. On February 28, 2014, we purchased the full product portfolio and intellectual property of Touchstone Semiconductor, including op-amps, current sense amplifiers, low-power analog-to-digital converters (ADCs), comparators, power management ICs, timers, and voltage detectors and references.

In fiscal 2014, we introduced digital TV demodulators offering expanded support for emerging and established satellite, terrestrial and cable standards; a new family of PCI Express (PCIe) Gen1/2/3 fanout buffers designed for data center applications; next-generation EZRadio and EZRadioPRO® wireless ICs offering outstanding power efficiency, wireless range and flexibility; the sixth generation of our high-performance TV tuner ICs addressing global hybrid TV and digital TV markets; a small PCIe-compliant clock generator targeting consumer and embedded applications; sensor development kits to accelerate Internet of Things (IoT) system design; high-performance automotive tuner ICs designed to enhance AM/FM digital radio performance for car radio systems supporting broadcast

standards worldwide; ultra-low-jitter, frequency-flexible clock solutions for high-speed data centers and Internet infrastructure; digital isolators offering high channel count, reliability and data rates for cost-sensitive consumer electronics applications; energy-efficient capacitive sensing MCUs for human-machine interfaces (HMI); a comprehensive software solution designed to simplify the development of wirelessly connected smart meters; a 32-bit hardware and firmware development kit designed to accelerate the design of Made for iPod®/iPhone®/iPad® (MFi) accessories; a new version of the Simplicity Studio™ development ecosystem that provides unified support for our energy-friendly 32-bit EFM32™ Gecko MCUs and 8-bit MCUs; the expansion of our ARM-based Ember® ZigBee® system-on-chip (SoC) family for advanced smart energy and home automation applications; and single-chip digital ultraviolet (UV) index sensors designed to track UV exposure, ambient light and biometrics for smartphones and wearables. We plan to continue to introduce products that increase the content we provide for existing applications, thereby enabling us to serve markets we do not currently address and expand our total available market opportunity.

During fiscal 2014, 2013 and 2012, we had one customer, Samsung, whose purchases across a variety of product areas represented 12%, 15% and 19% of our revenues, respectively. 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 20% and 12% of our revenues during fiscal 2014, 21% and 11% of our revenues during fiscal 2013, and 22% and 11% of our revenues during fiscal 2012, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2014, 2013 or 2012.

The percentage of our revenues derived from outside of the United States was 86% in fiscal 2014, 88% in fiscal 2013 and 88% in fiscal 2012. All of our revenues to date have been denominated in U.S. dollars. We believe that a majority of our revenues will continue to be derived from customers outside of the United States.

The sales cycle for our ICs can be as long as 12 months or more. An additional three to six months or more are usually required before a customer ships a significant volume of devices that incorporate our ICs. Due to this lengthy sales cycle, we typically experience a significant delay between incurring research and development and selling, general and administrative expenses, and the corresponding sales. Consequently, if sales in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters would be adversely affected. Moreover, the amount of time between initial research and development and commercialization of a product, if ever, can be substantially longer than the sales cycle for the product. Accordingly, if we incur substantial research and development costs without developing a commercially successful product, our operating results, as well as our growth prospects, could be adversely affected.

Because many of our ICs are designed for use in consumer products such as televisions, set-top boxes and radios, 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 predominately 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. A small portion of our revenues is derived from the sale of patents. The above revenue recognition criteria for patent sales are generally met upon the execution of the patent sale agreement. Our products typically carry a one-year replacement warranty. Replacements have been insignificant to date.

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

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

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

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

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

Interest Expense. Interest expense consists of interest on our short and long-term obligations, including our Credit Facilities.

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

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

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

	Fiscal Year		
	2014	2013	2012
Revenues	100.0%	100.0%	100.0%
Cost of revenues	39.0	39.2	40.0
Gross margin	61.0	60.8	60.0
Operating expenses:			
Research and development	27.9	27.2	24.5
Selling, general and administrative	24.8	22.5	20.3
Operating expenses	52.7	49.7	44.8
Operating income	8.3	11.1	15.2
Other income (expense):			
Interest income	0.2	0.2	0.2
Interest expense	(0.6)	(0.6)	(0.2)
Other income (expense), net	0.0	0.0	0.1
Income before income taxes	7.9	10.7	15.3
Provision for income taxes	1.8	2.1	4.0
Net income	6.1%	8.6%	11.3%

Comparison of Fiscal 2014 to Fiscal 2013

Revenues

(in millions)	Fiscal Year			%
	2014	2013	Change	
Broad-based	\$317.1	\$281.8	\$35.3	12.5%
Broadcast	204.3	199.8	4.5	2.2%
Access	99.3	98.5	0.8	0.9%
Revenues	\$620.7	\$580.1	\$40.6	7.0%

The change in revenues in fiscal 2014 was due primarily to:

- Increased revenues of \$35.3 million for our Broad-based ICs, due primarily to market share gains for our MCU, wireless and sensor products, including products acquired from Energy Micro in July 2013. Broad-based revenue growth was offset in part by a decline in revenue for our touch controller ICs due to our exit from this market.
- Increased revenues of \$4.5 million for Broadcast, due primarily to an increase in market share for our video ICs and the sale of patents of \$7.1 million. The increase in Broadcast revenues was offset by decreased revenues for our audio ICs due to declines in market share.

Unit volumes of our products increased compared to fiscal 2013 by 5.2%. Average selling prices increased compared to the same period by 0.7%. The average selling prices of our products may fluctuate significantly from period to period. In general, as our products become more mature, we expect to experience decreases in average selling prices. We anticipate that newly announced, higher priced, next generation products and product derivatives will offset some of these decreases.

Gross Margin

<u>(in millions)</u>	<u>Fiscal Year</u>		
	<u>2014</u>	<u>2013</u>	<u>Change</u>
Gross margin	\$378.6	\$352.9	\$25.7
Percent of revenue	61.0%	60.8%	0.2%

The increased dollar amount of gross margin in fiscal 2014 was due to increases in gross margin of \$25.3 million for our Broad-based products and \$2.2 million for our Broadcast products, offset by a decrease in gross margin of \$1.9 million for our Access products. Fiscal 2014 includes gross margin from the sale of patents of \$7.1 million, which had no associated cost of revenues.

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) reduce costs of existing products through improved design; 3) achieve lower production costs from our wafer suppliers and third-party assembly and test subcontractors; 4) achieve lower production costs per unit as a result of improved yields throughout the manufacturing process; or 5) reduce logistics costs.

Research and Development

<u>(in millions)</u>	<u>Fiscal Year</u>			<u>% Change</u>
	<u>2014</u>	<u>2013</u>	<u>Change</u>	
Research and development	\$173.0	\$157.8	\$15.2	9.6%
Percent of revenue	27.9%	27.2%		

The increase in research and development expense in fiscal 2014 was principally due to increases of (a) \$11.0 million for personnel-related expenses, including personnel costs associated with (i) increased headcount, and (ii) the acquisition of Energy Micro, and (b) \$2.9 million for the amortization of intangible assets primarily related to our acquisition of Energy Micro. We expect that research and development expense will increase in absolute dollars in the first quarter of 2015, primarily due to costs associated with the acquisition of Bluegiga.

Recent development projects include digital TV demodulators offering expanded support for emerging and established satellite, terrestrial and cable standards; a new family of PCIe Gen1/2/3 fanout buffers designed for data center applications; next-generation EZRadio and EZRadioPRO wireless ICs offering outstanding power efficiency, wireless range and flexibility; the sixth generation of our high-performance TV tuner ICs addressing global hybrid TV and digital TV markets; a small PCIe-compliant clock generator targeting consumer and embedded applications; sensor development kits to accelerate IoT system design; high-performance automotive tuner ICs designed to enhance AM/FM digital radio performance for car radio systems supporting broadcast standards worldwide; ultra-low-jitter, frequency-flexible clock solutions for high-speed data centers and Internet infrastructure; digital isolators offering high channel count, reliability and data rates for cost-sensitive consumer electronics applications; energy-efficient capacitive sensing MCUs for HMI; a comprehensive software solution designed to simplify the development of wirelessly connected smart meters; a 32-bit hardware and firmware development kit designed to accelerate the design of MFi accessories; a new version of the Simplicity Studio development ecosystem that provides unified support for our energy-friendly 32-bit EFM32 Gecko MCUs and 8-bit MCUs; the expansion of our ARM-based Ember ZigBee SoC family for advanced smart energy and home automation applications; and single-chip digital UV index sensors designed to track UV exposure, ambient light and biometrics for smartphones and wearables.

Selling, General and Administrative

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>	<u>% Change</u>
	<u>2014</u>	<u>2013</u>		
Selling, general and administrative	\$154.1	\$130.8	\$23.3	17.9%
Percent of revenue	24.8%	22.5%		

The increase in selling, general and administrative expense in fiscal 2014 was principally due to increases of (a) \$11.0 million for adjustments to the fair value of acquisition-related contingent consideration, (b) \$7.5 million for legal fees, primarily related to litigation, and (c) \$7.5 million for personnel-related expenses, primarily associated with (i) increased headcount, and (ii) the acquisition of Energy Micro. The increase in selling, general and administrative expense in fiscal 2014 was offset in part by acquisition-related costs of \$1.5 million in fiscal 2013. We expect that selling, general and administrative expense will decrease in absolute dollars in the first quarter of 2015, primarily due to declines in legal fees related to patent litigation.

Interest Income

Interest income in fiscal 2014 was \$1.0 million compared to \$0.9 million in fiscal 2013.

Interest Expense

Interest expense in fiscal 2014 was \$3.2 million compared \$3.3 million in fiscal 2013.

Other Income (Expense), Net

Other income (expense), net in fiscal 2014 was \$(0.2) million compared to \$0.2 million in fiscal 2013.

Provision for Income Taxes

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>
	<u>2014</u>	<u>2013</u>	
Provision for income taxes	\$ 11.0	\$ 12.2	\$(1.2)
Effective tax rate	22.5%	19.7%	

The effective tax rate for fiscal 2014 increased from fiscal 2013, primarily due to the recognition of the fiscal 2012 federal research and development tax credit in fiscal 2013 due to the enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, as well as a decrease in the foreign tax rate benefit in fiscal 2014. This increase in the effective tax rate was partially offset by the reduction to a valuation allowance recorded in a prior year related to certain state loss and research and development tax credit carryforwards and the release in fiscal 2014 of prior year unrecognized tax benefits due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year foreign tax return. We expect our effective tax rate for fiscal 2015 to decrease, primarily due to an expected increase in the ratio of foreign income to total income resulting from the completion of payments related to an intercompany licensing transaction. This expected decrease in the effective tax rate will be partially offset by the expiration of the federal research and development tax credit on December 31, 2014.

The effective tax rates for each of the periods presented differ from the federal statutory rate of 35% due to the amount of income earned in foreign jurisdictions where the tax rate may be lower than the federal statutory rate, research and development tax credits and other permanent items including changes to the liability for unrecognized tax benefits.

Comparison of Fiscal 2013 to Fiscal 2012

Revenues

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
Broad-based	\$281.8	\$270.1	\$11.7	4.3%
Broadcast	199.8	186.1	13.7	7.4%
Access	98.5	107.1	(8.6)	(8.1)%
Revenues	\$580.1	\$563.3	\$16.8	3.0%

The change in revenues in fiscal 2013 was due primarily to:

- Increased revenues of \$11.7 million for our Broad-based ICs, due primarily to the addition of revenues from the acquisition of Energy Micro in July 2013 and Ember in July 2012 and market share gains for our timing ICs. Broad-based revenue growth was offset in part by declines in revenue for our touch controller ICs due to our planned exit from this market.
- Increased revenues of \$13.7 million for our Broadcast ICs, due primarily to market share gains for our video ICs. Broadcast revenue growth was offset in part by declines in revenue for our audio ICs, which decreased primarily due to declines in market share.
- Decreased revenues of \$8.6 million for our Access ICs. The decrease in Access revenues resulted primarily due to declines in market share for our VoIP ICs.

Unit volumes of our products decreased compared to fiscal 2012 by 8.1%. Average selling prices increased compared to the same period by 12.1%.

Gross Margin

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>
	<u>2013</u>	<u>2012</u>	
Gross margin	\$352.9	\$338.0	\$14.9
Percent of revenue	60.8%	60.0%	0.8%

The increased dollar amount of gross margin in fiscal 2013 was due primarily to increases in gross margin of \$15.2 million for our Broad-based products and \$11.4 million for our Broadcast products, offset by a decrease in gross margin of \$11.7 million for our Access products.

Research and Development

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
Research and development	\$157.8	\$138.0	\$19.8	14.4%
Percent of revenue	27.2%	24.5%		

The increase in research and development expense in fiscal 2013 was principally due to increases of (a) \$11.4 million for personnel-related expenses, including personnel costs associated with (i) increased headcount, and (ii) the acquisition of Energy Micro and Ember, and (b) \$4.0 million for the amortization of intangible assets primarily related to our acquisition of Energy Micro.

Selling, General and Administrative

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
Selling, general and administrative	\$130.8	\$114.4	\$ 16.4	14.3%
Percent of revenue	22.5%	20.3%		

The increase in selling, general and administrative expense in fiscal 2013 was principally due to a net gain of \$8.5 million in fiscal 2012 from the purchase of our headquarters. Furthermore, the increase in selling, general and administrative expense in fiscal 2013 was also due to increases of (a) \$2.5 million for sales commissions, (b) \$2.1 million for personnel-related expenses, primarily associated with (i) increased headcount, and (ii) the acquisition of Energy Micro and Ember, and (c) \$1.5 million for legal fees, primarily related to litigation and acquisition-related costs.

Interest Income

Interest income in fiscal 2013 was \$0.9 million compared to \$1.3 million in fiscal 2012.

Interest Expense

Interest expense in fiscal 2013 was \$3.3 million compared \$1.1 million in fiscal 2012. The increase in fiscal 2013 was principally due to higher average debt balances in the period on our Term Loan Facility under our Credit Agreement.

Other Income (Expense), Net

Other income (expense), net in fiscal 2013 was \$0.2 million compared to \$0.5 million in fiscal 2012.

Provision for Income Taxes

<u>(in millions)</u>	<u>Fiscal Year</u>		<u>Change</u>
	<u>2013</u>	<u>2012</u>	
Provision for income taxes	\$ 12.2	\$ 22.8	\$(10.6)
Effective tax rate	19.7%	26.4%	

The effective tax rate for fiscal 2013 decreased from fiscal 2012, primarily due to the fiscal 2012 tax charge related to the intercompany license of certain technology associated with the acquisition of Ember during fiscal 2012 and the recognition of the fiscal 2012 and fiscal 2013 federal research and development tax credits in fiscal 2013 as a result of the enactment of the American Taxpayer Relief Act of 2012 (the "Act") on January 2, 2013. The decrease in the effective tax rate for fiscal 2013 was partially offset by the release during fiscal 2012 of unrecognized tax benefits that were determined to be effectively settled during fiscal 2012.

The effective tax rates for each of the periods presented differ from the federal statutory rate of 35% due to the amount of income earned in foreign jurisdictions where the tax rate may be lower than the federal statutory rate, research and development tax credits and other permanent items including changes to the liability for unrecognized tax benefits.

Business Outlook

We expect revenues in the first quarter of fiscal 2015 to be in the range of \$156 to \$162 million. Furthermore, we expect our diluted earnings per share to be in the range of \$0.08 to \$0.14.

Liquidity and Capital Resources

Our principal sources of liquidity as of January 3, 2015 consisted of \$335.2 million in cash, cash equivalents and short-term investments, of which approximately \$225.7 million was held by our U.S. entities. The remaining balance was held by our foreign subsidiaries. Our cash equivalents and short-term investments consisted of municipal bonds, money market funds, corporate bonds, commercial paper, variable-rate demand notes, certificates of deposit, asset-backed securities, international government bonds, U.S. government agency and U.S. government bonds.

Our long-term investments consisted of auction-rate securities. In fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of January 3, 2015, we held \$8.0 million par value auction-rate securities, all of which have experienced failed auctions. These securities have contractual maturity dates ranging from 2033 to 2046. We are receiving the underlying cash flows on all of our auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the security, a buyer is found outside of the auction process or the underlying securities mature. We are unable to predict if these funds will become available before their maturity dates. We do not expect to need access to the capital represented by any of our auction-rate securities prior to their maturities.

Operating Activities

Net cash provided by operating activities was \$137.4 million during fiscal 2014, compared to net cash provided of \$120.2 million during fiscal 2013. Operating cash flows during fiscal 2014 reflect our net income of \$38.0 million, adjustments of \$72.4 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash inflow of \$27.0 million due to changes in our operating assets and liabilities.

Net cash provided by operating activities was \$120.2 million during fiscal 2013, compared to net cash provided of \$97.1 million during fiscal 2012. Operating cash flows during fiscal 2013 reflect our net income of \$49.8 million, adjustments of \$62.7 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash inflow of \$7.7 million due to changes in our operating assets and liabilities.

Accounts receivable decreased to \$70.4 million at January 3, 2015 from \$72.1 million at December 28, 2013. The decrease in accounts receivable resulted primarily from normal variations in the timing of collections and billings. Our average days sales outstanding (DSO) was 39 days at January 3, 2015 and 44 days at December 28, 2013.

Inventory increased to \$52.6 million at January 3, 2015 from \$45.3 million at December 28, 2013. Our inventory level is primarily impacted by our need to make purchase commitments to support forecasted demand and variations between forecasted and actual demand. Our average days of inventory (DOI) was 73 days at January 3, 2015 and 71 days at December 28, 2013.

Investing Activities

Net cash used in investing activities was \$26.3 million during fiscal 2014, compared to net cash used of \$105.9 million during fiscal 2013. The decrease in cash outflows was principally due to a net payment of \$86.4 million for the acquisition of Energy Micro during fiscal 2013, offset by a decrease of \$6.5 million of net proceeds from sales and maturities of marketable securities. In fiscal 2013, we acquired Energy Micro for approximately \$140.6 million. See Note 9, *Acquisitions*, for additional information.

Net cash used in investing activities was \$105.9 million during fiscal 2013, compared to net cash used of \$139.3 million during fiscal 2012. The decrease in cash outflows was principally due to a

decrease of \$91.6 million for purchases of property and equipment, offset by an increase of \$46.1 million for net purchases of marketable securities.

We anticipate capital expenditures of approximately \$14 to \$16 million for fiscal 2015. 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.

Financing Activities

Net cash used in financing activities was \$65.2 million during fiscal 2014, compared to net cash used of \$23.9 million during fiscal 2013. The increase in cash outflows was principally due to an increase of \$45.7 million for repurchases of our common stock. In October 2014, the Board of Directors authorized a program to repurchase up to \$100 million of our common stock through December 2015 (and terminated the \$35.6 million remaining authorization under the previously announced share repurchase program).

Net cash used in financing activities was \$23.9 million during fiscal 2013, compared to net cash provided of \$52.7 million during fiscal 2012. The increase in cash outflows was principally due to net proceeds of \$98.3 million from the issuance of long-term debt in fiscal 2012, offset by a decline of \$36.0 million for repurchases of our common stock in fiscal 2013.

Debt

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

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

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

In connection with the closing of the Credit Agreement, we entered into a security and pledge agreement. Under the security and pledge agreement, we pledged equity securities of certain of our subsidiaries, subject to exceptions and limitations. The Credit Facilities contain various conditions, covenants and representations with which we must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that we must maintain a leverage ratio (funded debt/EBITDA) of no more than 2.5 to 1 and a minimum fixed charge coverage ratio (EBITDA/debt payments, income taxes and capital expenditures) of no less than 1.50 to 1. As of January 3, 2015, the Company was in compliance with all covenants of the Credit Facilities. See Note 11, *Debt*, to the Consolidated Financial Statements for additional information.

We have entered into an interest rate swap agreement as a hedge against the LIBOR portion of the variable interest payments under the Term Loan Facility and effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate through the maturity date. See Note 5, *Derivative Financial Instruments*, to the Consolidated Financial Statements for additional information.

Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, the timing and extent of research and development projects, potential acquisitions of companies or technologies and the expansion of our sales and marketing activities. We believe our existing cash, cash equivalents, investments and credit under our Credit Facilities are sufficient to meet our capital requirements through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. We may enter into acquisitions or strategic arrangements in the future which also could require us to seek additional equity or debt financing.

Contractual Obligations

The following table summarizes our contractual obligations as of January 3, 2015 (in thousands):

	Payments due by period						
	Total	2015	2016	2017	2018	2019	Thereafter
Long-term debt obligations (1)	\$87,500	\$10,000	\$10,000	\$67,500	\$ —	\$ —	\$ —
Interest on long-term debt obligations (2)	5,926	2,496	2,241	1,189	—	—	—
Operating lease obligations (3)	22,403	4,463	4,137	3,398	2,517	1,490	6,398
Purchase obligations (4)	38,156	38,156	—	—	—	—	—
Other long-term obligations (5)	21,012	—	8,993	5,054	4,493	2,472	—

- (1) Long-term debt obligations represent the principal due under our Term Loan Facility and include amounts classified as current portion of long-term debt.
- (2) Interest on our long-term debt obligations is based on LIBOR plus an applicable margin. We have entered into an interest rate swap agreement as a hedge against the LIBOR portion of such variable interest payments and effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate through the maturity date. As of January 3, 2015, the combined interest rate on the Term Loan Facility was 2.514%. The impact of the interest rate swap was factored into the calculation of the future interest payments on our long-term debt obligations.
- (3) Operating lease obligations include amounts for leased facilities.
- (4) Purchase obligations include contractual arrangements in the form of purchase orders with suppliers where there is a fixed non-cancelable payment schedule or minimum payments due with a reduced delivery schedule.
- (5) Other long-term obligations represent estimated contingent consideration payments due in connection with the acquisition of Energy Micro and software license obligations.

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 \$3.9 million for unrecognized tax benefits is not included in the table above. See Note 17, *Income Taxes*, to the Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

As of January 3, 2015, we had no significant off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in the financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition, including the deferral of revenues and cost of revenues on sales to distributors; however, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

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

Stock-based compensation—We recognize the fair-value of stock-based compensation transactions in the Consolidated Statements of Income. The fair value of our full-value stock awards (with the exception of market-based performance awards) equals the fair market value of our stock on the date of grant. The fair value of our market-based performance awards is estimated at the date of grant using a Monte-Carlo simulation. The fair value of our stock option and employee stock purchase plan grants is estimated at the date of grant using the Black-Scholes option pricing model. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. See Note 13, *Stock-Based Compensation*, to the Consolidated Financial Statements for additional information.

Investments in auction-rate securities—We determine the fair value of our investments in auction-rate securities using a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, amount of cash flows, expected holding periods of the securities and a discount to reflect our inability to liquidate the securities. For available-for-sale auction-rate securities, if the calculated value is below the carrying amount of the securities, we then determine if the decline in value is other-than-temporary. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, our intent to sell or the likelihood that we would be required to sell the investment before its anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When we conclude that an other-than-temporary impairment has occurred, we assess whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery. If either of these two conditions is met, we recognize a charge in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If we do not intend to sell a

security and it is not more likely than not that we will be required to sell the security before recovery, the unrealized loss is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recorded in accumulated other comprehensive loss.

Acquired intangible assets—When we acquire a business, a portion of the purchase price is typically allocated to identifiable intangible assets, such as acquired technology and customer relationships. Fair value of these assets is determined primarily using the income approach, which requires us to project future cash flows and apply an appropriate discount rate. We amortize intangible assets with finite lives over their expected useful lives. Our estimates are based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. Incorrect estimates could result in future impairment charges, and those charges could be material to our results of operations.

Impairment of goodwill and other long-lived assets—We review long-lived assets which are held and used, including fixed assets and purchased intangible assets, for impairment whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such evaluations compare the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset over its expected useful life and are significantly impacted by estimates of future prices and volumes for our products, capital needs, economic trends and other factors which are inherently difficult to forecast. If the asset is considered to be impaired, we record an impairment charge equal to the amount by which the carrying value of the asset exceeds its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

We test our goodwill for impairment annually as of the first day of our fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares our fair value to our net book value. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it states quoted market prices are the best evidence of fair value. If the fair value is less than the net book value, the second step of the analysis compares the implied fair value of our goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, we recognize an impairment loss equal to that excess amount.

Income taxes—We are required to calculate income taxes in each of the jurisdictions in which we operate. This process involves calculating the actual current tax liability together with assessing temporary differences in recognition of income (loss) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheet. We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we are required to estimate the amount of expected future taxable income. Judgment is inherent in this process and differences between the estimated and actual taxable income could result in a material impact on our Consolidated Financial Statements.

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

or circumstances, changes in tax law, expirations of statutes of limitation, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Although we believe the measurement of our liabilities for uncertain tax positions is reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. If additional taxes are assessed as a result of an audit or litigation, it could have a material effect on our income tax provision and net income in the period or periods for which that determination is made. We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues which may require an extended period of time to resolve and could result in additional assessments of income tax. We believe adequate provisions for income taxes have been made for all periods.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In May 2014, the FASB issued FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In April 2014, the FASB issued FASB ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this update require a disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 expands disclosure requirements about discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued. The adoption of this ASU is not expected to have a material impact on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Income

Our investment portfolio includes cash, cash equivalents, short-term investments and long-term investments. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Our interest income is sensitive to changes in the general level of U.S. interest rates. Our investment portfolio holdings as of January 3, 2015 and December 28, 2013 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of January 3, 2015 and December 28, 2013 would decrease our annual interest income by approximately \$1.0 million and \$0.9 million, respectively. We believe that our investment policy, which defines the duration, concentration, and minimum credit quality of the allowable investments, meets our investment objectives.

Interest Expense

We are exposed to interest rate fluctuations in the normal course of our business, including through our Credit Facilities. The interest payments on the facility are calculated using a variable-rate of interest. We have entered into an interest rate swap agreement with an original notional value of \$100 million (equal to the full amount borrowed under the Term Loan Facility) and, effectively, converted the variable-rate interest payments on the Term Loan Facility to fixed-rate interest payments through July 2017.

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk primarily through assets and liabilities of our subsidiaries denominated in currencies other than the U.S. dollar. Gains and losses resulting from remeasuring transactions denominated in currencies other than U.S. dollars are recorded in other income (expense), net in the Consolidated Statements of Income. We use foreign currency forward contracts to manage exposure to foreign exchange risk. Gains and losses on foreign currency forward contracts are recognized in earnings in the same period as the remeasurement loss and gain of the related foreign currency denominated asset or liability.

Investments in Auction-rate Securities

In fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of January 3, 2015, we held \$8.0 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 3, 2015 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 3, 2015 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of January 3, 2015. 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* (2013 framework). Based on our assessment we concluded that, as of January 3, 2015, 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, 2015.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Navdeep S. Sooch	52	Chairman of the Board
G. Tyson Tuttle	47	Chief Executive Officer and Director
William G. Bock	64	President and Director
John C. Hollister	45	Chief Financial Officer and Senior Vice President
Kurt W. Hoff	57	Senior Vice President of Worldwide Sales
Sandeep Kumar	50	Senior Vice President of Worldwide Operations
David R. Welland	59	Vice President and Director
Alf-Egil Bogen	48	Director
Harvey B. Cash	76	Director
R. Ted Enloe III	76	Director
Jack R. Lazar	49	Director
Laurence G. Walker	66	Director
William P. Wood	59	Director

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

G. Tyson Tuttle has served as a director and our Chief Executive Officer since April 2012. Mr. Tuttle served as our Chief Operating Officer and Senior Vice President from May 2011 to April 2012. From January 2010 to May 2011, Mr. Tuttle served as our Chief Technical Officer. From May 2005 to December 2009, he was our Vice President and General Manager of Broadcast products including the audio and video product families. Mr. Tuttle joined Silicon Laboratories in 1997 as a senior design engineer. From 1999 to 2005, Mr. Tuttle served in a variety of product management, marketing and business leadership positions. Previously, Mr. Tuttle held senior design engineering positions at Crystal Semiconductor/Cirrus Logic and Broadcom Corporation where he focused on high-speed mixed-signal circuit design for mass storage and Ethernet applications. Mr. Tuttle holds an M.S. in Electrical Engineering from UCLA and a B.S. in Electrical Engineering from Johns Hopkins University. Mr. Tuttle has been granted over 70 patents covering many fundamental semiconductor inventions including key aspects of wireless communications. Mr. Tuttle’s intimate knowledge of our

company and the industry and his service as our Chief Executive Officer qualify him to serve as a member of our Board of Directors.

William G. Bock has served as our President since June 2013. He served Silicon Laboratories as Interim Chief Financial Officer and Senior Vice President from February 2013 until June 2013. He served as Chief Financial Officer from November 2006 to July 2011 and Senior Vice President of Finance and Administration from July 2011 through December 2011. He joined Silicon Laboratories as a director in March 2000, and served as Chairman of the audit committee until November 2006 when he stepped down from the Board of Directors to assume the CFO role. Mr. Bock rejoined Silicon Laboratories' Board of Directors in July of 2011. From 2001 to 2006, Mr. Bock participated in the venture capital industry, principally as a partner with CenterPoint Ventures. Before his venture career, Mr. Bock held senior executive positions with three venture-backed companies, Dazel Corporation, Tivoli Systems and Convex Computer Corporation. Mr. Bock began his career with Texas Instruments. He also serves on the Board of Directors of Borderfree and is Chair of the Audit Committee. Mr. Bock currently serves on the Board of Directors of Entropic Communications and as a member of the Audit Committee. Mr. Bock holds a B.S. in Computer Science from Iowa State University and an M.S. in Industrial Administration from Carnegie Mellon University. Mr. Bock's extensive financial and executive experience and his in-depth knowledge of Silicon Laboratories qualify him to serve as a member of our Board of Directors.

John C. Hollister has served Silicon Laboratories as our Chief Financial Officer since June 2013. Prior to this role, Mr. Hollister was our Vice President, Business Development since April 2012, and also served as our Chief Information Officer since November 2012. Mr. Hollister served as our Vice President, Manufacturing and Asia Operations from November 2009 to April 2012. From April 2007 to October 2009, he was Managing Director, Asia Operations. Mr. Hollister joined Silicon Laboratories in 2004 and held financial management positions until April 2007. Prior to joining Silicon Laboratories, Mr. Hollister's experience included Vice President of Finance at Cicada Semiconductor as well as various finance positions at Cirrus Logic, Veritas DGC, 3-D Geophysical and PricewaterhouseCoopers LLP. Mr. Hollister is a Certified Public Accountant and has a master's degree in Accounting and a bachelor's degree in Business Administration from the University of Texas at Austin.

Kurt W. Hoff has served as our Senior Vice President of Worldwide Sales since April 2012. He previously served as our Vice President of Worldwide Sales from July 2007 to April 2012. 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.

Dr. Sandeep Kumar has served as Senior Vice President of Worldwide Operations since July 2013. He previously served as Vice President of Operations Engineering from September 2009 to July 2013. He joined Silicon Laboratories in July 2006 as Engineering Director. Prior to joining Silicon Laboratories, Dr. Kumar managed global test engineering teams and was responsible for worldwide product and test engineering for the storage business at Agere Systems, Lucent technologies and AT&T Bell Labs. Dr. Kumar has a bachelor's degree in Electrical Engineering from the Indian Institute of Technology in Bombay, a M.S. in Electrical Engineering from the University of Evansville in Indiana and a Ph.D. in Electrical Engineering from Lehigh University.

David R. Welland co-founded Silicon Laboratories in August 1996, has served as a Vice President and director since our inception and was appointed Fellow in March 2004. From November 1991 until founding Silicon Laboratories, Mr. Welland held various positions at Crystal Semiconductor/Cirrus Logic, a designer and manufacturer of integrated circuits, including Senior Design Engineer.

Mr. Welland holds a B.S. in Electrical Engineering from the Massachusetts Institute of Technology. Mr. Welland's years of experience as a semiconductor designer provide him with extensive insight into our operations and qualifies him to serve as a member of our Board of Directors.

Alf-Egil Bogen has served as a director of Silicon Laboratories since October 2013. Mr. Bogen is a 20-year semiconductor veteran and one of the inventors of the highly successful AVR microcontroller. He is currently the chief executive officer and a member of the Board of Directors of Novelda AS, a privately held semiconductor company based in Norway specializing in nanoscale wireless low-power technology for ultra-high-resolution impulse radar. Prior to Novelda, he was chief marketing officer of Energy Micro AS until it was acquired by Silicon Laboratories in July 2013. Mr. Bogen also held various management positions during his 17 years at Atmel Corporation, including managing director of the AVR business unit as well as vice president of corporate marketing and chief marketing officer. He began his career at Nordic VLSI in Norway. Mr. Bogen holds an M.S. in Electrical Engineering and Computer Science from Norwegian University of Science and Technology and a B.S. in Electrical and Computing Engineering from Trondheim University College. Mr. Bogen's combination of independence and his experience, including past experience in the semiconductor industry, 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. 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.

Jack R. Lazar has served as a director of Silicon Laboratories since April 2013. Mr. Lazar is currently the Chief Financial Officer of GoPro, a leading provider of wearable and mountable camera products and accessories. From January 2013 to January 2014, he was an independent business and financial consultant. Mr. Lazar was previously employed by Qualcomm and served as Senior Vice President, Corporate Development and General Manager of Qualcomm Atheros from 2011 to 2013. Prior to the acquisition of Atheros Communications by Qualcomm in 2011, Mr. Lazar served as Senior Vice President of Corporate Development, Chief Financial Officer and Secretary of Atheros from 2010 to 2011. Atheros Communications was a publicly traded provider of communications semiconductor solutions. From 2003 to 2010 Mr. Lazar held the positions including Vice President, Corporate Development, Chief Financial Officer and Secretary. Previously, from 2002 to 2003, Mr. Lazar was an independent business and financial consultant. From 1999 to 2002, Mr. Lazar served in a variety of positions at NetRatings, a publicly traded Internet audience measurement and analysis company (acquired by The Nielsen Company in 2007), most recently as Executive Vice President of Corporate

Development, Chief Financial Officer and Secretary. Prior to joining NetRatings, Mr. Lazar held a variety of executive and management positions at Apptitude, Inc., Electronics for Imaging and Price Waterhouse from 1987 to 1999. Mr. Lazar currently serves on the Board of Directors and as Chairman of the audit committee of TubeMogul, a publicly traded enterprise software company for digital branding. Mr. Lazar is a Certified Public Accountant and holds a B.S. in Commerce with an emphasis in Accounting from Santa Clara University. Mr. Lazar'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.

Laurence G. Walker has served as a director of Silicon Laboratories since June 2003. Previously, Mr. Walker co-founded and served as Chief Executive Officer of C-Port Corporation, a pioneer in the network processor industry, which was acquired by Motorola in 2000. Following the acquisition, Mr. Walker served as Vice President of Strategy for Motorola's Network and Computing Systems Group and then as Vice President and General Manager of the Network and Computing Systems Group until 2002. From August 1996 to May 1997, Mr. Walker served as Chief Executive Officer of CertCo, a digital certification supplier. Mr. Walker served as Vice President and General Manager, Network Products Business Unit, of Digital Equipment Corporation, a computer hardware company, from January 1994 to July 1996. From 1998 to 2007, he served on the Board of Directors of McData Corporation, a provider of storage networking solutions. From 1981 to 1994, he held a variety of other management positions at Digital Equipment Corporation. Mr. Walker holds a B.S. in Electrical Engineering from Princeton University and an M.S. and Ph.D. in Electrical Engineering from the Massachusetts Institute of Technology. Mr. Walker's combination of independence and his experience, including past experience as an executive officer, qualifies him to serve as a member of our Board of Directors.

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

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

Index

	<u>Page</u>
Report of independent registered public accounting firm	F-1
Report of independent registered public accounting firm	F-2
Consolidated Balance Sheets at January 3, 2015 and December 28, 2013	F-3
Consolidated Statements of Income for the fiscal years ended January 3, 2015, December 28, 2013 and December 29, 2012	F-4
Consolidated Statements of Comprehensive Income for the fiscal years ended January 3, 2015, December 28, 2013 and December 29, 2012	F-5
Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended January 3, 2015, December 28, 2013 and December 29, 2012	F-6
Consolidated Statements of Cash Flows for the fiscal years ended January 3, 2015, December 28, 2013 and December 29, 2012	F-7
Notes to Consolidated Financial Statements	F-8

2. Schedules

Schedule II—Valuation and Qualifying Accounts

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

3. Exhibits

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

(b) Exhibits

Exhibit Number	
2.1*	Share Purchase Agreement, dated June 6, 2013, by and between Silicon Laboratories International Pte. Ltd. and Energy AS and Silicon Laboratories Inc. (filed as Exhibit 2.1 to the Form 8-K filed on June 7, 2013).
2.2*	Sale and Purchase Agreement dated January 30, 2015, by and between Silicon Laboratories International Pte. Ltd. and the holders of shares, options and capital loans in Bluegiga Technologies Oy (filed as Exhibit 2.1 to the Form 8-K filed on February 4, 2015).
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*	Credit Agreement, dated July 31, 2012, by and among Silicon Laboratories Inc., the subsidiaries of the borrower identified therein, Bank of America, N.A., Wells Fargo Bank, National Association, and Regions Bank (filed as Exhibit 10.1 to the Form 8-K filed August 1, 2012).
10.3*	Security and Pledge Agreement, dated July 31, 2012, by and among Silicon Laboratories Inc., with the other parties identified as "Obligors" (as defined therein) and such other parties that may become Obligors thereunder after the date thereof, and Bank of America, N.A (filed as Exhibit 10.2 to the Form 8-K filed August 1, 2012).
10.4*	Silicon Laboratories Inc. 2009 Stock Incentive Plan, as amended and restated on April 15, 2014 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 16, 2014).
10.5*	Silicon Laboratories Inc. 2009 Employee Stock Purchase Plan, as amended and restated on April 15, 2014 (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 16, 2014).
10.6*	Form of Restricted Stock Units Grant Notice and Global Restricted Stock Units Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 16, 2014).
10.7*	Form of Market Stock Units Grant Notice and Global Market Stock Units Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on April 16, 2014).
10.8*	Form of Stock Option Grant Notice and Global Stock Option Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on April 16, 2014).
10.9*	Silicon Laboratories Inc. 2015 Bonus Plan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 30, 2015).

Exhibit Number	
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
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
<hr/>	
*	Incorporated herein by reference to the indicated filing.
+	Management contract or compensatory plan or arrangement

SILICON LABORATORIES INC.
VALUATION AND QUALIFYING ACCOUNTS

<u>Valuation Allowance for Deferred Tax Assets</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Expenses</u>	<u>Charged to Goodwill</u>		
			(in thousands)		
Year ended January 3, 2015	\$3,775	\$ —	\$ —	\$(320)	\$3,455
Year ended December 28, 2013	\$2,114	\$2,335	\$ —	\$(674)	\$3,775
Year ended December 29, 2012	\$ —	\$ —	\$2,114	\$ —	\$2,114

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID R. WELLAND</u> David R. Welland	Vice President and Director	February 6, 2015
<u>/s/ ALF-EGIL BOGEN</u> Alf-Egil Bogen	Director	February 6, 2015
<u>/s/ HARVEY B. CASH</u> Harvey B. Cash	Director	February 6, 2015
<u>/s/ ROBERT TED ENLOE, III</u> Robert Ted Enloe, III	Director	February 6, 2015
<u>/s/ JACK R. LAZAR</u> Jack R. Lazar	Director	February 6, 2015
<u>Laurence G. Walker</u>	Director	February 6, 2015
<u>/s/ WILLIAM P. WOOD</u> William P. Wood	Director	February 6, 2015

(This page has been left blank intentionally.)

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 3, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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 3, 2015, 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 3, 2015 and December 28, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended January 3, 2015 of Silicon Laboratories Inc. and our report dated February 6, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Austin, Texas
February 6, 2015

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 3, 2015 and December 28, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended January 3, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 3, 2015 and December 28, 2013, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended January 3, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

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 3, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 6, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Austin, Texas
February 6, 2015

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

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 141,706	\$ 95,800
Short-term investments	193,489	179,593
Accounts receivable, net of allowances for doubtful accounts of \$786 at January 3, 2015 and \$797 at December 28, 2013	70,367	72,124
Inventories	52,631	45,271
Deferred income taxes	21,173	18,878
Prepaid expenses and other current assets	<u>49,171</u>	<u>47,651</u>
Total current assets	528,537	459,317
Long-term investments	7,419	10,632
Property and equipment, net	132,820	132,445
Goodwill	228,781	228,781
Other intangible assets, net	115,021	131,593
Other assets, net	<u>29,983</u>	<u>28,382</u>
Total assets	<u>\$1,042,561</u>	<u>\$991,150</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 38,922	\$ 22,126
Current portion of long-term debt	10,000	7,500
Accrued expenses	73,646	45,975
Deferred income on shipments to distributors	38,662	30,853
Income taxes	<u>2,084</u>	<u>2,693</u>
Total current liabilities	163,314	109,147
Long-term debt	77,500	87,500
Other non-current liabilities	<u>43,691</u>	<u>55,941</u>
Total liabilities	284,505	252,588
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; 42,225 and 42,779 shares issued and outstanding at January 3, 2015 and December 28, 2013, respectively	4	4
Additional paid-in capital	29,501	48,630
Retained earnings	728,633	690,612
Accumulated other comprehensive loss	<u>(82)</u>	<u>(684)</u>
Total stockholders' equity	758,056	738,562
Total liabilities and stockholders' equity	<u>\$1,042,561</u>	<u>\$991,150</u>

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

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Revenues	\$620,704	\$580,087	\$563,294
Cost of revenues	242,153	227,183	225,277
Gross margin	378,551	352,904	338,017
Operating expenses:			
Research and development	172,985	157,799	137,952
Selling, general and administrative	154,145	130,795	114,390
Operating expenses	327,130	288,594	252,342
Operating income	51,421	64,310	85,675
Other income (expense):			
Interest income	1,007	853	1,338
Interest expense	(3,154)	(3,293)	(1,149)
Other income (expense), net	(234)	157	484
Income before income taxes	49,040	62,027	86,348
Provision for income taxes	11,019	12,208	22,800
Net income	<u>\$ 38,021</u>	<u>\$ 49,819</u>	<u>\$ 63,548</u>
Earnings per share:			
Basic	\$ 0.88	\$ 1.17	\$ 1.51
Diluted	\$ 0.87	\$ 1.14	\$ 1.47
Weighted-average common shares outstanding:			
Basic	42,970	42,715	42,136
Diluted	43,793	43,537	43,106

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

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Net income	\$38,021	\$49,819	\$63,548
Other comprehensive income, before tax:			
Net changes to available-for-sale securities:			
Unrealized gains (losses) arising during the period	1,107	(535)	1,000
Reclassification for gains included in net income	—	(232)	—
Net changes to cash flow hedges:			
Unrealized gains (losses) arising during the period	(799)	611	(956)
Reclassification for losses included in net income	618	560	2,295
Other comprehensive income, before tax	926	404	2,339
Provision for income taxes	324	142	818
Other comprehensive income	602	262	1,521
Comprehensive income	<u>\$38,623</u>	<u>\$50,081</u>	<u>\$65,069</u>

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

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

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Number of Shares	Par Value	Additional Paid-In Capital			
Balance as of December 31, 2011 . .	42,068	\$ 4	\$ 14,749	\$586,653	\$(2,467)	\$598,939
Net income	—	—	—	63,548	—	63,548
Other comprehensive income . . .	—	—	—	—	1,521	1,521
Stock issuances under employee plans, net of shares withheld for taxes	1,560	—	15,148	—	—	15,148
Income tax benefit (shortfall) from stock-based awards	—	—	1,675	—	—	1,675
Repurchases of common stock . .	(1,749)	—	(52,611)	(9,408)	—	(62,019)
Stock-based compensation	—	—	31,161	—	—	31,161
Balance as of December 29, 2012 . .	41,879	4	10,122	640,793	(946)	649,973
Net income	—	—	—	49,819	—	49,819
Other comprehensive income . . .	—	—	—	—	262	262
Stock issuances under employee plans, net of shares withheld for taxes	1,057	—	15,301	—	—	15,301
Income tax benefit (shortfall) from stock-based awards	—	—	(772)	—	—	(772)
Repurchases of common stock . .	(661)	—	(26,022)	—	—	(26,022)
Stock-based compensation	—	—	30,753	—	—	30,753
Stock issued in business combination	504	—	19,248	—	—	19,248
Balance as of December 28, 2013 . .	42,779	4	48,630	690,612	(684)	738,562
Net income	—	—	—	38,021	—	38,021
Other comprehensive income . . .	—	—	—	—	602	602
Stock issuances under employee plans, net of shares withheld for taxes	1,124	—	13,320	—	—	13,320
Income tax benefit (shortfall) from stock-based awards	—	—	120	—	—	120
Repurchases of common stock . .	(1,678)	—	(71,676)	—	—	(71,676)
Stock-based compensation	—	—	39,107	—	—	39,107
Balance as of January 3, 2015	<u>42,225</u>	<u>\$ 4</u>	<u>\$ 29,501</u>	<u>\$728,633</u>	<u>\$ (82)</u>	<u>\$758,056</u>

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

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Operating Activities			
Net income	\$ 38,021	\$ 49,819	\$ 63,548
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation of property and equipment	12,561	13,491	13,621
Net gain on the purchase of property and equipment	—	—	(8,457)
Amortization of other intangible assets and other assets	17,923	15,911	14,154
Impairment of long-lived assets	—	—	708
Stock-based compensation expense	39,067	30,800	31,176
Income tax benefit (shortfall) from stock-based awards	489	(606)	1,827
Excess income tax benefit from stock-based awards	(632)	(290)	(1,294)
Deferred income taxes	3,054	3,319	4,725
Changes in operating assets and liabilities:			
Accounts receivable	1,757	8,972	(20,743)
Inventories	(7,170)	5,588	(13,056)
Prepaid expenses and other assets	9,332	(2,514)	10,629
Accounts payable	11,475	(3,979)	7,217
Accrued expenses	27,671	463	3,247
Deferred income on shipments to distributors	7,809	(2,381)	4,623
Income taxes	(3,371)	5,189	(7,816)
Other non-current liabilities	(20,543)	(3,632)	(7,059)
Net cash provided by operating activities	137,443	120,150	97,050
Investing Activities			
Purchases of available-for-sale investments	(166,094)	(213,883)	(192,450)
Proceeds from sales and maturities of available-for-sale investments . .	156,520	210,824	235,517
Purchases of property and equipment	(11,225)	(10,472)	(102,043)
Purchases of other assets	(5,514)	(5,939)	(8,508)
Acquisitions of businesses, net of cash acquired	—	(86,441)	(71,852)
Net cash used in investing activities	(26,313)	(105,911)	(139,336)
Financing Activities			
Proceeds from issuance of common stock, net of shares withheld for taxes	13,320	15,301	15,148
Excess income tax benefit from stock-based awards	632	290	1,294
Repurchases of common stock	(71,676)	(26,022)	(62,019)
Proceeds from issuance of long-term debt, net	—	—	98,325
Payments on debt	(7,500)	(13,434)	—
Net cash provided by (used in) financing activities	(65,224)	(23,865)	52,748
Increase (decrease) in cash and cash equivalents	45,906	(9,626)	10,462
Cash and cash equivalents at beginning of period	95,800	105,426	94,964
Cash and cash equivalents at end of period	<u>\$ 141,706</u>	<u>\$ 95,800</u>	<u>\$ 105,426</u>
Supplemental Disclosure of Cash Flow Information:			
Interest paid	<u>\$ 2,950</u>	<u>\$ 2,925</u>	<u>\$ 677</u>
Income taxes paid	<u>\$ 11,587</u>	<u>\$ 3,838</u>	<u>\$ 23,564</u>
Supplemental Disclosure of Non-Cash Activity:			
Stock issued in business combination	<u>\$ —</u>	<u>\$ 19,248</u>	<u>\$ —</u>

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015

1. Description of Business

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

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company prepares financial statements on a 52- or 53-week fiscal year that ends on the Saturday closest to December 31. Fiscal 2014 had 53 weeks with the extra week occurring in the fourth quarter of the year and ended on January 3, 2015. Fiscal 2013 and 2012 were 52-week years and ended on December 28, 2013 and December 29, 2012, respectively. The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency Transactions

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

Use of Estimates

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

Reclassifications

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

Fair Value of Financial Instruments

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

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

2. Significant Accounting Policies (Continued)

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

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

Cash and Cash Equivalents

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

Investments

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

The Company reviews its available-for-sale investments as of the end of each reporting period for other-than-temporary declines in fair value based on the specific identification method. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, its intent to sell or the likelihood that it would be required to sell the investment before its anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has occurred, the Company assesses whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery. If either of these two conditions is met, the Company recognizes a charge in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Company does not intend to sell a security and it is not more likely than not that it will be required to sell the security before recovery, the unrealized loss is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recorded in accumulated other comprehensive loss.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage certain exposures to the variability of interest rates and foreign currency exchange rates. The Company's objective is to offset increases and decreases in expenses resulting from these exposures with gains and losses on the derivative contracts, thereby reducing volatility of earnings. The Company does not use derivative contracts for speculative or trading purposes. The Company recognizes derivatives, on a gross basis, in the Consolidated Balance Sheet at fair value. Cash flows from derivatives are classified according to the nature of the cash receipt or payment in the Consolidated Statement of Cash Flows.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

2. Significant Accounting Policies (Continued)

The Company uses interest rate swap agreements to manage exposure to interest rate risks. The swap agreements are designated and qualify as cash flow hedges. The effective portion of the gain or loss on the interest rate swaps is recorded in accumulated other comprehensive loss as a separate component of stockholders' equity and is subsequently recognized as interest expense in the Consolidated Statement of Income when the hedged exposure affects earnings.

The Company uses foreign currency forward contracts to manage exposure to foreign exchange risk. These instruments are used to reduce the earnings impact that exchange rate fluctuations have on non-U.S. dollar balance sheet exposures. The Company recognizes gains and losses on the foreign currency forward contracts in other income (expense), net in the Consolidated Statement of Income in the same period as the remeasurement loss and gain of the related foreign currency denominated asset or liability. The Company does not apply hedge accounting to its foreign currency derivative instruments.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. The Company writes down the carrying value of inventory to net realizable value for estimated obsolescence or unmarketable inventory based upon assumptions about the age of inventory, future demand and market conditions. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable.

Property and Equipment

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

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

Business Combinations

The Company records business combinations using the acquisition method of accounting and accordingly, allocates the fair value of purchase consideration to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The results of operations of the businesses acquired are included in the Company's consolidated results of operations beginning on the date of the acquisition.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

2. Significant Accounting Policies (Continued)

Long-Lived Assets

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

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

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

Revenue Recognition

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

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

A small portion of the Company’s revenues is derived from the sale of patents. The above revenue recognition criteria for patent sales are generally met upon the execution of the patent sale agreement.

Shipping and Handling

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

2. Significant Accounting Policies (Continued)

Stock-Based Compensation

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

Research and Development

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

Advertising

Advertising costs are expensed as incurred. Advertising expenses were \$1.7 million, \$2.0 million and \$1.7 million in fiscal 2014, 2013 and 2012, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax laws and related rates that will be in effect when the differences are expected to reverse. These differences result in deferred tax assets and liabilities, which are included in the Company's Consolidated Balance Sheet. The Company then assesses the likelihood that the deferred tax assets will be realized. A valuation allowance is established against deferred tax assets to the extent the Company believes that it is more likely than not that the deferred tax assets will not be realized, taking into consideration the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible.

Uncertain tax positions must meet a more-likely-than-not threshold to be recognized in the financial statements and the tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon final settlement. See Note 17, *Income Taxes*, for additional information.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

2. Significant Accounting Policies (Continued)

relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In May 2014, the FASB issued FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In April 2014, the FASB issued FASB ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this update require a disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 expands disclosure requirements about discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

3. Earnings Per Share

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Net income	\$38,021	\$49,819	\$63,548
Shares used in computing basic earnings per share	42,970	42,715	42,136
Effect of dilutive securities:			
Stock options and other stock-based awards	823	822	970
Shares used in computing diluted earnings per share	<u>43,793</u>	<u>43,537</u>	<u>43,106</u>
Earnings per share:			
Basic	\$ 0.88	\$ 1.17	\$ 1.51
Diluted	\$ 0.87	\$ 1.14	\$ 1.47

For fiscal years ended January 3, 2015, December 28, 2013 and December 29, 2012, approximately 0.1 million, 0.4 million and 0.5 million shares, respectively, were not included in the diluted earnings per share calculation since the shares were anti-dilutive.

4. Cash, Cash Equivalents and Investments

The Company's cash equivalents and short-term investments as of January 3, 2015 consisted of municipal bonds, money market funds, corporate bonds, commercial paper, variable-rate demand notes, certificates of deposit, asset-backed securities, international government bonds, U.S. government agency and U.S. government bonds. 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 January 3, 2015, the Company held \$8.0 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 \$6.0 million were guaranteed by the U.S. government and the remaining \$2.0 million were privately insured. As of January 3, 2015, \$6.0 million of the auction-rate securities had credit ratings of AA and \$2.0 million had a credit rating of A. These securities have contractual maturity dates ranging from 2033 to 2046 at January 3, 2015. The Company is receiving the underlying cash flows on all of its auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the securities, a buyer is found outside of the auction process or the underlying securities mature. The Company is unable to predict if these funds will become available before their maturity dates.

The Company does not expect to need access to the capital represented by any of its auction-rate securities prior to their maturities. The Company does not intend to sell, and believes it is not more likely than not that it will be required to sell, its auction-rate securities before their anticipated recovery in market value or final settlement at the underlying par value. The Company believes that the credit ratings and credit support of the security issuers indicate that they have the ability to settle

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

4. Cash, Cash Equivalents and Investments (Continued)

the securities at par value. As such, the Company has determined that no other-than-temporary impairment losses existed as of January 3, 2015.

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

	January 3, 2015			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and Cash Equivalents:				
Cash on hand	\$ 52,144	\$ —	\$ —	\$ 52,144
Available-for-sale securities:				
Money market funds	71,415	—	—	71,415
Certificates of deposit	7,739	—	—	7,739
Commercial paper	5,348	—	—	5,348
Municipal bonds	1,756	—	1	1,757
U.S. government agency	1,202	—	—	1,202
Corporate bonds	1,101	—	—	1,101
U.S. government bonds	1,000	—	—	1,000
Total available-for-sale securities	89,561	—	1	89,562
Total cash and cash equivalents	\$141,705	\$ —	\$ 1	\$141,706
Short-term Investments:				
Available-for-sale securities:				
Municipal bonds	\$129,005	\$ (25)	\$172	\$129,152
Corporate bonds	33,043	(35)	25	33,033
Variable-rate demand notes	12,915	—	—	12,915
Commercial paper	8,995	—	—	8,995
Asset-backed securities	5,380	(3)	—	5,377
International government bonds	2,526	(10)	—	2,516
U.S. government bonds	650	—	—	650
U.S. government agency	601	—	—	601
Certificates of deposit	250	—	—	250
Total short-term investments	\$193,365	\$ (73)	\$197	\$193,489
Long-term Investments:				
Available-for-sale securities:				
Auction rate securities	\$ 8,000	\$(581)	\$ —	\$ 7,419
Total long-term investments	\$ 8,000	\$(581)	\$ —	\$ 7,419

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

4. Cash, Cash Equivalents and Investments (Continued)

	December 28, 2013			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and Cash Equivalents:				
Cash on hand	\$ 45,544	\$ —	\$ —	\$ 45,544
Available-for-sale securities:				
Money market funds	39,538	—	—	39,538
Certificates of deposit	7,768	—	—	7,768
Commercial paper	2,499	—	—	2,499
Municipal bonds	451	—	—	451
Total available-for-sale securities	<u>50,256</u>	<u>—</u>	<u>—</u>	<u>50,256</u>
Total cash and cash equivalents	<u>\$ 95,800</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 95,800</u>
Short-term Investments:				
Available-for-sale securities:				
Municipal bonds	\$119,289	\$ (11)	\$182	\$119,460
Variable-rate demand notes	38,025	—	—	38,025
Corporate bonds	17,788	(4)	60	17,844
Commercial paper	3,748	—	—	3,748
Asset-backed securities	515	—	1	516
Total short-term investments	<u>\$179,365</u>	<u>\$ (15)</u>	<u>\$243</u>	<u>\$179,593</u>
Long-term Investments:				
Available-for-sale securities:				
Auction rate securities	\$ 12,425	\$(1,793)	\$ —	\$ 10,632
Total long-term investments	<u>\$ 12,425</u>	<u>\$(1,793)</u>	<u>\$ —</u>	<u>\$ 10,632</u>

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of January 3, 2015						
Municipal bonds	\$23,735	\$(25)	\$ —	\$ —	\$23,735	\$ (25)
Corporate bonds	20,327	(35)	—	—	20,327	(35)
Auction rate securities	—	—	7,419	(581)	7,419	(581)
Asset-backed securities	5,080	(3)	—	—	5,080	(3)
International government bond	2,516	(10)	—	—	2,516	(10)
	<u>\$51,658</u>	<u>\$(73)</u>	<u>\$7,419</u>	<u>\$(581)</u>	<u>\$59,077</u>	<u>\$(654)</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

4. Cash, Cash Equivalents and Investments (Continued)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of December 28, 2013						
Municipal bonds	\$11,079	\$(11)	\$ —	\$ —	\$11,079	\$ (11)
Auction rate securities	—	—	10,632	(1,793)	10,632	(1,793)
Corporate bonds	2,605	(4)	—	—	2,605	(4)
	<u>\$13,684</u>	<u>\$(15)</u>	<u>\$10,632</u>	<u>\$(1,793)</u>	<u>\$24,316</u>	<u>\$(1,808)</u>

The gross unrealized losses as of January 3, 2015 and December 28, 2013 were due primarily to the illiquidity of the Company's auction-rate securities and, to a lesser extent, to changes in market interest rates.

The following summarizes the contractual underlying maturities of the Company's available-for-sale investments at January 3, 2015 (in thousands):

	Cost	Fair Value
Due in one year or less	\$208,047	\$208,166
Due after one year through ten years	62,464	62,470
Due after ten years	20,415	19,834
	<u>\$290,926</u>	<u>\$290,470</u>

5. Derivative Financial Instruments

The Company uses derivative financial instruments to manage certain exposures to the variability of interest rates and foreign currency exchange rates. The Company's objective is to offset increases and decreases in expenses resulting from these exposures with gains and losses on the derivative contracts, thereby reducing volatility of earnings.

Interest Rate Swaps

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

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

The Company estimates the fair values of interest rate swaps based on quoted prices and market observable data of similar instruments. If the Term Loan Facility or the interest rate swap agreement is terminated prior to maturity, the fair value of the interest rate swap recorded in accumulated other

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

5. Derivative Financial Instruments (Continued)

comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the agreements at the time of termination. The termination of the Company's swap agreement with a notional value of \$50.1 million resulted in its remaining fair value of \$0.9 million that was previously recorded in accumulated other comprehensive loss to be reclassified into earnings during fiscal 2012. The Company did not discontinue any other cash flow hedges in the periods presented.

The Company measures the effectiveness of its cash flow hedge by comparing the change in fair value of the hedged variable interest payments with the change in fair value of the interest rate swap. The Company recognizes ineffective portions of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Statement of Income. As of January 3, 2015, no portion of the gains or losses from the Company's hedging instrument was excluded from the assessment of effectiveness. Hedge ineffectiveness was not material for any of the periods presented.

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

	<u>Balance Sheet Location</u>	<u>Fair Value</u>	
		<u>January 3, 2015</u>	<u>December 28, 2013</u>
Interest rate swap	Other assets, net	\$331	\$513

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

	<u>Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) during the Year Ended</u>			<u>Location of Loss Reclassified into Income</u>	<u>Loss Reclassified from Accumulated OCI into Income (Effective Portion) during the Year Ended</u>		
	<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>		<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>
Interest rate swaps	\$(799)	\$611	\$(956)	Rent expense	\$ —	\$ —	\$(2,197)
				Interest expense	(618)	(560)	(98)

The Company expects to reclassify \$0.4 million of its interest rate swap losses included in accumulated other comprehensive loss as of January 3, 2015 into earnings in the next 12 months, which would be offset by lower interest payments.

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts to manage exposure to foreign exchange risk. As of January 3, 2015, the Company held one foreign currency forward contract denominated in Norwegian Krone with a notional value of \$7.7 million. The fair value of the contract was not material as of January 3, 2015. The contract has a maturity date of April 1, 2015 and it was not designated as a hedging instrument. The Company held no foreign currency forward contracts prior to fiscal 2014.

The before-tax effect of derivative instruments not designated as hedging instruments was as follows (in thousands):

<u>Gain Recognized in Income</u>	<u>Year Ended January 3, 2015</u>	<u>Location</u>
Foreign currency forward contracts	\$1,075	Other income (expense), net

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

6. Fair Value of Financial Instruments

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

<u>Description</u>	<u>Fair Value Measurements at January 3, 2015 Using</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Assets:				
Cash Equivalents:				
Money market funds	\$71,415	\$ —	\$ —	\$ 71,415
Certificates of deposit	—	7,739	—	7,739
Commercial paper	—	5,348	—	5,348
Municipal bonds	—	1,757	—	1,757
U.S. government agency	—	1,202	—	1,202
Corporate bonds	—	1,101	—	1,101
U.S. government bonds	1,000	—	—	1,000
Total cash equivalents	<u>\$72,415</u>	<u>\$ 17,147</u>	<u>\$ —</u>	<u>\$ 89,562</u>
Short-term Investments:				
Municipal bonds	\$ —	\$129,152	\$ —	\$129,152
Corporate bonds	—	33,033	—	33,033
Variable-rate demand notes	—	12,915	—	12,915
Commercial paper	—	8,995	—	8,995
Asset-backed securities	—	5,377	—	5,377
International government bonds	—	2,516	—	2,516
U.S. government bond	650	—	—	650
U.S. government agency	—	601	—	601
Certificates of deposit	—	250	—	250
Total short-term investments	<u>\$ 650</u>	<u>\$192,839</u>	<u>\$ —</u>	<u>\$193,489</u>
Long-term Investments:				
Auction rate securities	\$ —	\$ —	\$ 7,419	\$ 7,419
Total long-term investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,419</u>	<u>\$ 7,419</u>
Other assets, net:				
Derivative instruments	\$ —	\$ 331	\$ —	\$ 331
Total	<u>\$ —</u>	<u>\$ 331</u>	<u>\$ —</u>	<u>\$ 331</u>
Total	<u><u>\$73,065</u></u>	<u><u>\$210,317</u></u>	<u><u>\$ 7,419</u></u>	<u><u>\$290,801</u></u>
Liabilities:				
Accrued expenses:				
Contingent consideration	\$ —	\$ —	\$ 4,288	\$ 4,288
Other non-current liabilities:				
Contingent consideration	\$ —	\$ —	\$14,150	\$ 14,150
Total	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$18,438</u></u>	<u><u>\$ 18,438</u></u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

6. Fair Value of Financial Instruments (Continued)

<u>Description</u>	<u>Fair Value Measurements at December 28, 2013 Using</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Assets:				
Cash Equivalents:				
Money market funds	\$39,538	\$ —	\$ —	\$ 39,538
Certificates of deposit	—	7,768	—	7,768
Commercial paper	—	2,499	—	2,499
Municipal bonds	—	451	—	451
Total cash equivalents	\$39,538	\$ 10,718	\$ —	\$ 50,256
Short-term Investments:				
Municipal bonds	\$ —	\$119,460	\$ —	\$119,460
Variable-rate demand notes	—	38,025	—	38,025
Corporate bonds	—	17,844	—	17,844
Commercial paper	—	3,748	—	3,748
Asset-backed securities	—	516	—	516
Total short-term investments	\$ —	\$179,593	\$ —	\$179,593
Long-term Investments:				
Auction rate securities	\$ —	\$ —	\$10,632	\$ 10,632
Total long-term investments	\$ —	\$ —	\$10,632	\$ 10,632
Other assets, net:				
Derivative instruments	\$ —	\$ 513	\$ —	\$ 513
Total	\$ —	\$ 513	\$ —	\$ 513
Total	\$39,538	\$190,824	\$10,632	\$240,994
Liabilities:				
Other non-current liabilities:				
Contingent consideration	\$ —	\$ —	\$12,919	\$ 12,919
Total	\$ —	\$ —	\$12,919	\$ 12,919

The Company's cash equivalents and short-term investments that are classified as Level 1 are valued using quoted prices and other relevant information generated by market transactions involving identical assets. Cash equivalents and short-term investments classified as Level 2 are valued using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments in active markets; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Investments classified as Level 3 are valued using a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, amount of cash flows, expected holding periods of the securities and a discount to reflect the Company's inability to liquidate the securities. The Company's derivative instruments are valued using discounted cash flow models. The assumptions used in preparing the valuation models include quoted interest swap rates, foreign

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

6. Fair Value of Financial Instruments (Continued)

exchange rates, forward and spot prices for currencies, and market observable data of similar instruments.

The Company's contingent consideration is valued using a Monte Carlo simulation model or a probability weighted discounted cash flow model. The assumptions used in preparing the Monte Carlo simulation model include estimates for revenue growth rates, revenue volatility, contractual terms and discount rates. The assumptions used in preparing the discounted cash flow model include estimates for outcomes if milestone goals are achieved, the probability of achieving each outcome and discount rates.

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

Auction rate securities

Fair Value at January 3, 2015 (000s)	Valuation Technique	Unobservable Input	Weighted Average
\$7,419	Discounted cash flow	Estimated yield	1.04%
		Expected holding period	10 years
		Estimated discount rate	3.23%

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

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

Contingent consideration

Fair Value at January 3, 2015 (000s)	Valuation Technique	Unobservable Input	Range
\$18,438	Monte Carlo simulation	Expected revenue growth rate	35.6% - 69.1%
		Expected revenue volatility	20.0%
		Expected term	0.0 years - 4.0 years
		Estimated discount rate	0.1% - 1.7%

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

6. Fair Value of Financial Instruments (Continued)

The Company has followed an established internal control procedure used in valuing contingent consideration. The valuation of contingent consideration for the Energy Micro acquisition is based on the Company's revenue data for fiscal 2014 and a Monte Carlo simulation model for fiscal 2015 to 2018. The fair value of this valuation is estimated on a quarterly basis through a collaborative effort by the Company's sales, marketing and finance departments.

Significant changes in any of the unobservable inputs used in the fair value measurement of contingent consideration in isolation could result in a significantly lower or higher fair value. A change in projected revenue growth rates would be accompanied by a directionally similar change in fair value.

The following summarizes the activity in Level 3 financial instruments for the years ended January 3, 2015 and December 28, 2013 (in thousands):

Assets

	Year Ended	
	January 3, 2015	December 28, 2013
<u>Auction Rate Securities</u>		
Beginning balance	\$10,632	\$11,369
Settlements	(4,425)	(100)
Gain (loss) included in other comprehensive income	1,212	(637)
Ending balance	<u>\$ 7,419</u>	<u>\$10,632</u>

Liabilities

	Year Ended	
	January 3, 2015	December 28, 2013
<u>Contingent Consideration (1)</u>		
Beginning balance	\$12,919	\$ 2,750
Issues	—	13,964
(Gain) loss recognized in earnings (2)	5,519	(3,795)
Ending balance	<u>\$18,438</u>	<u>\$12,919</u>
Net gain (loss) for the period included in earnings attributable to contingent consideration held at the end of the period:	<u>\$ (5,519)</u>	<u>\$ 1,045</u>

-
- (1) In connection with the acquisition of Energy Micro and Ember, the Company recorded contingent consideration based upon the expected achievement of certain milestone goals. Changes to the fair value of contingent consideration due to changes in assumptions used in preparing the valuation model are recorded in selling, general and administrative expenses in the Consolidated Statement of Income.
- (2) Changes to the estimated fair value of contingent consideration were primarily due to revisions to the Company's expectations of earn-out achievement.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

6. Fair Value of Financial Instruments (Continued)

Fair values of other financial instruments

The Company's Term Loan Facility bears interest at LIBOR plus an applicable margin. The Term Loan Facility is recorded at cost, but is measured at fair value for disclosure purposes. Fair value is estimated based on Level 2 inputs, using a discounted cash flow analysis of future principal payments and projected interest based on current market rates. As of January 3, 2015 and December 28, 2013, the fair value of the Company's debt was approximately \$87.4 million and \$94.8 million, respectively.

The Company's other financial instruments, including cash, accounts receivable and accounts payable, are recorded at amounts that approximate their fair values due to their short maturities.

7. Balance Sheet Details

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

Inventories

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Work in progress	\$40,640	\$34,503
Finished goods	11,991	10,768
	<u>\$52,631</u>	<u>\$45,271</u>

Prepaid Expenses and Other Current Assets

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Distributor advances	\$32,932	\$31,839
Other	16,239	15,812
	<u>\$49,171</u>	<u>\$47,651</u>

Property and Equipment

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Buildings and improvements	\$ 94,453	\$ 94,221
Equipment	51,654	51,071
Computers and purchased software	27,282	25,556
Leasehold interest in ground leases	23,840	23,840
Furniture and fixtures	4,008	3,496
Leasehold improvements	8,901	7,784
	210,138	205,968
Accumulated depreciation	<u>(77,318)</u>	<u>(73,523)</u>
	<u>\$132,820</u>	<u>\$132,445</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

7. Balance Sheet Details (Continued)

Accrued Expenses

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Accrued compensation and benefits	\$28,443	\$24,896
Acquisition-related holdback	20,010	—
Other	25,193	21,079
	<u>\$73,646</u>	<u>\$45,975</u>

Other Non-current Liabilities

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Contingent consideration	\$14,150	\$12,919
Acquisition-related holdback	—	20,010
Other	29,541	23,012
	<u>\$43,691</u>	<u>\$55,941</u>

8. Risks and Uncertainties

Financial Instruments

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

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Edom Technology	25%	26%
Arrow Electronics	11%	10%
Avnet	11%	**

** Less than 10% of accounts receivable

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

8. Risks and Uncertainties (Continued)

As a result of its use of derivative instruments, the Company is exposed to the risk that its counterparties will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy to enter into contracts with only selected major financial institutions. The Company periodically reviews and re-assesses the creditworthiness of such counterparties based on a variety of factors.

Distributor Advances

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

Suppliers

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

Customers

The Company sells directly to end customers, distributors and contract manufacturers. Although the Company actually sells the products to, and is paid by, distributors and contract manufacturers, the Company refers to the end customer as its customer. None of the Company's contract manufacturers

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

8. Risks and Uncertainties (Continued)

accounted for greater than 10% of revenue during fiscal 2014, 2013 or 2012. The Company's end customers and distributors that accounted for greater than 10% of revenue consisted of the following:

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
<i>End Customers</i>			
Samsung*	12%	15%	19%
<i>Distributors</i>			
Edom Technology	20%	21%	22%
Avnet	12%	11%	11%

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

9. Acquisitions

Energy Micro

On July 1, 2013, the Company acquired Energy Micro AS, a late-stage private company. Energy Micro designed and developed energy-efficient 32-bit microcontrollers based on ARM Cortex-M architecture. Energy Micro's energy-friendly solutions are designed to enable a broad range of power-sensitive applications for the Internet of Things (IoT), including smart energy, home automation, security and portable electronics markets.

The Company acquired Energy Micro for approximately \$140.6 million, including: 1) Initial consideration of \$107.4 million; 2) Deferred consideration in the form of a promissory note with an estimated fair value of \$19.2 million at the date of acquisition (the promissory note was subsequently exchanged for approximately 0.5 million shares of the Company's restricted stock after a mandatory two-month creditor notice.); and 3) Contingent consideration (the "Earn-Out") with an estimated fair value of \$14.0 million at the date of acquisition. The Earn-Out is payable up to approximately \$33.3 million based on the extent to which the annual revenue growth rate from certain Energy Micro and Silicon Laboratories products (the "Earn-Out Products") exceeds 25% per year, over a five-year period from fiscal 2014 through 2018 (the "Earn-Out Period"). The Earn-Out is payable on an annual basis and in no event shall exceed \$6,666,666 per year, unless revenue from the Earn-Out Products exceeds \$400 million in a single fiscal year during the Earn-Out Period (in which case, the entire Earn-Out amount less any amounts previously paid will become payable). Approximately \$20.3 million of the initial consideration was withheld by the Company as security for breaches of representations and warranties and certain other expressly enumerated matters. The holdback obligation was recorded in other non-current liabilities in the Consolidated Balance Sheet.

A portion of the Earn-Out (28.76%) is contingent on the continued employment of certain key employees for the three years following the acquisition date (the "Departure Percentage"). The Departure Percentage was accounted for as a transaction separate from the business combination based on its economic substance and will be recorded as post-combination compensation expense in the Company's financial statements during the Earn-Out period.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

9. Acquisitions (Continued)

The Company believes that this strategic acquisition will accelerate its deployment of energy-friendly solutions across the IoT industries, while further scaling the Company's engineering team. These factors contributed to a purchase price that was in excess of the fair value of the net assets acquired and, as a result, the Company recorded goodwill. The goodwill is not deductible for tax purposes. The purchase price was allocated as follows (in thousands):

	<u>Amount</u>	<u>Weighted-Average Amortization Period (Years)</u>
Intangible assets:		
In-process research and development	\$ 18,600	Not amortized
Core and developed technology	29,100	7
Customer relationships	6,400	8
Trademarks	1,300	8
	55,400	
Cash and cash equivalents	919	
Other current assets	6,486	
Goodwill	98,515	
Other non-current assets	3,117	
Current liabilities	(8,000)	
Non-current deferred tax liabilities, net	(6,288)	
Long-term debt	(8,434)	
Other non-current liabilities	(1,133)	
Total purchase price	<u>\$140,582</u>	

In-process research and development (IPR&D) represents acquired technology that had not achieved technological feasibility as of the acquisition date and had no alternative future use. The IPR&D recorded in connection with the acquisition of Energy Micro consisted of a multi-protocol wireless RF solution. The fair value of this technology was determined using the income approach. The discount rate applicable to the cash flows was 13.0%.

Pro forma information related to this acquisition has not been presented because it would not be materially different from amounts reported. The Company recorded approximately \$2.4 million of acquisition-related costs in selling, general and administrative expenses during fiscal 2013.

Ember

On July 3, 2012, the Company acquired Ember Corporation, a privately held company. Ember's products integrate high-performance, low-power 2.4 GHz wireless ICs with reliable and scalable software into a flexible and robust networking platform. The Company acquired Ember for approximately \$79.0 million, including contingent consideration with an estimated fair value of \$4.0 million at the date of acquisition.

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

9. Acquisitions (Continued)

that was in excess of the fair value of the net assets acquired and, as a result, the Company recorded goodwill. The goodwill is not deductible for tax purposes. The purchase price was allocated as follows (in thousands):

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

The IPR&D recorded in connection with the acquisition of Ember consisted of a low-power RF transceiver. The fair value of this technology was determined using the income approach. The discount rate applicable to the cash flows was 12.5%.

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

Corporate Headquarters Buildings

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

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

The Company determined that the purchase of the facilities represented a business combination. Under the acquisition method of accounting, the assets acquired and liabilities assumed were recorded

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

9. Acquisitions (Continued)

at their fair values as of the date of the acquisition. The purchase price was allocated as follows (in thousands):

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

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

The purchase of the facilities resulted in a net gain of approximately \$8.5 million, which was recorded in selling, general and administrative expenses in the Consolidated Statement of Income in fiscal 2012. The gain resulted primarily because the assets acquired and liabilities assumed were recorded at their fair values as of the date of the acquisition, which was substantially higher than the purchase prices of the facilities. The purchase prices were fixed at the beginning of the two leases in March 2006 and March 2008. While market prices for such facilities increased over the terms of the leases, the purchase prices remained the same.

10. Goodwill and Other Intangible Assets

Goodwill

The following summarizes the activity in goodwill for the years ended January 3, 2015 and December 28, 2013 (in thousands):

	<u>Year Ended</u>	
	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Beginning balance	\$228,781	\$130,265
Additions due to business combinations	—	98,516
Ending balance	\$228,781	\$228,781

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

10. Goodwill and Other Intangible Assets (Continued)

Other Intangible Assets

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

	Weighted-Average Amortization Period (Years)	January 3, 2015		December 28, 2013	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets:					
Subject to amortization:					
Core and developed technology	9	\$148,891	\$(47,894)	\$138,340	\$(41,782)
Customer relationships	9	14,500	(4,003)	14,500	(2,330)
Patents	6	3,000	(1,250)	3,000	(750)
Trademarks	10	2,210	(433)	2,210	(195)
	9	168,601	(53,580)	158,050	(45,057)
Not subject to amortization:					
In-process research and development	Not amortized	—	—	18,600	—
Total intangible assets		\$168,601	\$(53,580)	\$176,650	\$(45,057)

Gross intangible assets decreased in fiscal 2014 primarily due to the removal of \$9.4 million of fully amortized assets.

Amortization expense related to intangible assets for fiscal 2014, 2013 and 2012 was \$17.9 million, \$14.6 million and \$10.7 million, respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the five succeeding fiscal years is as follows (in thousands):

<u>Fiscal Year</u>	
2015	\$19,331
2016	18,682
2017	17,715
2018	16,690
2019	14,251

11. Debt

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

The Term Loan Facility provides for quarterly principal amortization (equal to 5% of the principal in each of the first two years and 10% of the principal in each of the next three years) with the remaining balance payable upon the maturity date. The Revolving Credit Facility includes a \$25 million letter of credit sublimit and a \$10 million swingline loan sublimit. The Company has an option to

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

11. Debt (Continued)

increase the size of the Revolving Credit Facility by up to an aggregate of \$50 million in additional commitments, subject to certain conditions. On September 27, 2012, the Company borrowed \$100 million under the Term Loan Facility. To date, the Company has not borrowed under the Revolving Credit Facility.

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

In connection with the closing of the Credit Agreement, the Company entered into a security and pledge agreement. Under the security and pledge agreement, the Company pledged equity securities of certain of its subsidiaries, subject to exceptions and limitations. The Credit Facilities contain various conditions, covenants and representations with which the Company must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that the Company must maintain a leverage ratio (funded debt/EBITDA) of no more than 2.5 to 1 and a minimum fixed charge coverage ratio (EBITDA/debt payments, income taxes and capital expenditures) of no less than 1.50 to 1. As of January 3, 2015, the Company was in compliance with all covenants of the Credit Facilities.

As of January 3, 2015, the remaining contractual maturities of the Term Loan Facility were as follows (in thousands):

<u>Fiscal Year</u>	
2015	\$10,000
2016	10,000
2017	<u>67,500</u>
Total	<u>\$87,500</u>

Interest Rate Swap Agreement

In connection with the \$100 million borrowed under the Term Loan Facility, the Company entered into an interest rate swap agreement as a hedge against the LIBOR portion of such variable interest payments. Under the terms of the swap agreement, the Company effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate of 0.764% through the maturity date. As of January 3, 2015, the combined interest rate on the Term Loan Facility (which includes an applicable margin) was 2.514%. See Note 5, *Derivative Financial Instruments*, for additional information.

12. Stockholders' Equity

Common Stock

The Company issued 1.1 million shares of common stock during fiscal 2014.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

12. Stockholders' Equity (Continued)

Share Repurchase Programs

The Board of Directors authorized the following share repurchase programs (in thousands):

<u>Program Authorization Date</u>	<u>Program Termination Date</u>	<u>Program Amount</u>
October 2014	December 2015	\$100,000
January 2014	January 2015	\$100,000
January 2013	January 2014	\$ 50,000
April 2012	January 2013	\$100,000
October 2011	April 2012	\$ 50,000

These programs allow for repurchases to be made in the open market or in private transactions, including structured or accelerated transactions, subject to applicable legal requirements and market conditions. The Company repurchased 1.7 million shares, 0.7 million shares and 1.7 million shares of its common stock for \$71.7 million, \$26.0 million and \$62.0 million during fiscal 2014, 2013 and 2012, respectively. These shares were retired upon repurchase.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of taxes, were as follows (in thousands):

	<u>Unrealized Gain (Loss) on Cash Flow Hedge</u>	<u>Net Unrealized Losses on Available- For-Sale Securities</u>	<u>Total</u>
Balance at December 31, 2011	\$(1,299)	\$(1,168)	\$(2,467)
Other comprehensive income (loss) before reclassifications .	(621)	650	29
Amount reclassified from accumulated other comprehensive loss	1,492	—	1,492
Net change for the period	<u>871</u>	<u>650</u>	<u>1,521</u>
Balance at December 29, 2012	(428)	(518)	(946)
Other comprehensive income (loss) before reclassifications .	397	(348)	49
Amount reclassified from accumulated other comprehensive loss	364	(151)	213
Net change for the period	<u>761</u>	<u>(499)</u>	<u>262</u>
Balance at December 28, 2013	333	(1,017)	(684)
Other comprehensive income (loss) before reclassifications .	(520)	720	200
Amount reclassified from accumulated other comprehensive loss	402	—	402
Net change for the period	<u>(118)</u>	<u>720</u>	<u>602</u>
Balance at January 3, 2015	<u>\$ 215</u>	<u>\$ (297)</u>	<u>\$ (82)</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

12. Stockholders' Equity (Continued)

Reclassifications From Accumulated Other Comprehensive Loss

<u>Reclassification (in thousands)</u>	<u>Year ended</u>		
	<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>
Losses on cash flow hedges to:			
Rent expense	\$ —	\$ —	\$(2,295)
Interest expense	(618)	(560)	—
Gains on available-for-sales securities to:			
Interest income	—	232	—
	(618)	(328)	(2,295)
Income tax benefit	216	115	803
Total reclassifications	<u>\$(402)</u>	<u>\$(213)</u>	<u>\$(1,492)</u>

Income Tax Allocated to the Components of Other Comprehensive Income

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

<u>Income tax (expense) benefit on:</u>	<u>Year ended</u>		
	<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>
Net changes to available-for-sale securities:			
Unrealized gains (losses) arising during the period	\$(387)	\$ 187	\$(350)
Reclassification for gains included in net income	—	81	—
Net changes to cash flow hedges:			
Unrealized gains (losses) arising during the period	279	(214)	335
Reclassification for losses included in net income	(216)	(196)	(803)
Other comprehensive income	<u>\$(324)</u>	<u>\$(142)</u>	<u>\$(818)</u>

13. Stock-Based Compensation

In fiscal 2009, the stockholders of the Company approved the 2009 Stock Incentive Plan (the “2009 Plan”) and the 2009 Employee Stock Purchase Plan (the “2009 Purchase Plan”). On April 15, 2014, the stockholders of the Company approved amendments to both the 2009 Plan and the 2009 Purchase Plan. The amendments authorized additional shares of common stock for issuance, to comply with changes in applicable law, improve the Company’s corporate governance and to implement other best practices. The amended plans are currently effective.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

13. Stock-Based Compensation (Continued)

2009 Stock Incentive Plan

Under the 2009 Plan, the following may be granted: stock options, stock appreciation rights, performance shares, performance stock units, restricted stock units (RSUs), restricted stock awards (RSAs), performance-based awards and other awards (collectively, all such grants are referred to as “awards”). The amendment of the shares of common stock reserved for issuance in the 2009 Plan created two share pools—Prior Pool and New Pool. Awards of stock options and stock appreciation rights each deduct one share from the 2009 Plan shares available for issuance for each share granted, and full value awards (awards other than for which the participant is required to pay at least the fair market value of the underlying shares on the date of grant) deduct 1.55 shares from the 2009 Plan shares available for issuance for each share granted under the Prior Pool. Awards of stock options, stock appreciation rights, and full value awards each deduct one (1) share from the 2009 Plan shares available for issuance for each share granted under the New Pool. Awards granted under the 2009 Plan generally contain vesting provisions ranging from three to four years. The exercise price of stock options offered under the 2009 Plan may not be less than 100% of the fair market value of a share of our common stock on the date of grant. To the extent awards granted under the 2009 Plan terminate, expire or lapse for any reason, or are settled in cash, shares subject to such awards will again be available for grant.

2000 Stock Incentive Plan

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

Stock Grants and Modifications

The Company granted to its employees 0.8 million, 1.1 million and 0.8 million shares of full value awards and no stock options from the 2009 Plan during fiscal 2014, 2013 and 2012, respectively.

The Company recorded \$1.9 million in selling, general and administrative expense during fiscal 2012 in connection with modifications to certain stock awards. The Company accelerated the vesting of certain RSUs and Market Stock Units (MSUs) and extended the exercise period of stock options pursuant to a separation agreement between the Company and its former Chief Executive Officer (CEO). There were no other significant modifications made to any stock grants during fiscal 2014, 2013 or 2012.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

13. Stock-Based Compensation (Continued)

Included in the full value awards granted under the 2009 Plan in fiscal 2014, 2013 and 2012 were a total of 76 thousand, 132 thousand and 110 thousand market-based stock awards, respectively. The awards, also known as MSUs, provide the rights to acquire a number of shares of common stock for no cash consideration based upon achievement of specified levels of market conditions. The requisite service period for these MSUs is also the vesting period, which is generally three years. The performance criteria of the MSUs measure the difference between the total stockholders' return of the Company against that of the Philadelphia Semiconductor Sector Total Return Index.

2009 Employee Stock Purchase Plan

The rights to purchase common stock granted under the 2009 Purchase Plan are intended to be treated as either (i) purchase rights granted under an "employee stock purchase plan," as that term is defined in Section 423(b) of the Internal Revenue Code (the "423(b) Plan"), or (ii) purchase rights granted under an employee stock purchase plan that is not subject to the terms and conditions of Section 423(b) of the Internal Revenue Code (the "Non-423(b) Plan"). The Company will retain the discretion to grant purchase rights under either the 423(b) Plan or the Non-423(b) Plan. Eligible employees may purchase a limited number of shares of the Company's common stock at no less than 85% of the fair market value of a share of common stock at prescribed purchase intervals during an offering period. Each offering period will be comprised of a series of one or more successive and/or overlapping purchase intervals and has a maximum term of 24 months. During fiscal 2014, 2013 and 2012, the Company issued 204 thousand, 190 thousand and 181 thousand shares, respectively, under the 2009 Purchase Plan to its employees. The weighted-average fair value for purchase rights granted in fiscal 2014 under the 2009 Purchase Plan was \$12.17 per share.

Accounting for Stock-Based Compensation

Stock-based compensation costs are based on the fair values on the date of grant for stock options and on the date of enrollment for the employee stock purchase plans, estimated by using the Black-Scholes option-pricing model. The fair values of stock awards and RSUs equal their intrinsic value on the date of grant. The fair values of MSUs generally are estimated using a Monte Carlo simulation based on the date of grant.

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

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

13. Stock-Based Compensation (Continued)

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

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

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
2009 Employee Stock Purchase Plan			
Expected volatility	28%	27%	38%
Risk-free interest rate %	0.2%	0.1%	0.2%
Expected term (in months)	15	7	15
Dividend yield	—	—	—

The fair values estimated from Monte Carlo simulation were calculated using the following assumptions:

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
2009 Stock Incentive Plan			
Expected volatility	33%	32%	32%
Risk-free interest rate %	0.7%	0.5%	0.4%
Expected term (in years)	2.8	2.9	2.9
Dividend yield	—	—	—

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

13. Stock-Based Compensation (Continued)

A summary of stock-based compensation activity with respect to fiscal 2014 follows:

<u>Stock Options</u>	<u>Shares (000s)</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (In Years)</u>	<u>Aggregate Intrinsic Value (000s)</u>
Outstanding at December 28, 2013	1,089	\$35.09		
Exercised	(444)	\$35.67		
Cancelled or expired	(116)	\$49.19		
Outstanding at January 3, 2015	529	\$31.50	1.61	\$8,661
Vested at January 3, 2015 and expected to vest	529	\$31.50	1.61	\$8,661
Exercisable at January 3, 2015	529	\$31.50	1.61	\$8,661
<u>RSAs and RSUs</u>	<u>Shares (000s)</u>	<u>Weighted- Average Purchase Price</u>	<u>Weighted-Average Remaining Vesting Term (In Years)</u>	<u>Aggregate Intrinsic Value (000s)</u>
Outstanding at December 28, 2013	1,835	\$—		
Granted	735	\$—		
Issued	(680)	\$—		
Cancelled or expired	(109)	\$—		
Outstanding at January 3, 2015	1,781	\$—	1.02	\$84,584
Outstanding at January 3, 2015 and expected to vest	1,654	\$—	1.02	\$78,567
<u>MSUs</u>	<u>Shares (000s)</u>	<u>Weighted- Average Purchase Price</u>	<u>Weighted-Average Remaining Vesting Term (In Years)</u>	<u>Aggregate Intrinsic Value (000s)</u>
Outstanding at December 28, 2013	246	\$—		
Granted	76	\$—		
Issued	—	\$—		
Cancelled or expired	(24)	\$—		
Outstanding at January 3, 2015	298	\$—	1.18	\$14,181
Outstanding at January 3, 2015 and expected to vest	274	\$—	1.18	\$13,034

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

	<u>Year Ended</u>		
	<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>
Per grant of RSAs and RSUs	\$47.93	\$43.01	\$42.25
Per grant of MSUs	\$60.08	\$31.94	\$53.25

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

13. Stock-Based Compensation (Continued)

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Intrinsic value of stock options exercised	\$ 5,674	\$ 4,198	\$ 9,064
Intrinsic value of RSAs and RSUs that vested	\$32,138	\$23,649	\$40,105
Grant date fair value of RSAs and RSUs that vested	\$29,668	\$24,026	\$31,215

The Company received cash of \$13.3 million for the issuance of common stock, net of shares withheld for taxes, during fiscal 2014. The Company issues shares from the shares reserved under its stock plans upon the exercise of stock options, issuance of RSAs, vesting of RSUs and MSUs, and purchases through employee stock purchase plans. The Company does not currently expect to repurchase shares from any source to satisfy such obligation.

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Cost of revenues	\$ 775	\$ 952	\$ 1,206
Research and development	18,521	14,530	12,602
Selling, general and administrative	19,771	15,318	17,368
	<u>39,067</u>	<u>30,800</u>	<u>31,176</u>
Income tax benefit	4,024	2,633	4,911
	<u>\$35,043</u>	<u>\$28,167</u>	<u>\$26,265</u>

The increase in stock-based compensation costs in fiscal 2014 was principally due to increased headcount. The Company had approximately \$51.2 million of total unrecognized compensation costs related to granted stock awards as of January 3, 2015 that are expected to be recognized over a weighted-average period of approximately 1.9 years. There were no significant stock-based compensation costs capitalized into assets in any of the periods presented.

As of January 3, 2015, the Company had reserved shares of common stock for future issuance as follows (in thousands):

2000 Stock Incentive Plan	529
2009 Stock Incentive Plan	3,740
2009 Employee Stock Purchase Plan	882
Total shares reserved	<u>5,151</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

14. Employee Benefit Plan

The Company maintains a defined contribution or 401(k) Plan for its qualified U.S. employees. Participants may contribute a percentage of their compensation on a pre-tax basis, subject to a maximum annual contribution imposed by the Internal Revenue Code. The Company may make discretionary matching contributions as well as discretionary profit-sharing contributions to the 401(k) Plan. The Company contributed \$3.2 million, \$3.0 million and \$2.9 million to the 401(k) Plan during fiscal 2014, 2013 and 2012, respectively.

15. Commitments and Contingencies

Operating Leases

The Company leases certain facilities under operating lease agreements that expire at various dates through 2025. Some of these arrangements contain renewal options and require the Company to pay taxes, insurance and maintenance costs.

Rent expense under operating leases was \$4.2 million, \$4.2 million and \$4.4 million for fiscal 2014, 2013 and 2012, respectively. The minimum annual future rentals under the terms of these leases as of January 3, 2015 are as follows (in thousands):

<u>Fiscal Year</u>	
2015	\$ 4,463
2016	4,137
2017	3,398
2018	2,517
2019	1,490
Thereafter	<u>6,398</u>
Total minimum lease payments	<u>\$22,403</u>

Litigation

Patent Litigation

On January 21, 2014, Cresta Technology Corporation (“Cresta Technology”), a Delaware corporation, filed a lawsuit against the Company, Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., LG Electronics Inc. and LG Electronics U.S.A., Inc. in the United States District Court in the District of Delaware, alleging infringement of United States Patent Nos. 7,075,585, 7,265,792 and 7,251,466. The lawsuit relates to the Company’s family of television tuner products. Cresta Technology seeks unspecified compensatory and enhanced damages, attorney fees and a permanent injunction. On January 28, 2014, Cresta Technology also filed a complaint with the United States International Trade Commission (“ITC”) alleging infringement of the same patents against the Company, Samsung and LG Electronics and seeking to prevent the importation and sale of allegedly infringing products in the United States. The ITC instituted an investigation based on Cresta Technology’s complaint on February 27, 2014. An evidentiary hearing in this ITC Investigation concluded on December 5, 2014. The ITC Administrative Law Judge is scheduled to issue an Initial Determination on February 27, 2015, and the Final Determination by the ITC is scheduled to issue on June 29, 2015. The Delaware

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

15. Commitments and Contingencies (Continued)

District Court action has been stayed pending completion of the proceedings in the ITC. The Company intends to vigorously defend against these allegations.

On April 11, 2014, the Company filed a lawsuit against Cresta Technology in the United States District Court in the Western District of Texas, Austin Division, alleging infringement of United States Patent Nos. 6,308,055, 6,965,761 and 7,353,011. On July 14, 2014, the Court dismissed the lawsuit without prejudice due to the lack of commercial activity by Cresta Technology in the Western District of Texas. On July 16, 2014, the Company refiled its claims for the '055, '761 and '011 patents in a lawsuit in the United States District Court in the Northern District of California. In addition, the Company added additional claims alleging infringement of United States Patent Nos. 6,304,146, 6,137,372 and 6,233,441. The Company is seeking a permanent injunction stopping the sale of all allegedly infringing Cresta Technology products and an award of damages and attorney fees.

On May 6, 2014, the Company filed a complaint with the ITC alleging infringement of United States Patent Nos. 6,137,372 and 6,233,441 against Cresta Technology, Hauppauge Digital, Inc., Hauppauge Computer Works, Inc., PCTV Systems, S.a.r.l., Luxembourg and PCTV Systems S.a.r.l., seeking to prevent the importation and sale of allegedly infringing products in the United States. On June 6, 2014, the ITC instituted an investigation based on the Company's complaint. On June 13, 2014, Cresta Technology proposed a consent order whereby Cresta Technology will not sell for importation, import or sell in the United States television tuners that infringe the patent claims asserted by the Company. On July 1, 2014, the Administrative Law Judge accepted the proposed consent order. Accordingly, this ITC investigation has been terminated in its entirety. Under the consent order, Cresta Technology is prohibited from selling for importation, importing or selling in the United States television tuners that infringe the Company's United States Patent Nos. 6,137,372 and 6,233,441.

As is customary in the semiconductor industry, the Company provides indemnification protection to its customers for intellectual property claims related to the Company's products. The Company has not accrued any material liability on its consolidated balance sheet related to such indemnification obligations in connection with the Cresta Technology litigation.

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

Other

The Company is involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, the Company does not expect them to have a material adverse effect on its consolidated financial statements.

16. Related Party Transactions

On July 1, 2013, Geir Førre joined the Company as senior vice president. Mr. Førre was chief executive officer of Energy Micro, until it was acquired by the Company. Mr. Førre was the beneficial owner of approximately 32% of the Energy Micro equity and accordingly (a) received approximately \$35 million of the initial consideration of \$107.4 million, (b) may receive an additional approximately

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

16. Related Party Transactions (Continued)

\$6.5 million out of the \$20.3 million holdback related to potential indemnification claims and (c) may receive up to approximately \$10.5 million of the \$33.3 million earn-out.

On October 17, 2013, the Company appointed Alf-Egil Bogen to its board of directors. Mr. Bogen was chief marketing officer of Energy Micro, until it was acquired by the Company. Mr. Bogen was the beneficial owner of approximately 2% of the Energy Micro equity and accordingly (a) received approximately \$0.9 million of the initial consideration of \$107.4 million, (b) may receive an additional approximately \$0.4 million out of the \$20.3 million holdback related to potential indemnification claims and (c) may receive up to approximately \$0.7 million of the \$33.3 million earn-out. Mr. Bogen had invested approximately \$0.8 million in Energy Micro prior to the acquisition.

17. Income Taxes

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Current:			
Domestic	\$ 7,083	\$ 4,796	\$21,084
International	882	4,093	(3,009)
Total Current	7,965	8,889	18,075
Deferred:			
Domestic	2,352	5,591	5,444
International	702	(2,272)	(719)
Total Deferred	3,054	3,319	4,725
	<u>\$11,019</u>	<u>\$12,208</u>	<u>\$22,800</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

17. Income Taxes (Continued)

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

	<u>Year Ended</u>		
	<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>
Federal statutory rate	35.0%	35.0%	35.0%
Foreign tax rate benefit	(3.5)	(8.2)	(11.8)
Research and development tax credits	(8.6)	(12.8)	(0.5)
Release of prior year unrecognized tax benefits	(2.6)	—	(8.4)
Intercompany technology license	—	—	11.8
Excess officer compensation	2.3	1.9	1.0
Change in prior period valuation allowance . . .	(1.4)	3.1	—
Other	1.3	0.7	(0.7)
	<u>22.5%</u>	<u>19.7%</u>	<u>26.4%</u>

The effective tax rate for fiscal 2014 increased from fiscal 2013, primarily due to the recognition of the fiscal 2012 federal research and development tax credit in fiscal 2013 due to the enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, as well as a decrease in the foreign tax rate benefit in fiscal 2014. This increase in the effective tax rate was partially offset by the reduction to a valuation allowance recorded in a prior year related to certain state loss and research and development tax credit carryforwards and the release in fiscal 2014 of prior year unrecognized tax benefits due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year foreign tax return.

The effective tax rate for fiscal 2013 decreased from fiscal 2012, primarily due to the fiscal 2012 tax charge related to the intercompany license of certain technology associated with the acquisition of Ember during fiscal 2012 and the recognition of the fiscal 2012 and fiscal 2013 federal research and development tax credits in fiscal 2013 as a result of the enactment of the American Taxpayer Relief Act of 2012 (the "Act") on January 2, 2013. The decrease in the effective tax rate for fiscal 2013 was partially offset by the release during fiscal 2012 of unrecognized tax benefits that were determined to be effectively settled during fiscal 2012.

Income before income taxes included the following components (in thousands):

	<u>Year Ended</u>		
	<u>January 3, 2015</u>	<u>December 28, 2013</u>	<u>December 29, 2012</u>
Domestic	\$38,174	\$41,849	\$80,494
Foreign	10,866	20,178	5,854
	<u>\$49,040</u>	<u>\$62,027</u>	<u>\$86,348</u>

Foreign income before taxes decreased from fiscal 2013 to fiscal 2014 primarily due to an increase in fiscal 2014 of the fair value of the Company's acquisition-related contingent consideration liability.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

17. Income Taxes (Continued)

Foreign income before income taxes increased from fiscal 2012 to fiscal 2013 primarily due to intercompany technology license payments made by a foreign subsidiary in 2012.

Deferred tax assets and liabilities are recorded for the estimated tax impact of temporary differences between the tax basis and book basis of assets and liabilities. A valuation allowance is established against a deferred tax asset when it is more likely than not that the deferred tax asset will not be realized. The Company recorded a new valuation allowance of \$0.5 million in fiscal 2014 related to certain state research and development tax credit carryforwards generated in fiscal 2014. The Company has determined that it is more likely than not that a portion of these carryforwards will expire or go unutilized because the Company no longer expects to recognize sufficient income in the jurisdictions in which the attributes were created. The impact of this new valuation allowance was offset by a reduction of \$0.6 million to a valuation allowance recorded in fiscal 2013 related to certain state loss and research and development tax credit carryforwards, resulting in a net valuation allowance reduction of \$0.1 million reflected as a benefit to income tax expense in fiscal 2014. In addition, the Company recorded a reduction of \$0.2 million to the fiscal 2013 valuation allowance related to the expiration of certain acquired state net operating loss carryforwards which were fully valued. Since this change was due to the expiration of the losses, the reduction to the valuation allowance was offset by a reduction in deferred tax assets rather than a charge to income tax expense. No valuation allowance was recorded against other deferred tax assets in fiscal 2014. Management believes that the Company's results of future operations will generate sufficient taxable income such that it is more likely than not that the remaining deferred tax assets will be realized.

Significant components of the Company's deferred taxes as of January 3, 2015 and December 28, 2013 are as follows (in thousands):

	<u>January 3, 2015</u>	<u>December 28, 2013</u>
Deferred tax assets:		
Net operating loss carryforwards	\$31,518	\$38,399
Research and development tax credit carryforwards	9,740	9,276
Stock-based compensation	6,353	6,757
Capitalized research and development	7,371	8,999
Deferred income on shipments to distributors	8,117	5,733
Accrued liabilities and other	6,481	8,302
	<u>69,580</u>	<u>77,466</u>
Less: Valuation allowance	<u>(3,455)</u>	<u>(3,775)</u>
	66,125	73,691
Deferred tax liabilities:		
Acquired intangible assets	33,630	38,444
Depreciation and amortization	3,388	2,022
Prepaid expenses and other	1,517	1,889
	<u>38,535</u>	<u>42,355</u>
Net deferred tax assets	<u>\$27,590</u>	<u>\$31,336</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

17. Income Taxes (Continued)

As of January 3, 2015, the Company had federal net operating loss and research and development tax credit carryforwards of approximately \$64.9 million and \$2.0 million, respectively, as a result of the Cygnal Integrated Products, Silicon Clocks, Spectra Linear and Ember acquisitions. These carryforwards expire in fiscal years 2020 through 2032. Recognition of these loss and credit carryforwards is subject to an annual limit, which may cause them to expire before they are used.

As of January 3, 2015, the Company had foreign net operating loss carryforwards of approximately \$21.6 million as a result of the Energy Micro acquisition. These loss carryforwards do not expire and recognition is not subject to an annual limit.

The Company also had state loss and research and development tax credit carryforwards of approximately \$57.9 million and \$11.8 million, respectively. A portion of these loss and credit carryforwards was generated by the Company and a portion was acquired through the Integration Associates, Silicon Clocks, Spectra Linear and Ember acquisitions. Certain of these carryforwards expire in fiscal years 2015 through 2033 and others do not expire. Recognition of some of these loss and credit carryforwards is subject to an annual limit, which may cause them to expire before they are used.

At the end of fiscal 2014, undistributed earnings of the Company's foreign subsidiaries of approximately \$303.1 million are intended to be permanently reinvested outside the U.S. Accordingly, no provision for U.S. federal and state income taxes associated with a distribution of these earnings has been made. Determination of the amount of the unrecognized deferred tax liability on these unremitted earnings is not practicable.

The Company's operations in Singapore are subject to reduced tax rates through 2019, as long as certain conditions are met. The income tax benefit (expense) from the reduced Singapore tax rate reflected in earnings was approximately \$2.0 million (representing \$0.05 per diluted share) in fiscal 2014, approximately \$2.2 million (representing \$0.05 per diluted share) in fiscal 2013, and approximately \$(13.3) million (representing \$(0.31) per diluted share) in fiscal 2012. The impact of the reduced Singapore tax rates in fiscal 2014 and fiscal 2012 reflect the recognition of prior year unrecognized tax benefits.

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Beginning balance	\$4,998	\$4,364	\$10,943
Additions based on tax positions related to current year	465	316	1,818
Additions based on tax positions related to prior years	58	318	—
Reductions for tax positions related to prior years	(1,592)	—	(8,397)
Ending balance	<u>\$3,929</u>	<u>\$4,998</u>	<u>\$ 4,364</u>

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

17. Income Taxes (Continued)

As of January 3, 2015, December 28, 2013 and December 29, 2012, the Company had gross unrecognized tax benefits of \$3.9 million, \$5.0 million, and \$4.4 million, respectively, of which \$4.0 million, \$4.8 million, and \$4.1 million, respectively, would affect the effective tax rate if recognized. During fiscal 2014, the Company had gross increases of \$0.5 million to its current and prior year unrecognized tax benefits, as well as gross decreases of \$1.3 million to its prior year unrecognized tax benefits related to an uncertain tax position that was closed by statute. In addition, there was a reduction of \$0.3 million due to foreign currency remeasurement adjustments related to prior year unrecognized tax benefits which were recognized in other income (expense), net. During fiscal 2013, the Company had gross increases of \$0.6 million. During fiscal 2012, the Company had gross increases of \$1.8 million to its current year unrecognized tax benefits, as well as a gross decrease of \$8.4 million to its prior year unrecognized tax benefits related to an uncertain tax position that was determined to be effectively settled. A portion of these amounts in fiscal 2012 represents foreign currency remeasurement adjustments and was recognized in other income (expense), net.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company recognized less than \$0.1 million of interest in the provision for income taxes in both fiscal 2014 and fiscal 2013. The Company did not recognize interest in the provision for income taxes in fiscal 2012. The Company has an accrual of less than \$0.1 million for the payment of interest related to unrecognized tax positions at the end of both fiscal 2014 and fiscal 2013, with no such accrual at the end of fiscal 2012.

The Company believes it is reasonably possible that the gross unrecognized tax benefits will decrease by approximately \$0.6 million in the next 12 months due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year foreign tax return.

The tax years 2010 through 2014 remain open to examination by the major taxing jurisdictions to which the Company is subject. The Company is not currently under audit in any major taxing jurisdiction.

18. Segment Information

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

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

18. Segment Information (Continued)

The Company groups its products into three categories, based on the markets and applications in which its ICs may be used. The following summarizes the Company's revenue by product category (in thousands):

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Broad-based	\$317,128	\$281,777	\$270,098
Broadcast	204,256	199,837	186,067
Access	99,320	98,473	107,129
Total	<u>\$620,704</u>	<u>\$580,087</u>	<u>\$563,294</u>

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

	Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
United States	\$ 89,935	\$ 68,566	\$ 64,856
China	271,818	253,261	219,400
Taiwan	57,191	55,036	64,150
South Korea	12,824	21,303	57,910
Rest of world	188,936	181,921	156,978
Total	<u>\$620,704</u>	<u>\$580,087</u>	<u>\$563,294</u>

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

	January 3, 2015	December 28, 2013
United States	\$127,928	\$126,263
Rest of world	4,892	6,182
Total	<u>\$132,820</u>	<u>\$132,445</u>

19. Subsequent Event

Acquisition

On January 30, 2015, the Company acquired Bluegiga Technologies Oy, a private company. Bluegiga is a provider of Bluetooth® Smart, Bluetooth Classic and Wi-Fi® modules and software stacks for a multitude of applications in the Internet of Things (IoT), industrial automation, consumer electronics, automotive, retail, residential, and health and fitness markets. The Company acquired Bluegiga for cash consideration of approximately \$61 million.

Silicon Laboratories Inc.
Notes to Consolidated Financial Statements
January 3, 2015 (Continued)

19. Subsequent Event (Continued)

The Company will record the purchase of Bluegiga using the acquisition method of accounting and will recognize the assets acquired and liabilities assumed at their fair values as of the date of the acquisition. The results of Bluegiga's operations will be included in the Company's consolidated results of operations beginning on the date of the acquisition.

The Company is currently evaluating the fair values of the consideration transferred, assets acquired and liabilities assumed. The Company expects to complete its initial purchase price allocation in the first quarter of fiscal 2015.

Supplementary Financial Information (Unaudited)

Quarterly financial information for fiscal 2014 and 2013 is as follows. The fourth quarter of fiscal 2014 had 14 weeks. All other quarterly periods reported here had 13 weeks (in thousands, except per share amounts):

	Fiscal 2014			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$161,951	\$158,144	\$154,918	\$145,691
Gross margin	96,672	96,111	98,663	87,105
Operating income	11,006	9,604	20,802	10,009
Net income	\$ 10,024	\$ 5,608	\$ 14,279	\$ 8,110
Earnings per share:				
Basic	\$ 0.24	\$ 0.13	\$ 0.33	\$ 0.19
Diluted	\$ 0.23	\$ 0.13	\$ 0.32	\$ 0.18
	Fiscal 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$146,236	\$146,933	\$141,543	\$145,375
Gross margin	88,598	88,161	88,773	87,372
Operating income	14,154	10,490	19,029	20,637
Net income	\$ 10,642	\$ 6,531	\$ 12,612	\$ 20,034
Earnings per share:				
Basic	\$ 0.25	\$ 0.15	\$ 0.30	\$ 0.47
Diluted	\$ 0.24	\$ 0.15	\$ 0.29	\$ 0.46

**Supplementary Financial Information
to the Annual Report**

**Appendix I. Reconciliation of GAAP
to Non-GAAP Financial Measures**

Appendix I: Supplemental Financial Information (Unaudited)

The non-GAAP financial measurements provided below do not replace the presentation of Silicon Laboratories' GAAP financial results. These measurements merely provide supplemental information to assist investors in analyzing Silicon Laboratories' financial position and results of operations; however, these measures are not in accordance with, or an alternative to, GAAP and may be different from non-GAAP measures used by other companies. We are providing this information because it may enable investors to perform meaningful comparisons of operating results, and more clearly highlight the results of core ongoing operations.

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

Non-GAAP Income Statement Items	Year Ended January 3, 2015								
	GAAP Measure	GAAP Percent of Revenue	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Termination Costs	Release of Unrecognized Tax Benefits	Non-GAAP Measure	Non-GAAP Percent of Revenue
Revenues	\$620,704								
Gross margin	378,551	61.0%	\$ 775	\$ 1,559	\$ —	\$ 37	\$ —	\$380,922	61.4%
Research and development	172,985	27.9%	18,521	12,948	—	85	—	141,431	22.8%
Selling, general and administrative	154,145	24.8%	19,771	2,917	7,524	(264)	—	124,197	20.0%
Operating expenses	327,130	52.7%	38,292	15,865	7,524	(179)	—	265,628	42.8%
Operating income	51,421	8.3%	39,067	17,424	7,524	(142)	—	115,294	18.6%
Net income	38,021	6.1%	35,043	12,150	7,524	(74)	(1,292)	91,372	14.7%
Diluted shares outstanding	43,793		—	—	—	—	—	43,793	
Diluted earnings per share	\$ 0.87							\$ 2.09	

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

Non-GAAP Income Statement Items	Three Months Ended January 3, 2015								
	GAAP Measure	GAAP Percent of Revenue	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Termination Costs	Release of Unrecognized Tax Benefits	Non-GAAP Measure	Non-GAAP Percent of Revenue
Revenues	\$161,951								
Gross margin	96,672	59.7%	\$ 200	\$ 390	\$ —	\$ 37	\$—	\$97,299	60.1%
Research and development	46,139	28.5%	5,240	3,589	—	85	—	37,225	23.0%
Selling, general and administrative	39,527	24.4%	5,454	729	1,047	3	—	32,294	19.9%
Operating expenses	85,666	52.9%	10,694	4,318	1,047	88	—	69,519	42.9%
Operating income	11,006	6.8%	10,894	4,708	1,047	125	—	27,780	17.2%
Net income	10,024	6.2%	9,927	3,335	1,047	125	—	24,458	15.1%
Diluted shares outstanding	43,137		—	—	—	—	—	43,137	
Diluted earnings per share	\$ 0.23							\$ 0.57	

Non-GAAP Income Statement Items	Three Months Ended September 27, 2014								
	GAAP Measure	GAAP Percent of Revenue	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Termination Costs	Release of Unrecognized Tax Benefits	Non-GAAP Measure	Non-GAAP Percent of Revenue
Revenues	\$158,144								
Gross margin	96,111	60.8%	\$ 201	\$ 390	\$ —	\$—	\$—	\$96,702	61.1%
Research and development	42,517	26.9%	4,713	3,008	—	—	—	34,796	22.0%
Selling, general and administrative	43,990	27.8%	4,700	729	6,483	—	—	32,078	20.2%
Operating expenses	86,507	54.7%	9,413	3,737	6,483	—	—	66,874	42.2%
Operating income	9,604	6.1%	9,614	4,127	6,483	—	—	29,828	18.9%
Net income	5,608	3.5%	8,456	2,407	6,483	—	—	22,954	14.5%
Diluted shares outstanding	43,815		—	—	—	—	—	43,815	
Diluted earnings per share	\$ 0.13							\$ 0.52	

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

Non-GAAP Income Statement Items	Three Months Ended June 28, 2014								
	GAAP Measure	GAAP Percent of Revenue	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Termination Costs	Release of Unrecognized Tax Benefits	Non-GAAP Measure	Non-GAAP Percent of Revenue
Revenues	\$154,918								
Gross margin	98,663	63.7%	\$ 178	\$ 390	\$ —	\$—	\$—	\$99,231	64.1%
Research and development	41,844	27.0%	4,327	3,104	—	—	—	34,413	22.2%
Selling, general and administrative	36,017	23.3%	4,777	729	(822)	—	—	31,333	20.3%
Operating expenses	77,861	50.3%	9,104	3,833	(822)	—	—	65,746	42.5%
Operating income	20,802	13.4%	9,282	4,223	(822)	—	—	33,485	21.6%
Net income	14,279	9.2%	8,695	3,388	(822)	—	—	25,540	16.5%
Diluted shares outstanding	44,218		—	—	—	—	—	44,218	
Diluted earnings per share	\$ 0.32							\$ 0.58	

Non-GAAP Income Statement Items	Three Months Ended March 29, 2014								
	GAAP Measure	GAAP Percent of Revenue	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Termination Costs	Release of Unrecognized Tax Benefits	Non-GAAP Measure	Non-GAAP Percent of Revenue
Revenues	\$145,691								
Gross margin	87,105	59.8%	\$ 195	\$ 390	\$ —	\$ —	\$ —	\$87,690	60.2%
Research and development	42,485	29.2%	4,241	3,247	—	—	—	34,997	24.0%
Selling, general and administrative	34,611	23.7%	4,841	729	816	(267)	—	28,492	19.6%
Operating expenses	77,096	52.9%	9,082	3,976	816	(267)	—	63,489	43.6%
Operating income	10,009	6.9%	9,277	4,366	816	(267)	—	24,201	16.6%
Net income	8,110	5.6%	7,966	3,019	816	(199)	(1,292)	18,420	12.6%
Diluted shares outstanding	44,056		—	—	—	—	—	44,056	
Diluted earnings per share	\$ 0.18							\$ 0.42	

The company is a leading supplier of silicon, software and system solutions for the Internet of Things, Internet infrastructure, industrial automation, consumer and automotive markets.

We solve the electronics industry's toughest problems, providing customers with significant advantages in performance, energy savings, connectivity and design simplicity. Backed by our world-class engineering teams with unsurpassed software and mixed-signal design expertise, Silicon Labs empowers developers with the tools and technologies they need to advance quickly and easily from initial idea to final product.

The company, founded in 1996, has more than 1,400 patents issued or pending. Based in Austin, Texas, Silicon Labs' common stock is traded on the NASDAQ® exchange under the ticker symbol "SLAB."

2014 Directors

Nav S. Sooch
Chief Executive Officer,
Ketra

Tyson Tuttle
Chief Executive Officer,
Silicon Labs

William G. Bock
President,
Silicon Labs

David R. Welland
Vice President and Fellow,
Silicon Labs

Alf-Egil Bogen
Chief Executive Officer,
Novelda AS

Harvey B. Cash
General Partner,
InterWest Partners

Robert Ted Enloe, III
Managing General Partner,
Balquita Partners, Ltd.

Jack Lazar
Chief Financial Officer,
GoPro

Laurence G. Walker, PhD

Bill Wood
General Partner,
Silverton Partners

Executive Officers

Tyson Tuttle
Chief Executive Officer

William G. Bock
President

John Hollister
Senior Vice President and
Chief Financial Officer

Kurt Hoff
Senior Vice President of
Worldwide Sales

Sandeep Kumar, PhD
Senior Vice President
of Worldwide Operations

Corporate Information

Stock Listing
Common stock traded on
NASDAQ, symbol SLAB

Options
The Company's options are
traded on the Chicago Board
Option Exchange and the
American Stock Exchange.

Legal Counsel
DLA Piper US LLP
401 Congress Avenue,
Suite 2500
Austin, Texas 78701

**Independent Registered Public
Accounting Firm**
Ernst & Young LLP
401 Congress Avenue,
Suite 1800
Austin, Texas 78701

Transfer Agent and Registrar
American Stock Transfer &
Trust Company
59 Maiden Lane
Plaza Level
New York, New York 10038
800-937-5449

Stock Data
As of January 27, 2015, there
were 42,137,503 shares issued
and outstanding, and 97 holders
of record. The following table
shows the record high and
low per share prices of the
Company's common stock as
reported by the NASDAQ
for the periods.

	High	Low
Q1	\$54.00	\$41.19
Q2	\$53.78	\$42.41
Q3	\$50.05	\$39.28
Q4	\$48.50	\$36.29

Annual Meeting
The Silicon Laboratories Inc.
annual meeting will be held on
Friday, April 24, 2015 at 9:30 am
Central Time at the Lady Bird
Johnson Wildflower Center,
4801 La Crosse Avenue,
Austin, Texas, 78739.

Investor Relations
For more information about
Silicon Labs, please visit our
website at www.silabs.com,
or contact:

Investor Relations
Silicon Labs
400 West Cesar Chavez
Austin, Texas 78701
512-416-8500
investor.relations@silabs.com

We are engineers. We are innovators. We are Silicon Labs.