

SILICON LABORATORIES INC  
Form 10-K/A  
May 03, 2019

Use these links to rapidly review the document

[Table of Contents](#)

[Part IV](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K/A**

AMENDMENT NO. 1

(Mark One)

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

For the fiscal year ended December 29, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 000-29823

**SILICON LABORATORIES INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**74-2793174**  
(I.R.S. Employer  
Identification No.)

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

**78701**  
(Zip Code)

**(512) 416-8500**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
---------------------	-------------------	--

Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

Common Stock, \$0.0001 par value

SLAB

The NASDAQ Stock Market LLC

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2018) was approximately \$4.2 billion (assuming, for this purpose, that only directors and officers are deemed affiliates).

There were 43,088,623 shares of the registrant's common stock issued and outstanding as of January 21, 2019.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the registrant's 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

**EXPLANATORY NOTE**

In April 2019, the Public Company Accounting Oversight Board conducted an inspection of our fiscal 2018 audit conducted by Ernst & Young LLP ("E&Y") which originally resulted in an unqualified opinion regarding our internal controls over financial reporting. Following the inspection, E&Y re-evaluated our internal controls over financial reporting as of December 29, 2018 and identified deficiencies in the area of internal controls over business combinations, primarily the maintenance of sufficient contemporaneous documentation of management review controls over assumptions used in the valuation of acquired intangible assets and related recording of goodwill. As a result, we have concluded that we have a material weakness related to such internal controls which we are in the process of addressing.

The material weakness *did not* result in any misstatement of our consolidated financial statements for the year ended December 29, 2018.

This Amendment No. 1 on Form 10-K/A (this "Amendment No. 1") amends Silicon Laboratories Inc.'s Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (the "Original Filing"). The purpose of this Amendment No.1 is to (i) revise the Report of Independent Registered Public Accounting Firm of Ernst & Young LLP (the "Auditor's Internal Control Report") contained on page F-1 of Part IV, Item 15 of the Original Filing regarding the effectiveness of our internal control over financial reporting, (ii) amend Part II, Item 8 of the Original Filing relating to the Report of Independent Registered Public Accounting Firm of Ernst & Young LLP contained on page F-3 in Part IV, Item 15 of the Original Filing solely to reflect such revision of the Auditor's Internal Control Report, (iii) revise the disclosure on the effectiveness of our disclosure controls and procedures and the disclosure on our internal control over financial reporting in Part II, Item 9A of the Original Filing to reflect management's conclusion that our internal control over financial reporting and disclosure controls and procedures were not effective at December 29, 2018 due to the material weakness in our internal control over financial reporting identified subsequent to the issuance of the Original Filing as described above and (iv) add an additional risk factor regarding the internal controls in Part I, Item 1A.

As required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have included the entire text of the Items amended in this Amendment No. 1. However, there have been no changes to the text of such item other than the changes stated in the immediately preceding paragraph. Furthermore, there have been no changes to the XBRL data filed in Exhibit 101 of the Original Filing. Other than as described above and the inclusion with this Amendment No. 1 of new certifications by management, a new consent of Ernst & Young LLP, our independent registered public accounting firm, and related amendments to the List of Exhibits contained in Part IV, Item 15 of the Original Filing, this Amendment No. 1 speaks only as of the date of the Original Filing and does not amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Filing and our reports filed with the U.S. Securities and Exchange Commission ("SEC") subsequent to the Original Filing.

---

Table of Contents

**Table of Contents**

		<b>Page Number</b>
<i>Part I</i>		
	<u>Item 1A.</u> <u>Risk Factors</u>	<u>2</u>
<i>Part II</i>		
	<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>18</u>
	<u>Item 9A.</u> <u>Controls and Procedures</u>	<u>18</u>
<i>Part IV</i>		
	<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	<u>20</u>

1

---

Table of Contents

**Part I**

**Item 1A. Risk Factors**

**Risks Related to our Business**

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

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

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

The timing and volume of orders received from our customers;

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

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

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

The demand for, and life cycles of, the products incorporating our mixed-signal solutions;

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

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

Changes in product mix;

The average selling prices for our products could drop suddenly due to competitive offerings or competitive predatory pricing;

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

Changes in market standards;

## Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

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

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

Our customers may not be able to obtain other components such as capacitors (which are currently in short supply) that they need to incorporate in conjunction with our products, leading to potential downturn in the demand for our products;

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

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

Table of Contents

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

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

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

Requirements of customers;

Accurate prediction of market and technical requirements;

Timely completion and introduction of new designs;

Timely qualification and certification of our products for use in our customers' products;

Commercial acceptance and volume production of the products into which our ICs will be incorporated;

Availability of foundry, assembly and test capacity;

Achievement of high manufacturing yields;

Quality, price, performance, power use and size of our products;

Availability, quality, price and performance of competing products and technologies;

Our customer service, application support capabilities and responsiveness;

Successful development of our relationships with existing and potential customers;

Technology, industry standards or end-user preferences; and

Cooperation of third-party software providers and our semiconductor vendors to support our chips within a system.

## Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

We cannot provide any assurance that products which we recently have developed or may develop in the future will achieve market acceptance. We have introduced to market or are in development of many products. If our products fail to achieve market acceptance, or if we fail to develop new products on a timely basis that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected. The growth of the IoT market is dependent on the adoption of industry standards to permit devices to connect and communicate with each other. If the industry cannot agree on a common set of standards, then the growth of the IoT market may be slower than expected.



Table of Contents

***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 products serve as components and solutions in electronic devices in various markets. As a result, we have devoted and expect to continue to devote a large amount of resources to develop products based on new and emerging technologies and standards that will be commercially introduced in the future. Research and development expense during fiscal 2018 was \$238.3 million, or 27.5% of revenues. A number of companies are actively involved in the development of these new technologies and standards. Should any of these companies delay or abandon their efforts to develop commercially available products based on new technologies and standards, our research and development efforts with respect to these technologies and standards likely would have no appreciable value. In addition, if we do not correctly anticipate new technologies and standards, or if the products that we develop based on these new technologies and standards fail to achieve market acceptance, our competitors may be better able to address market demand than we would. Furthermore, if markets for these new technologies and standards develop later than we anticipate, or do not develop at all, demand for our products that are currently in development would suffer, resulting in lower sales of these products than we currently anticipate.

***Significant litigation over intellectual property in our industry may cause us to become involved in costly and lengthy litigation which could adversely affect our business***

The semiconductor and software industries have experienced significant litigation involving patents and other intellectual property rights. From time to time, third parties, including non-practicing entities, allege intellectual property infringement by our products, our customers' products, or products using technologies or communications standards used in our industry. We also receive communications from customers or suppliers requesting indemnification for allegations brought against them by third parties. Some of these allegations have resulted, and may result in the future, in our involvement in litigation. We have certain contractual obligations to defend and indemnify our customers from certain infringement claims. We also 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.

Given the unpredictable nature of litigation and the complexity of the technology, we may not prevail in any such litigation. Legal proceedings could subject us to significant liability, invalidate our proprietary rights, or harm our businesses and our ability to compete. 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 or merit, could be time-consuming and expensive to resolve and could divert our management's time and attention. Intellectual property litigation also could force us to take specific actions, including:

Cease using, selling or manufacturing certain products, services or processes;

Attempt to obtain a license, which license may require the payment of substantial royalties or may not be available on reasonable terms or at all;

Incur significant costs, time delays and lost business opportunities to develop alternative technologies or redesign products;  
or

Pursue legal remedies with third parties to enforce our indemnification rights, which may not adequately protect our interests.

***Any acquisitions we make could disrupt our business and harm our financial condition***

As part of our growth and product diversification strategy, we continue to evaluate opportunities to acquire other businesses, intellectual property or technologies that would complement our current

Table of Contents

offerings, expand the breadth of our markets or enhance our technical capabilities. On April 18, 2018, we acquired the Z-Wave business from Sigma Designs. This acquisition and other acquisitions that we have made and may make in the future entail a number of risks that could materially and adversely affect our business and operating results, including:

Problems integrating the acquired operations, technologies or products with our existing business and products;

Diversion of management's time and attention from our core business;

Need for financial resources above our planned investment levels;

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

Risks associated with entering markets in which we lack prior experience;

Risks associated with the transfer of licenses of intellectual property;

Increased operating costs due to acquired overhead;

Tax issues associated with acquisitions;

Acquisition-related disputes, including disputes over earn-outs and escrows;

Potential loss of key employees of the acquired company; and

Potential impairment of related goodwill and intangible assets.

Future acquisitions also could cause us to incur debt or contingent liabilities or cause us to issue equity securities that could negatively impact the ownership percentages of existing shareholders.

***We may be unable to protect our intellectual property, which would negatively affect our ability to compete***

Our products rely on our proprietary technology, and we expect that future technological advances made by us will be critical to sustain market acceptance of our products. Therefore, we believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants, intellectual property providers and business partners, and control access to and distribution of our documentation and other proprietary information. Despite these efforts, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary technology. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We cannot be certain that patents will be issued as a result of our pending applications nor can we be certain that any issued patents would protect or benefit us or give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable. We also cannot be certain that others will not develop effective competing technologies on their own.

***Failure to manage our distribution channel relationships could impede our future growth***

## Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

The future growth of our business will depend in large part on our ability to manage our relationships with current and future distributors and sales representatives, develop additional channels for the distribution and sale of our products and manage these relationships. During fiscal 2018, 71% of our revenue was derived from distributors. As we execute our indirect sales strategy, we must manage the potential conflicts that may arise with our direct sales efforts. For example, conflicts with

Table of Contents

a distributor may arise when a customer begins purchasing directly from us rather than through the distributor. The inability to successfully execute or manage a multi-channel sales strategy could impede our future growth. In addition, relationships with our distributors often involve the use of price protection and inventory return rights. This often requires a significant amount of sales management's time and system resources to manage properly. Because we consolidated our distribution relationships to a single global distributor, Arrow Electronics, in fiscal 2018, termination of the relationship with Arrow Electronics, either by us or by Arrow Electronics, could result in a temporary or permanent loss of revenue. If Arrow Electronics fails to effectively market and sell our products in full compliance with applicable laws, or if we are unable to maintain our existing relationship with Arrow Electronics, we may not be able to find a distributor with the scale and resources of Arrow Electronics, maintain existing levels of international revenue or realize expected long-term international revenue growth. We may not be successful in finding suitable alternative global distributors on satisfactory terms, or at all, and this could adversely affect our ability to effectively sell our solutions in certain geographical locations or to certain end customers.

***We depend on a limited number of customers for a significant portion of our revenues, and the loss of, or a significant reduction in orders from, any key customer could significantly reduce our revenues***

The loss of any of our key customers, or a significant reduction in sales to any one of them, would significantly reduce our revenues and adversely affect our business. During fiscal 2018, our ten largest customers accounted for 20% of our revenues. Some of the markets for our products are dominated by a small number of potential customers. Therefore, our operating results in the foreseeable future will continue to depend on our ability to sell to these dominant customers, as well as the ability of these customers to sell products that incorporate our IC products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past or alter their purchasing patterns, particularly because:

We do not have material long-term purchase contracts with our customers;

Substantially all of our sales to date have been made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty;

Some of our customers may have efforts underway to actively diversify their vendor base which could reduce purchases of our products; and

Some of our customers have developed or acquired products that compete directly with products these customers purchase from us, which could affect our customers' purchasing decisions in the future.

Our customers regularly evaluate alternative sources of supply in order to diversify their supplier base, which increases their negotiating leverage with us and protects their ability to secure these components. We believe that any expansion of our customers' supplier bases could have an adverse effect on the prices we are able to charge and volume of product that we are able to sell to our customers, which would negatively affect our revenues and operating results.

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

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

Table of Contents

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

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

Our products are complex and may contain errors, particularly when first introduced and/or when new versions are released. Our products are increasingly designed in more complex processes, including higher levels of software and hardware integration in modules and system-level solutions and/or include elements provided by third parties which further increase the risk of errors. We rely primarily on our in-house testing personnel to design test operations and procedures to detect any errors or vulnerabilities prior to delivery of our products to our customers.

Should problems occur in the operation or performance of our products, we may experience delays in meeting key introduction dates or scheduled delivery dates to our customers. These errors could also cause significant re-engineering costs, the diversion of our engineering personnel's attention from our product development efforts and cause significant customer relations and business reputation problems. Any defects could result in refunds, product replacement, product recall or other liability. Any of the foregoing could impose substantial costs and harm our business.

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

***We rely on third parties to manufacture, assemble and test our products and the failure to successfully manage our relationships with our manufacturers and subcontractors would negatively impact our ability to sell our products***

We do not have our own wafer fab manufacturing facilities. Therefore, we rely on third-party vendors to manufacture the products we design. We also currently rely on Asian third-party assembly subcontractors to assemble and package the silicon chips provided by the wafers for use in final products. Additionally, we rely on these offshore subcontractors for a substantial portion of the testing requirements of our products prior to shipping. We expect utilization of third-party subcontractors to continue in the future.

The cyclical nature of the semiconductor industry drives wide fluctuations in available capacity at third-party vendors. On occasion, we have been unable to adequately respond to unexpected increases in customer demand due to capacity constraints and, therefore, were unable to benefit from this incremental demand. We may be unable to obtain adequate foundry, assembly or test capacity from our third-party subcontractors to meet our customers' delivery requirements even if we adequately forecast customer demand.

Table of Contents

There are significant risks associated with relying on these third-party foundries and subcontractors, including:

Failure by us, our customers or their end customers to qualify a selected supplier;

Potential insolvency of the third-party subcontractors;

Reduced control over delivery schedules and quality;

Limited warranties on wafers or products supplied to us;

Potential increases in prices or payments in advance for capacity;

Increased need for international-based supply, logistics and financial management;

Their inability to supply or support new or changing packaging technologies; and

Low test yields.

We typically do not have long-term supply contracts with our third-party vendors which obligate the vendor to perform services and supply products to us for a specific period, in specific quantities, and at specific prices. Our third-party foundry, assembly and test subcontractors typically do not guarantee that adequate capacity will be available to us within the time required to meet demand for our products. In the event that these vendors fail to meet our demand for whatever reason, we expect that it would take up to 12 months to transition performance of these services to new providers. Such a transition may also require qualification of the new providers by our customers or their end customers.

Most of the silicon wafers for the products that we have sold were manufactured either by TSMC or SMIC. Our customers typically complete their own qualification process. If we fail to properly balance customer demand across the existing semiconductor fabrication facilities that we utilize or are required by our foundry partners to increase, or otherwise change the number of fab lines that we utilize for our production, we might not be able to fulfill demand for our products and may need to divert our engineering resources away from new product development initiatives to support the fab line transition, which would adversely affect our operating results.

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

Prior to purchasing our products, our customers require that our products undergo an extensive qualification process, which involves testing of the products in the customer's system as well as rigorous reliability testing. This qualification process may continue for six months or longer. However, qualification of a product by a customer does not ensure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the product or software, changes in the IC's manufacturing process or the selection of a new supplier by us may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take an additional six months or more before the customer commences volume production of components or devices that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, toward qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, such failure or delay would preclude or delay sales of such product to the customer, which may impede our growth and cause our business to suffer.

Table of Contents

***We are a global company, which subjects us to additional business risks including logistical and financial complexity, political instability and currency fluctuations***

We have established international subsidiaries and have opened offices in international markets to support our activities in Asia, the Americas and Europe. This has included the establishment of a headquarters in Singapore for non-U.S. operations. The percentage of our revenues derived from outside of the United States was 83% during fiscal 2018. We may not be able to maintain or increase global market demand for our products. Our international operations are subject to a number of risks, including:

Complexity and costs of managing international operations and related tax obligations, including our headquarters for non-U.S. operations in Singapore;

Protectionist laws and business practices, including trade restrictions, tariffs, quotas and other trade barriers, particularly with respect to China-U.S. trade policies;

Difficulties related to the protection of our intellectual property rights in some countries;

Multiple, conflicting and changing tax and other laws and regulations that may impact both our international and domestic tax and other liabilities and result in increased complexity and costs, including the impact of the Tax Cuts and Jobs Act;

Longer sales cycles;

Greater difficulty in accounts receivable collection and longer collection periods;

High levels of distributor inventory subject to price protection and rights of return to us;

Political and economic instability;

Greater difficulty in hiring and retaining qualified personnel; and

The need to have business and operations systems that can meet the needs of our international business and operating structure.

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

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

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

are unable to effectively manage our expanding global operations, including our international headquarters in Singapore, our business could be materially and adversely affected.



Table of Contents

***We have a material weakness in our internal control over financial reporting and if we are unable to implement and maintain effective internal control over financial reporting, or our independent registered public accounting firm is unable to provide an unqualified report thereon, we could be materially adversely effected***

We have identified a material weakness that existed as of the end of our fiscal 2018 regarding our internal controls over business combinations, primarily the maintenance of sufficient contemporaneous documentation of management review controls over assumptions used in the valuation of acquired intangible assets and related recording of goodwill. As a result of this material weakness, management concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 29, 2018.

Unless and until this material weakness has been remediated, or should new material weaknesses arise or be discovered in the future, material misstatements could occur and go undetected in our interim or annual consolidated financial statements and we may be required to restate our financial statements. In addition, we may experience delays in satisfying our reporting obligations or to comply with Securities and Exchange Commission rules and regulations, which could result in investigations and sanctions by regulatory authorities. Any of these results could adversely affect our business and the value of our common stock.

***Our products incorporate technology licensed from third parties***

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

***We are subject to risks relating to product concentration***

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

A decline in demand for any of our more significant products;

Failure of our products to achieve continued market acceptance;

Competitive products;

New technological standards or changes to existing standards that we are unable to address with our products;

A failure to release new products or enhanced versions of our existing products on a timely basis; and

The failure of our new products to achieve market acceptance.

Table of Contents

***We are subject to credit risks related to our accounts receivable***

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

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

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

***Any dispositions could harm our financial condition***

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

Diversion of management's time and attention from our core business;

Difficulties separating the divested business;

Risks to relations with customers who previously purchased products from our disposed product line;

Reduced leverage with suppliers due to reduced aggregate volume;

Risks related to employee relations;

Risks associated with the transfer and licensing of intellectual property;

Security risks and other liabilities related to the transition services provided in connection with the disposition;

Tax issues associated with dispositions; and

Disposition-related disputes, including disputes over earn-outs and escrows.

***Our stock price may be volatile***

Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

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

Actual or anticipated fluctuations in our operating results;

Table of Contents

Changes in financial estimates by securities analysts or our failure to perform in line with such estimates;

Changes in market valuations of other technology companies, particularly semiconductor companies;

Announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

Introduction of technologies or product enhancements that reduce the need for our products;

The loss of, or decrease in sales to, one or more key customers;

A large sale of stock by a significant shareholder;

Dilution from the issuance of our stock in connection with acquisitions;

The addition or removal of our stock to or from a stock index fund;

Departures of key personnel;

The required expensing of stock awards; and

The required changes in our reported revenue and revenue recognition accounting policy under ASC Topic 606, *Revenue from Contracts with Customers*.

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

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

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

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



Table of Contents

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

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

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

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

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

***Our convertible senior notes could adversely affect our operating results and financial condition***

Upon conversion, our convertible senior notes may be settled in cash, shares of our common stock or a combination of cash and shares, at our election. We intend to settle the principal amount of the notes in cash. If we do not have adequate cash available, we may not be able to settle the principal amount in cash. In such case, we will be required to settle the principal amount in stock, which would result in immediate, and likely material, dilution to the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

Following any conclusion that we no longer have the ability to settle the convertible senior notes in cash, we will be required on a going forward basis to change our accounting policy for earnings per share from the treasury stock method to the if-converted method. Earnings per share may be lower under the if-converted method as compared to the treasury stock method.

The principal balance of the convertible senior notes was separated into liability and equity components, which were recorded initially at fair value. The excess of the principal amount of the liability component over its carrying amount represents the debt discount, which is accreted to interest expense over the term of the notes using the effective interest method. Accordingly, we will report higher interest expense because of the recognition of both the debt discount amortization and the notes' coupon interest.

***Our debt could adversely affect our operations and financial condition***

We believe we have the ability to service our debt, but our ability to make the required payments thereunder when due depends upon our future performance, which will be subject to general economic conditions, industry cycles and other factors affecting our operations, including risk factors described herein, many of which are beyond our control. Our credit facility also contains covenants, including

Table of Contents

financial covenants. If we breach any of the covenants under our credit facility and do not obtain appropriate waivers, then, subject to any applicable cure periods, our outstanding indebtedness thereunder could be declared immediately due and payable.

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

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

***We have limited resources compared to some of our current and potential competitors and we may not be able to compete effectively and increase market share***

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

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

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

The division of our Board of Directors into three classes to be elected on a staggered basis, one class each year;

The ability of our Board of Directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;

A prohibition on stockholder action by written consent;

Elimination of the right of stockholders to call a special meeting of stockholders;

A requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders; and

Table of Contents

A requirement that a supermajority vote be obtained to amend or repeal certain provisions of our certificate of incorporation.

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

**Risks related to our industry**

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

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

Downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. We believe the semiconductor industry is currently suffering a downturn due in large part to adverse macroeconomic conditions, characterized by a slowdown in overall GDP performance and factory activity in certain regions, particularly in China, higher levels of customer inventory, the impact of tariffs on trade relations, and greater overall uncertainty regarding the economy. This downturn has had, and may continue to have, a material adverse effect on our business and operating results.

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

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

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



Table of Contents

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

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

***We may be the victim of business disruptions and security breaches, including cyber-attacks, which could lead to liability or could damage our reputation and financial results***

Information technology system and/or network disruptions, regardless of the cause, but including acts of sabotage, error, or other actions, could harm the company's operations. Failure to effectively prevent, detect, and recover from security breaches, including cyber-attacks, could result in the misuse of company assets, disruption to the company, diversion of management resources, regulatory inquiries, legal claims or proceedings, reputational damage, loss of sales and other costs to the company. We routinely face attacks that attempt to breach our security protocols, gain access to or disrupt our computerized systems or steal proprietary company, customer, partner or employee information. These attacks are sometimes successful. These attacks may be due to security breaches, employee error, theft, malfeasance, phishing schemes, ransomware, faulty password or data security management, or other irregularities. The theft, loss, destruction, unavailability or misuse of personal or business data collected, used, stored or transferred by us to run our business could result in increased security costs or costs related to defending legal claims. Industrial espionage, theft or loss of our intellectual property data could lead to counterfeit products or harm the competitive position of our products and services. Costs to implement, test and maintain measures to promote compliance with applicable privacy and data security laws as well as to protect the overall security of our system could be significant. Attempted or successful attacks against our products and services could damage our reputation with customers or users and reduce demand for our products and services.

***Changes in the Privacy and Data Security/Protection Laws Could Have an Adverse Effect on our Operations***

Federal, state and international privacy-related or data protection laws and regulations could have an adverse effect on our operations. Complying with these laws and the possibility of proceedings against us by governmental entities or others in relation to these laws could increase operational costs. In May 2018, the European Union's General Data Protection Regulation ("GDPR") went into effect, replacing the EU's 1995 Data Protection Directive. The costs of compliance with the GDPR and the potential for fines and penalties in the event of a breach of the GDPR may have an adverse effect on our operations.

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

**Part II**

**Item 8. Financial Statements and Supplementary Data**

The Financial Statements and supplementary data required by this item are included in Part IV, Item 15 of this Form 10-K/A and are presented beginning on page F-1.

**Item 9A. Controls and Procedures**

We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). In our Annual Report on Form 10-K for the year ended December 29, 2018 that was filed on January 30, 2019, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 29, 2018 to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Subsequent to that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 29, 2018 because of the material weakness in our internal control over financial reporting described below.

**Management's Report on Internal Control over Financial Reporting**

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 29, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework* (2013 framework). In Management's Report on Internal Control Over Financial Reporting included in our original Annual Report on Form 10-K for the year ended December 29, 2018 that was filed on January 30, 2019, our management concluded that we maintained effective internal control over financial reporting as of December 29, 2018. Following the Public Company Accounting Oversight Board's inspection of Ernst & Young LLP's audit of our December 29, 2018 financial statements and internal controls over financial reporting, management conducted a reassessment and subsequently concluded that the material weakness described below existed as of December 29, 2018 and concluded that we did not maintain effective internal control over financial reporting as of December 29, 2018.

We identified the following material weakness that existed as of December 29, 2018:

*We did not maintain sufficient design and operating effectiveness of controls over the accounting for business combinations, primarily the maintenance of sufficient contemporaneous documentation of management review controls over certain assumptions used in the valuation of acquired intangible assets and related recording of goodwill.*

A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Notwithstanding the material weakness discussed above, our management, including our CEO and CFO, has concluded that the consolidated financial statements included in this report fairly present, in

Table of Contents

all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Our independent registered public accounting firm, Ernst & Young LLP, has issued a revised attestation report on our internal control over financial reporting. This report appears on page F-1.

**Remediation Plan**

We have immediately commenced developing a plan to enhance the design and operating effectiveness of our internal controls over financial reporting, including maintaining sufficient contemporaneous documentation of management review controls over assumptions used in the valuation of acquired intangible assets and related recording of goodwill, which we believe will address the material weakness described above. Our remediation plan will include the implementation of procedures that will require enhanced documentation on the use of assumptions in business combinations and additional training. We expect our remediation will be complete prior to the end of the fourth quarter of fiscal 2019.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal controls over financial reporting during the fiscal quarter ended December 29, 2018 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

- (a)  
1. Financial Statements

**Index**

	<b>Page</b>
<u>Report of independent registered public accounting firm</u>	<u>F-1</u>
<u>Report of independent registered public accounting firm</u>	<u>F-3</u>
<u>Consolidated Balance Sheets at December 29, 2018 and December 30, 2017</u>	<u>F-4</u>
<u>Consolidated Statements of Income for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>F-5</u>
<u>Consolidated Statements of Comprehensive Income for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>F-6</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>F-7</u>
<u>Consolidated Statements of Cash Flows for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>F-8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-9</u>

2.  
Schedules

Schedule II Valuation and Qualifying Accounts

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

3.  
Exhibits

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

Table of Contents

(b)

Exhibits

**Exhibit  
Number**

- 2.1\* Agreement and Plan of Merger, dated December 7, 2017, by and among Silicon Laboratories Inc., Seguin Merger Subsidiary, Inc. and Sigma Designs, Inc. (filed as Exhibit 2.1 to the Form 8-K filed on December 8, 2017).
- 3.1\* Form of Fourth Amended and Restated Certificate of Incorporation of Silicon Laboratories Inc. (filed as Exhibit 3.1 to the Registration Statement on Form S-1 (Securities and Exchange Commission File No. 333-94853) (the "IPO Registration Statement").
- 3.2\* Fourth Amended and Restated Bylaws of Silicon Laboratories Inc. (filed as Exhibit 3.2 to the Form 8-K filed on January 27, 2017).
- 4.1\* Specimen certificate for shares of common stock (filed as Exhibit 4.1 to the IPO Registration Statement).
- 4.2\* Indenture between Silicon Laboratories Inc. and Wilmington Trust, National Association, as trustee, dated March 6, 2017 (filed as Exhibit 4.1 to the Form 8-K filed on March 6, 2017).
- 4.3\* Form of 1.375% Convertible Senior Note due 2022 (filed as Exhibit 4.2 to the Form 8-K filed on March 6, 2017).
- 10.1\*+ Form of Indemnification Agreement between Silicon Laboratories Inc. and each of its directors and executive officers (filed as Exhibit 10.1 to the IPO Registration Statement).
- 10.2\* Credit Agreement, dated July 31, 2012, by and among Silicon Laboratories Inc., the subsidiaries of the borrower identified therein, Bank of America, N.A., Wells Fargo Bank, National Association, and Regions Bank (filed as Exhibit 10.1 to the Form 8-K filed August 1, 2012).
- 10.3\* First Amendment to Credit Agreement, dated July 24, 2015, by and among Silicon Laboratories Inc., the subsidiaries of the borrower identified therein, Wells Fargo Bank, National Association, Citibank, N.A., Regions Bank, Bank of America, N.A. and the lenders party thereto (filed as Exhibit 10.1 to the Form 8-K filed on July 29, 2015).
- 10.4\* Second Amendment to Credit Agreement, dated February 27, 2017, by and among Silicon Laboratories Inc., the subsidiaries of the borrower identified therein, Wells Fargo Bank, National Association and the lenders party thereto (filed as Exhibit 10.1 to the Form 8-K filed on February 27, 2017).
- 10.5\* Security and Pledge Agreement, dated July 31, 2012, by and among Silicon Laboratories Inc., with the other parties identified as "Obligors" (as defined therein) and such other parties that may become Obligors thereunder after the date thereof, and Bank of America, N.A (filed as Exhibit 10.2 to the Form 8-K filed August 1, 2012).
- 10.6\*+ Silicon Laboratories Inc. 2009 Stock Incentive Plan, as amended and restated on April 20, 2017 (filed as Exhibit 10.1 to the Form 10-Q filed on July 26, 2017).
- 10.7\*+ Silicon Laboratories Inc. 2009 Employee Stock Purchase Plan, as amended and restated on April 20, 2017 (filed as Exhibit 10.2 to the Form 10-Q filed on July 26, 2017).
- 10.8\*+ Form of Restricted Stock Units Grant Notice and Global Restricted Stock Units Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.7 to the Form 10-K filed on February 1, 2017).

## Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

### Table of Contents

#### **Exhibit Number**

- 10.9\*+ Form of Market Stock Units Grant Notice and Global Market Stock Units Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.8 to the Form 10-K filed on February 1, 2017).
- 10.10\*+ Form of Stock Option Grant Notice and Global Stock Option Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.9 to the Form 10-K filed on February 1, 2017).
- 10.11\*+ Form of Performance Stock Units Grant Notice and Global PSU Award Agreement under Registrant's 2009 Stock Incentive Plan, as amended and restated (filed as Exhibit 10.10 to the Form 10-K filed on February 1, 2017).
- 10.12\* Purchase Agreement between Silicon Laboratories Inc. and Goldman, Sachs & Co. and Wells Fargo Securities, LLC, as representatives of the several initial purchasers named therein, dated February 28, 2017 (filed as Exhibit 10.1 to the Form 8-K filed on March 6, 2017).
- 10.13\*+ CEO Change in Control Agreement dated October 23, 2018 between Silicon Laboratories Inc. and G. Tyson Tuttle (filed as Exhibit 10.1 to the Form 8-K filed on October 24, 2018).
- 10.14\*+ Silicon Laboratories Inc. Form of Change in Control Agreement (filed as Exhibit 10.2 to the Form 8-K filed on October 24, 2018).
- 10.15\*+ Silicon Laboratories Inc. 2019 Bonus Plan (filed as Exhibit 10.1 to the Form 8-K filed on January 28, 2019).
- 21\* Subsidiaries of the Registrant (filed as Exhibit 21 to the Form 10-K filed on January 30, 2019).
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24\* Power of Attorney (filed as Exhibit 24 to the Form 10-K filed on January 30, 2019).
- 31.1 Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification as required by Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\* XBRL Instance Document (filed as Exhibit 101.INS to the Form 10-K filed on January 30, 2019).
- 101.SCH\* XBRL Taxonomy Extension Schema Document (filed as Exhibit 101.SCH to the Form 10-K filed on January 30, 2019).
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document (filed as Exhibit 101.CAL to the Form 10-K filed on January 30, 2019).
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document (filed as Exhibit 101.LAB to the Form 10-K filed on January 30, 2019).

Table of Contents

**Exhibit**

**Number**

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document (filed as Exhibit 101.PRE to the Form 10-K filed on January 30, 2019).

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document (filed as Exhibit 101.DEF to the Form 10-K filed on January 30, 2019).

---

\*

Incorporated herein by reference to the indicated filing.

+

Management contract or compensatory plan or arrangement



**SILICON LABORATORIES INC.  
VALUATION AND QUALIFYING ACCOUNTS**

Valuation Allowance for Deferred Tax Assets	Balance at Beginning of Period	Additions Charged to Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Period
	(in thousands)				
Year ended December 29, 2018	\$ 6,518	\$ 435	\$	\$ (1,978)	\$ 4,975
Year ended December 30, 2017	\$ 12,361	\$ 2,110	\$ 1,732	\$ (9,685)	\$ 6,518
Year ended December 31, 2016	\$ 10,264	\$ 2,715	\$	\$ (618)	\$ 12,361

24



Table of Contents

<u>/s/ SUMIT SADANA*</u>	Director	May 3, 2019
Sumit Sadana		
<u>/s/ WILLIAM P. WOOD*</u>	Director	May 3, 2019
William P. Wood		
<u>/s/ CHRISTY WYATT*</u>	Director	May 3, 2019
Christy Wyatt		

\*By /s/ JOHN C. HOLLISTER  
John C. Hollister  
*ATTORNEY-IN-FACT*

Table of Contents

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of Silicon Laboratories Inc.**

**Opinion on Internal Control over Financial Reporting**

We have audited Silicon Laboratories Inc.'s internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Silicon Laboratories Inc. (the Company) has not maintained effective internal control over financial reporting as of December 29, 2018, based on the COSO criteria.

In our report dated January 30, 2019, we expressed an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on the COSO criteria. Management has subsequently identified a deficiency in controls related to the accounting for acquisitions, and has further concluded that such deficiency represented a material weakness as of December 29, 2018. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control over Financial Reporting, to conclude that the Company's internal control over financial reporting was not effective as of December 29, 2018. Accordingly, our present opinion on the effectiveness of Silicon Laboratories Inc.'s internal control over financial reporting as of December 29, 2018, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: Management has identified a material weakness in the design and operating effectiveness of controls over the accounting for business combinations, primarily the maintenance of sufficient contemporaneous documentation of management review controls over certain assumptions used in the valuation of acquired intangible assets and related recording of goodwill.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Silicon Laboratories Inc. as of December 29, 2018 and December 30, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated January 30, 2019 expressed an unqualified opinion thereon. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report dated January 30, 2019 which expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

Table of Contents

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Austin, Texas

January 30, 2019, except for the effect of the material weakness described in the second and third paragraphs above, as to which the date is May 3, 2019

Table of Contents

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of Silicon Laboratories Inc.**

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Silicon Laboratories Inc. (the Company) as of December 29, 2018 and December 30, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 30, 2019, except for the effect of the material weakness described in the second and third paragraphs of that report, as to which the date is May 3, 2019, expressed an adverse opinion thereon.

**Adoption of ASU No. 2014-09**

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue from sales to distributors in 2018 due to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1996.  
Austin, Texas  
January 30, 2019

Table of Contents

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

	December 29, 2018	December 30, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 197,043	\$ 269,366
Short-term investments	416,779	494,657
Accounts receivable, net	73,194	71,367
Inventories	74,972	73,132
Prepaid expenses and other current assets	64,650	39,120
<b>Total current assets</b>	<b>826,638</b>	<b>947,642</b>
Property and equipment, net	139,049	127,682
Goodwill	397,344	288,227
Other intangible assets, net	170,832	83,144
Other assets, net	90,491	88,387
<b>Total assets</b>	<b>\$ 1,624,354</b>	<b>\$ 1,535,082</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 41,171	\$ 38,851
Deferred revenue and returns liability	22,494	
Deferred income on shipments to distributors		50,115
Other current liabilities	81,180	73,359
<b>Total current liabilities</b>	<b>144,845</b>	<b>162,325</b>
Convertible debt	354,771	341,879
Other non-current liabilities	57,448	77,862
<b>Total liabilities</b>	<b>557,064</b>	<b>582,066</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock \$0.0001 par value; 10,000 shares authorized; no shares issued		
Common stock \$0.0001 par value; 250,000 shares authorized; 43,088 and 42,707 shares issued and outstanding at December 29, 2018 and December 30, 2017, respectively	4	4
Additional paid-in capital	107,517	102,862
Retained earnings	961,343	851,307
Accumulated other comprehensive loss	(1,574)	(1,157)
<b>Total stockholders' equity</b>	<b>1,067,290</b>	<b>953,016</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,624,354</b>	<b>\$ 1,535,082</b>

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





Table of Contents

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Revenues	\$ 868,267	\$ 768,867	\$ 697,626
Cost of revenues	346,868	314,676	276,122
Gross margin	521,399	454,191	421,504
Operating expenses:			
Research and development	238,347	209,491	199,744
Selling, general and administrative	197,844	159,726	155,483
Operating expenses	436,191	369,217	355,227
Operating income	85,208	84,974	66,277
Other income (expense):			
Interest income and other, net	6,647	6,057	806
Interest expense	(19,694)	(14,128)	(2,587)
Income before income taxes	72,161	76,903	64,496
Provision (benefit) for income taxes	(11,430)	29,811	3,002
Net income	\$ 83,591	\$ 47,092	\$ 61,494
Earnings per share:			
Basic	\$ 1.94	\$ 1.11	\$ 1.47
Diluted	\$ 1.90	\$ 1.09	\$ 1.45
Weighted-average common shares outstanding:			
Basic	43,159	42,446	41,713
Diluted	44,044	43,332	42,376

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

Table of Contents

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Net income	\$ 83,591	\$ 47,092	\$ 61,494
Other comprehensive income (loss), before tax:			
Net changes to available-for-sale securities:			
Unrealized gains (losses) arising during the period	376	(729)	(179)
Reclassification for losses included in net income	49		
Net changes to cash flow hedges:			
Unrealized gains (losses) arising during the period	(953)		1,466
Reclassification for (gains) losses included in net income	316	(1,808)	249
Other comprehensive income (loss), before tax	(212)	(2,537)	1,536
Provision (benefit) for income taxes	(45)	(888)	537
Other comprehensive income (loss)	(167)	(1,649)	999
Comprehensive income	\$ 83,424	\$ 45,443	\$ 62,493

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

Table of Contents

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

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Par Value	Additional Paid-In Capital			
Balance as of January 2, 2016	41,727	\$ 4	\$ 13,868	\$ 747,749	\$ (507)	\$ 761,114
Net income				61,494		61,494
Other comprehensive income (loss)					999	999
Stock issuances, net of shares withheld for taxes	1,055		6,346			6,346
Income tax benefit (shortfall) from stock-based awards			(2,061)			(2,061)
Repurchases of common stock	(893)		(33,299)	(7,244)		(40,543)
Stock-based compensation			39,609			39,609
Balance as of December 31, 2016	41,889	4	24,463	801,999	492	826,958
Cumulative effect of adoption of accounting standard				2,216		2,216
Net income				47,092		47,092
Other comprehensive income (loss)					(1,649)	(1,649)
Stock issuances, net of shares withheld for taxes	818		(3,938)			(3,938)
Stock-based compensation			44,809			44,809
Convertible debt issuance			37,528			37,528
Balance as of December 30, 2017	42,707	4	102,862	851,307	(1,157)	953,016
Cumulative effect of adoption of accounting standard				26,445	(250)	26,195
Net income				83,591		83,591
Other comprehensive income (loss)					(167)	(167)
Stock issuances, net of shares withheld for taxes	815		(6,180)			(6,180)
Repurchases of common stock	(434)		(39,276)			(39,276)
Stock-based compensation			50,111			50,111
Balance as of December 29, 2018	43,088	\$ 4	\$ 107,517	\$ 961,343	\$ (1,574)	\$ 1,067,290

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

Table of Contents

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
<b>Operating Activities</b>			
Net income	\$ 83,591	\$ 47,092	\$ 61,494
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation of property and equipment	15,912	14,766	13,216
Amortization of other intangible assets and other assets	44,102	27,246	27,715
Amortization of debt discount and debt issuance costs	12,892	10,146	
Stock-based compensation expense	50,077	44,752	39,628
Income tax shortfall from stock-based awards			(1,671)
Deferred income taxes	(8,210)	(26,452)	(4,087)
Changes in operating assets and liabilities:			
Accounts receivable	3,931	3,234	46
Inventories	7,660	(13,416)	(6,093)
Prepaid expenses and other assets	(4,960)	25,266	(3,568)
Accounts payable	5,952	(468)	263
Other current liabilities and income taxes	(21,828)	61,924	2,879
Deferred income, deferred revenue and returns liability	(6,202)	4,453	9,713
Other non-current liabilities	(9,375)	(9,022)	(10,625)
Net cash provided by operating activities	173,542	189,521	128,910
<b>Investing Activities</b>			
Purchases of available-for-sale investments	(395,904)	(636,363)	(185,231)
Sales and maturities of available-for-sale investments	474,129	294,452	161,921
Purchases of property and equipment	(24,462)	(12,252)	(10,927)
Purchases of other assets	(11,063)	(4,960)	(8,801)
Acquisitions of businesses, net of cash acquired	(239,729)	(15,168)	(6,546)
Net cash used in investing activities	(197,029)	(374,291)	(49,584)
<b>Financing Activities</b>			
Proceeds from issuance of long-term debt, net		389,468	
Payments on debt		(72,500)	(5,000)
Repurchases of common stock	(39,276)		(40,543)
Payment of taxes withheld for vested stock awards	(19,483)	(15,753)	(10,561)
Proceeds from the issuance of common stock	13,303	11,815	13,299
Payment of acquisition-related contingent consideration	(3,380)		(9,500)
Net cash provided by (used in) financing activities	(48,836)	313,030	(52,305)
Increase (decrease) in cash and cash equivalents	(72,323)	128,260	27,021
Cash and cash equivalents at beginning of period	269,366	141,106	114,085
Cash and cash equivalents at end of period	\$ 197,043	\$ 269,366	\$ 141,106
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Interest paid	\$ 6,227	\$ 3,859	\$ 2,222

Income taxes paid	\$	20,599	\$	8,929	\$	11,185
-------------------	----	--------	----	-------	----	--------

**Supplemental Disclosure of Non-Cash Activity:**

Stock issued in business combination	\$		\$		\$	4,181
--------------------------------------	----	--	----	--	----	-------

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

F-8

---

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018**

**1. Description of Business**

Silicon Laboratories Inc. (the "Company"), a Delaware corporation, is a leading provider of silicon, software and solutions for a smarter, more connected world. Our award-winning technologies are shaping the future of the Internet of Things (IoT), Internet infrastructure, industrial automation, consumer and automotive markets. Within the semiconductor industry, the Company is known as a "fabless" company meaning that the integrated circuits (ICs) incorporated in its products are manufactured by third-party foundry semiconductor companies.

**2. Significant Accounting Policies**

*Basis of Presentation and Principles of Consolidation*

The Company prepares financial statements on a 52- or 53-week fiscal year that ends on the Saturday closest to December 31. Fiscal 2018, 2017 and 2016 had 52 weeks and ended on December 29, 2018, December 30, 2017 and December 31, 2016, respectively. The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

*Foreign Currency Transactions*

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

*Use of Estimates*

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

*Adoption of New Revenue Accounting Standard*

The Company adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, on December 31, 2017, the first day of its fiscal year ended December 29, 2018. The Company elected the modified retrospective method of adoption which only applies to those contracts which were not completed as of December 31, 2017. Prior periods have not been adjusted. In connection with its adoption of ASC 606, the Company recorded a cumulative-effect adjustment to

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

retained earnings of \$26.2 million on December 31, 2017. The following reflects the material changes recorded in connection with the cumulative-effect adjustment (in thousands):

Financial Statement Line Item	Increase (Decrease)
Accounts receivable, net	\$ 230
Prepaid expenses and other current assets	\$ 7,579
Other assets, net	\$ (2,282)
Deferred revenue and returns liability	\$ 27,806
Deferred income on shipments to distributors	\$ (50,115)
Other current liabilities	\$ 1,641
Retained earnings	\$ 26,195

The following presents the amounts by which financial statement line items were affected in the current period due to the adoption of ASC 606 (in thousands):

Financial Statement Line Item*	Increase (Decrease) Year Ended December 29, 2018
<b>Consolidated Statements of Income</b>	
Revenues	\$ 12,943
Cost of revenues	\$ 4,234
Net income	\$ 6,610
Earnings per share:	
Basic	\$ 0.15
Diluted	\$ 0.15

Consolidated Balance Sheet**	December 29, 2018
Prepaid expenses and other current assets	\$ 5,953
Goodwill	\$ (2,842)
Other assets, net	\$ (4,464)
Deferred revenue and returns liability	\$ 22,494
Deferred income on shipments to distributors	\$ (60,789)
Other current liabilities	\$ 4,282
Retained earnings	\$ 32,805

\*

Excludes line items that were not materially affected by the Company's adoption of ASC 606. The adoption had no impact to cash provided by or used in net operating, investing or financing activities in the Consolidated Statements of Cash Flows.

\*\*

Balance sheet line item amounts include the cumulative-effect adjustment recorded on December 31, 2017.

The primary impact of the Company's adoption of ASC 606 resulted from the acceleration of the timing of revenue recognition on sales to distributors. The Company previously deferred revenue and

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

cost of revenue on such sales until the distributors sold the product to the end customers. The Company now recognizes revenue at the time of sale to the distributor provided all other revenue recognition criteria have been met. The Company records a right of return asset and a returns liability in place of the deferred income on shipments to distributors previously recorded under ASC 605.

*Fair Value of Financial Instruments*

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

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

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

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

*Cash and Cash Equivalents*

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

*Investments*

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

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



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

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

In addition, the Company has made equity investments in non-publicly traded companies. Equity investments in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. The Company's proportionate share of income or loss is recorded in interest income and other, net in the Consolidated Statement of Income. All other non-marketable equity investments are recorded at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to fiscal 2018, all other non-marketable equity investments were accounted for using the cost method. The Company periodically reviews its equity investments for other-than-temporary declines in fair value based on the specific identification method and writes down investments to their fair values when it determines that an other-than-temporary decline has occurred.

*Derivative Financial Instruments*

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

Cash flow hedges used by the Company include foreign currency forward contracts and interest rate swap agreements. Foreign currency forward contracts are used to reduce the earnings impact that exchange rate fluctuations have on operating expenses denominated in currencies other than the U.S. dollar. Interest rate swap agreements are used to manage exposure to interest rate risks.

The Company also uses foreign currency forward contracts to reduce the earnings impact that exchange rate fluctuations have on non-U.S. dollar balance sheet exposures. The Company does not apply hedge accounting to these foreign currency forward contracts.

*Inventories*

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

*Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the assets ranging from three to ten

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

years. Leasehold improvements are depreciated over the lease term or their useful life, whichever is shorter.

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

*Business Combinations*

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

*Long-Lived Assets*

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

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

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

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

*Revenue Recognition*

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

*Performance Obligations*

Substantially all of the Company's contracts with customers contain a single performance obligation, the sale of mixed-signal integrated circuit (IC) products. Such sales represent a single performance obligation because the sale is one type of good (e.g., an IC) or includes multiple goods that are neither capable of being distinct nor separable from the other promises in the contract (e.g., an IC embedded with software). This performance obligation is satisfied when control of the product is transferred to the customer, which typically occurs upon delivery. Unsatisfied performance obligations primarily represent contracts for products with future delivery dates and with an original expected duration of one year or less. As allowed under ASC 606, the Company has opted to not disclose the amount of unsatisfied performance obligations as these contracts have original expected durations of less than one year.

The Company's products carry a one-year replacement warranty. The replacement warranty promises customers that delivered products are as specified in the contract (an "assurance-type warranty"). Therefore, the Company accounts for such warranties under ASC 460, *Guarantees*, and not as a separate performance obligation.

*Transaction Price*

The transaction price reflects the Company's expectations about the consideration it will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to direct customers and sales to distributors in which both the sale to the distributor and the sale to the end customer occur within the same reporting period. Variable consideration includes sales in which the amount of consideration that the Company will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to distributors under agreements allowing certain rights of return, referred to as stock rotation, and credits issued to the distributor due to price protection. Stock rotation allows distributors limited levels of returns and is based on the distributor's prior purchases. Price protection represents price discounts granted to certain distributors and is based on negotiations on sales to end customers.

The Company estimates variable consideration at the most likely amount to which it expects to be entitled. Included in the transaction price estimate are amounts in which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The estimate is based on information available to the Company, including recent sales activity and pricing data. The Company applies a constraint to its variable consideration estimate which considers both the likelihood of a return and the amount of a potential price concession.

Variable consideration that does not meet revenue recognition criteria is deferred. The Company records a right of return asset in prepaid expenses and other current assets for the costs of distributor

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

inventory not meeting revenue recognition criteria. A corresponding deferred revenue and returns liability amount is recorded for unrecognized revenue associated with such costs.

*Contract Balances*

Accounts receivable represents the Company's unconditional right to receive consideration from its customer. Payments are typically due within 30 days of invoicing and do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on the Consolidated Balance Sheet in any of the periods presented.

*Shipping and Handling*

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

*Stock-Based Compensation*

The Company has stock-based compensation plans, which are more fully described in Note 14, *Stock-Based Compensation*. The Company accounts for those plans using a fair-value method and recognizes the expense in its Consolidated Statement of Income.

*Research and Development*

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

*Advertising*

Advertising costs are expensed as incurred. Advertising expenses were \$1.9 million, \$1.4 million and \$1.6 million in fiscal 2018, 2017 and 2016, respectively.

*Income Taxes*

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

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible.

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

*Recent Accounting Pronouncements*

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company early adopted this ASU on December 31, 2017. The adoption did not have a material impact on its financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The objectives of this ASU are to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company early adopted this ASU on December 31, 2017. The adoption did not have a material impact on its financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU eliminates Step 2 from the goodwill impairment test, which previously measured an impairment loss by comparing the implied fair value of goodwill with its carrying amount. Instead, an entity should recognize an impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the effect of the adoption of this ASU, but anticipates that the adoption will not have a material impact on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires instruments measured at amortized cost to be presented at the net amount expected to be collected. Entities are also required to record allowances for available-for-sale debt securities rather than reduce the carrying amount. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company expects that the adoption will not have a material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which was subsequently amended in 2018 by ASU 2018-10, ASU 2018-11 and ASU 2018-20 (collectively, Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For operating

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**2. Significant Accounting Policies (Continued)**

leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. Topic 842 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will elect an optional transition method to account for the impact of the adoption with a cumulative-effect adjustment in the period of adoption and will not restate prior periods. The Company expects to elect certain practical expedients permitted under the transition guidance. The Company is substantially complete with its evaluation of the effect that the adoption of this ASU will have on its financial statements. The Company believes that most of its operating lease commitments will be subject to the new standard. In connection with the adoption of ASC 842, the Company expects to recognize additional right-of-use assets and operating lease liabilities of \$20.8 million on December 30, 2018.

**3. Earnings Per Share**

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Net income	\$ 83,591	\$ 47,092	\$ 61,494
Shares used in computing basic earnings per share	43,159	42,446	41,713
Effect of dilutive securities:			
Stock-based awards	885	886	663
Shares used in computing diluted earnings per share	44,044	43,332	42,376

## Earnings per share:

Basic	\$ 1.94	\$ 1.11	\$ 1.47
Diluted	\$ 1.90	\$ 1.09	\$ 1.45

The Company intends to settle the principal amount of its convertible senior notes in cash and any excess value in shares in the event of a conversion. Accordingly, shares issuable upon conversion of the principal amount have been excluded from the calculation of diluted earnings per share. If the market value of the notes under certain prescribed conditions exceeds the conversion amount, the excess is included in the denominator for the computation of diluted earnings per share using the treasury stock method. For fiscal 2018, approximately 0.1 million shares were included in the denominator for the calculation of diluted earnings per share. For fiscal 2017, no such shares were included in the denominator for the calculation of diluted earnings per share. See Note 10, *Debt*, to the Consolidated Financial Statements for additional information.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**4. Fair Value of Financial Instruments**

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

Description	Fair Value Measurements at December 29, 2018 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 74,990	\$	\$	\$ 74,990
Corporate debt securities		18,820		18,820
Government debt securities	9,338			9,338
Total cash equivalents	\$ 84,328	\$ 18,820	\$	\$ 103,148
<b>Short-term investments:</b>				
Government debt securities	\$ 48,141	\$ 99,211	\$	\$ 147,352
Corporate debt securities		269,427		269,427
Total short-term investments	\$ 48,141	\$ 368,638	\$	\$ 416,779
<b>Other assets, net:</b>				
Auction rate securities	\$	\$	\$ 5,759	\$ 5,759
Total	\$	\$	\$ 5,759	\$ 5,759
<b>Total</b>	\$ 132,469	\$ 387,458	\$ 5,759	\$ 525,686

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**4. Fair Value of Financial Instruments (Continued)**

Description	Fair Value Measurements at December 30, 2017 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 106,047	\$	\$	\$ 106,047
Corporate debt securities		11,231		11,231
Government debt securities	53,615	1,453		55,068
Total cash equivalents	\$ 159,662	\$ 12,684	\$	\$ 172,346
<b>Short-term investments:</b>				
Government debt securities	\$ 94,575	\$ 228,247	\$	\$ 322,822
Corporate debt securities		171,835		171,835
Total short-term investments	\$ 94,575	\$ 400,082	\$	\$ 494,657
<b>Other assets, net:</b>				
Auction rate securities	\$	\$	\$ 5,681	\$ 5,681
<b>Total</b>	\$	\$	\$ 5,681	\$ 5,681
<b>Total</b>	\$ 254,237	\$ 412,766	\$ 5,681	\$ 672,684

Valuation methodology

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

Available-for-sale investments

The Company's investments are reported at fair value, with unrealized gains and losses, net of tax, recorded as a component of accumulated other comprehensive loss in the Consolidated Balance Sheet.



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**4. Fair Value of Financial Instruments (Continued)**

The following summarizes the contractual underlying maturities of the Company's available-for-sale investments at December 29, 2018 (in thousands):

	Cost	Fair Value
Due in one year or less	\$ 338,623	\$ 337,910
Due after one year through ten years	169,058	168,657
Due after ten years	19,360	19,119
	\$ 527,041	\$ 525,686

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

As of December 29, 2018	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Government debt securities	\$ 13,278	\$ (10)	\$ 88,696	\$ (583)	\$ 101,974	\$ (593)
Corporate debt securities	112,699	(273)	76,310	(448)	189,009	(721)
Auction rate securities			5,759	(241)	5,759	(241)
	\$ 125,977	\$ (283)	\$ 170,765	\$ (1,272)	\$ 296,742	\$ (1,555)

As of December 30, 2017	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Government debt securities	\$ 244,880	\$ (931)	\$ 3,027	\$ (15)	\$ 247,907	\$ (946)
Corporate debt securities	151,149	(447)	11,578	(73)	162,727	(520)
Auction rate securities			5,681	(319)	5,681	(319)
	\$ 396,029	\$ (1,378)	\$ 20,286	\$ (407)	\$ 416,315	\$ (1,785)

The gross unrealized losses as of December 29, 2018 and December 30, 2017 were due primarily to changes in market interest rates and the illiquidity of the Company's auction-rate securities. The Company's auction-rate securities have been illiquid since 2008 when auctions for the securities failed because sell orders exceeded buy orders. These securities have a contractual maturity date of 2046. The Company is unable to predict if these funds will become available before their maturity date.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, the Company's intent to sell or the likelihood that it would be required to

sell the investment before its anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. As of December 29, 2018, the Company has determined that no other-than-temporary impairment losses existed.

F-20

---

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**4. Fair Value of Financial Instruments (Continued)**

At December 29, 2018 and December 30, 2017, there were no material unrealized gains associated with the Company's available-for-sale investments.

Level 3 fair value measurements

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

Auction rate securities

Fair Value at December 29, 2018 (000s)	Valuation Technique	Unobservable Input	Weighted Average
\$5,759	Discounted cash flow	Estimated yield	3.23%
		Expected holding period	10 years
		Estimated discount rate	3.76%

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

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

The following summarizes the activity in Level 3 financial instruments for the years ended December 29, 2018 and December 30, 2017 (in thousands):

Assets

	Year Ended	
	December 29, 2018	December 30, 2017
<b>Auction Rate Securities</b>		
Beginning balance	\$ 5,681	\$ 5,196
Gain included in other comprehensive income (loss)	78	485
Ending balance	\$ 5,759	\$ 5,681

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**4. Fair Value of Financial Instruments (Continued)***Liabilities*

	Year Ended December 30, 2017
<b>Contingent Consideration (1)</b>	
Beginning balance	\$
Issues	3,829
Reclassification to acquisition-related liabilities	(3,380)
Gain recognized in selling, general and administrative expenses	(449)
Ending balance	\$

- 
- (1) In connection with the acquisition of Zentri, the Company recorded contingent consideration based on fiscal 2017 revenue from certain Zentri products.

Fair values of other financial instruments

The Company's debt is recorded at cost, but is measured at fair value for disclosure purposes. The fair value of the Company's convertible senior notes is determined using observable market prices. The notes are traded in less active markets and are therefore classified as a Level 2 fair value measurement. As of December 29, 2018 and December 30, 2017, the fair value of the convertible senior notes was \$419.0 million and \$466.2 million, respectively.

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

**5. Derivative Financial Instruments**

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

**Cash Flow Hedges***Foreign Currency Forward Contracts*

The Company uses foreign currency forward contracts to reduce the earnings impact that exchange rate fluctuations have on operating expenses denominated in currencies other than the U.S. dollar. Changes in the fair value of the contracts are recorded in accumulated other comprehensive loss in the Consolidated Balance Sheet and subsequently reclassified into earnings in the period during which the hedged transaction is recognized. The reclassified amount is reported in the same financial statement line item as the hedged item. If the foreign currency forward contracts are terminated or can no longer qualify as hedging instruments prior to maturity, the fair value of the contracts recorded in accumulated other comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the contracts at the time of termination.



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**5. Derivative Financial Instruments (Continued)**

The Company entered into foreign currency forward contracts in March 2018 for a portion of its forecasted operating expenses denominated in the Norwegian Krone. As of December 29, 2018, the contracts had maturities of one to twelve months and an aggregate notional value of \$8.8 million. Losses expected to be reclassified into earnings in the next 12 months were not material. The fair value of the contracts, contract losses recognized in other comprehensive income and amounts reclassified from accumulated other comprehensive loss into earnings were not material for any of the periods presented.

*Interest Rate Swaps*

The Company entered into an interest rate swap agreement with an original notional value of \$72.5 million in connection with its Credit Facility in July 2016. The Company terminated the swap agreement on March 6, 2017, which resulted in the reclassification of \$1.8 million of unrealized gains that were previously recorded in accumulated other comprehensive loss into earnings during fiscal 2017.

**Non-designated Hedges***Foreign Currency Forward Contracts*

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

As of December 30, 2017, the Company held one foreign currency forward contract denominated in the Norwegian Krone with a notional value of \$2.4 million. The fair value of the contract was not material as of December 30, 2017.

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

Gain (Loss) Recognized in Income	Year Ended			Location
	December 29, 2018	December 30, 2017	December 31, 2016	
Foreign currency forward contracts	\$ 105	\$ (207)	\$ (92)	Interest income and other, net

F-23

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**6. Balance Sheet Details**

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

*Accounts Receivable, Net*

	December 29, 2018	December 30, 2017
Accounts receivable	\$ 73,832	\$ 72,005
Allowance for doubtful accounts	(638)	(638)
	\$ 73,194	\$ 71,367

*Inventories*

	December 29, 2018	December 30, 2017
Work in progress	\$ 50,983	\$ 46,698
Finished goods	23,989	26,434
	\$ 74,972	\$ 73,132

*Property and Equipment*

	December 29, 2018	December 30, 2017
Buildings and improvements	\$ 109,025	\$ 96,196
Equipment	62,895	59,836
Computers and purchased software	42,487	37,598
Leasehold interest in ground leases	23,840	23,840
Leasehold improvements	12,006	10,483
Furniture and fixtures	7,794	5,691
	258,047	233,644
Accumulated depreciation	(118,998)	(105,962)
	\$ 139,049	\$ 127,682

*Other Current Liabilities*

	December 29, 2018	December 30, 2017
Accrued compensation and benefits	\$ 37,113	\$ 33,631
Accrued price protection credits	12,033	8,239
Other	32,034	31,489

\$ 81,180 \$ 73,359

F-24

---



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**6. Balance Sheet Details (Continued)***Other Non-current Liabilities*

	December 29, 2018	December 30, 2017
Non-current tax liabilities	\$ 21,576	\$ 39,196
Other	35,872	38,666
	\$ 57,448	\$ 77,862

**7. Risks and Uncertainties***Financial Instruments*

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

	December 29, 2018	December 30, 2017
Arrow Electronics	12%	14%
Edom Technology	10%	*
Avnet		16%

\*

Less than 10% of accounts receivable

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

The Company holds three notes receivable from two privately held companies. The total carrying value of the notes was \$2.4 million as of December 29, 2018, which was recorded in other assets, net in the Consolidated Balance Sheet.

The Company holds two equity investments in privately held companies. One investment is accounted for using the equity method and had a carrying value of \$4.1 million as of December 29, 2018. The second investment is recorded at cost minus impairment and had a carrying value of \$2.0 million as of December 29, 2018. In fiscal 2018, the Company reduced the carrying value of the second investment by \$1.8 million, which was recorded in interest income and other, net in the Consolidated Statements of Income. Both investments were recorded in other assets, net in the Consolidated Balance Sheet.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**7. Risks and Uncertainties (Continued)**

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

*Distributor Advances*

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

*Suppliers*

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

*Customers*

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

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**7. Risks and Uncertainties (Continued)**

contract manufacturers accounted for greater than 10% of revenue during fiscal 2018, 2017 or 2016. The Company's distributors that accounted for greater than 10% of revenue consisted of the following:

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016	
Arrow Electronics	21%	12%	11%	
Edom Technology	17%	19%	17%	
Avnet	*	14%	13%	

\*  
Less than 10% of revenue

**8. Acquisitions***Z-Wave*

On April 18, 2018, the Company completed the acquisition of the Z-Wave business from Sigma Designs, Inc. for \$243 million in cash. Z-Wave is an Internet of Things (IoT) technology for smart home solutions.

This strategic acquisition expands the Company's IoT connectivity portfolio in the connected home market, while further scaling the Company's engineering team. These factors contributed to a purchase price that was in excess of the fair value of the net assets acquired and, as a result, the Company recorded goodwill. A portion of the goodwill is deductible for tax purposes. The purchase price was allocated as follows (in thousands):

	Amount	Weighted-Average Amortization Period (Years)
<b>Intangible assets:</b>		
In-process research and development	\$ 20,900	Not amortized
Developed technology	69,875	7
Customer relationships	25,000	4
Trademarks	9,900	7
	125,675	
Cash and cash equivalents	2,841	
Accounts receivable	5,311	
Inventory	15,581	
Other current assets	329	
Goodwill	109,117	
Other non-current assets	2,587	
Accounts payable	(3,306)	
Other current liabilities	(8,918)	
Other non-current liabilities	(6,648)	
Total purchase price	\$ 242,569	



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**8. Acquisitions (Continued)**

In-process research and development (IPR&D) represents acquired smart home technology that had not been completed as of the acquisition date. The fair value of IPR&D was determined using the income approach. The discount rate applied to the projected cash flows was 15.0%, which reflects the engineering and technical risks related to the projects. The allocation of the purchase price is preliminary and subject to change, based on the finalization of income tax matters.

Revenues attributable to the Z-Wave business from the date of acquisition to December 29, 2018 were \$37.0 million. The Company recorded approximately \$4.9 million of acquisition-related costs in selling, general and administrative expenses during fiscal 2018.

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, giving effect to the acquisition as if it had been completed on January 1, 2017. The pro forma financial information includes charges for the fair value write-up associated with acquired inventory, adjustments for amortization expense of acquired intangible assets and tax-related expenses. The pro forma results of operations are presented for informational purposes only and are not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2017 or of results that may occur in the future (in thousands, except per share data):

	Year Ended	
	December 29, 2018	December 30, 2017
	(Unaudited)	
Revenues	\$ 882,109	\$ 824,009
Net income	\$ 87,874	\$ 27,958
Earnings per share:		
Basic	\$ 2.04	\$ 0.66
Diluted	\$ 2.00	\$ 0.65

*Zentri*

On January 20, 2017, the Company acquired Zentri, Inc., a private company. Zentri is an innovator in low-power, cloud-connected Wi-Fi technologies for the IoT. The Company acquired Zentri for approximately \$18.1 million, including initial cash consideration of approximately \$14.3 million, and potential additional consideration with an estimated fair value of approximately \$3.8 million at the date of acquisition.

The purchase price was allocated as follows: intangible assets \$6.7 million; goodwill \$12.1 million; and other net liabilities \$0.7 million. The goodwill is not deductible for tax purposes. Pro forma information related to this acquisition has not been presented because it would not be materially different from amounts reported.

*Micrium*

On October 3, 2016, the Company acquired Micrium, a private company. Micrium is a supplier of real-time operating system (RTOS) software for the IoT. The Company acquired Micrium for approximately \$12.4 million, consisting of approximately \$8.2 million in cash and \$4.2 million in stock consideration. An additional approximately \$1.0 million in stock consideration was accounted for as a transaction separate from the business combination based on its economic substance and will be recorded as post-combination compensation expense over four years.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**8. Acquisitions (Continued)**

The purchase price was allocated as follows: intangible assets \$9.5 million; goodwill \$3.4 million; and other net liabilities \$0.5 million. A portion of the goodwill is deductible for tax purposes. Pro forma information related to this acquisition has not been presented because it would not be materially different from amounts reported.

*Energy Micro*

On July 1, 2013, the Company acquired Energy Micro. In fiscal 2016, the Company entered into an agreement which settled the amount of the earn-out to be paid for fiscal 2015 through 2018. The total settlement amount was approximately \$16.0 million (in lieu of potential payments of up to \$26.7 million) and was paid on May 11, 2016.

**9. Goodwill and Other Intangible Assets***Goodwill*

The following summarizes the activity in goodwill for the years ended December 29, 2018 and December 30, 2017 (in thousands):

	Year Ended	
	December 29, 2018	December 30, 2017
Beginning balance	\$ 288,227	\$ 276,130
Additions due to business combinations	109,117	12,097
Ending balance	\$ 397,344	\$ 288,227

*Other Intangible Assets*

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

	Weighted-Average Amortization Period (Years)	December 29, 2018		December 30, 2017	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core and developed technology	8	\$ 237,265	\$ (102,116)	\$ 161,700	\$ (89,442)
Customer relationships	5	46,890	(21,075)	25,470	(16,180)
Patents				3,000	(2,750)
Trademarks	7	12,310	(2,442)	3,690	(2,344)
Total	8	\$ 296,465	\$ (125,633)	\$ 193,860	\$ (110,716)

Gross intangible assets increased \$125.7 million in fiscal 2018 for assets added due to the acquisition of Z-Wave business. This increase was offset by \$23.1 million due to the removal of fully amortized assets.

Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

Amortization expense related to intangible assets for fiscal 2018, 2017 and 2016 was \$38.0 million, \$27.1 million and \$27.3 million, respectively. The estimated aggregate amortization expense for

F-29

---

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**9. Goodwill and Other Intangible Assets (Continued)**

intangible assets subject to amortization for each of the five succeeding fiscal years is as follows (in thousands):

Fiscal Year	
2019	\$ 39,222
2020	36,727
2021	32,337
2022	24,206
2023	18,286

**10. Debt**1.375% Convertible Senior Notes

On March 6, 2017, the Company completed a private offering of \$400 million principal amount convertible senior notes (the "Notes"). The Notes bear interest semi-annually at a rate of 1.375% per year and will mature on March 1, 2022, unless repurchased, redeemed or converted at an earlier date. The Company used \$72.5 million of the proceeds to pay off the then remaining balance under its credit agreement.

The Notes are convertible at an initial conversion rate of 10.7744 shares of common stock per \$1,000 principal amount of the Notes, or approximately 4.3 million shares of common stock, which is equivalent to a conversion price of approximately \$92.81 per share. The conversion rate is subject to adjustment under certain circumstances. Holders may convert the Notes under the following circumstances: during any calendar quarter after the calendar quarter ended on June 30, 2017 if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 130% of the conversion price of the Notes; during the five business day period after any ten consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the closing sale price of our common stock and the conversion rate on each such trading day; if specified distributions or corporate events occur; if the Notes are called for redemption; or at any time after December 1, 2021. The Company may redeem all or any portion of the Notes, at its option, on or after March 6, 2020, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period. Upon conversion, the Notes may be settled in cash, shares of the Company's common stock or a combination of cash and shares, at the Company's election.

The principal balance of the Notes was separated into liability and equity components, and was recorded initially at fair value. The excess of the principal amount of the liability component over its carrying amount represents the debt discount, which is amortized to interest expense over the term of the Notes using the effective interest method. The carrying amount of the liability component was estimated by discounting the contractual cash flows of similar non-convertible debt at an appropriate market rate at the date of issuance.

The Company incurred debt issuance costs of approximately \$10.6 million, which was allocated to the liability and equity components in proportion to the allocation of the proceeds. The costs allocated



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**10. Debt (Continued)**

to the liability component are being amortized as interest expense over the term of the Notes using the effective interest method.

The carrying amount of the Notes consisted of the following (in thousands):

	December 29, 2018	December 30, 2017
<b>Liability component</b>		
Principal	\$ 400,000	\$ 400,000
Unamortized debt discount	(39,298)	(50,499)
Unamortized debt issuance costs	(5,931)	(7,622)
<b>Net carrying amount</b>	<b>\$ 354,771</b>	<b>\$ 341,879</b>
<b>Equity component</b>		
<b>Net carrying amount</b>	<b>\$ 57,735</b>	<b>\$ 57,735</b>

The liability component of the Notes is recorded in convertible debt on the Consolidated Balance Sheet. The equity component of the Notes is recorded in additional paid-in capital. The effective interest rate for the liability component was 4.75%. As of December 29, 2018, the remaining period over which the debt discount and debt issuance costs will be amortized was 3.2 years.

Interest expense related to the Notes was comprised of the following (in thousands):

	Year Ended	
	December 29, 2018	December 30, 2017
Contractual interest expense	\$ 5,500	\$ 4,492
Amortization of debt discount	11,202	8,816
Amortization of debt issuance costs	1,690	1,330
	<b>\$ 18,392</b>	<b>\$ 14,638</b>

Credit Facility

In connection with the Company's offering of the Notes, it and certain of its domestic subsidiaries (the "Guarantors") amended its existing credit agreement and paid off the then remaining balance of \$72.5 million. The amended agreement (the "Credit Facility") consists of a \$300 million revolving credit facility with a maturity date of July 24, 2020. The Credit Facility includes a \$25 million letter of credit sublimit and a \$10 million swingline loan sublimit. The Company also has an option to increase the size of the borrowing capacity by up to an aggregate of \$200 million in additional commitments, subject to certain conditions.

The revolving credit facility, other than swingline loans, will bear interest at the Eurodollar rate plus an applicable margin or, at the option of the Company, a base rate (defined as the highest of the Wells Fargo prime rate, the Federal Funds rate plus 0.50% and the Eurodollar Base Rate plus 1.00%) plus an applicable margin. Swingline loans accrue interest at the base rate plus the applicable margin for base rate loans. The applicable margins for the Eurodollar rate loans range from 1.25% to 2.00%



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**10. Debt (Continued)**

and for base rate loans range from 0.25% to 1.00%, depending in each case, on the leverage ratio as defined in the Credit Facility.

The Credit Facility contains various conditions, covenants and representations with which the Company must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that the Company must maintain a leverage ratio (funded debt/EBITDA) of no more than 3.00 to 1 and a minimum fixed charge coverage ratio (EBITDA/interest payments, income taxes and capital expenditures) of no less than 1.25 to 1. As of December 29, 2018, the Company was in compliance with all covenants of the Credit Facility. The Company's obligations under the Credit Facility are guaranteed by the Guarantors and are secured by a security interest in substantially all assets of the Company and the Guarantors.

**11. Commitments and Contingencies***Operating Leases*

The Company leases certain facilities under operating lease agreements that expire at various dates through 2027. Some of these arrangements contain renewal options and require the Company to pay taxes, insurance and maintenance costs.

Rent expense under operating leases was \$6.0 million, \$5.5 million and \$4.7 million for fiscal 2018, 2017 and 2016, respectively. The minimum annual future rentals under the terms of these leases as of December 29, 2018 are as follows (in thousands):

<b>Fiscal Year</b>	
2019	\$ 5,287
2020	4,746
2021	4,051
2022	3,485
2023	2,810
Thereafter	3,842
<b>Total minimum lease payments</b>	<b>\$ 24,221</b>

*Investment Commitment*

The Company has committed to invest up to \$10.0 million in a limited partnership, of which approximately \$4.3 million was funded through December 29, 2018.

*Patent Litigation Cresta Technology*

On January 28, 2014, Cresta Technology Corporation ("Cresta Technology"), a Delaware corporation, filed a lawsuit against the Company in the United States District Court in the District of Delaware, alleging infringement of three United States Patents (the "Cresta Patents"). On July 16, 2014, the Company filed a lawsuit against Cresta Technology in the United States District Court in the Northern District of California alleging infringement of six United States Patents.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**11. Commitments and Contingencies (Continued)**

Cresta Technology declared bankruptcy in 2016 and the Cresta patents and the Delaware lawsuit were acquired by Crespe LLC.

On September 17, 2018, the Company and Crespe LLC settled all matters. The Company received a non-material payment from Crespe LLC. There was no payment from the Company and the Company received a full license to the Cresta Patents and dismissal of all claims.

*Patent Litigation Bandspeed*

On June 21, 2018, Bandspeed, LLC ("Bandspeed"), a Texas limited liability company, filed a lawsuit against the Company in the United States District Court of the Western District of Texas, Austin Division, alleging infringement of eight United States Patents. On November 9, 2018, the Company and Bandspeed settled all matters, and the Court ordered a dismissal on November 19, 2018. The Company made a non-material payment to Bandspeed and received a full license to the alleged patents and dismissal of all claims.

*Other*

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

**12. Stockholders' Equity***Common Stock*

The Company issued 0.8 million shares of common stock during fiscal 2018.

*Share Repurchase Programs*

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

<b>Program Authorization Date</b>	<b>Program Termination Date</b>	<b>Program Amount</b>
October 2017	December 2019	\$ 200,000*
January 2017	December 2017	\$ 100,000
August 2015	December 2016	\$ 100,000

\*

In October 2018, the Board of Directors increased the share repurchase amount for the October 2017 program from \$100 million to \$200 million and extended the termination date from December 2018 to December 2019.

These programs allow for repurchases to be made in the open market or in private transactions, including structured or accelerated transactions, subject to applicable legal requirements and market conditions. The Company repurchased 0.4 million shares of its common stock for \$39.3 million during fiscal 2018. The Company did not repurchase any shares of its common stock during fiscal 2017. The

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**12. Stockholders' Equity (Continued)**

Company repurchased 0.9 million shares of its common stock for \$40.5 million during fiscal 2016. These shares were retired upon repurchase.

*Reclassifications From Accumulated Other Comprehensive Loss*

The following table summarizes the effect on net income from reclassifications out of accumulated other comprehensive loss (in thousands):

Reclassification	December 29, 2018	Year ended December 30, 2017	December 31, 2016
Losses on available-for-sales securities to:			
Interest income and other, net	\$ (49)	\$	\$
Gains (losses) on cash flow hedges to:			
Interest income and other, net	(316)		
Interest expense		1,808	(249)
	(365)	1,808	(249)
Income tax (expense) benefit	77	(633)	87
Total gains (losses) reclassified	\$ (288)	\$ 1,175	\$ (162)

*Income Tax Allocated to the Components of Other Comprehensive Income (Loss)*

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

Income tax (expense) benefit on:	December 29, 2018	Year ended December 30, 2017	December 31, 2016
Net changes to available-for-sale securities:			
Unrealized gains (losses) arising during the period	\$ (79)	\$ 255	\$ 63
Reclassification for losses included in net income		(10)	
Net changes to cash flow hedges:			
Unrealized gains (losses) arising during the period		200	(513)
Reclassification for gains (losses) included in net income		(66)	(87)
	\$ 45	\$ 888	\$ (537)

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**13. Revenues**

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

	December 29, 2018	Year Ended December 30, 2017 (1)	December 31, 2016 (1)
Internet of Things	\$ 463,838	\$ 395,012	\$ 314,614
Infrastructure	199,478	152,158	147,677
Broadcast	141,412	152,980	157,746
Access	63,539	68,717	77,589
	\$ 868,267	\$ 768,867	\$ 697,626

(1)

Under the modified retrospective method, prior period amounts have not been adjusted.

A portion of the Company's sales are made to distributors under agreements allowing certain rights of return and/or price protection related to the final selling price to the end customers. These factors impact the timing and uncertainty of revenues and cash flows. The Company recognized revenue of \$24.3 million during fiscal 2018 from performance obligations that were satisfied in previous reporting periods. The following disaggregates the Company's revenue by sales channel (in thousands):

	December 29, 2018	Year Ended December 30, 2017 (1)	December 31, 2016 (1)
Distributors	\$ 618,989	\$ 547,419	\$ 471,622
Direct customers	249,278	221,448	226,004
	\$ 868,267	\$ 768,867	\$ 697,626

(1)

Under the modified retrospective method, prior period amounts have not been adjusted.

**14. Stock-Based Compensation**

In fiscal 2009, the stockholders of the Company approved the 2009 Stock Incentive Plan (the "2009 Plan") and the 2009 Employee Stock Purchase Plan (the "2009 Purchase Plan"). In fiscal 2017, the stockholders of the Company approved amendments to both the 2009 Plan and the 2009 Purchase Plan. These amendments authorized additional shares of common stock for issuance, to comply with changes in applicable law, improve the Company's corporate governance and to implement other best practices.

2009 Stock Incentive Plan

## Edgar Filing: SILICON LABORATORIES INC - Form 10-K/A

Under the 2009 Plan, the following may be granted: stock options, stock appreciation rights, performance shares, performance stock units, restricted stock units (RSUs), restricted stock awards (RSAs), performance-based awards and other awards (collectively, all such grants are referred to as "awards"). The fiscal 2017 amendments to the 2009 Plan created a single share pool. All awards now deduct one share from the 2009 Plan shares available for issuance for each share granted. Awards

F-35

---

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**14. Stock-Based Compensation (Continued)**

granted under the 2009 Plan generally contain vesting provisions ranging from three to four years. The exercise price of stock options offered under the 2009 Plan may not be less than 100% of the fair market value of a share of our common stock on the date of grant. To the extent awards granted under the 2009 Plan terminate, expire or lapse for any reason, or are settled in cash, shares subject to such awards will again be available for grant.

2000 Stock Incentive Plan

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

*Stock Grants and Modifications*

The Company granted to its employees 0.6 million, 0.7 million and 1.3 million shares of full value awards and 0.0 million, 0.0 million, and 0.2 million stock options from the 2009 Plan during fiscal 2018, 2017 and 2016, respectively.

The Company recorded \$0.9 million in selling, general and administrative expense during fiscal 2016 in connection with the modifications of certain equity awards. The modifications were pursuant to three employee terminations in fiscal 2016. There were no other significant modifications made to any stock grants during fiscal 2018, 2017 or 2016.

Included in the full value awards granted under the 2009 Plan in fiscal 2018, 2017 and 2016 were a total of 41 thousand, 54 thousand and 65 thousand market-based stock awards, respectively. The awards, also known as market stock units (MSUs), provide the rights to acquire a number of shares of common stock for no cash consideration based upon achievement of specified levels of market conditions. The requisite service period for these MSUs is also the vesting period, which is generally three years. The performance criteria of the MSUs measure the difference between the total stockholders' return of the Company against that of the PHLX Semiconductor Sector Total Return Index.

Also included in the full value awards granted under the 2009 Plan during fiscal 2018, 2017 and 2016 were 41 thousand, 54 thousand and 65 thousand performance-based stock awards, respectively. The awards, also known as PSUs, provide for the rights to acquire a number of shares of common stock for no cash consideration based upon the achievement of specified revenue objectives during the year. The requisite service period for these PSUs is approximately three years from the date of grant.



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**14. Stock-Based Compensation (Continued)**

2009 Employee Stock Purchase Plan

The rights to purchase common stock granted under the 2009 Purchase Plan are intended to be treated as either (i) purchase rights granted under an "employee stock purchase plan," as that term is defined in Section 423(b) of the Internal Revenue Code (the "423(b) Plan"), or (ii) purchase rights granted under an employee stock purchase plan that is not subject to the terms and conditions of Section 423(b) of the Internal Revenue Code (the "Non-423(b) Plan"). The Company will retain the discretion to grant purchase rights under either the 423(b) Plan or the Non-423(b) Plan. Eligible employees may purchase a limited number of shares of the Company's common stock at no less than 85% of the fair market value of a share of common stock at prescribed purchase intervals during an offering period. Each offering period will be comprised of a series of one or more successive and/or overlapping purchase intervals and has a maximum term of 24 months. During fiscal 2018, 2017 and 2016, the Company issued 223 thousand, 239 thousand and 224 thousand shares, respectively, under the 2009 Purchase Plan to its employees. The weighted-average fair value for purchase rights granted in fiscal 2018 under the 2009 Purchase Plan was \$22.59 per share.

Accounting for Stock-Based Compensation

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

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

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

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

The fair values of stock options and RSUs are amortized as compensation expense on a straight-line basis over the vesting period of the grants. The fair values of RSAs are fully expensed in

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**14. Stock-Based Compensation (Continued)**

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

The fair values estimated from the Black-Scholes option-pricing model for ESPP and stock options granted were calculated using the following assumptions:

<b>Employee Stock Purchase Plan</b>	<b>December 29, 2018</b>	<b>Year Ended December 30, 2017</b>	<b>December 31, 2016</b>
Expected volatility	30%	28%	30%
Risk-free interest rate %	2.4%	1.1%	0.6%
Expected term (in months)	9	8	15
Dividend yield			

<b>Stock Options</b>	<b>December 29, 2018</b>	<b>Year Ended December 30, 2017</b>	<b>December 31, 2016</b>
Expected volatility			32%
Risk-free interest rate %			1.3%
Expected term (in years)			5.4
Dividend yield			

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

<b>MSUs</b>	<b>December 29, 2018</b>	<b>Year Ended December 30, 2017</b>	<b>December 31, 2016</b>
Expected volatility	29%	31%	30%
Risk-free interest rate %	2.4%	1.6%	0.9%
Expected term (in years)	2.9	2.9	2.9
Dividend yield			

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**14. Stock-Based Compensation (Continued)**

A summary of stock-based compensation activity with respect to fiscal 2018 follows:

<b>Stock Options</b>	<b>Shares (000s)</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (In Years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at December 30, 2017	170	\$ 38.88		
Exercised	(33)	\$ 36.45		
Outstanding at December 29, 2018	137	\$ 39.47	7.1	\$ 5,327
Vested at December 29, 2018 and expected to vest	83	\$ 40.39	7.1	\$ 3,154
Exercisable at December 29, 2018	50	\$ 37.88	7.1	\$ 2,031

<b>RSAs and RSUs</b>	<b>Shares (000s)</b>	<b>Weighted- Average Purchase Price</b>	<b>Weighted-Average Remaining Vesting Term (In Years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at December 30, 2017	1,523	\$		
Granted	522	\$		
Vested or issued	(730)	\$		
Cancelled or forfeited	(97)	\$		
Outstanding at December 29, 2018	1,218	\$	0.86	\$ 95,620
Outstanding at December 29, 2018 and expected to vest	1,147	\$	0.86	\$ 90,008

<b>PSUs and MSUs</b>	<b>Shares (000s)</b>	<b>Weighted- Average Purchase Price</b>	<b>Weighted-Average Remaining Vesting Term (In Years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at December 30, 2017	259	\$		
Granted	81	\$		
Earned or issued	(37)	\$		
Cancelled or forfeited	(21)	\$		
Outstanding at December 29, 2018	282	\$	1.1	\$ 22,164
Outstanding at December 29, 2018 and expected to vest	249	\$	1.1	\$ 19,615

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

	<b>December 29, 2018</b>	<b>Year Ended December 30, 2017</b>	<b>December 31, 2016</b>
Per grant of RSAs and RSUs	\$ 93.75	\$ 72.85	\$ 40.55
Per grant of PSUs and MSUs	\$ 97.53	\$ 78.40	\$ 32.23
Per grant of stock options	\$	\$	\$ 40.38



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**14. Stock-Based Compensation (Continued)**

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Intrinsic value of stock options exercised	\$ 1,952	\$ 2,174	\$ 2,560
Intrinsic value of RSUs that vested	\$ 68,012	\$ 53,093	\$ 36,502
Grant date fair value of RSUs that vested	\$ 37,720	\$ 32,449	\$ 39,853
Intrinsic value of MSUs that vested	\$ 3,562	\$ 687	\$
Grant date fair value of MSUs that vested	\$ 1,788	\$ 633	\$

The Company received cash of \$13.3 million for the issuance of common stock, and paid \$19.5 million for shares withheld for taxes, during fiscal 2018. The Company issues shares from the shares reserved under its stock plans upon the exercise of stock options, vesting of RSUs, PSUs and MSUs, and purchases through employee stock purchase plans. The Company does not currently expect to repurchase shares from any source to satisfy such obligation.

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Cost of revenues	\$ 1,238	\$ 1,090	\$ 1,070
Research and development	23,867	21,771	19,573
Selling, general and administrative	24,972	21,891	18,985
	50,077	44,752	39,628
Income tax benefit	8,890	11,073	8,496
	\$ 41,187	\$ 33,679	\$ 31,132

The decrease in income tax benefit in fiscal 2018 was due to the reduced current and future deductibility of executive stock compensation as a result of the Tax Cuts and Jobs Act. The increase in income tax benefit in fiscal 2017 was primarily due to the recognition of excess tax benefits in connection with the Company's adoption of ASU 2016-09, offset in part by an adjustment in the deferred tax asset due to the recent tax reform. The Company had approximately \$65.4 million of total unrecognized compensation costs related to granted stock options and awards as of December 29, 2018 that are expected to be recognized over a weighted-average period of approximately 1.9 years. There were no significant stock-based compensation costs capitalized into assets in any of the periods presented.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**14. Stock-Based Compensation (Continued)**

As of December 29, 2018, the Company had reserved shares of common stock for future issuance as follows (in thousands):

2009 Stock Incentive Plan	2,343
2009 Employee Stock Purchase Plan	985
<b>Total shares reserved</b>	<b>3,328</b>

**15. Employee Benefit Plan**

The Company maintains a defined contribution or 401(k) Plan for its qualified U.S. employees. Participants may contribute a percentage of their compensation on a pre-tax basis, subject to a maximum annual contribution imposed by the Internal Revenue Code. The Company may make discretionary matching contributions as well as discretionary profit-sharing contributions to the 401(k) Plan. The Company contributed \$3.7 million, \$3.5 million and \$3.4 million to the 401(k) Plan during fiscal 2018, 2017 and 2016, respectively.

**16. Related Party Transactions**

On July 1, 2013, Geir Førre joined the Company as senior vice president. Mr. Førre was chief executive officer of Energy Micro, until it was acquired by the Company. Mr. Førre was the beneficial owner of approximately 30% of the Energy Micro equity. In fiscal 2016, the Company entered into an agreement which settled the amount of the earn-out to be paid for fiscal 2015 through 2018. Under this agreement, Mr. Førre received approximately \$4.8 million.

Alf-Egil Bogen served on the Company's board of directors from October 17, 2013 to April 21, 2016. Mr. Bogen was chief marketing officer of Energy Micro, until it was acquired by the Company. Mr. Bogen was the beneficial owner of approximately 2% of the Energy Micro equity. Under the settlement agreement, Mr. Bogen received approximately \$0.3 million that was paid for fiscal 2015 through 2018 earn-out.

**17. Income Taxes**

The Tax Cuts and Jobs Act (the Act) was enacted in the U.S. on December 22, 2017. The Act reduced the U.S. federal corporate income tax rate to 21% from 35%, required companies to pay a one-time Transition Tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign-sourced earnings. In 2017 and the first nine months of 2018, the Company recorded provisional amounts for certain enactment-date effects of the Act by applying the guidance in Staff Accounting Bulletin No. 118 or "SAB 118" because it had not yet completed the enactment-date accounting for these effects. In 2017, the Company recorded tax expense related to the enactment-date effects of the Act that included recording the one-time Transition Tax liability related to undistributed earnings of certain foreign subsidiaries that were not previously taxed, the revaluation of deferred tax assets and liabilities and other deferred tax impacts. In 2018, certain discrete adjustments to provisional amounts were recorded. The changes to the 2017 enactment-date provisional amounts decreased the effective tax rate in 2018 by (6.2)%.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

**SAB 118 measurement period**

The Company applied the guidance in SAB 118 when accounting for the enactment-date effects of the Act in 2017 and throughout 2018. At December 30, 2017, the Company had not completed its accounting for the enactment-date income tax effects of the Act under ASC 740, *Income Taxes*, specifically for the following aspects: remeasurement of deferred tax assets and liabilities, one-time Transition Tax, its indefinite reinvestment assertion and its accounting policy for global intangible low-taxed income. As of December 29, 2018, the Company has now completed its accounting for all of the enactment-date income tax effects of the Act. As further discussed below, during 2018, the Company recognized a benefit of \$4.5 million to the provisional amounts recorded at December 30, 2017 and included these adjustments as a component of income tax expense from continuing operations.

**One-time Transition Tax**

The one-time Transition Tax is based on the Company's total post-1986 earnings and profits (E&P), which were previously deferred from U.S. income tax under U.S. tax law. The Company recorded a provisional amount for its one-time Transition Tax liability for each of its foreign subsidiaries, resulting in a Transition Tax cost of \$54.4 million, which after offset by tax attributes resulted in a total provisional Transition Tax liability of \$42.6 million at December 30, 2017.

Upon further analysis of the Act, Notices and Regulations issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service, the Company finalized its calculations of the Transition Tax liability during 2018. The Company decreased its December 30, 2017 provisional amount by \$6.1 million, which is included as a component of income tax expense from continuing operations. The Company elected to pay the Transition Tax over the eight-year period provided in the Act. As of December 29, 2018, the unpaid balance of its Transition Tax obligation is \$21.6 million, which is payable between April 2022 and April 2025.

**Deferred tax assets and liabilities**

As of December 30, 2017, the Company remeasured certain deferred tax assets and liabilities based on the tax rates at which they were expected to reverse in the future (which was generally 21%), by recording a net provisional benefit of \$28.1 million. This included the release of a deferred tax liability for future foreign earnings generated by one of the Company's foreign subsidiaries upon resolution of the Altera case of \$39.4 million as well as the release of approximately \$10.5 million of valuation allowances with corresponding deferred tax benefits. These benefits were offset by the revaluation of the Company's net deferred tax asset and a corresponding increase to deferred tax expense of \$21.8 million. Upon further analysis of certain aspects of the Act and refinement of its calculations during the 12 months ended December 29, 2018, the Company reduced its provisional benefit by \$1.0 million, which is included as a component of income tax expense from continuing operations.

**Global intangible low-taxed income (GILTI)**

The Act subjects a U.S. shareholder to tax on GILTI earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense.

Because the Company was still evaluating the GILTI provisions as of December 30, 2017, no GILTI-related deferred amounts were recorded in 2017. After further consideration in the current year, the Company has elected to account for GILTI as a period cost in the year the tax is incurred.

**Indefinite reinvestment assertion**

Beginning in 2018, the Act provides for a 100% dividends received deduction for dividends received from 10-percent owned foreign corporations by U.S. corporate shareholders, subject to a one-year holding period. Although dividend income is now generally exempt from U.S. federal income tax in the hands of U.S. corporate shareholders, companies must still apply the guidance of ASC 740-30-25-18 to account for the tax consequences of outside basis differences and other tax impacts of their investments in non-U.S. subsidiaries. As the Company was still evaluating how the Act would impact the Company's existing indefinite reinvestment assertion as of December 30, 2017, no deferred tax impacts for this item were recorded.

Upon further analysis, the Company has modified its unremitted earnings assertion both historically and on a go-forward basis to exclude the net book income of its Singapore subsidiary from the indefinite reinvestment assertion. As a result, the Company has accrued a deferred tax liability of \$0.6 million associated with the state tax cost of remitting these earnings which is included as a component of income tax expense from continuing operations.

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

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Domestic	\$ 19,777	\$ 9,700	\$ 4,313
Foreign	52,384	67,203	60,183
	\$ 72,161	\$ 76,903	\$ 64,496



Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

The provision (benefit) for income taxes consists of the following (in thousands):

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
<b>Current:</b>			
Domestic	\$ (8,843)	\$ 48,947	\$ 2,639
Foreign	5,888	7,077	4,421
<b>Total Current</b>	<b>(2,955)</b>	<b>56,024</b>	<b>7,060</b>
<b>Deferred:</b>			
Domestic	(8,978)	(25,760)	(2,430)
Foreign	503	(453)	(1,628)
<b>Total Deferred</b>	<b>(8,475)</b>	<b>(26,213)</b>	<b>(4,058)</b>
<b>Provision (benefit) for income taxes</b>	<b>\$ (11,430)</b>	<b>\$ 29,811</b>	<b>\$ 3,002</b>

The reconciliation of the federal statutory tax rate to the Company's effective tax rate is as follows:

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Federal statutory rate	21.0%	35.0%	35.0%
Foreign tax rate benefit	(12.9)	(25.4)	(22.6)
Research and development tax credits	(9.8)	(4.5)	(4.1)
GILTI and Subpart F income	4.3	1.4	1.4
Nondeductible (nontaxable) foreign expenses	3.9	1.1	(4.0)
State tax expense	1.5	0.9	0.6
Release of prior year unrecognized tax benefits	(2.7)	(0.6)	(1.7)
Excess officer compensation	2.4	1.5	1.4
Other tax effects of equity compensation	(0.4)	(2.2)	(1.5)
Change in cost-sharing treatment of stock-based compensation	(2.2)	5.2	(0.5)
Excess tax benefit of stock-based compensation	(5.9)	(5.6)	
Change in prior period valuation allowance	(2.5)	(1.3)	(0.6)
Transition tax on unremitted foreign earnings	(8.4)	70.8	
Revaluation of deferred tax balances	0.3	28.2	
Other deferred tax impacts of tax reform	(3.1)	(64.8)	
Other	(1.3)	(0.9)	1.3
<b>Effective Tax Rate</b>	<b>(15.8)%</b>	<b>38.8%</b>	<b>4.7%</b>

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

The effective tax rate for fiscal 2018 decreased from fiscal 2017 primarily due to the reduction in the U.S. federal statutory rate as well as the inclusion of one-time tax impacts recorded in 2017 from the enactment of the Act. This decrease in the effective tax rate was offset by a decrease in the Company's foreign tax rate benefit.

The effective tax rate for fiscal 2017 increased from fiscal 2016 primarily due to the one-time Transition Tax on unrepatriated earnings of certain foreign subsidiaries as a result of the enactment of the Act. Additional tax expense was also recognized for the revaluation of the Company's deferred tax assets and liabilities due to the change in the federal tax rate from 35% to 21%. These increases in tax expense were partially offset by the release of a deferred tax liability related to future foreign earnings expected under the Company's intercompany cost-sharing arrangement, as well as a decrease in the valuation allowance established on federal research and development tax credits.

On July 27, 2015, the U.S. Tax Court issued an opinion in *Altera Corp. v. Commissioner* which concluded that related parties in an intercompany cost-sharing arrangement are not required to share expenses related to stock-based compensation. In February 2016, the U.S. Internal Revenue Service appealed the decision to the U.S. Court of Appeals for the Ninth Circuit (the "Ninth Circuit"). On July 24, 2018, the Ninth Circuit reversed the 2015 decision of the U.S. Tax Court; however, on August 7, 2018, the Ninth Circuit withdrew its July 2018 decision to allow time for a reconstituted panel to confer on the appeal. On October 16, 2018, a rehearing was held, however, no decision has been made by the Ninth Circuit. Although the U.S. Treasury has not withdrawn the requirement to include stock-based compensation from its regulations, based on the facts and circumstances of the Tax Court Case, the Company continues to reflect a tax benefit in its financial statements based on the expectation that the Tax Court decision will be upheld on appeal. As of the end of fiscal 2018, the Company's financial statements reflect a net deferred tax asset of \$27.2 million for this position. The Company will continue to monitor ongoing developments and potential impacts to its Consolidated Financial Statements.

The Company's operations in Singapore are subject to reduced tax rates through June 30, 2024, as long as certain conditions are met. Without the impact of the one-time Transition Tax, the income tax benefit from the reduced Singapore tax rate reflected in earnings was approximately \$5.4 million (representing \$0.12 per diluted share) in fiscal 2018, approximately \$11.0 million (representing \$0.25 per diluted share) in fiscal 2017 and approximately \$7.7 million (representing \$0.18 per diluted share) in fiscal 2016.

**Deferred Income Taxes**

Deferred tax assets and liabilities are recorded for the estimated tax impact of temporary differences between the tax basis and book basis of assets and liabilities. Significant components of the

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

Company's deferred taxes as of December 29, 2018 and December 30, 2017 are as follows (in thousands):

	December 29, 2018	December 30, 2017
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 9,973	\$ 12,925
Research and development tax credit carryforwards	12,500	12,322
Stock-based compensation	4,360	5,256
Depreciation and amortization	7,799	
Capitalized research and development	2,521	3,468
Deferred income on shipments to distributors	5,824	7,070
Expected future cost-sharing adjustment	25,257	21,582
Accrued liabilities and other	7,737	6,999
	75,971	69,622
Less: Valuation allowance	(4,975)	(6,518)
	70,996	63,104
<b>Deferred tax liabilities:</b>		
Acquired intangible assets	20,656	13,884
Depreciation and amortization	4,604	1,274
Convertible debt	8,080	10,351
Prepaid expenses and other	2,142	1,421
	35,482	26,930
<b>Net deferred tax assets</b>	<b>\$ 35,514</b>	<b>\$ 36,174</b>

As of December 29, 2018, the Company had federal net operating loss and research and development tax credit carryforwards of approximately \$32.7 million and \$1.9 million, respectively, as a result of the Silicon Clocks, Spectra Linear and Ember acquisitions. These carryforwards expire in fiscal years 2020 through 2031. Recognition of these loss and credit carryforwards is subject to an annual limit, which may cause them to expire before they are used.

As of December 29, 2018, the Company had foreign net operating loss carryforwards of approximately \$1.9 million as a result of the Energy Micro acquisition. These loss carryforwards do not expire and recognition is not subject to an annual limit.

The Company also had state loss, state tentative minimum tax credit, and state research and development tax credit carryforwards of approximately \$43.8 million, \$0.1 million, and \$13.5 million, respectively. A portion of these loss and credit carryforwards was generated by the Company and a portion was acquired through the Integration Associates, Silicon Clocks, Spectra Linear, Ember and Zentri acquisitions. Certain of these carryforwards expire in fiscal years 2019 through 2036, and others do not expire. Recognition of some of these loss and credit carryforwards is subject to an annual limit, which may cause them to expire before they are used.

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

A valuation allowance is established against a deferred tax asset when it is more likely than not that the deferred tax asset will not be realized. As of December 29, 2018, the Company maintains a valuation allowance with respect to certain deferred tax assets relating to state research and development tax credit and state net operating loss carryforwards.

At the end of fiscal 2018, undistributed earnings of certain of the Company's foreign subsidiaries of approximately \$105 million are intended to be permanently reinvested outside the U.S. Accordingly, no provision for foreign withholding tax and state income taxes associated with a distribution of these earnings has been made. Determination of the amount of the unrecognized deferred tax liability on these unremitted earnings is not practicable.

**Uncertain Tax Positions**

The following table summarizes the activity related to gross unrecognized tax benefits (in thousands):

	December 29, 2018	Year Ended December 30, 2017	December 31, 2016
Beginning balance	\$ 3,187	\$ 3,054	\$ 3,610
Additions based on tax positions related to current year	630	456	439
Additions based on tax positions related to prior years	115	114	99
Reductions for tax positions as a result of a lapse of the applicable statute of limitations	(1,896)	(437)	(1,094)
Ending balance	\$ 2,036	\$ 3,187	\$ 3,054

As of December 29, 2018, December 30, 2017 and December 31, 2016, the Company had gross unrecognized tax benefits, inclusive of interest, of \$2.1 million, \$3.2 million and \$3.0 million, respectively, of which \$2.1 million, \$3.2 million and \$2.2 million, respectively, would affect the effective tax rate if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. These amounts were not material for fiscal years 2018, 2017 and 2016.

The Norwegian Tax Administration ("NTA") has completed its examination of the Company's Norwegian subsidiary for income tax matters relating to fiscal years 2013, 2014, 2015 and 2016. The Company received a final assessment from the NTA in December 2017 concerning an adjustment to its 2013 taxable income related to the pricing of an intercompany transaction. The Company is currently appealing the assessment. Since the original assessment was issued, the NTA has reduced its assessment. The revised adjustment to the pricing of the intercompany transaction results in approximately \$16.2 million additional Norwegian income tax. The Company disagrees with the NTA's assessment and believes the Company's position on this matter is more likely than not to be sustained. The Company plans to exhaust all available administrative remedies, and if unable to resolve this

Table of Contents

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2018 (Continued)**

**17. Income Taxes (Continued)**

matter through administrative remedies with the NTA, the Company plans to pursue judicial remedies. The NTA may request an advance payment of approximately \$9 million during the appeal process.

The Company believes that it has accrued adequate reserves related to all matters contained in tax periods open to examination. Should the Company experience an unfavorable outcome in the NTA matter, however, such an outcome could have a material impact on its financial statements.

Tax years 2014 through 2018 remain open to examination by the major taxing jurisdictions in which the Company operates. The Company is not currently under audit in any major taxing jurisdiction.

The Company believes it is reasonably possible that the gross unrecognized tax benefits will not decrease in the next 12 months.

**18. Segment Information**

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

The Company groups its products into four categories, based on the markets and applications in which the products may be used. See Note 13, *Revenues*, for a summary of the Company's revenue by product category.

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

	<b>December 29, 2018</b>	<b>Year Ended December 30, 2017</b>	<b>December 31, 2016</b>
United States	\$ 149,385	\$ 112,574	\$ 94,583
China	344,255	307,748	291,974
Rest of world	374,627	348,545	311,069
Total	\$ 868,267	\$ 768,867	\$ 697,626

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

	<b>December 29, 2018</b>	<b>December 30, 2017</b>
United States	\$ 128,622	\$ 119,746
Rest of world	10,427	7,936
Total	\$ 139,049	\$ 127,682

Table of Contents**Supplementary Financial Information (Unaudited)**

Quarterly financial information for fiscal 2018 and 2017 is as follows. All quarterly periods reported here had 13 weeks (in thousands, except per share amounts):

	<b>Fiscal 2018</b>			
	<b>Fourth Quarter</b>	<b>Third Quarter</b>	<b>Second Quarter</b>	<b>First Quarter</b>
Revenues	\$ 215,534	\$ 230,243	\$ 217,106	\$ 205,384
Gross margin	130,243	135,627	131,292	124,237
Operating income	18,362	25,130	18,001	23,715
Net income	\$ 15,145	\$ 27,761	\$ 14,280	\$ 26,405
<b>Earnings per share:</b>				
Basic	\$ 0.35	\$ 0.64	\$ 0.33	\$ 0.61
Diluted	\$ 0.35	\$ 0.63	\$ 0.32	\$ 0.60

	<b>Fiscal 2017</b>			
	<b>Fourth Quarter</b>	<b>Third Quarter</b>	<b>Second Quarter</b>	<b>First Quarter</b>
Revenues	\$ 201,018	\$ 198,723	\$ 190,098	\$ 179,028
Gross margin	119,264	116,574	113,192	105,161
Operating income	26,390	24,968	20,934	12,682
Net income (loss)	\$ (4,852)	\$ 19,949	\$ 16,569	\$ 15,426
<b>Earnings (loss) per share:</b>				
Basic	\$ (0.11)	\$ 0.47	\$ 0.39	\$ 0.37
Diluted	\$ (0.11)	\$ 0.46	\$ 0.38	\$ 0.36

---