UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the yearly period ended December 30, 2000

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:

SILICON LABORATORIES INC.

(Exact name of registrant as specified in its charter)

Delaware	74-2793174
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4635 Boston Lane, Austin, Texas	78735
(Address of principal executive offices)	(Zip Code)

(512) 416-8500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.0001 Par Value

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. /x/ Yes / / No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / / Yes / / No

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $215,114,889 as of December 30, 2000, based upon the closing sale price on the Nasdaq National Market System reported for such date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 48,237,230 shares of the Registrant's common stock issued and outstanding as of January 17, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2001 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

SILICON LABORATORIES, INC.

FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

GENERAL

Silicon Laboratories Inc. designs, manufactures and markets proprietary high-performance mixed-signal integrated circuits (ICs) for the wireless, wireline and optical communications industries. 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 of numerous communications products, including wireless phones, cable and satellite set-top boxes, modems and fax machines. To develop our business rapidly, we initially focused our efforts on developing ICs for the personal computer modem market. We are now applying our mixed-signal and communications expertise to the development of ICs for other high growth communications devices such as wireless telephones and optical network applications. Our world-class, mixed-signal design engineers use standard complementary metal oxide semiconductor, or CMOS, technology to create innovative ICs that can dramatically reduce the cost, size and system power requirements of devices that our customers sell to their end-user customers. Our expertise in analog CMOS and mixed-signal IC design allows us to develop new and innovative products rapidly, which enables our customers to improve their time-to-market with end products that respond to consumer demand in the communications industry.

INDUSTRY BACKGROUND

According to Dataquest, the overall worldwide analog and mixed-signal IC market, which includes as a subset the mixed-signal communications IC markets

that we target, surpassed $21.2 billion in 1998 and is expected to grow to more than $39.1 billion by 2003. This growth is being driven in part by the demand for communications services, which has increased at a rapid rate in recent years due to a number of factors, including the growth of Internet usage, development of new communications technologies, availability of improved communications services at lower costs, broad deployment of optical networks and remote access requirements for corporate networks. This demand has fueled tremendous growth in the number of wireless and wireline communications devices and optical networking applications. For example, in wireless markets, the demand for wireless phones and other wireless devices, such as pagers and personal digital assistants, has grown rapidly as digital wireless services have become increasingly popular and affordable. In wireline markets, demand has increased for communications capabilities in a wide range of products, including personal computers, cable and satellite set-top boxes, fax machines, credit card verification machines, automated teller machines and remote gaming systems. The demand for greater and faster Internet access by households and businesses has increased the need to significantly upgrade the communications backbone to handle this traffic, increasing the need for smaller, faster and better performing optical networking systems that route this traffic.

Digital communications devices typically require mixed-signal circuits that provide analog-to-digital functionality to access the communications networks to which they are connected. Traditional designs for communications devices have used mixed-signal circuits built with numerous discrete analog and digital components. While these traditional designs provide the required functionality, they can be inefficient and inadequate for use in markets where size, price and performance are increasingly important product differentiators. In order to improve their competitive position, communications device manufacturers need advanced mixed-signal ICs that reduce the number of discrete components and required board space to create smaller products with improved price/performance characteristics. Additionally, these manufacturers require programmable ICs that can be reconfigured to comply with numerous and constantly evolving international communications standards without altering the fundamental design of a product.

Manufacturers of communications devices face accelerating time-to-market demands and must 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 to provide advanced mixed-signal ICs. Designing the analog component of a mixed-signal IC involves great complexity and difficulty, because the performance of an analog IC depends on the creative analog expertise of engineers to optimize speed, power, amplitude and resolution within the constraints of standard manufacturing processes. The development of analog 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 third-party IC providers lack sufficient analog expertise to develop compelling mixed-signal ICs. As a result, manufacturers of communications devices are often faced with inadequate mixed-signal ICs and are challenged to find third-party providers that can supply them with mixed-signal ICs with greater functionality, smaller size and lower power requirements all at a reduced cost and time-to-market.

PRODUCTS

We provide mixed-signal ICs for use in wireline, wireless and optical communication applications. Our products integrate the numerous discrete components required by most existing mixed-signal circuits for communications devices into single chips or chipsets. By doing so, we are able to create products that:

- require less board space;
- can offer superior performance;
- provide increased reliability;
- reduce system power requirements; and
- reduce costs.

Wireline Products

Many of our wireline products are designed for use in analog modems, which enable the transmission of digital data signals over wireline telephone networks and are used in the vast majority of Internet connections. Three fundamental components of the modem provide the requisite functionality: software algorithms; a direct access arrangement, or DAA; and an analog/digital converter, or codec. Complex software algorithms mitigate the impairments found in the telephone network, such as noise interference and echoes. Since telephone lines fundamentally transmit analog signals and computers use digital transmissions, modems require analog-to-digital and digital-to-analog converters, or coders/decoders, that are referred to as codecs. A modem transmits analog signals from a codec to the telephone line through a DAA. We offer a variety of modem products which include the DAA and codec functions and which are software programmable to meet international regulatory specifications.

Digital Subscriber Lines, DSL, are increasing their presence in the wireline marketplace. It is our belief that DSL Modem Cards for personal computers will have back-up standard traditional 56 kilobyte per second analog modem capability. Our existing DAA is suitable for these backup applications. We intend to introduce an analog front end product for a segment of the DSL market over the next 12 months.

- - DAA FUNCTIONS. Government regulation requires electrical isolation between the telephone line and the local electrical power system. Isolation is required for safety, sound quality, and to prevent harm to the telephone network from electrical surges. With the introduction of telecommunications deregulation, consumers were allowed to connect directly to the telephone network. However, they were required to use a device that met FCC part 68 specifications, which govern all electronic products sold in the United States intended for connection to the telephone network. Traditional DAA products met FCC requirements, but were designed inefficiently and contained a variety of discrete components. Our silicon DAA is the first to integrate the bulky transformer, relays, and opto-isolators traditionally found in a modem's isolation circuitry, and achieve FCC part 68 compliance. Our silicon DAA may be used with digital signal processors, or DSPs, currently used in traditional analog modems. We were able to design our product in CMOS, creating a silicon DAA with attractive process characteristics for our customers. Our DAA products are lower in cost, use substantially less board space than alternative products and are programmable to meet international standards.

- - CODEC FUNCTIONS. Traditionally, analog modems included specialized hardware chips known as a digital signal processor, or DSP, which contained the modem's software algorithms. The DSP is typically the most expensive hardware component in traditional analog modems. In an effort to reduce costs and as a result of capabilities offered by more powerful microprocessors introduced during the mid-1990's, a new generation of modems, known as soft modems, evolved. When soft modems are used, the main microprocessor in a personal computer runs the software algorithms required to operate a modem, thus eliminating the need for a DSP chip. The software modem's digital interface between the codec and the personal computer in a soft modem eliminates the need for additional interface chips.

We also design innovative products for network access applications. In January 2000, we announced the ProSLIC, our first product targeting this market.

- - SUBSCRIBER LINE INTERFACE CIRCUIT, OR SLIC. Subscriber line interface circuits, or SLICs, provide the analog telephone interface on the source end of the telephone line. The primary functions of a SLIC are to ring and provide power and signaling (such as caller ID, dial tone and busy tone) to the telephone. Traditionally, SLICs have been produced with an expensive high voltage IC accompanied by a CMOS codec IC and requiring as many as five voltage sources. Our ProSLIC has been designed as one integrated CMOS chip, eliminating the need for a high voltage IC and requiring only two voltage sources. The result is a smaller, more reliable and less expensive product.

The following table summarizes the ICs for the wireline market that we currently offer to customers:

WIRELINE PRODUCTS

PRODUCT AREA	DESCRIPTION	APPLICATIONS
Digital Interface	Silicon Direct Access Arrangement (DAA) Provides both the functionality of a DAA and a codec. A DAA provides electrical isolation between a wireline device, such as a modem, and the telephone line to guard against power surges in the telephone line, while codec provides analog-to-digital and digital-to-analog conversion. Traditional DAA products contain as many as 35 discrete components to provide functionality comparable to that which we provide in a single chipset. Some versions of this chipset are programmable for differing international telephone standards, which enables manufacturers to distribute their products globally without costly country-specific design modifications. The most recent addition to this product family, the DAA for the Communication and Net-working Riser (CNR) provides the same functionality as the International chipset, but eases integration and simplifies modem design.	- personal computer modems - Audio Modem Riser Cards - Mobile Daughter Cards - Communication and Network Riser (CNR) Cards - Modem on Motherboard - Mini PCI cards - fax machines - host modems - handheld organizers - set-top boxes - embedded modems
Analog Interface	Silicon DAA Provides the same functionality as the digital international DAA, but with an analog interface. Ideal for applications requiring client premises equipment such as high speed analog modems connecting to the Public Switched Telephone Network. Provides an analog interface with different transmit and receive inputs/outputs for easy connection to many widely available codecs and modem chipsets.	- personal computer modems - fax machines - host modems - embedded modems - PBXs - answering machines
Voice Codec	Encodes analog signals within the voice frequency range into digital signals and decodes digital voice signals back into analog signals. When combined with the DAA chipset, the Voice Codec permits voice communications to be digitized and carried simultaneously with data traffic.	- data/fax/voice modems - speaker phones - fax machines - voice recognition system - Web telephony products - video conferencing systems
ISOmodem	The ISOmodem is a miniaturized modem that uses our DAA technology and operates at a speed of up to 2400 bits per second. The systems ISOmodem is designed to provide quick network access for devices with limited data transmission requirements. For such devices, a low access transmission speed of 2400 bits per second is generally sufficient to sustain performance while also providing rapid connect times. The ISOmodem contains a programmable line interface that meets global telephone line requirements.	- set-top boxes - credit card verification systems - industrial power meters - pay-per-view systems - postage meters - pay phones - smart vending machines - security systems - remote medical monitoring
ProSLIC	The ProSLIC provides the analog telephone interface on the source end of the telephone which provides dial tone, busy tone, caller ID and ring signal. Telephone source end electronics have historically been at the telephone company central office and has been migrating to the customer premises. Our ProSLIC product is currently designed for short-haul applications suitable for the customer premises.	- telephone switchboard systems - cable telephony - wireless local loop providing remote access for a wireline system - voice over Internet protocol - digital broadband to analog telephone adapters - voice over digital subscriber lines

WIRELESS PRODUCTS

A variety of mobile communications standards are employed around the world. The most popular standard used today is the Global System for Mobile Communications, or GSM, standard, which was first deployed in Europe and is now available in several countries throughout the world. Manufacturers continue to introduce new wireless phone models that offer smaller form factors and longer battery life at lower costs. These market dynamics drive a need for new, highly-integrated electronics that reduce component count and consume less power. Our products are designed to serve this need.

We are developing and intend to introduce other components of the radio frequency, or RF, section of the wireless handset such as the transceiver. We anticipate that these products will provide the same advantages as the first critical building block we designed for the RF section, the synthesizer, by offering smaller form factors at reduced costs.

The following table summarizes the ICs for the wireless market that we currently offer to customers:

WIRELESS PRODUCTS

PRODUCT AREA	DESCRIPTION	APPLICATIONS
RF Synthesizer for General Application	A frequency synthesizer generates high frequency signals that are used in wireless communications systems to select a particular radio channel. Existing frequency synthesizers contain discrete voltage control modules and as many as 30 discrete electronic components to provide functionality comparable to what we provide in a monolithic IC. Our general purpose synthesizer can be programmed to address multiple wireless communications applications.	- wireless local area networking - wireless modems - wireless meter readers - handheld point-of-sale terminals
RF Synthesizer for GSM/GPRS	Provides the same functionality as the RF Synthesizer for General Application but has been optimized for wireless phones operating on the GSM standard. This synthesizer is capable of providing dual-band synthesis to use one or both of the separate radio bands available to GSM phones. Additionally, this synthesizer has very fast settling times, allowing the phone to quickly lock to a desired channel. This RF synthesizer is compatible with General Packet Radio Service, or GPRS standard, which is the data communications protocol employed by the GSM standard. GPRS brings wireless Internet access to GSM users through data transfer and signaling over GSM radio networks.	- GSM wireless phones - GPRS data communications devices
RF Synthesizer for ISM Applications	Provides the same functionality as the RF Synthesizer for General Application but has been optimized for Industrial Scientific Medical (ISM) band applications that operate in the 2.0 to 2.6 GHz range. This is used for price-sensitive, low-power, high-performing personal wireless communications applications.	- Wireless modems - Cordless phones - Wireless headsets - Security systems - Wireless LAN and WAN
RF Synthesizer for Third Generation (3G) Applications	Provides the same functionality as the RF Synthesizer for General Application but addresses the high performance requirements for Wideband Code Division Multiple Access (W-CDMA) applications.	- 3G wireless communications - W-CDMA mobile handsets - High speed wireless data terminals - Broadband wireless communications

OPTICAL NETWORKING PRODUCTS

The increasing popularity of the Internet has fueled an explosive demand for bandwidth in the wide area network (WAN). This rapidly growing fiber-optic communications market is quite large and still developing. This market fits our target market criteria because we believe it is a large growing market, requires significant intellectual property using mixed-signal expertise, offers long product life-cycles and involves technology that complements our wireline and wireless divisions. With our entry into fiber-optic communications, we are able to offer a comprehensive portfolio of products that provide the required interfaces between the analog world and the digital domain in communications systems. Synchronous Optical Network (SONET) is the predominant standard for transmitting high-speed data over the fiber optic network and specifications within this standard are extremely demanding. This new division will focus on developing a family of high-speed physical layer ICs that are a part of the high-speed SONET.

The first product developed, the Clock and Data Recovery (CDR)IC, is one of the key building blocks and one of the more difficult ICs to design in the physical layer of the optical network. From this product, we intend to fill out our physical layer product line in the optical networking division to include receivers, transmitters and transceivers at speeds up to OC-192. While initially our focus will be on filling out the physical layer product line, we intend to subsequently concentrate on related areas leveraging this technology.

The following table summarizes the ICs for the optical networking market that we currently offer to customers:

OPTICAL NETWORKING PRODUCTS

PRODUCT AREA	DESCRIPTION	APPLICATIONS
Multi-Rate SONET/SDH Clock and Data Recovery IC	Recovers timing information and data that is transferred over the telephone optical network up to OC-48 data rates. This IC utilizes our proprietary digital signal processing technology to reduce the device's sensitivity to board-level noise and improve performance.	- SONET/SDH/ATM routers - Add/drop multiplexers - Digital cross connects - SONET/SDH test equipment - Optical transceiver modules - SONET/SDH regenerators - Board-level serial links
OC-3/12 SONET/SDH Clock and Data Recovery IC	Provides same functionality of the multi-rate CDR at lower speeds.	- Same as Multi-Rate CDR

CUSTOMERS, SALES AND MARKETING

We market our products to original equipment manufacturers and other providers of applications in the wireline, wireless and optical networking communications markets. The following is a list of customers that have purchased our products and incorporated them into products or devices offered to their customers:

- 3Com
- Lucent
- Motorola
- PC-TEL
- Smart Link
- Sony
- Topic

To date, we have sold a predominant portion of our ICs through our direct sales force. We maintain four sales offices in North America and conduct European direct sales through our United Kingdom subsidiary. Our direct sales force includes regional sales managers in the field and area business managers at our headquarters to further support customer communications. Many of these managers have engineering degrees. Our password-protected field sales organization Web site, which includes technical documentation, backlog information, order status, product availability and new product introduction information, supports communications with our field sales organization. Additionally, we provide direct communication to all field sales personnel as part of a structured sales communications program.

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 support for our products. To date, sales to these representatives and distributors have accounted for a modest portion of our sales.

Our marketing efforts are targeted at both identified industry leaders and emerging market participants. Marketing activities are supported by a focused communications effort that targets editorial coverage in leading trade and business publications. Our external Web site includes data sheets and supporting product information, press releases and a company overview. These activities, in conjunction with customer contacts, help prompt requests for evaluation boards and sample products, which are fulfilled through our corporate headquarters as an integrated part of our sales efforts.

Due to the complex and innovative nature of our ICs, we employ experienced applications engineers who work closely with each customer to support the design-win process, and can significantly accelerate the customer's time required to bring a product to market. A design-win occurs when a customer has designed our ICs into its product architecture. A considerable amount of effort to assist the customer in incorporating our ICs into its products typically is 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. Due to this extensive design-win process, once a completed design architecture has been implemented and produced in high volumes, our customers are reluctant to significantly alter their designs. We believe this promotes relatively long product life cycles for our ICs and high barriers to entry for competitive products, even at lower price levels for such competing products. Finally, our close collaboration with our customers provides us with knowledge of derivative product ideas or completely new product line offerings that may not otherwise arise in other new product discussions.

RESEARCH AND DEVELOPMENT

Through our research and development efforts, we apply our world-class 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. Reliable and precise analog and mixed-signal ICs can only be developed by teams of engineers under the direction of senior engineers with significant analog experience who are familiar with the intricacies of designing these ICs for commercial volume production. The development of test methodologies is a critical activity in releasing a new product for commercial success. We believe that we have attracted some of the best engineers in our industry. As of December 30, 2000, we had 101 employees involved in research and development.

Research and development expenses were $19.4 million, $8.3 million, and $4.6 million in fiscal 2000, 1999, and 1998, respectively.

TECHNOLOGY

Our product development process facilitates the design of highly innovative mixed-signal ICs. Our senior engineers start the product development process by forming an understanding of our customers' products and then design alternatives for decreasing power, size and cost requirements. Our engineers' deep knowledge of existing and emerging communications standards and performance requirements help us to assess the technical feasibility of a particular IC. We target areas where Silicon Laboratories can provide compelling product improvements. Once we have solved the primary challenges, our field 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 features.

In providing mixed-signal ICs for our customers, we believe our key competitive advantages are: (1) analog CMOS design expertise; (2) digital signal processing design expertise; and (3) our broad understanding of communication 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 CMOS DESIGN EXPERTISE

We believe that our most significant core competency is our world-class analog design capability. Additionally, we strive to design all of our ICs in CMOS processes. There are several modern process technologies for manufacturing semiconductors including CMOS, Bipolar, BiCMOS, silicon germanium and gallium arsenide. While it is significantly more difficult to design analog ICs in CMOS, CMOS provides multiple benefits versus existing alternatives, including significantly reduced cost, reduced technology risk and greater worldwide foundry capacity. CMOS is the most commonly used process technology for manufacturing digital ICs and as a result is most likely to be used for the manufacturing of ICs with finer line geometries, which 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 lowers the cost of the digital circuitry in our products and allows us to integrate more digital functionality into our mixed-signal IC's.

Designing analog ICs is significantly more complicated than designing digital ICs. While advanced software tools exist to help automate digital IC design, there are far fewer tools for advanced analog 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. For example, our DAA product family replaces bulky, discrete modem components, such as transformers, relays and opto-isolators, with highly integrated CMOS mixed-signal ICs. Similarly, bulky wireless phone components such as oscillators are replaced by our integrated CMOS frequency synthesizer products. Our design expertise in the technically challenging optical networking market has allowed us to reduce the number of supplemental components used in our customers' products while providing lower levels of noise in the circuit operation. This is a key technical consideration in high speed optical networks.

DIGITAL SIGNAL PROCESSING DESIGN EXPERTISE

We consider the partitioning of a circuit's functionality to be a proprietary and creative design technique. Our digital signal processing design expertise maximizes the price/performance characteristics of both the analog and digital functions and allows our ICs to work in an optimized manner to accomplish particular tasks. Generally, we surround core analog circuitry with inexpensive digital CMOS transistors, which allows our ICs to perform the required analog functions with increased digital capabilities. For example, our ProSLIC product is designed to function more efficiently than traditional products for the source end of the telephone line which involve a two chip combination requiring more board space and numerous external components. The ProSLIC product is partitioned by combining a core analog design that provides analog-to-digital conversion and digital-to-analog conversion with optimized digital signal processing functions such as data compression, data expansion, filtering and tone generation. In this manner, we can isolate the higher voltage required to ring a telephone in low-cost, off-chip high voltage transistors, thereby enabling us to fulfill the remaining core functions with a single chip. As a further example, our Clock and Data Recovery product used to re-construct signals in an optical network application utilizes an architecturally advanced phase locked loop circuit based principally on digital signal processing. By performing a significant portion of this function in the digital domain in a monolithic chip, the circuit has been able to satisfy the demanding specifications of the optical network SONET standard using inexpensive CMOS transistors.

UNDERSTANDING OF COMMUNICATION SYSTEMS TECHNOLOGY AND TRENDS

Our focused expertise in communications ICs is rooted in our founders' previous experience at AT&T Bell Labs working in CMOS design for communications applications. This expertise, which we consider a competitive advantage, is the foundation of our in-depth understanding of the technology and trends that impact communications systems and markets. We believe we have a unique ability to predict product evolution and design compelling ICs for communications manufacturers. Our expertise spans from single line plain old telephone communications (POTS) to high speed SONET based optical networks. We have also expanded our knowledge base into wireless communications. Our understanding of the role of analog/digital interfaces within

communications systems and the key domestic and international telecommunications standards that must be supported are particular areas of our expertise.

MANUFACTURING

As a fabless IC manufacturer, we conduct IC design and development in our facilities in the United States 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 use industry-standard complementary metal oxide semiconductor, or 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 ensuring the availability of manufacturing capability over our products' life cycles. We currently rely on Taiwan Semiconductor Manufacturing Co. and its affiliate, Vanguard International Semiconductor, to manufacture substantially all of our semiconductor wafers.

Once the silicon wafers have been produced, they are shipped directly to our third-party assembly subcontractors. The assembled ICs are then forwarded for final testing, typically to our facilities, prior to shipping to our customers. We believe that our fabless manufacturing model significantly reduces our capital requirements and allows us to focus our resources on the design, development and marketing of our ICs.

COMPETITION

The markets for semiconductors generally, and for analog and mixed-signal ICs in particular, are intensely competitive. We believe the principal competitive factors in our industry are:

- level of integration;
- product capabilities;
- reliability;
- price;
- performance
- intellectual property;
- customer support;
- reputation; and
- ability to rapidly introduce new products to market.

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. Our DAA product is an example of our competitive positioning. Traditional DAA isolation techniques rely on relays, optical isolators and transformers, transfer analog signals across the isolation barrier, and/or require numerous external components to achieve their functionality. Our silicon DAA reduces costs by eliminating the need for these bulky and/or numerous discrete components. Our DAA ICs also reduce board area and power consumption, while improving performance. However, disadvantages we face in our markets include our short operating history and the need for customers to redesign their products and modify their software to implement our ICs in their products.

We anticipate 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 wireline, wireless, and optical networking communications markets and applications, we face competition from a relatively large number of competitors. Across our product offerings, we compete with AMCC, Analog Devices, Broadcom (through its acquisition of NewPort Communications, Inc.), Conexant, CP Claire, Delta Integration, ESS, Fujitsu, Infineon Technologies, Legerity (formerly the Advanced Micro Devices telecom division), Lucent, Maxim Integrated Products, National Semiconductor, Philips, Texas Instruments, Vitesse Semiconductor Corp, and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and innovative start-up semiconductor design companies. In addition, our customers could develop products or technologies internally that would replace their need for our products and would become a

source of competition. As the markets for 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 products, including components within their products that would eliminate the need for our ICs, or by entering into strategic relationships with or acquiring other existing IC providers.

Many of our competitors and potential competitors have longer operating histories, greater name recognition, access to larger customer bases 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 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 December 30, 2000, we had been granted 16 United States patents in the IC field. We also have filed 78 applications for additional patents covering our wireline, wireless, and optical networking product areas. There can be no assurance that patents will ever be issued for 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.

In addition, we claim copyright protection for proprietary documentation used in our products. We have filed for registration, or are in the process of filing for registration, the visual image of each IC that we have manufactured in commercial quantities with the United States Copyright Office. We have registered the "Silicon Laboratories" logo as a trademark in the United States. 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 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 communications 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. Other than industry standard licenses with our vendors, such as wafer fabrication tool libraries, computer-aided design applications and business software applications, we do not have material licenses.

EMPLOYEES

As of December 30, 2000, we employed 256 people, including 61 in manufacturing, 101 in engineering development, 54 in marketing, 18 in sales and 22 in administration. 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 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. Compliance with these laws and regulations has not had a material impact on the Company's financial position or results of operations.

FACTORS AFFECTING FUTURE OPERATING RESULTS

RISKS RELATED TO OUR BUSINESS

WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR SALES, AND THE LOSS OF, OR A SIGNIFICANT REDUCTION IN ORDERS FROM, ANY KEY CUSTOMER COULD SIGNIFICANTLY REDUCE OUR SALES

In fiscal 2000, PC-TEL accounted for 46% of our revenue. Many markets for our products are dominated by a small number of potential customers. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that use our integrated circuit, or 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 any material long-term purchase arrangements with these or any of our other 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; and

- some of our customers have sought or are seeking relationships with current or potential competitors which may affect our customers' purchasing decisions.

On January 4, 2001, our largest customer PC-TEL announced that its revenue for the quarter ended on December 31, 2000 would be below PC-TEL's previous expectations due to the rapid deterioration in PC demand industry wide. PC-TEL characterized this revenue shortfall as significantly below previous company forecasts and further indicated that they believe this weak demand creates uncertainty for the first half of 2001. We believe that this revenue shortfall by PC-TEL will have a sizable impact on the Company's results, particularly in the Wireline Products Division, and creates uncertainty for the first half of fiscal year 2001. Revenues for the March 2001 quarter are expected to be in the range of $16 million to $18 million.

On October 17, PC-TEL announced that the U.S. International Trade Commission (ITC) voted to investigate trade practices involving certain host signal processing modems, also known as soft modems, arising from a complaint filed by PC-TEL alleging that Smart Link's solutions infringe PC-TEL's patents. Both PC-TEL and Smart Link are significant customers for us. Should our two customers fail to settle their dispute, the ITC could take action that could result in the loss of sales by us to Smart Link, disruption of our ongoing supply relationships and obsolescence of inventory specifically manufactured for Smart Link. Should our two customers arrive at a settlement that would increase our revenue concentration from PC-TEL, we would anticipate that it may result in our revenue, gross profit, gross margin percentage and net income decreasing, reflecting PC-TEL's increased ability to negotiate lower prices due to higher sales volume and favorable negotiating position.

While we have been the sole supplier of the direct access arrangement, or DAA, IC used in PC-TEL's products, we anticipate that PC-TEL would consider alternative sources in the future in order to diversify its supplier base which would increase its negotiating leverage with us and protect its ability to secure DAA components. We have a volume purchase agreement with PC-TEL, but the agreement does not require PC-TEL to purchase any minimum number of units from us during fiscal 2001. We believe that any second source of DAA ICs for PC-TEL could have an adverse effect on the prices we are able to charge PC-TEL and the volume of DAA ICs that we sell to PC-TEL, which would negatively affect our sales and operating results.

On March 20, 2000, 3Com announced a substantial restructuring of its businesses. This restructuring resulted in 3Com exiting the desktop analog modem and PC card modem businesses through a sale to a new venture formed with Accton Technology and NatSteel Electronics. This new venture, which included the U.S. Robotics business previously acquired by 3Com, uses our DAA IC products. This business transition by 3Com and the subsequent business activities of this new venture may disrupt our supplier relationships and adversely affect our operating results. 3Com accounted for 10% of revenues in fiscal 1999 and less than 10% in fiscal 2000.

The loss of any of our key customers, or a significant reduction in sales to any one of them, would significantly reduce our sales and adversely affect our business.

WE HAVE DEPENDED ON OUR DIRECT ACCESS ARRANGEMENT, OR DAA, FAMILY OF PRODUCTS FOR SUBSTANTIALLY ALL OF OUR SALES TO DATE, AND SIGNIFICANT REDUCTIONS IN ORDERS FOR DAA PRODUCTS WOULD SIGNIFICANTLY REDUCE OUR SALES

A significant majority of our sales to date have been derived from sales of our DAA family of ICs. This product family, in turn, is highly dependent on sales to the PC industry which currently faces uncertain demand. Until we are able to diversify our sales through the introduction of new products, we will continue to rely on sales of our DAA products. A decline in overall demand for personal computers, reduced market acceptance of our DAA products or the introduction of products with superior price/performance characteristics by our competitors could significantly reduce our sales. In addition, substantially all of our DAA 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.

WE DEPEND ON OUR CUSTOMERS TO SUPPORT OUR PRODUCTS

Our products are currently used by our customers to produce modems for personal computers and wireless telephones. We rely on our customers to provide hardware, software and other technical support for the modems and wireless telephones that use our products. If our customers do not provide the required functionality or if our customers do not provide satisfactory support for their products, the demand for modems and wireless telephones that incorporate our products may diminish. Any reduction in the demand for modems and wireless telephones would significantly reduce our sales.

IF WE ARE UNABLE TO DEVELOP NEW AND ENHANCED PRODUCTS THAT ACHIEVE MARKET ACCEPTANCE IN A TIMELY MANNER, OUR OPERATING RESULTS AND COMPETITIVE POSITION COULD BE HARMED

Our future success will depend on our ability to reduce our dependence on our DAA products by developing 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 occasionally have 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:

- changing requirements of customers within the wireline, wireless communications and optical networking markets;
- accurate prediction of market 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 and assembly 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 and support capabilities and responsiveness;

- successful development of our relationships with existing and potential customers; and

- changes in technology, industry standards or end-user preferences.

We cannot provide any assurance that new products which we recently have developed or may develop in the future will achieve market acceptance. We have introduced to market four new ICs:

- an RF synthesizer, which is used to generate high frequency signals that are used in wireless communications systems to select a particular radio channel;

- an ISOmodem, which is a miniaturized modem that can be embedded in electronic devices with low transmission requirements, such as credit card verification devices, to provide quick network access;

- a ProSLIC product, which provides dial tone, busy tone, caller ID and ring signal functions at the source end of the telephone; and

- a high speed optical network product, which is a fully integrated low-power clock and data recovery circuit designed for SONET/ATM routers, multiplexers, digital cross connects and optical transceiver modules.

We also are actively developing other ICs. If our recently introduced or other ICs fail to achieve market acceptance, our operating results and competitive position could be adversely affected.

DUE TO OUR LIMITED OPERATING HISTORY, WE MAY HAVE DIFFICULTY BOTH IN ACCURATELY PREDICTING OUR FUTURE SALES AND APPROPRIATELY BUDGETING FOR OUR EXPENSES

We were incorporated in 1996 and did not begin generating sales until the second quarter of 1998. As a result, we have only a short history from which to predict future sales. This limited operating experience combined with the rapidly evolving nature of the markets in which we sell our products, as well as other factors which are beyond our control, reduce our ability to accurately forecast quarterly or annual sales. Additionally, because most of our expenses are fixed in the short term or incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. During fiscal year 2000, we have expanded our staffing and increased our expense levels in anticipation of future sales growth. If our sales do not increase as anticipated, significant losses could result due to our higher expense levels. As mentioned in FACTORS AFFECTING FUTURE OPERATING RESULTS - "WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR SALES, AND THE LOSS OF, OR A SIGNIFICANT REDUCTION IN ORDERS FROM, ANY KEY CUSTOMER COULD SIGNIFICANTLY REDUCE OUR SALES", we expect a sequential decline of our overall quarterly revenues for the March 2001 quarter which will materially adversely affect our gross profits, gross margin percentage and net income.

WE RELY ON THIRD PARTIES TO MANUFACTURE AND ASSEMBLE OUR PRODUCTS AND THE FAILURE TO SUCCESSFULLY MANAGE OUR RELATIONSHIPS WITH OUR MANUFACTURERS AND ASSEMBLERS WOULD NEGATIVELY IMPACT OUR ABILITY TO SELL OUR PRODUCTS

We do not have our own manufacturing facilities. Therefore, we must rely on third-party vendors to manufacture the ICs we design. We also currently rely on two third-party assembly contractors, Advanced Semiconductor Engineering and Amkor, to assemble and package the silicon chips provided by the wafers for use in final products. Additionally, we rely on third-party vendors for a minor portion of the testing requirements of our products prior to shipping.

There are significant risks associated with relying on these third-party contractors, including:

- failure by us, our customers or their end customers to qualify a selected supplier;
- capacity shortages during periods of high demand;
- reduced control over delivery schedules and quality;
- limited warranties on wafers or products supplied to us; and
- potential increases in prices.

We currently do not have long-term supply contracts with any of our third-party vendors, and therefore, they are not obligated to perform services or supply products to us for any specific period, or in any specific quantities, except as may be provided in a particular purchase order. Although we believe that other semiconductor foundries or assembly contractors can adequately address our needs, we expect that it would take approximately two to nine months to transition performance of these services from our current providers to new providers. Such a transition may also require a qualification process by our customers or their end customers. We generally place orders for products with some of our suppliers approximately four months prior to the anticipated delivery date, with order volumes based on our forecasts of demand from our customers. Accordingly, if we inaccurately forecast demand for our products, we may be unable to obtain adequate foundry or assembly capacity from our third-party contractors to meet our customers' delivery requirements, or we may accumulate excess inventories. On occasion, we have been unable to adequately respond to unexpected increases in customer purchase orders, and therefore, were unable to benefit from this incremental demand. None of our third-party foundry or assembly contractors have provided assurances to us that adequate capacity will be available to us within the time required to meet additional demand for our products.

From our inception through fiscal 2000, substantially all of the silicon wafers for the products that we shipped were manufactured either by Taiwan Semiconductor Manufacturing Co. or Vanguard International Semiconductor, an affiliate of Taiwan Semiconductor Manufacturing Co. Our customers typically complete their own qualification process. If we fail to balance customer demand across semiconductor fabrications properly, we might not be able to fulfill demand for our products, which would adversely affect our operating results. Additionally, a resulting write-off of unusable inventories would contribute to a decline in earnings.

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 TIMELY SATISFY DEMAND FOR OUR PRODUCTS.

The manufacture of silicon wafers for our products is a highly complex and technologically demanding process. Although we work closely with our foundries to minimize the likelihood of reduced manufacturing yields, our foundries from time to time have experienced lower than anticipated manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance deficiencies. If our foundries fail to timely deliver fabricated silicon wafers of satisfactory quality, we will be unable to timely meet our customers' demand for our products, which would adversely affect our operating results and damage our customer relationships.

ANY ACQUISITIONS WE MAKE COULD DISRUPT OUR BUSINESS AND HARM OUR FINANCIAL CONDITION

As part of our growth strategy, we will continue to evaluate opportunities to acquire other businesses or technologies that would complement our current offerings, expand the breadth of our markets or enhance our technical capabilities. On August 9, 2000, we completed the acquisition of Krypton Isolation, Inc. (Krypton) for $42 million in cash and common stock. On October 2, 2000, we completed the acquisition of SNR Semiconductor for $3.7 million in cash and stock. These acquisitions and any other potential future

acquisitions 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;

- difficulties in retaining business relationships with suppliers and customers of the acquired company;

- risks associated with entering markets in which we lack prior experience; and

- potential loss of key employees of the acquired company.

OUR CURRENT MANUFACTURERS AND ASSEMBLERS ARE CONCENTRATED IN THE SAME GEOGRAPHIC REGION WHICH INCREASES THE RISK THAT A NATURAL DISASTER, LABOR STRIKE, WAR OR POLITICAL UNREST COULD DISRUPT OUR OPERATIONS

Our current semiconductor manufacturers are located in the same region within Taiwan and our assembly contractors 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. We are not currently covered by insurance against business disruption caused by earthquakes as such insurance is not currently available on terms that we believe are commercially reasonable. Earthquakes, fire, flooding or other natural disasters in Taiwan or the Pacific Rim region, or political unrest, war, labor strikes or work stoppages in countries where our semiconductor manufacturers' and assemblers' facilities are located, likely would result in the disruption of our foundry or assembly capacity. Any disruption resulting from these events could cause significant delays in shipments of our products until we are able to shift our manufacturing or assembling from the affected contractor to another third-party vendor. There can be no assurance that such alternate capacity could be obtained on favorable terms, if at all.

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 assure 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 and increased obsolescence and may increase our operating costs.

WE MAY NOT BE ABLE TO MAINTAIN OUR EXISTING GROWTH RATE

Although we have experienced sales and earnings growth in our recent quarterly and annual periods, we may not be able to sustain these growth rates. In particular, we may gain significant market share in a relatively short period of time following the introduction of a new product, resulting in sales growth. However, incremental gains in market share for these newly introduced products may not occur. Accordingly, you should not rely on the results of any prior quarterly or annual periods as an indication of our future operating performance. On January 4, 2001, our largest customer, PC-TEL, announced that its revenue for the quarter ended on December 31, 2000 would be significantly below previous PC-TEL forecasts. This will result in a significant shortfall in revenue for us in the March, 2001 quarter with uncertainty for the future sequential quarterly periods.

WE MAY EXPERIENCE SIGNIFICANT PERIOD-TO-PERIOD QUARTERLY AND ANNUAL FLUCTUATIONS IN OUR SALES AND OPERATING RESULTS, WHICH MAY RESULT IN VOLATILITY IN OUR STOCK PRICE

We may experience significant period-to-period fluctuations in our sales and operating results in the future due to a number of factors, and any such variations may cause our stock price to fluctuate. It is likely that in some future period our operating results will 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 sales and operating results, including:

- the timing and volume of orders from our customers;
- 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 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 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; 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.

For example, the personal computer modem market is characterized by rapid fluctuations in demand which results in corresponding fluctuations in the demand for our DAA products that are incorporated in personal computer modems. 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. However, once a new IC achieves market acceptance, demand for the new IC quickly accelerates and demand quickly declines for the product that the new IC replaces. We believe that the sequential decline of our overall quarterly revenues for the March 2001 quarter as set forth in the FACTORS AFFECTING FUTURE OPERATING RESULTS - "WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR SALES, AND THE LOSS OF, OR A SIGNIFICANT REDUCTION IN ORDERS FROM, ANY KEY CUSTOMER COULD SIGNIFICANTLY REDUCE OUR SALES", will materially adversely affect our gross profits, gross margin percentage and net income.

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 chipset kit arrangements 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.

In addition, our largest competitors may restructure their operations to create separate companies that are more focused on providing the types of products we produce. For example, Rockwell's restructuring led to the creation of Conexant which is a significant competitor. Additionally, Siemens spun off its semiconductor business to create a more focused company named Infineon Technologies. In July 2000, Lucent Technologies announced its plans to spin off its microelectronics business with includes the optoelectronics components and integrated circuits division, into a separate company in order to accelerate the growth of the business and alleviate strategic conflicts with Lucent's competitors. Increased competition could decrease our prices,

reduce our sales, lower our margins or decrease our market share. These and other competitive pressures may prevent us from competing successfully against current or future competitors, and may materially harm our business.

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 and sales and marketing personnel. Specifically, we believe that our future success is highly dependent on Navdeep Sooch, our co-founder, Chief Executive Officer and Chairman of the Board, Jeffrey Scott, our co-founder and Vice President of Engineering, and David Welland, our co-founder and Vice President of Technology. There is currently a shortage of qualified personnel with significant experience in the design, development, manufacturing, marketing and sales of analog and mixed-signal communications 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 source of 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, including engineers and sales and marketing personnel, could delay the development and introduction of, and negatively impact our ability to sell, our products.

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 communications devices in the wireline, wireless and optical networking 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. In fiscal 2000, our research and development expense was $19.4 million, which represented 18.8% of our sales compared to $8.3 million, or 17.7% of our sales for fiscal year 1999. A number of large companies in the wireline, wireless and optical networking industries 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 would we. 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 have introduced to market a RF synthesizer product for use in wireless phones operating on the Global System for Mobile Communications, or GSM, standard. The RF synthesizer is also compatible with General Packet Radio Service, which is the emerging data communications protocol for GSM based wireless phones. We cannot be certain whether manufacturers of wireless phones using these standards will incorporate our RF synthesizer or that these standards will not change, thereby making our products unsuitable or impractical. In the area of Optical Networking, our recently introduced clock and data recovery integrated circuit operates within stringent specifications for high speed communications systems known as SONET. Changes to this standard could make our products uncompetitive or unsuitable to changing system requirements and result in the inability to sell these products.

OUR PRODUCTS ARE COMPLEX AND MAY REQUIRE MODIFICATIONS TO RESOLVE UNDETECTED ERRORS WHICH COULD LEAD TO AN INCREASE IN OUR COSTS OR A REDUCTION IN OUR SALES

Our products are complex and may contain errors when first introduced or as new versions are released. 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.

THE PERFORMANCE OF OUR DIRECT ACCESS ARRANGEMENT PRODUCTS MAY BE ADVERSELY AFFECTED BY SEVERE ENVIRONMENTAL CONDITIONS THAT MAY REQUIRE MODIFICATIONS, WHICH COULD LEAD TO AN INCREASE IN OUR COSTS OR A REDUCTION IN OUR SALES

Although our direct access arrangement products are compliant with published specifications, these established specifications might not adequately address all conditions that must be satisfied in order to operate in harsh environments. This includes environments where there are wide variations in electrical quality, telephone line quality, static electricity and operating temperatures or that may be affected by lightning or improper handling by customers and end users. Our products have had a limited period of time in the field under operation, and these environmental factors may result in unanticipated returns of our products. Any necessary modifications 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.

We have a large installed base of direct access arrangement products in the field. As part of our ongoing support of this product line, we verify the performance of our products through regulatory agency qualifications, customer acceptance procedures, evaluation of end customer technical support information, and analysis of field returns. Certain customer modem implementations of our direct access arrangement products have been identified to be susceptible to a particular class of electrical surges originating from lightning strikes that are not adequately described in regulatory agency qualifications. We have provided application guidelines to our customers to enhance their implementation of the modem function to protect our devices from these lightning strike electrical surges.

Damage from these electrical surges could result in product liability claims against our customers that produce these modems or against us. Our customers may seek indemnification or other compensation from us with respect to any liability that they incur. Even if our DAA product is not the source of the problem and we are not contractually liable for such indemnification, we may incur costs in an effort to maintain good relations with our customers. If we are held liable for these claims or incur other costs in order to maintain good relations, this problem could adversely affect our operating results.

A SUBSTANTIAL PORTION OF THE FINAL TESTING OF OUR PRODUCTS IS PERFORMED INTERNALLY BY US, WHICH INCREASES OUR FIXED COSTS

In fiscal 2000, substantially all of our test operations were performed in-house. A minor portion of test operations was provided by our contract manufacturers or other third parties. While we expect that performing this testing in-house should provide us with advantages in terms of lower per unit cost, quality control and shorter time required to bring a product to market, we may encounter difficulties and delays in maintaining or expanding our internal test capabilities. In addition, final testing of complex semiconductors requires substantial resources to acquire state-of-the-art testing equipment and hiring additional qualified personnel, which has increased our fixed costs. If demand for our products does not support the effective utilization of these employees and additional equipment, we may not realize any benefit from foregoing the use of outside vendors and utilizing internal final testing. Any decrease in the demand for our products could result in the underutilization of our testing equipment and personnel. If our internal test operations are underused or mismanaged, we may incur significant costs that could adversely affect our operating results.

WE PLAN TO INCREASE OUR INTERNATIONAL SALES ACTIVITIES SIGNIFICANTLY, WHICH WILL SUBJECT US TO ADDITIONAL BUSINESS RISKS INCLUDING INCREASED LOGISTICAL COMPLEXITY, POLITICAL INSTABILITY AND CURRENCY FLUCTUATIONS

We intend to open additional sales offices in international markets to expand our international sales activities in Europe and the Pacific Rim region. Our planned international sales growth will be limited if we are unable to hire additional personnel and develop relationships with international

distributors. We may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including:

- increased complexity and costs of managing international operations;
- protectionist laws and business practices that favor local competition in some countries;
- multiple, conflicting and changing laws, regulations and tax schemes;
- longer sales cycles;
- greater difficulty in accounts receivable collection and longer collection periods; and
- political and economic instability.

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 them less competitive.

OUR INABILITY TO MANAGE GROWTH COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS

During the past 24 months, we have significantly increased the scope of our operations and expanded our workforce from 42 employees at January 2, 1999 to 256 employees at December 30, 2000. This 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 operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. 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. If we are unable to effectively manage our expanding operations, our business could be materially and adversely affected.

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 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.

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 or misappropriation of trade secrets. The exploratory nature of these inquiries has become relatively common in the semiconductor industry. We typically respond when 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 may also become involved in litigation to defend allegations of infringement asserted by others. 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. Any intellectual property litigation also could force us to take specific actions, including:

- cease selling products that use the challenged intellectual property;

- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

- redesign those products that use infringing intellectual property.

FAILURE TO EXPAND OUR DISTRIBUTION CHANNELS AND MANAGE OUR DISTRIBUTION RELATIONSHIPS COULD IMPEDE OUR FUTURE GROWTH

The future growth of our business will depend in part on our ability to expand our existing relationships with distributors and sales representatives, develop additional channels for the distribution and sale of our products and manage these relationships. As part of our channel sales strategy, we intend to expand our relationships with distributors and sales representatives. As we develop our indirect sales capabilities, we will need to manage the potential conflicts that may arise with our direct sales efforts. The inability to successfully execute or manage a multi-channel sales strategy could impede our future growth.

RISKS RELATED TO OUR INDUSTRY

COMPETITION WITHIN THE NUMEROUS MARKETS WE TARGET MAY REDUCE SALES OF OUR PRODUCTS AND REDUCE 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, including wireline, wireless and optical networking communications markets, we face competition from a relatively large number of competitors. Across all of our product areas, we compete with AMCC, Analog Devices, Broadcom (through its acquisition of NewPort Communications, Inc.), Conexant, CP Claire, Delta Integration, ESS, Fujitsu, Infineon Technologies, Legerity (formerly the Advanced Micro Devices telecom division), Lucent, Maxim Integrated Products, National Semiconductor, Philips, Texas Instruments, Vitesse Semiconductor Corp, and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and innovative start-up semiconductor design companies. Some of our customers, such as Intel, Lucent, Motorola, and Texas Instruments are also large, established semiconductor suppliers. Our sales to and support of these customers may enable them to become a source of competition to us, despite our efforts to protect our intellectual property rights. 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.

THE AVERAGE SELLING PRICES OF OUR PRODUCTS COULD DECREASE RAPIDLY WHICH MAY NEGATIVELY IMPACT OUR GROSS MARGINS AND SALES

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 future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future. If we are unable to offset any such reductions in our average selling prices by increasing our sales volumes, our gross profits and sales will suffer. To maintain gross margins, 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 would cause our sales and gross margins to decline. We believe the rapid deterioration in PC demand industry wide and the resulting impact on our March 2001 quarter revenues, as set forth in FACTORS AFFECTING FUTURE OPERATING RESULTS - "WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR SALES, AND THE LOSS OF, OR A SIGNIFICANT REDUCTION IN ORDERS FROM, ANY KEY CUSTOMER COULD SIGNIFICANTLY REDUCE OUR SALES", will materially adversely affect our gross profits, gross margin percentage and net income.

OUR CUSTOMERS REQUIRE OUR PRODUCTS TO UNDERGO A LENGTHY AND EXPENSIVE QUALIFICATION PROCESS WHICH DOES NOT ASSURE 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 assure 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, changes in its 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 ARE SUBJECT TO THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY

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 downturns, often connected with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Any future downturns could have a material adverse effect on our business and operating results. Furthermore, any upturn in the semiconductor industry could result in increased competition for access to third-party foundry and assembly capacity. We are dependent on the availability of such capacity to manufacture and assemble our ICs. Except for non-contractual assurances of support for specifically identified customer accounts, none of our third-party foundry or assembly contractors have provided assurances that adequate capacity will be available to us.

OUR PRODUCTS MUST CONFORM TO INDUSTRY STANDARDS IN ORDER TO BE ACCEPTED BY END USERS IN OUR MARKETS

Generally, our products comprise only a part of a communications 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 effecting 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 communications 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. We may not be successful in developing or using new technologies or

in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense.

Item 2. Properties

Our central, administrative and test operation facility occupies approximately 37,800 square feet in Austin, Texas under a lease that expires in April 2006, with one five year renewal option. We have a lease for 34,610 square feet of office space in Austin, Texas used principally for design engineering and product marketing. This lease expires in April, 2006 with one five year renewal option.

We have a master lease for 34,548 square feet of office space in Austin, Texas. Approximately half of this office is used for design engineering and product marketing. The remaining half of the lease space has been subleased to two subtenants with one term for approximately one year and the other term for two years. This master lease expires in January, 2007 with one five year renewal option.

We have a lease for 2,826 square feet of office space in Nashua, New Hampshire used as a northeast design center for engineering activities. This lease expires in October, 2005.

We have a lease for 4,191 square feet of office space in Pleasanton, California used for operations obtained through our acquisition of Krypton Isolation, Inc. in August, 2000. This lease expires in December, 2001.

We maintain office leases in various locations for sales, marketing and design activities. Each of these leases is for less than 1,000 square feet and for terms typically for one year or less. These offices are maintained in Allentown, Pennsylvania; Atlanta, Georgia; Broomfield, Colorado; Columbia, Maryland; Kenilworth, England and San Jose, California.

We believe that these facilities are sufficient to meet our needs through December 2001.

Item 3. Legal Proceedings

On January 12, 2000, we filed a lawsuit against Analog Devices and 3Com in the United States District Court for the Western District of Texas (Austin Division). The complaint, as subsequently amended, asserted that Analog Devices and 3Com had infringed, and were continuing to infringe, on our U.S. Patents 5,870,046 and 6,107,948, both entitled "Analog Isolation System With Digital Communication Across A Capacitive Barrier," by making, using, selling, offering to sell and/or importing silicon DAAs that embody or use inventions claimed by our patent. The complaint also asserted, among other things, that Analog Devices and 3Com misappropriated our confidential information, know-how and trade secrets relating to our DAA technology, tortiously interfered with our business relations with our existing and prospective customers, and were unjustly enriched by this misappropriation. Subsequently, the complaint was amended to add additional patent infringement claims. Analog Devices and 3Com answered the complaints and asserted counterclaims.

On December 20, 2000, Analog Devices, 3 Com and Silicon Laboratories announced that they had settled the pending lawsuits. The settlement was completed without admission of fault or liability by any party and did not serve as an adjudication with respect to any issue raised in the action. The settlement did not limit our right to sell our products. Nothing in the settlement agreement is construed as granting any licenses of intellectual property between parties. A stipulated order of dismissal was filed in the United States District Court for the Western District of Texas, Austin Division on December 27, 2000. The parties remain subject to the jurisdiction of the court for the limited purpose of enforcing the settlement agreement. Pursuant to the execution of this settlement agreement, we received a one-time non-refundable payment from Analog Devices in December 2000 for $2.5 million and recorded the payment as revenue in the quarter ended December 30, 2000. Any future payments pursuant to this settlement agreement are not anticipated by management to represent a material portion of our revenue on a prospective basis.

For a description of risks associated with this legal proceeding, please see "We depend on a limited number of customers for the vast majority of our sales, and the loss of, or a significant reduction in orders from, any key customer could significantly reduce our sales" and "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 the risk factors included at the end of Part I, Item 1 of this report on Form 10-K.

We are not currently a party to any material legal proceedings.

Item 4. Submission of Matter to a Vote of Security Holders

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock has been quoted on the Nasdaq National Market under the symbol "SLAB" since our initial public offering on March 24, 2000. The table below shows the high and low per-share sales prices of our common stock for the periods indicated, as reported by the Nasdaq National Market. As of December 30, 2000, there were 272 holders of record of our common stock. Upon consummation of the initial public offering, all outstanding shares of our convertible preferred stock were automatically converted into an aggregate of 13,884,190 shares of our common stock.

Year Ended December 30, 2000	HIGH	LOW
First Quarter	$105.75	$62.98
Second Quarter	102.75	45.50
Third Quarter	78.00	36.00
Fourth Quarter	42.13	10.13
For Fiscal 2000	$105.75	$10.13

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 expand of our business. In addition, our credit agreements with our bank lender prohibit us from paying cash dividends on our capital stock without the prior consent of the lender.

On August 9, 2000, we issued 384,100 shares of Silicon Laboratories common stock in exchange for the outstanding capital stock of Krypton Isolation, Inc. The issuance of Silicon Laboratories common stock in connection with the acquisition of Krypton was deemed exempt from registration under Section 5 of the Securities Act of 1933 in reliance upon Section 3(a)(10) thereof, pursuant to a fairness hearing conducted by the California Department of Corporations. As a result of this filing, these shares are freely tradeable.

On October 2, 2000, we issued 55,556 shares of Silicon Laboratories common stock in connection with the acquisition of SNR Semiconductor Incorporated. The issuance of Silicon Laboratories common stock in connection with the acquisition was deemed exempt from registration under Section 5 of the Securities Act of 1933 pursuant to Section 4(2) thereof. These shares are restricted stock and are not freely tradeable.

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. A total of 3,680,000 shares of common stock were registered. We sold a total of 3,200,000 shares of our common stock and selling stockholders sold a total of 480,000 to an underwriting syndicate. The managing underwriters were Morgan Stanley & Co. Incorporated, Lehman Brothers Inc., and Salomon Smith Barney Inc. The offering commenced and was completed on March 24, 2000, at a price to the public of $31.00 per share. The initial public offering resulted in net proceeds to us of $90.6 million, after deducting underwriting commissions of $6.9 million and offering expenses of $1.7 million. We used $15 million of the proceeds as part of the consideration paid in the acquisition of Krypton Isolation Inc. on August 9, 2000. Another $4.3 million was used to pay off the equipment loans at Imperial Bank. We used another $1.0 million of the proceeds as part of the consideration paid in the acquisition of SNR Semiconductor Incorporated on October 2, 2000. As of December 30, 2000, the remaining proceeds were invested in government securities and

other short-term, investment-grade, interest bearing instruments.

Item 6. Selected Consolidated Financial Data

The selected consolidated balance sheet data as of fiscal year end 2000 and 1999 and the selected consolidated statement of operations data for fiscal 2000, 1999 and 1998 have been derived from audited consolidated financial statements included in this Form 10-K. The selected consolidated balance sheet data as of fiscal year end 1998, 1997 and 1996 and the selected consolidated statement of operations data for fiscal 1997 and the period from inception (August 19, 1996) to December 31, 1996 have been derived from audited consolidated financial statements not included in this Form 10-K. You should 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. (In thousands, except per share data).

CONSOLIDATED STATEMENTS OF OPERATIONS DATA

	Fiscal Year				Period from Inception (August 19, 1996) Through December 31, 1996
	2000	1999	1998	1997	
Revenues	$103,103	$46,911	$ 5,609	$ --	$ --
Cost of revenues	35,601	15,770	2,371	--	--
Gross profit	67,502	31,141	3,238	--	--
Operating expenses:					
Research and development	19,419	8,297	4,587	1,364	10
Selling, general and administrative	17,648	7,207	2,095	627	10
Write off of in-process research & development	394	--	--	--	--
Goodwill amortization	3,307	--	--	--	--
Amortization of deferred stock compensation	3,761	976	8	--	--
Operating expenses	44,529	16,480	6,690	1,991	20
Operating income (loss)	22,973	14,661	(3,452)	(1,991)	(20)
Other (income) and expenses:					
Interest Income	(4,038)	(402)	(261)	(178)	--
Interest Expense	1,162	699	206	22	--
Income (loss) before tax expenses	25,849	14,364	(3,397)	(1,835)	(20)
Income tax expense	11,832	3,324	--	--	--
Net income (loss)	$ 14,017	$11,040	$(3,397)	$(1,835)	$(20)
Net income (loss) per share:					
Basic	$ .37	$ .73	$ (.37)	$ (1.04)	$ --
Diluted	$ .29	$ .25	$ (.37)	$ (1.04)	$ --
Weighted average common shares outstanding:					
Basic	38,326	15,152	9,129	1,760	--
Diluted	48,788	43,657	9,129	1,760	--

CONSOLIDATED BALANCE SHEET DATA:	December 30, 2000	January 1, 2000	January 2, 1999	January 3, 1998	December 31, 1996
Cash, cash equivalents and short-term investments	$ 96,438	$14,706	$ 5,824	$ 3,778	$132
Working capital	103,347	14,281	5,209	2,045	(62)
Total assets	184,840	41,958	14,014	6,023	181
Long-term obligations	5,125	6,223	2,153	747	--
Redeemable convertible preferred stock	--	12,750	12,750	5,250	--
Total stockholders' equity (deficit)	162,951	8,003	(5,149)	(1,776)	(19)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES WHICH APPEAR ELSEWHERE IN THIS THIS REPORT. THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS, INCLUDING THOSE DISCUSSED BELOW AND ELSEWHERE IN THIS REPORT, PARTICULARLY UNDER THE HEADING "RISK FACTORS." PLEASE ALSO SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS." OUR FISCAL YEAR-END FINANCIAL REPORTING PERIODS ARE A 52- OR 53- WEEK YEAR ENDING ON THE SATURDAY CLOSEST TO DECEMBER 31ST. FISCAL 1998 HAD 52 WEEKS AND ENDED ON JANUARY 2, 1999. FISCAL 1999 HAD 52 WEEKS AND ENDED ON JANUARY 1, 2000. FISCAL 2000 HAD 52 WEEKS AND ENDED ON DECEMBER 30, 2000.

OVERVIEW

We design and develop proprietary, analog-intensive, mixed-signal ICs for the rapidly growing communications industry. Our innovative ICs can dramatically reduce the cost, size and system power requirements of the products that our customers sell to their end-user customers. We currently offer ICs that can be incorporated into communications devices, such as modems and wireless phones, as well as cable and satellite set-top boxes, residential communication gateways for cable or DSL, cable modems, optical network equipment and remote gaming devices. Customers during fiscal 2000 included 3Com, Lucent, Motorola, PC-TEL, and Smart Link.

Our company was founded in 1996. Our business has grown rapidly since our inception, as reflected by our employee headcount, which increased to 256 at the end of fiscal 2000, from 148 at the end of fiscal 1999, 42 at the end of fiscal 1998 and 17 at the end of fiscal 1997. As a "fabless" semiconductor company, we rely on third-party semiconductor fabricators 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 also rely on third-party assemblers to assemble and package these die prior to final product testing and shipping.

Our company is organized into three principal divisions, the Wireline Products Division, the Wireless Products Division, and the Optical Networking Division. Our Wireline Products Division commenced research and development for our first IC product, the direct access arrangement, or DAA, in October 1996. We introduced our DAA product in the first quarter of fiscal 1998, and first received acceptance of this product for inclusion in a customer's device, which we refer to as a "design win", in March 1998. The first commercial shipment of our DAA product was made in April 1998. Based on the success of our family of DAA products, we became profitable in the fourth quarter of fiscal 1998 and have been profitable in each succeeding quarter. A significant majority of our sales to date have been derived from sales of our various DAA products and we expect to remain dependent on continued sales of DAA products for a majority of our sales until we are able to diversify sales with new products. In fiscal 1999, our Wireline Products Division introduced two additional ICs, a voice codec product, which encodes analog signals within the voice frequency range into digital signals and decodes digital voice signals back into analog signals, and our ISO modem product. In addition, our Wireless Products Division introduced our RF synthesizer product in fiscal 1999. In January 2000, our Wireline Products Division introduced our ProSLIC product. In fiscal 2000, our Optical Networking Products Division introduced a clock and data recovery product suitable for SONET physical layer applications. We will be less dependent on our DAA products for future sales to the extent that these products, or other products that we may introduce, are incorporated into devices sold by our customers. For a further description of our products, please see "Part I, Item 1. Business--Products."

Since our inception, a few customers have accounted for a substantial portion of our revenues. During fiscal 2000, PC-TEL accounted for 46% of our revenues. In fiscal 1999, our three largest customers accounted for 84% of our revenues, including 62% for PC-TEL, 12% for Smart Link and 10% for 3Com. In fiscal 1998, PC-TEL accounted for 78% and 3Com accounted for 20% of our revenues. No other customer accounted for more than 10% of our revenues in any of these years. To date, a significant portion of our revenues has been generated through our direct sales force. In fiscal 1998, we began to establish a network of independent sales representatives and distributors worldwide to support our sales and marketing activities. We anticipate that sales through these representatives and distributors will increase as a percentage of our revenues in future periods. However, we expect to continue to experience significant customer concentration in direct sales to key customer accounts until we are able to diversify revenues with new customers.

On January 4, 2001, our largest customer PC-TEL announced that its revenue for the quarter ended on December 31, 2000 would be below PC-TEL's previous expectations due to the rapid deterioration in PC demand industry wide. PC-TEL characterized this revenue shortfall as significantly below previous company forecasts and further indicated that they believe this weak demand creates uncertainty for the first half of 2001. We believe that this revenue shortfall by PC-TEL will have a sizable impact on the Company's results, particularly in the Wireline Products Division, and creates uncertainty for the first half of fiscal year 2001. Revenues for the March 2001 quarter are expected to be in the range of $16 million to $18 million.

The percentage of our revenues to customers located outside of the United States was 21% in fiscal 2000, 7% in fiscal 1999 and insignificant in fiscal 1998. All of our revenues to date have been denominated in U.S. dollars. We believe that a greater percentage of our revenues will be made to customers outside of the United States as our products receive greater acceptance in international markets.

The sales cycle for the test and evaluation of our ICs can range from 1 month to 12 months or more. An additional 3 to 6 months or more may be required before a customer ships a significant volume of devices that incorporate our ICs. Due to this lengthy sales cycle, we may experience a significant delay between incurring expenses for research and development and selling, general and administrative efforts, and the generation of corresponding sales, if any. We intend to continue to increase our investment in research and development, selling, general and administrative functions and inventory as we expand our operations in the future. 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.

Our limited operating history and rapid growth makes it difficult for us to assess the impact of seasonal factors on our business. Because many of our ICs are designed for use in consumer products such as PCs and wireless telephones, we expect that the demand for our products will be subject to seasonal demand resulting in increased sales in the third and fourth quarters of each year when customers place orders to meet holiday demand. We expect to experience seasonal fluctuations in the demand for our products as customer demand increases in greater volume across our product offerings.

The following describes the line items set forth in our consolidated statements of income:

REVENUES. Revenues are generated principally by sales of our ICs. We recognize revenue upon the transfer of title, which generally occurs upon shipment to our customers. Revenues are deferred on shipments to distributors until they are resold by such distributors. Our products typically carry a one-year warranty. Our revenues are subject to variation from period to period due to the volume of shipments made within a period and the prices we charge for our products. The vast majority of our revenues were conducted at prices that reflect a discount from the list prices for our products. These discounts are made for a variety of reasons, including to establish a relationship with a new customer, as an incentive for customers to purchase products in larger volumes or in response to competition. In addition, as a product matures, we expect that the average selling price for that product will decline. Therefore, 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 products in response to such demand, as well as 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; an allocated portion of our occupancy costs; and allocable depreciation of testing equipment and leasehold improvements. Generally, we depreciate equipment over four years on a straight line basis. We also depreciate our leasehold improvements over the applicable lease term. Recently introduced products tend to have higher cost of revenues per unit due to initially low production volumes required by our customers and higher costs associated with new package variations. Generally, as production volumes for a product increase, unit production costs tend to decrease as our semiconductor fabricators and assemblers achieve greater economies of scale for that product. Additionally, the cost of wafer procurement, which is a significant component of cost of goods sold, varies cyclically with overall demand for semiconductors. The semiconductor industry experienced a period of high demand in 2000, resulting in higher wafer procurement costs.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of compensation and related costs of employees engaged in research and development activities, as well as an allocated portion of our occupancy costs

for such operations. We depreciate our research and development equipment over four years and amortize our purchased software from computer-aided design tool vendors over four years. Development activities include the creation of test methodologies to assure compliance with required specifications and design of new products. We have granted stock options or directly issued stock to patent attorneys and outside technical consultants for services previously rendered. We recognize stock-based compensation expense for these non-employees based on the deemed fair value of the options or stock at the date of grant.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense consists primarily of personnel-related expenses, related allocable portion of our occupancy costs, sales commissions to independent sales representatives, professional fees, directors and officers liability insurance, other promotional and marketing expenses and reserves for bad debt. Write-offs of bad debt have been insignificant to date.

WRITE OFF OF IN-PROCESS RESEARCH & DEVELOPMENT. Write off of in-process research & development reflects the write off of in-process research and development costs acquired in connection with the acquisition of Krypton Isolation, Inc.

GOODWILL AMORTIZATION. Goodwill amortization includes the amortization of goodwill purchased in connection with the acquisition of Krypton Isolation, Inc. and SNR Semiconductor Incorporated. Goodwill is amortized using the straight line method over the assets estimated useful lives.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. In connection with the grant of stock options and direct issuances of stock to our employees, we recorded deferred stock compensation of approximately $9.5 million, $15.9 million, and $.4 million in fiscal 2000, fiscal 1999, and fiscal 1998 respectively, representing, for accounting purposes, the difference between the deemed fair market value of the common stock and the respective exercise prices at the date of grant. The difference is amortized over the vesting period of the applicable option or share, generally five to eight years, resulting in amortization expense of $3.8 million and $1.0 million in fiscal 2000 and 1999, respectively. The amortization of deferred stock compensation is recorded as an operating expense.

INTEREST INCOME. Interest income reflects interest earned on average cash, cash equivalents and investment balances.

INTEREST EXPENSE. Interest expense consists of interest on our long-term debt and capital lease obligations.

INCOME TAX EXPENSE. We accrue a provision for federal and state income tax at the applicable statutory rates.

RESULTS OF OPERATIONS

COMPARISON OF FISCAL 2000 TO FISCAL 1999

REVENUES. Revenues increased $56.2 million, or 120%, to $103.1 million in fiscal 2000 from $46.9 million in fiscal 1999. The increase was attributable to the continued strong acceptance of our DAA family of products, and new product revenues from our Iso-modem, ProSLIC, voice codec, and RF synthesizer products. These new products represented 13.2% of total revenues in fiscal 2000 and 21.6% of revenues in the quarter ended December 30, 2000. Increased revenues reflected an increase in the number of customers that purchased our IC products and an increase in the volume that those customers bought.

GROSS PROFIT. Cost of revenues increased $19.8 million, or 126%, to $35.6 million in fiscal 2000 from $15.8 million in fiscal 1999, and represented 34.5% of revenues in fiscal 2000 and 33.6% of revenues in fiscal 1999, respectively. Gross profit increased $36.4 million, or 117%, to $67.5 million in fiscal 2000 from $31.1 million in fiscal 1999. Gross margins declined to 65.5% in fiscal 2000 from 66.4% in fiscal 1999. The decline in gross margin percentage from fiscal 1999 to 2000 was due to increased capital equipment costs for our Austin, Texas based test facility to ensure adequate test capacity, and year-to-year declines in average selling prices as is customary in the semiconductor industry. These factors were partially offset by leveraging production tooling and inbound freight expenses over higher sales volume. Our gross margins may decline due to the expected introduction of products competitive to our products. If demand for silicon wafer capacity within the semiconductor

industry increases faster than supply, higher wafer costs and lower gross margins for our product may result.

RESEARCH AND DEVELOPMENT. Research and development expense increased $11.1 million or 134%, to $19.4 million in fiscal 2000 from $8.3 million in fiscal 1999, and represented 18.8% of revenues in fiscal 2000 and 17.7% of revenues in fiscal 1999. The increased research and development expense was due to product development activities in all divisions to develop new products and new test methodologies. We expect that research and development expense will increase in absolute dollars in future periods as we develop new ICs, and may fluctuate as a percentage of revenues due to significant changes in our sales volume and new product development initiatives.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense increased $10.4 million or 145%, to $17.7 million in fiscal 2000 from $7.2 million in fiscal 1999, and represented 17.1% of revenues in fiscal 2000 and 15.4% of revenues in fiscal 1999. The increase in the dollar amount of selling, general and administrative expense was attributable to our legal expenses of $2.8 million, or 2.7% of revenues, related to the infringement lawsuit we filed against Analog Devices and 3Com in January 2000 and settled during the quarter ended December 30, 2000 (See Part I, Item 3. Legal Proceedings). Increases in staffing in all areas of selling, general and administration also contributed to the rise in spending. Promotional activities for new product introductions and expenses related to operating as a public company, such as increased legal, investor relations and directors and officers liability insurance, added to these higher levels of expense as compared to the prior year. Selling, general and administrative expense, excluding the legal fees associated with the infringement lawsuit, decreased as a percentage of revenue due to substantially higher revenue levels in fiscal 2000. We expect selling, general and administrative expenses to fluctuate as a percentage of sales because of (1) the likelihood that indirect distribution channels, which entail the payment of commissions, will account for a larger portion of our revenues in future periods and, therefore, increase our selling, general and administrative expense relative to a direct sales force performing at satisfactory levels of productivity; (2) fluctuating usage of advertising to promote our products and, in particular, our newly introduced products; and (3) potential significant variability in our future revenue volume.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. We have recorded deferred stock compensation for the difference between the exercise price of option grants, or the issuance price of direct issuances of stock, and the deemed fair value of our common stock at the time of such grants or issuances. We are amortizing this amount over the vesting periods of the applicable options or restricted stock, which resulted in amortization expense of $3.8 million for fiscal 2000 and $1.0 million for fiscal 1999. Our amortization expense increased in fiscal 2000 due to an increase in deferred stock compensation for options and restricted stock issued in fiscal 2000 and fiscal 1999.

WRITE OFF OF IN-PROCESS RESEARCH & DEVELOPMENT. Write off of in-process research & development was $.4 million in fiscal 2000 as a result of the current fiscal year acquisition of Krypton Isolation, Inc.

GOODWILL AMORTIZATION. Goodwill amortization was $3.3 million in fiscal 2000 as a result of the current fiscal year acquisitions of Krypton Isolation, Inc. and SNR Semiconductor Incorporated.

INTEREST INCOME. Interest income was $4.0 million in fiscal 2000 as compared to $.4 million in fiscal 1999. The increase in interest income was primarily due to higher cash balances invested in short-term investments reflecting the proceeds of our initial public offering completed in March of 2000.

INTEREST EXPENSE. Interest expense was $1.2 million in fiscal 2000 as compared to $.7 million in fiscal 1999. The increase in interest expense was primarily due to higher average levels of debt and lease financing during the year used to finance capital expenditures, particularly relating to the acquisition of IC testing equipment and leasehold improvements.

INCOME TAX EXPENSE. Our effective tax rate excluding the impact of non-deductible goodwill, deferred compensation and write-off of in-process research & development was 35.5% and 21.7% for fiscal 2000 and fiscal 1999, respectively. Our tax rate increased in fiscal 2000 because we had

substantially utilized all of our net operating loss carryforwards by the end of the prior fiscal year.

COMPARISON OF FISCAL 1999 TO FISCAL 1998

REVENUES. Revenues increased $41.3 million, or 736%, to $46.9 million in fiscal 1999 from $5.6 million in fiscal 1998. The increase was attributable to the strong acceptance of our DAA family of products. This increase reflected an increase in the number of customers that purchased our IC products and an increase in the volume that those customers bought.

GROSS PROFIT. Cost of revenues increased $13.4 million, or 565%, to $15.8 million in fiscal 1999 from $2.4 million in fiscal 1998, and represented 33.6% of revenues in fiscal 1999 and 42.3% of revenues in fiscal 1998, respectively. Gross profit increased $27.9 million, or 862%, to $31.1 million in fiscal 1999 from $3.2 million in fiscal 1998. Gross margins improved to 66.4% in fiscal 1999 from 57.7% in fiscal 1998. The increase in gross profit was primarily due to the substantial increase in sales volume. The improvement in gross margin from fiscal 1998 to 1999 was due to volume discounts on wafer and assembly services purchases that resulted from substantial increases in our production and attractive pricing conditions for silicon wafers and assembly services due to the availability of capacity within the semiconductor manufacturing industry during the period. Additionally, we were able to spread the fixed manufacturing costs related to our final test operations over a larger volume of sales.

RESEARCH AND DEVELOPMENT. Research and development expense increased $3.7 million or 80.9%, to $8.3 million in fiscal 1999 from $4.6 million in fiscal 1998, and represented 17.7% of revenues in fiscal 1999 and 81.8% of revenues in fiscal 1998. The increased research and development expense was principally due to continued product development activities in the Wireline Division, as well as significant increases in product development activity in the Wireless Division. Both divisions increased spending to develop test methodologies for new products. During fiscal 1999, we recorded approximately $.2 million of stock-based compensation expense in connection with grants of stock options and direct issuances to outside patent attorneys and technical consultants.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense increased $5.1 million or 244.0%, to $7.2 million in fiscal 1999 from $2.1 million in fiscal 1998, and represented 15.4% of revenues in fiscal 1999 and 37.4% of revenues in fiscal 1998. The increase in the dollar amount of selling, general and administrative expense was principally attributable to increased staffing. The decrease in selling, general and administrative expense as a percentage of revenues was due to substantially higher sales levels in fiscal 1999.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. We have recorded deferred stock compensation for the difference between the exercise price of option grants, or the issuance price of direct issuances of stock, and the deemed fair value of our common stock at the time of such grants or issuances. We are amortizing this amount over the vesting periods of the applicable options or restricted stock, which resulted in amortization expense of $1.0 million for fiscal 1999. Our amortization expense increased in fiscal 1999 due to an increase in deferred stock compensation for options and direct stock issuances in fiscal 1999.

INTEREST INCOME. Interest income was $.4 million in fiscal 1999 as compared to $.3 million in fiscal 1998. The increase in interest income was primarily due to higher cash balances invested in short-term investments.

INTEREST EXPENSE. Interest expense was $.7 million in fiscal 1999 as compared to $.2 million in fiscal 1998. The increase in interest expense was primarily due to higher levels of debt and lease financing used to finance capital expenditures, particularly relating to the acquisition of IC testing equipment and leasehold improvements.

INCOME TAX EXPENSE. Our effective tax rate excluding the impact of non-deductible goodwill, deferred compensation and write-off of in-process research and development was 21.7% for fiscal 1999. We had sufficient net operating loss tax carryforwards available from our development stage operations to offset any tax liability during fiscal 1998. For fiscal 1999, utilization of the remaining net operating loss carryforward and, to a lesser extent, full utilization of prior and current year research and

development tax credits reduced our effective tax rates from full corporate rates.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity as of December 30, 2000 consisted of $96.4 million in cash, cash equivalents and short-term investments in addition to our bank credit facilities. We have a revolving line of credit available for borrowings and letters of credit of up to the lesser of $5.0 million or 80.0% of eligible accounts receivable at the bank's prime lending rate. At December 30, 2000, a letter of credit for $0.5 million related to a building lease was outstanding under the revolving line of credit. At December 30, 2000, $4.5 million in borrowings were available under the revolving line of credit.

The bank facility is secured by our accounts receivable, inventories, capital equipment and all other unsecured assets (excluding intellectual property). The line of credit and the separate letter of credit facility contain provisions that prohibit the payment of cash dividends and require the maintenance of tangible net worth and compliance with financial ratios, which measure our immediate liquidity and our ongoing ability to pay back our outstanding obligations. Any default on one of the bank facilities will cause all of the bank facilities to be in default under these agreements.

We also have entered into agreements with three institutional lenders for equipment financing to purchase or lease equipment, leasehold improvements and software. At December 30, 2000, the amount outstanding under these agreements was $5.5 million. This indebtedness bears effective interest rates (including end-of-term interest payments of $1.3 million) ranging from 6.7% to 10.2% per annum, is secured by certain equipment, and is repayable over approximately the next three years.

Prior to receiving the net proceeds from our initial public offering, we funded our operations primarily through sales of preferred stock (which resulted in gross aggregate proceeds to us of approximately $12.8 million), debt financing under the bank facility and lease obligations described above and cash generated from operations. We raised $90.6 million through our initial public offering in March 2000. During fiscal 2000, cash provided by operating activities was $22.6 million. This compares to cash provided by operating activities of $12.3 million during fiscal 1999 and cash used by operating activities of $4.5 million in fiscal 1998.

Due to the nature of our business, we experience working capital needs in the areas of accounts receivable and inventory. Typically, we invoice our customers on an open account basis on net 30 day payment terms or other specific terms that may vary from account to account as individually negotiated with customers. As of December 30, 2000, we had an accounts receivable balance of $13.6 million dollars. If sales levels were to increase or customers delayed their payments to us, it is likely that the level of receivables would also increase. Our level of inventory varies based principally upon either orders received from customers or our forecast of demand for these products. Other considerations in determining inventory levels may include the product life cycle stage of our products and competitive situations in the marketplace. Such considerations are balanced against risk of obsolescence or potentially excess inventory levels. As of December 30, 2000, we had inventory of $7.2 million which we deemed adequate to address these inventory considerations.

Capital expenditures were $15.8 million in fiscal 2000 and $9.9 million in fiscal 1999. These expenditures were incurred to purchase semiconductor test equipment, design software and engineering tools, other computer equipment, leasehold improvements and software to support our business expansion. We anticipate further capital expenditures in fiscal 2001 of approximately $7 million to fund test floor operations and expand engineering product development activities.

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 and the expansion of our sales and marketing activities. We believe the net proceeds received from our initial public offering, together with our existing cash balances, availability under our credit facilities and cash generated by our operations, 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.

There can be no assurances that additional equity or debt financing, if required, will be available to us on acceptable terms or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

On March 31, 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION, an interpretation of APB Opinion No. 25. The interpretation clarifies guidance for certain issues that arose in the application of APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. The interpretation has been applied prospectively to new awards, modifications to outstanding awards, and changes in employee status on or after July 1, 2000, except as follows: (i) requirements related to the definition of an employee apply to new awards granted after December 15, 1998; (ii) modifications that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998; and (iii) modifications to add a reload feature to an award apply to modifications made after January 12, 2000. The adoption of this pronouncement had no impact on the earnings or the financial condition of the Company, other than the impact on the valuation of stock options assumed as part of the Krypton acquisition.

In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income. The adoption of SFAS No. 133 will not have a material impact on our financial statements since the Company does not utilize derivative instruments.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Due to the nature of our short-term investments, we have concluded that there is no material market risk exposure.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and supplementary data required by this item are included in part IV, Item 14 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.

PART III

Certain information required by Part III is omitted from this report because we will 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 and Executive Officers of the Registrant

The information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Proposal 1 -- Election of Directors", "Executive Compensation" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

Item 11. Executive Compensation

The information under the caption "Executive Compensation" appearing in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information under the caption "Ownership of Securities," appearing in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information under the heading "Certain Transactions," appearing in the Proxy Statement, is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statements, Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

SILICON LABORATORIES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

2. Schedules

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

3. Exhibits

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

(b) Reports on Form 8-K.

We filed a report on Form 8-K (Item 5) on December 21, 2000 announcing the settlement of our lawsuit against Analog Devices, Inc. and 3Com Corporation.

(c) Exhibits

Exhibit Number	
2.1*	Merger Agreement and Plan of Reorganization dated as of June 22, 2000, by and among Silicon Labs, Karst Corporation, a California corporation and wholly-owned subsidiary of Silicon Labs, and Krypton Isolation, Inc., a California corporation, and with respect to Section 7.2 of the Merger Agreement only, Charles Welch, as Shareholder Agent. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 11, 2000).

Exhibit Number	
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 (SEC File No. 333-94853 (the "IPO Registration Statement")).
3.2*	Form of Amended and Restated Bylaws of Silicon Laboratories Inc. (filed as Exhibit 3.2 to the IPO Registration Statement).
4.1*	Specimen certificate for shares of common stock (filed as Exhibit 4.1 to the IPO Registration Statement).
10.1*	Form of Indemnification Agreement between Silicon Laboratories Inc. and each of its directors and executive officers (filed as Exhibit 10.1 to the IPO Registration Statement).
10.2*	Silicon Laboratories Inc. 2000 Stock Incentive Plan (filed as Exhibit 10.2 to the IPO Registration Statement).
10.3*	Silicon Laboratories Inc. Employee Stock Purchase Plan (filed as Exhibit 10.3 to the IPO Registration Statement).
10.4*	Amended and Restated Investors' Rights Agreement dated June 2, 1998 by and among Silicon Laboratories Inc. and certain holders of preferred stock or common stock (filed as Exhibit 10.4 to the IPO Registration Statement).
10.5*	Lease Agreement dated June 26, 1998 by and between Silicon Laboratories Inc. and S.W. Austin Office Building Ltd. (filed as Exhibit 10.5 to the IPO Registration Statement).
10.6*	Lease Agreement dated October 27, 1999 by and between Silicon Laboratories Inc. and Stratus 7000 West Joint Venture (filed as Exhibit 10.6 to the IPO Registration Statement).
10.7*	Master Loan and Security Agreement dated April 22, 1999 by and between Silicon Laboratories Inc. and FINOVA Capital Corporation (filed as Exhibit 10.7 to the IPO Registration Statement).
10.8*	Commitment Letter dated April 19, 1999 by and between Silicon Laboratories and Imperial Bank (filed as Exhibit 10.8 to the IPO Registration Statement).
10.9*	Security and Loan Agreement dated June 25, 1999 by and between Silicon Laboratories Inc. and Imperial Bank (filed as Exhibit 10.9 to the IPO Registration Statement).
10.10*	Letter of Credit Agreement dated July 30, 1999 by and between Silicon Laboratories Inc. and Imperial Bank (filed as Exhibit 10.10 to the IPO Registration Statement).
10.11*	Letter of Credit Agreement dated November 19, 1999 by and between Silicon Laboratories Inc. and Imperial Bank (filed as Exhibit 10.11 to the IPO Registration Statement).
10.12*	Commitment Letter dated December 9, 1999 by and between Silicon Laboratories and Imperial Bank (filed as Exhibit 10.12 to the IPO Registration Statement).
10.13*	First Amendment to Credit Terms and Conditions and Attachment Thereto dated December 16,1999 by and between Silicon Laboratories Inc. and Imperial Bank (filed as Exhibit 10.13 to the IPO Registration Statement).
10.14*	Promissory Note dated December 16, 1999 by and between Silicon Laboratories and Imperial Bank (filed as Exhibit 10.14 to the IPO Registration Statement).

Exhibit Number	
10.15*	Promissory Note dated December 16, 1999 by and between Silicon Laboratories and Imperial Bank (filed as Exhibit 10.15 to the IPO Registration Statement).
10.16*	Preferred Stock Purchase Warrant dated November 20, 1997 by and between Silicon Laboratories and Imperial Bank (filed as Exhibit 10.16 to the IPO Registration Statement).
10.17*	Preferred Stock Purchase Warrant dated September 4, 1998 by and between Silicon Laboratories and Imperial Bank (filed as Exhibit 10.17 to the IPO Registration Statement).
10.18*	Volume Purchase Agreement dated June 1, 1998 by and between Silicon Laboratories Inc. and PC-TEL, Inc. (filed as Exhibit 10.18 to the IPO Registration Statement).
10.19*	Lease Agreement dated June 29, 2000 by and between Silicon Laboratories Inc. and Stratus 7000 West Joint Venture. (filed as Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2000)
21.	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, Independent Auditors.

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* Incorporated herein by reference to the indicated filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Austin, Texas, on January 22, 2001.

SILICON LABORATORIES INC.

By: /s/ NAVDEEP S. SOOCH
Navdeep S. Sooch
CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

NAME	TITLE	DATE
/s/ NAVDEEP S. SOOCH Navdeep S. Sooch	Chief Executive Officer and Chairman of the Board (principal executive officer)	January 22, 2001
/s/ JOHN W. MCGOVERN John W. McGovern	Vice President and Chief Financial Officer (principal financial and accounting officer)	January 22, 2001
/s/ JEFFREY W. SCOTT Jeffrey W. Scott	Vice President of Engineering and Director	January 22, 2001
/s/ DAVID R. WELLAND David R. Welland	Vice President of Technology and Director	January 22, 2001
/s/ WILLIAM P. WOOD William P. Wood	Director	January 22, 2001
/s/ H. BERRY CASH H. Berry Cash	Director	January 22, 2001
/s/ WILLIAM G. BOCK William G. Bock	Director	January 22, 2001

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Silicon Laboratories Inc.

We have audited the accompanying consolidated balance sheets of Silicon Laboratories Inc. as of December 30, 2000 and January 1, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 December 30, 2000 and January 1, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Austin, Texas
January 17, 2001

SILICON LABORATORIES INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 30, 2000	JANUARY 1, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$51,902	$8,197
Short-term investments	44,536	6,509
Accounts receivable, net of allowance for doubtful accounts of $758 at December 30, 2000 and $569 at January 1, 2000	13,616	10,322
Inventories	7,219	2,837
Deferred income taxes	1,719	963
Prepaid expenses and other	1,119	435
Total current assets	120,111	29,263
Property, equipment and software, net	22,625	12,350
Goodwill and other intangible assets	39,686	--
Other assets	2,418	345
Total assets	$184,840	$41,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$8,728	$7,374
Accrued expenses	2,406	1,083
Deferred revenue	2,640	1,006
Current portion of long-term obligations	2,078	2,697
Income taxes payable	912	2,822
Total current liabilities	16,764	14,982
Long-term debt and leases	3,390	6,081
Other long-term obligations	1,735	142
Total liabilities	21,889	21,205
Redeemable convertible preferred stock	--	12,750
Stockholders' equity:		
Common stock--$.0001 par value; 250,000 and 52,000 shares authorized and 48,117 and 30,016 shares issued and outstanding at December 30, 2000 and January 1, 2000, respectively	5	3
Additional paid-in capital	165,404	19,014
Stockholder notes receivable	(1,202)	(1,472)
Deferred stock compensation	(21,061)	(15,330)
Retained earnings	19,805	5,788
Total stockholders' equity	162,951	8,003
Total liabilities and stockholders' equity	$184,840	$41,958

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

SILICON LABORATORIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED		
	DECEMBER 30, 2000	JANUARY 1, 2000	JANUARY 2, 1999
Revenues	$103,103	$46,911	$5,609
Cost of revenues	35,601	15,770	2,371
Gross profit	67,502	31,141	3,238
Operating expenses:			
Research and development	19,419	8,297	4,587
Selling, general and administrative	17,648	7,207	2,095
Write off of in-process research & development	394	--	--
Goodwill amortization	3,307	--	--
Amortization of deferred stock compensation	3,761	976	8
Operating expenses	44,529	16,480	6,690
Operating income (loss)	22,973	14,661	(3,452)
Other (income) and expenses:			
Interest income	(4,038)	(402)	(261)
Interest expense	1,162	699	206
Income (loss) before tax expense	25,849	14,364	(3,397)
Income tax expense	11,832	3,324	--
Net income (loss)	$14,017	$11,040	$(3,397)
Net income (loss) per share:			
Basic	$0.37	$0.73	$(0.37)
Diluted	$0.29	$0.25	$(0.37)
Weighted average common shares outstanding:			
Basic	38,326	15,152	9,129
Diluted	48,788	43,657	9,129

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						
	Number Of Shares	Par Value	Additional Paid-In Capital	Stockholder Notes Receivable	Deferred Stock Compensation	Total Retained Earnings (Deficit)	Stockholders' Equity (Deficit)
Balance as of January 3, 1998....	27,704	$ 3	$ 143	$ (67)	$ --	$ (1,855)	$ (1,776)
Exercises of stock options.....	938	--	164	(148)	--	--	16
Deferred stock compensation.....	--	--	414	--	(414)	--	--
Amortization of deferred stock compensation.....	--	--	--	--	8	--	8
Net loss.....	--	--	--	--	--	(3,397)	(3,397)
Balance as of January 2, 1999....	28,642	3	721	(215)	(406)	(5,252)	(5,149)
Exercises of stock options.....	1,411	--	2,047	(1,267)	--	--	780
Income tax benefit from exercise of stock options.....	--	--	91	--	--	--	91
Repurchase and cancellation of unvested shares.....	(37)	--	(10)	10	--	--	--
Compensation expense related to stock options and direct stock issuances to non-employees.....	--	--	266	--	--	--	266
Deferred stock compensation.....	--	--	15,899	--	(15,899)	--	--
Amortization of deferred stock compensation.....	--	--	--	--	975	--	975
Net income.....	--	--	--	--	--	11,040	11,040
Balance as of January 1, 2000....	30,016	3	19,014	(1,472)	(15,330)	5,788	8,003
Conversion of Preferred Stock to Common Stock.....	13,884	2	12,849	--	--	--	12,851
Net Proceeds from Initial Public Offering.....	3,200	--	90,646	--	--	--	90,646
Compensation expense related to warrants.....	--	--	153	--	--	--	153
Exercises of stock options.....	573	--	1,705	--	--	--	1,705
Income tax benefit from exercise of stock options.....	--	--	1,685	--	--	--	1,685
Repurchase and cancellation of unvested shares.....	(25)	--	(70)	--	--	--	(70)
Repayment of stockholder notes.....	--	--	--	270	--	--	270
Employee Stock Purchase Plan....	29	--	700	--	--	--	700
Deferred stock compensation.....	--	--	9,458	--	(9,458)	--	--
Amortization of deferred stock compensation.....	--	--	--	--	3,761	--	3,761
Purchase acquisitions.....	440	--	29,264	--	(34)	--	29,230
Net income.....	--	--	--	--	--	14,017	14,017
Balance as of December 30, 2000..	48,117	$ 5	$165,404	$ (1,202)	$ (21,061)	$ 19,805	$ 162,951

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

SILICON LABORATORIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED		
	DECEMBER 30, 2000	JANUARY 1, 2000	JANUARY 2, 1999
OPERATING ACTIVITIES			
Net income (loss)	$ 14,017	$ 11,040	$ (3,397)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization expense	9,750	1,972	816
Amortization of deferred stock compensation	3,761	975	8
Amortization of note/lease end-of-term interest payments	323	142	--
Compensation expense related to stock options, direct stock issuance, and warrants to non-employees	153	266	--
Income tax benefit from exercise of stock options	1,685	91	--
Investment interest receivable	(608)	--	--
Changes in operating assets and liabilities:			
Prepaid expenses and other	(557)	(300)	(65)
Accounts receivable	(3,105)	(7,447)	(2,875)
Inventories	(3,847)	(2,202)	(635)
Other assets	(811)	(218)	(120)
Accounts payable	847	4,232	1,643
Accrued expenses	1,136	854	175
Deferred revenue	1,634	1,006	--
Deferred income taxes	(302)	(963)	--
Income taxes payable	(1,466)	2,822	--
Net cash provided by (used in) operating activities	22,610	12,270	(4,450)
INVESTING ACTIVITIES			
Purchases of short-term investments	(63,012)	(9,385)	(5,616)
Maturities of short-term investments	25,593	5,833	5,728
Purchases of property and equipment	(15,843)	(9,904)	(3,066)
Purchase of software license	(1,250)	--	--
Acquisition of businesses, net of cash acquired	(14,433)	--	--
Net cash used in investing activities	(68,945)	(13,456)	(2,954)
FINANCING ACTIVITIES			
Proceeds from long-term debt	3,532	6,424	1,499
Payments on long-term debt	(6,350)	(1,274)	(249)
Proceeds from equipment lease financing	--	976	825
Payments on capital leases	(493)	(390)	(30)
Proceeds from repayment of stockholder notes	270	--	--
Proceeds from exercise of warrants	100	--	--
Proceeds from Employee Stock Purchase Plan	700	--	--
Repurchase and cancellation of common stock	(70)	--	--
Net proceeds from initial public offering	90,646	--	--
Net proceeds from issuances of convertible preferred stock	--	--	7,500
Net proceeds from exercises of stock options	1,705	780	17
Net cash provided by financing activities	90,040	6,516	9,562
Increase in cash and cash equivalents	43,705	5,330	2,158
Cash and cash equivalents at beginning of period	8,197	2,867	709
Cash and cash equivalents at end of period	$ 51,902	$ 8,197	$ 2,867
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	$ 827	$ 593	$ 199
Income taxes paid	$ 11,855	$ 1,489	$ --

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

1. ORGANIZATION

Silicon Laboratories Inc. (the Company), a Delaware corporation, develops and markets mixed-signal analog/intensive integrated circuits or ICs. The Company's products serve the wireline, wireless, and optical communications markets. Within the semiconductor industry, the Company is known as a "fabless" company meaning that the ICs are manufactured by third-party semiconductor companies. The Company was incorporated in 1996, and emerged from the development stage in fiscal 1998.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal year 2000 ended on December 30, 2000, fiscal year 1999 ended on January 1, 2000, and fiscal year 1998 ended on January 2, 1999. All of the periods presented have 52 weeks.

PRINCIPLES OF CONSOLIDATION AND FOREIGN CURRENCY TRANSLATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Silicon Laboratories Isolation, Inc. and Silicon Laboratories UK Limited. All significant intercompany balances and transactions have been eliminated. The functional currency of the Company's foreign subsidiary, Silicon Laboratories UK Limited, is the U.S. dollar, accordingly, all translation gains and losses resulting from transactions denominated in currencies other than U.S. dollars are included in net income.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash deposits and investments with a maturity of three months or less when purchased.

SHORT-TERM INVESTMENTS

The Company's short-term investments have original maturities greater than ninety days and less than one year and have been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. The carrying value of all available-for-sale securities approximates their fair value. Short-term investments at December 30, 2000 and January 1, 2000 consist of the following (in thousands):

	Carrying Value	
	December 30, 2000	January 1, 2000
Municipal Securities	$17,529	$ --
Auction Rate Securities	11,242	--
U.S. Treasury Bills	15,765	6,509
	$44,536	$6,509

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist principally of cash and cash equivalents, short-term investments, receivables, accounts payable, and borrowings. The Company believes all of these financial instruments are recorded at their current market values.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Inventories consist of the following (in thousands):

	December 30, 2000	January 1, 2000
Work in progress	$ 4,302	$ 1,902
Finished goods	2,917	935
	$ 7,219	$ 2,837

PROPERTY, EQUIPMENT, AND SOFTWARE

Property, equipment, and software are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the useful lives of the assets (generally four to five years). Amortization of assets recorded under capital leases is computed using the straight-line method over the shorter of the asset's useful life or the term of the lease and such amortization is included with depreciation expense (See also Note 5). Leasehold improvements are depreciated over the contractual obligation of the lease period or their useful life, whichever is shorter. Property, equipment and software consist of the following (in thousands):

	December 30, 2000	January 1, 2000
Equipment	$ 21,618	$ 10,014
Computers and purchased software	7,147	3,779
Furniture and fixtures	885	326
Leasehold improvements	1,979	1,155
	31,629	15,274
Accumulated depreciation	(9,004)	(2,924)
	$ 22,625	$ 12,350

LONG-LIVED ASSETS

The Company accounts for long-lived assets in accordance with SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present.

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. Actual results could differ from those estimates, and such differences could be material to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RISKS AND UNCERTAINTIES

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company places its cash, cash equivalents and short-term investments primarily in market rate accounts and U.S. Treasury bills. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company provides an allowance for doubtful accounts receivable based upon the expected collectibility of such receivables. The following table summarizes the changes in the allowance for doubtful accounts receivable (in thousands):

Balance at January 3, 1998	$ --
Additions charged to costs and expenses	56
Write-off of uncollectible accounts	--
Balance at January 2, 1999	56
Additions charged to costs and expenses	513
Write-off of uncollectible accounts	--
Balance at January 1, 2000	569
Balance acquired from Krypton Isolation purchase	56
Additions charged to costs and expenses	133
Write-off of uncollectible accounts	--
Balance at December 30, 2000	$ 758

All of the Company's products are currently fabricated by two companies in Taiwan. A fabrication disruption experienced by either of these partners 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.

The following is a detail of customers that accounted for greater than 10% of revenue in the respective fiscal years:

	Year Ended		
	December 30, 2000	January 1, 2000	January 2, 1999
Customer A	46%	62%	78%
Customer B	--	12	--
Customer C	--	10	20

REVENUE RECOGNITION

Revenue from product sales direct to customers is recognized upon title transfer, which generally occurs upon shipment. Certain of the Company's sales are made to distributors under agreements allowing certain rights of return and price protection on products unsold by distributors. Accordingly, the Company defers revenue and gross profit on such sales until the product is sold by the distributors.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expenses were $718,000, $296,700, and $66,800 in the fiscal years ended December 30, 2000, January 1, 2000, and January 2, 1999, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION

Financial Accounting Standards Board (FASB) SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options. As allowed by SFAS No. 123, the Company has elected to continue to account for its employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES.

On March 31, 2000, the FASB issued Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION, AN INTERPRETATION OF APB OPINION NO. 25. The Interpretation clarifies guidance for certain issues that arose in the application of Accounting Principles Board (APB) Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. The interpretation has been applied prospectively to new awards, modifications to outstanding awards, and changes in employee status on or after July 1, 2000, except as follows: (i) requirements related to the definition of an employee apply to new awards granted after December 15, 1998; (ii) modifications that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998; and (iii) modifications to add a reload feature to an award apply to modifications made after January 12, 2000. The adoption of this pronouncement had no impact on the earnings or the financial condition of the Company, other than the impact on the valuation of stock options assumed as part of the Krypton acquisition.

OTHER COMPREHENSIVE INCOME

In June 1997, the FASB issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME, which establishes standards for reporting and display of comprehensive income and its components in the financial statements. There were no material differences between net income (loss) and comprehensive income (loss) during any of the periods presented.

SEGMENT INFORMATION

The Company has one operating segment with three product divisions (the Wireline, Wireless, and Optical Networking Divisions). The chief operating decision maker allocates resources and assesses performance of the business and other activities at the operating segment level. The Wireline Division accounted for a significant majority of the revenues in all periods.

Approximately $22,059,000, $3,372,000, and $4,000 of the Company's revenues were from export sales for the fiscal years ended December 30, 2000, January 1, 2000, and January 2, 1999, respectively. The operations and assets of Silicon Laboratories UK Limited were immaterial in all periods presented.

RECLASSIFICATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	Year Ended		
	December 30, 2000	January 1, 2000	January 2, 1999
Net income (loss)	$14,017	$11,040	$(3,397)
Basic:			
Weighted-average shares of common stock outstanding	43,628	29,177	28,245
Weighted-average shares of common stock subject to repurchase	(5,302)	(14,025)	(19,116)
Shares used in computing basic net income (loss) per share	38,326	15,152	9,129
Effect of dilutive securities:			
Weighted-average shares of common stock subject to repurchase	5,131	13,370	--
Convertible preferred stock and warrants	3,235	13,965	--
Stock options	2,096	1,170	--
Shares used in computing diluted net income (loss) per share	48,788	43,657	9,129
Basic net income (loss) per share	$0.37	$0.73	$(0.37)
Diluted net income (loss) per share	$0.29	$0.25	$(0.37)

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income. The adoption of SFAS No. 133 will not have a material impact on the Company's financial statements since the Company does not utilize derivative instruments.

3. ACQUISITIONS

On August 9, 2000, the Company consummated a merger with Krypton Isolation, Inc., a company specializing in patented total solid state all-silicon Data Access Arrangement, or DAA devices. The purchase price of $42.0 million consisted of $15.0 million in cash, 384,100 shares of the Company's common stock valued at $21.9 million, 90,449 options to purchase the Company's common stock valued at $4.8 million, and direct acquisition costs of $0.3 million. The direct acquisition costs consist primarily of legal, accounting, and appraisal fees incurred by the Company that are directly related to the merger. There can be no assurance that the Company and Krypton will not incur additional charges related to the merger or that management will be successful in its efforts to integrate the operations of the two companies. To determine the value associated with the stock and stock option portion of the consideration paid to Krypton shareholders, management used the average of the closing prices of the Company's common stock for the three days before and after the measurement date, August 4, 2000, in accordance with Emerging Issues Task Force (EITF) 99-12, ACCOUNTING FOR FORMULA ARRANGEMENTS UNDER EITF 95-19, DETERMINATION OF THE MEASUREMENT DATE FOR THE MARKET PRICE OF ACQUIRER SECURITIES ISSUED IN A PURCHASE BUSINESS COMBINATION. The average of these closing prices was $56.96 per share. The number of shares tendered was based on the average of the closing prices of the Company's common stock in the ten trading days ending on August 4, 2000 in accordance with the terms of the agreement.

3. ACQUISITIONS (CONTINUED)

The acquisition of Krypton was accounted for under the purchase method of accounting. The purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed based on independent appraisals and management estimates as follows (in thousands):

		Amortization Period
Intangibles:		
Workforce	$ 214	3 years
Customer base	1,006	5 years
Acquired technology	952	4-7 years
Patents	120	3 years
Goodwill	37,229	5 years
	39,521	
Net fair value of tangible assets acquired and liabilities assumed	2,415	
Net deferred tax liabilities assumed	(373)	
Deferred stock compensation	35	
In-process research and development	394	
Total purchase price	$41,992	

Since this acquisition was accounted for using the purchase method, the results of operations of Krypton have been included with those of the Company subsequent to the acquisition date, August 9, 2000.

The following presents the unaudited pro forma combined results of operations of the Company with Krypton for the years ended December 30, 2000 and January 1, 2000, after giving effect to certain pro forma adjustments, as if Krypton had been acquired as of the beginning of the respective fiscal years. The unaudited pro forma financial information for the year ended December 30, 2000 combines the audited historical results of operations of the Company for the year ended December 30, 2000 and the unaudited historical results of operations of Krypton for the twelve-months ended October 31, 2000. The unaudited pro forma financial information for the year ended January 1, 2000 combines the audited results of operations for the year ended January 1, 2000 for the Company and the unaudited results of operations for the twelve-months ended October 31, 1999 for Krypton. (in thousands, except per share data)

	Year Ended December 30, 2000	Year Ended January 1, 2000
Revenue	$103,861	$48,853
Net income	2,278	3,036
Diluted net income per share	$0.05	$0.07

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been consummated at the beginning of the respective fiscal years, nor is it necessarily indicative of future operating results or financial position of the Company.

Approximately $394,000 of the Krypton purchase price was allocated to in-process research and development based upon an independent third party appraisal and expensed upon the consummation of the transaction. The proforma adjustments do not include a charge for this expense as it does not have a continuing impact on the operations of the Company. Further, the unaudited pro forma financial information does not include the realization of cost savings

3. ACQUISITIONS (CONTINUED)

from operating efficiencies, synergies or other restructurings that may result from the merger.

On October 2, 2000, the Company acquired SNR Semiconductor, Inc. (SNR), an engineering design firm specializing in the design of analog and mixed-signal core technology in CMOS, with particular emphasis on technology for communications applications. The purchase price of $3.7 million consisted of $1.0 million in cash, 55,556 shares of the Company's common stock valued at $2.6 million and direct acquisition costs of $0.1 million. Of the purchase price, $27,000 was allocated to tangible assets based upon their respective fair values, and $131,000 was allocated to the intangible asset "workforce" based on management's estimates. The resulting excess purchase price of $3.5 million was allocated to goodwill. Workforce is being amortized over 5 years and goodwill is being amortized over 4 years. The historical operating results of SNR are not significant to the Company's consolidated financial statements.

4. GOODWILL AND OTHER INTANGIBLES

Amortization of goodwill and other intangibles is computed using the straight line method over the assets estimated useful lives ranging from 4 to 7 years. Activity in goodwill and other intangibles during the year ended December 30, 2000 is as follows (amounts in thousands):

	Workforce	Customer Base	Acquired Technology	Patents	Goodwill	Total
Balance at January 1, 2000	$ --	$ --	$ --	$ --	$ --	$ --
Acquisition of assets	345	1,006	952	120	40,794	43,218
Amortization	(36)	(84)	(89)	(16)	(3,306)	(3,532)
Net balance at December 30, 2000	$309	$922	$863	$104	$37,488	$39,686

5. LONG-TERM OBLIGATIONS

The Company has a revolving line of credit agreement (the Agreement) with a commercial bank. Under the provisions of the Agreement, the line of credit allows for borrowings of up to $5 million or 80% of eligible accounts receivable at the bank's prime lending rate. The bank facility is secured by the Company's accounts receivable, inventory, capital equipment and other unsecured assets (excluding intellectual property). At December 30, 2000, a letter of credit for $.5 million relating to a building lease was outstanding under the facility. There were no amounts outstanding under this facility as of January 1, 2000. As a result, available borrowings under this facility were $4.5 million and $3.0 million at December 30, 2000 and January 1, 2000, respectively. There are covenants related to net worth and liquidity associated with this line of credit, with which the Company is in compliance as of December 30, 2000.

5. LONG-TERM OBLIGATIONS (CONTINUED)

Long-term debt and leases consist of the following:

	December 30, 2000	January 1, 2000
	(in thousands)	
Bank term loans paid off in September 2000	$ --	$1,456
Note payable, at 9.08%, payable in monthly installments of $24,800 through March 1, 2003 with a $200,600 interest payment due at maturity	604	835
Note payable, at 9.77%, payable in monthly installments of $4,100 through June 1, 2003	109	146
Note payable, at 9.91%, payable in monthly installments of $14,000 through September 1, 2003	404	526
Note payable, at 10.22%, payable in monthly installments of $5,800 through December 1, 2003	180	231
Note payable, at 6.71%, payable in monthly installments of $30,600 through February 28, 2003 with a $243,200 interest payment due at maturity	739	1,046
Note payable, at 6.92%, payable in monthly installments of $19,300 through July 31, 2003 with a $152,900 interest Payment due at maturity	548	719
Note payable, at 7.13%, payable in monthly installments of $40,000 to $46,000 through April 30, 2004 with a $399,200 interest payment due at maturity	1,605	1,956
Note payable, at 7.5%, payable in monthly installments of $9,900 to $11,400 through April 30, 2004 with a $98,100 interest payment due at maturity	395	481
Capital lease obligations	884	1,382
	5,468	8,778
Current portion	(2,078)	(2,697)
Long-term portion	$3,390	$6,081

The notes payable and capital lease obligations are borrowings with three institutional financing providers for equipment financing. The indebtedness is secured by a security interest in the underlying equipment.

Periodically, the Company will purchase or make advance deposits toward the purchase of machinery and equipment; and within one to three months enter into leasing arrangements to finance these assets. These leasing arrangements result in the reimbursement of the amounts initially paid by the Company and do not result in any gains or losses. Such reimbursements have been reflected in the statement of cash flows as proceeds from equipment lease financings.

The Company has financed the acquisition of certain computers and other equipment under capital lease transactions which are accounted for as financings and mature through fiscal year 2003. As of December 30, 2000 and January 1, 2000, equipment under capital lease included in property, equipment and software was $884,000, and $1,382,000, respectively.

At December 30, 2000, contractual maturities of debt and future minimum annual payments due under capital lease obligations are as follows (in thousands):

Fiscal Year	Debt	Capital Leases	Total
2001	$ 1,535	$633	$ 2,168
2002	1,698	343	2,041
2003	1,125	12	1,137
2004	226	--	226
	4,584	988	5,572
Less amount representing interest	--	(104)	(104)
	4,584	884	5,468
Less current portion	(1,535)	(543)	(2,078)
Long-term debt and leases	$ 3,049	$341	$ 3,390

6. STOCKHOLDERS' EQUITY

REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Certificate of Incorporation authorized the issuance of up to 8,000,000 shares of Convertible Preferred Stock with par value of $0.0001 per share. Each share was convertible at the option of the stockholder into two shares of common stock, subject to certain anti-dilution adjustments. The Convertible Preferred Stockholders were entitled to the number of votes equal to the number of shares of common stock into which each share of Convertible Preferred Stock could be converted on the record date. In March 2000, a warrant to purchase 21,008 shares of Series B convertible Preferred Stock at $4.76 per share was exercised. Upon closing of the Company's initial public offering, all outstanding shares of the Company's Redeemable Convertible Preferred Stock were converted into an aggregate of 13,884,190 shares of the Company's common stock.

As of January 1, 2000, Redeemable Convertible Preferred Stock was as follows (in thousands except per share data):

	Par Value	Shares Authorized	Shares Issued and outstanding	Liquidation Preference
Series Undesignated.....	$.0001	998	--	$ --
A.....	$.0001	5,391	5,345	5,250
B.....	$.0001	1,611	1,576	7,500
		8,000	6,921	$12,750

COMMON STOCK

The Company had 48,117,437 shares of common stock outstanding as of December 30, 2000. Of these shares, 3,113,327 shares were unvested and are subject to rights of repurchase that lapse according to a time based vesting schedule.

On November 3, 1999, the Company effected a two-for-one stock split through a stock dividend of common stock. All references to common stock share and per share amounts including options to purchase common stock have been retroactively restated to reflect the stock split as if such split had taken place at the inception of the Company. Also, the conversion ratio of the redeemable convertible preferred stock was adjusted from one-for-one to one-for-two.

The Employee Stock Purchase Plan (the Purchase Plan) was adopted by the Board of Directors on January 5, 2000. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at semi-annual intervals. A total of 400,000 shares the Company's common stock was initially reserved under the Purchase Plan. In fiscal 2000, there were 29,341 shares issued under the Purchase Plan.

STOCK OPTION/STOCK ISSUANCE PLANS

In fiscal 2000, the Company's Board of Directors and Stockholders approved the 2000 Stock Incentive Plan (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 to employees (direct issuance shares), (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 earnings deductions and (iv) the automatic issuance of stock options to non-employee board members. Upon the Company's initial public offering, the 2000 Plan incorporated all stock options and direct issuance shares outstanding under the 1997 Stock Option/Stock Issuance Plan (the 1997 Plan). Under the 1997 Plan, employees, members of the Board of Directors and independent advisors were granted stock options or were issued direct issuance shares as a direct purchase or as a bonus for services rendered to the Company. In connection with the acquisition of Krypton Isolation Inc., the Company assumed outstanding options for 90,449 shares of the Company's common stock.

6. STOCKHOLDERS' EQUITY (CONTINUED)

The 2000 Plan and the 1997 Plan contain similar terms. The direct issuance shares and the stock options contain vesting provisions ranging from four 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. At December 30, 2000, 10,561,808 shares were authorized for issuance under the 2000 Plan. No further options or direct issuances may be granted under the 1997 Plan.

The Company recorded deferred stock compensation expense of $9,492,000, $15,899,000 and $414,000 in connection with stock options granted or assumed for 297,697 shares, 2,464,200 shares and 355,500 shares of common stock during fiscal 2000, 1999 and, 1998 respectively. These amounts represent the difference between the exercise price of the stock option and the market price or the subsequently deemed fair value of the Company's common stock. The deferred stock compensation is amortized over the vesting periods of the applicable options, resulting in amortization expense of $3,761,000, $976,000 and $8,000 for fiscal years 2000, 1999, and 1998, respectively.

During fiscal 1999 and 1998, the Company made full recourse loans to employees of $1,267,500 and $147,500, respectively, in connection with the employees' purchase of shares through exercises of options. These full recourse notes are secured by the shares of stock, are interest bearing at rates ranging from 4.8% to 6.7%, have terms of five years, and must be repaid upon the sale of the underlying shares of stock. No loans were issued during fiscal 2000.

A summary of the Company's stock option and direct issuance activity and related information follows:

	Shares Available For Grant	Outstanding Options And Direct Issuances	Exercise Prices	Weighted-Average Exercise Price
Balance at January 3, 1998....	1,664,536	770,000	$0.05	$ 0.05
Additional shares reserved....	1,067,272	--	--	--
Granted.....	(1,542,500)	1,542,500	0.05 - 1.25	0.35
Exercised.....	--	(938,168)	0.05 - 0.25	0.18
Cancelled.....	61,832	(61,832)	0.05	0.05
Balance at January 2, 1999....	1,251,140	1,312,500	0.05 - 1.25	0.31
Additional shares reserved....	2,200,000	--	--	--
Granted.....	(2,484,200)	2,484,200	1.25 - 16.00	3.08
Exercised.....	--	(1,411,474)	0.05 - 5.00	1.45
Cancelled.....	5,000	(5,000)	0.25 - 1.75	0.77
Repurchase and cancellation of unvested shares.....	37,332	--	0.25	0.25
Balance at January 1, 2000....	1,009,272	2,380,226	0.05 - 16.00	2.52
Additional shares reserved....	2,090,449	--	--	--
Granted and assumed.....	(2,413,331)	2,413,331	0.00 - 74.75	30.92
Exercised.....	--	(573,308)	0.00 - 31.00	2.98
Cancelled.....	138,834	(138,834)	1.75 - 57.50	31.38
Repurchase and cancellation of unvested shares.....	25,000	--	2.50 - 10.00	2.80
Balance at December 30, 2000..	850,224	4,081,415	$0.00 - $74.75	$18.26

6. STOCKHOLDERS' EQUITY (CONTINUED)

In addition, the following table summarizes information about stock options that were outstanding and exercisable at December 30, 2000.

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
$ 0.00 to $ 0.25	685,500	5.45	$ 0.13	628,000	$ 0.14
0.28 to 1.75	733,202	8.31	1.47	733,202	1.47
2.00 to 10.00	693,183	8.83	5.72	693,183	5.72
11.63 to 28.13	506,865	6.50	16.06	24,915	16.76
31.00 to 31.00	752,200	9.23	31.00	817	31.00
35.40 to 55.38	531,965	9.64	50.50	1,965	35.40
57.50 to 74.75	178,500	9.48	62.11	--	--
$ 0.00 to $74.75	4,081,415	8.09	$18.26	2,068,546	$ 3.00

Pro forma information regarding net income (loss) is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6%, no expected dividends, an expected life of one year, and no volatility for options granted in fiscal 1998 and 1999; risk-free interest rate of 6.2%, no expected dividends, an expected life of 5.61 years, and volatility of 88% for options granted in fiscal 2000. The fair value of shares issued under the Company's Purchase Plan was not significant for all periods presented.

The weighted-average fair value of options granted during fiscal 1998, 1999 and 2000 was $.61, $9.55, and $26.80, respectively.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows (in thousands, except per share data):

	Year Ended		
	December 30, 2000	January 1, 2000	January 2, 1999
Pro forma net income (loss).....	$9,120	$11,014	$(3,400)
Pro forma basic net income (loss) per share....	.24	.73	(.37)
Pro forma diluted net income (loss) per share..	.19	.25	(.37)

Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because changes in the subjective assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

7. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and certain equipment under operating lease agreements that expire at various dates through 2007. Some of these arrangements contain renewal options, and require the Company to pay taxes, insurance and maintenance costs.

Rent expense under operating leases was $1,064,889, $373,983, and $144,784 for the years ended December 30, 2000, January 1, 2000, and, January 2, 1999, respectively.

The minimum annual future rentals under the terms of these leases at December 30, 2000 are as follows (in thousands):

FISCAL YEAR	
2001	$ 1,827
2002	1,744
2003	1,795
2004	1,834
2005	1,863
Thereafter	1,196
Total minimum lease payments	10,259
Minimum Sublease Rental Income	(478)
Total net minimum lease payments	$ 9,781

On January 12, 2000, the Company filed a lawsuit against Analog Devices and 3Com asserting that Analog Devices and 3Com had infringed, and were continuing to infringe on its patents. Analog Devices and 3Com denied infringing on the Company's patents and asserted counterclaims. On December 20, 2000, the Company, along with Analog Devices and 3Com announced that the settlement of the pending lawsuits had been completed without admission of fault or liability by any of the parties. Pursuant to the settlement agreement, the Company received a one-time non-refundable payment from Analog Devices for $2.5 million that was recorded as revenue in the quarter ended December 30, 2000.

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

8. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for income tax purposes. Significant components of the Company's deferred taxes as of December 30, 2000 and January 1, 2000 are as follows (in thousands):

	December 30, 2000	January 1, 2000
Deferred tax liabilities:		
Depreciable assets	$1,387	$ --
Prepaid expenses	324	46
	1,711	46
Deferred tax assets:		
Reserves and allowances	906	568
Deferred revenue	1,003	381
Accrued liabilities & other	251	175
	2,160	1,124
Net deferred taxes	$ 449	$1,078

8. INCOME TAXES (CONTINUED)

Upon the acquisition of Krypton Isolation, Inc. on August 9, 2000 and SNR Semiconductor, Inc. on October 2, 2000, the company recorded a net deferred tax liability of approximately $360,000 and $49,000, respectively, due to differences between book and tax basis of acquired assets and assumed liabilities.

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

	December 30, 2000	January 1, 2000	January 2, 1999
Current:			
Federal	$10,695	$ 4,009	$ --
State	917	393	--
Total Current	11,612	4,402	--
Deferred:			
Federal	202	(993)	--
State	18	(85)	--
Total Deferred	220	(1,078)	--
	$11,832	$ 3,324	$ --

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 (loss) before income taxes as a result of the following:

	December 30, 2000	January 1, 2000	January 2, 1999
Pre-tax book income (loss) at statutory rate	35.0%	35.0%	(34.0)%
State taxes, net of federal benefit	4.0	3.0	(3.0)
Non-deductible deferred compensation expense	5.1	2.6	--
Other permanent items	2.5	0.1	0.3
Tax credits	(0.8)	(2.4)	--
Change in valuation allowance	--	(15.2)	36.7
	45.8%	23.1%	0.0%

9. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution or 401(k) Plan for the benefit of substantially all employees. To be eligible for the 401(k) Plan, employees must have reached the age of 21. Participants may elect to contribute up to 15% of their compensation to the 401(k) Plan. The Company may make discretionary matching contributions of up to 10% of a participant's compensation as well as discretionary profit-sharing contributions to the 401(k) Plan. The Company's contributions to the 401(k) Plan vest over four years at a rate of 25% per year. The Company contributed $219,000 to the Plan during the year ended December 30, 2000. During the fiscal years ended January 1, 2000 and January 2, 1999 no contributions were made.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

All of the quarterly periods reported here had thirteen weeks. Quarterly financial information for fiscal 2000 and 1999 (thousands of dollars except as noted):

	Fiscal 2000				Fiscal 1999			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$29,703*	$29,427	$24,286	$19,687	$18,474	$14,574	$ 7,543	$ 6,320
Cost of revenues	10,324	10,130	8,390	6,757	5,907	4,582	2,866	2,415
Gross Profit	19,379	19,297	15,896	12,930	12,567	9,992	4,677	3,905
Operating expenses:								
Research and development	6,132	5,263	4,444	3,580	3,298	2,109	1,597	1,293
Selling, general & administrative	4,947	5,128	4,355	3,218	2,470	2,105	1,500	1,132
Write-off of in-process research and development	--	394	--	--	--	--	--	--
Goodwill Amortization	2,067	1,240	--	--	--	--	--	--
Amortization of deferred stock compensation	1,311	884	787	779	573	254	116	33
Total operating Expenses	14,457	12,909	9,586	7,577	6,341	4,468	3,213	2,458
Operating income	4,922	6,388	6,310	5,353	6,226	5,524	1,464	1,447
Interest income	(1,284)	(1,248)	(1,258)	(248)	(166)	(98)	(75)	(63)
Interest expense	204	339	342	277	222	217	140	120
Income before tax expense	6,002	7,297	7,226	5,324	6,170	5,405	1,399	1,390
Income tax expense	3,136	3,332	3,045	2,319	1,428	1,251	323	322
Net income	$ 2,866	$ 3,965	$ 4,181	$ 3,005	$ 4,742	$ 4,154	$ 1,076	$ 1,068
Net income per share:								
Basic	$ .06	$ .09	$ .10	$ .14	$ .27	$ .26	$ .07	$ .08
Diluted	$ .06	$ .08	$ .08	$ .07	$ .11	$ .09	$ .02	$ .02
Weighted-average common shares outstanding:								
Basic	44,820	43,917	43,279	21,221	17,340	15,902	14,374	12,881
Diluted	49,435	49,987	49,812	45,952	44,830	44,377	43,907	43,611

* Includes $2,500 one-time, non-refundable payment from Analog Devices, Inc. pursuant to the patent infringement settlement.

AS OF A PERCENTAGE OF REVENUES

	Fiscal 2000				Fiscal 1999			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	34.8	34.4	34.5	34.3	32.0	31.4	38.0	38.2
Gross profit	65.2	65.6	65.5	65.7	68.0	68.6	62.0	61.8
Operating expenses:								
Research and development	20.6	17.9	18.3	18.2	17.9	14.5	21.2	20.5
Selling, general & administrative	16.7	17.4	17.9	16.3	13.4	14.5	19.9	17.9
Write-off of in-process research and development	--	1.3	--	--	--	--	--	--
Goodwill Amortization	7.0	4.2	--	--	--	--	--	--
Amortization of deferred stock compensation	4.4	3.0	3.2	4.0	3.0	1.7	1.5	.5

Total operating Expenses.....	48.7	43.9	39.5	38.5	34.3	30.7	42.6	38.9
Operating income.....	16.5	21.7	26.0	27.2	33.7	37.9	19.4	22.9
Interest income.....	(4.3)	(4.2)	(5.2)	(1.3)	(.9)	(.7)	(1.0)	(1.0)
Interest expense.....	0.6	1.2	1.4	1.4	1.2	1.5	1.9	1.9
Income before tax expense.....	20.2	24.8	29.8	27.0	33.4	37.1	18.5	22.0
Income tax expense....	10.5	11.3	12.5	11.8	7.7	8.6	4.2	5.1
Net income.....	9.7%	13.5%	17.2%	15.3%	25.7%	28.5%	14.3%	16.9%

Exhibit 21

SUBSIDIARIES OF THE COMPANY

The following is a list of the Company's subsidiaries:

	ORGANIZED UNDER LAW OF	PERCENTAGE OF VOTING SECURITIES OWNED BY REGISTRANT AS OF DECEMBER 30, 2000
Silicon Laboratories UK Limited.	United Kingdom	100%
Silicon Laboratories Isolation, Inc.	State of California	100%

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-39528) pertaining to the 2000 Stock Incentive Plan and the Employee Stock Purchase Plan of Silicon Laboratories Inc. and in the Registration Statement (Form S-8 No. 333-45682) pertaining to the Krypton Isolation, Inc. 1997 Stock Plan and Non-Plan Stock Option Grants to Certain Individuals of our report dated January 17, 2001, with respect to the consolidated financial statements of Silicon Laboratories Inc. included in the Annual Report (Form 10-K) for the year ended December 30, 2000.

/s/ ERNST & YOUNG LLP

Austin, Texas
January 17, 2001