

SILICON LABORATORIES INC
Form 10-Q
July 25, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2014

or

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

For the transition period from _____ to _____

Commission file number: 000-29823

SILICON LABORATORIES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

74-2793174

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

400 West Cesar Chavez, Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

(512) 416-8500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 15, 2014, 43,421,471 shares of common stock of Silicon Laboratories Inc. were outstanding.

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Cautionary Statement

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

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

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

	June 28, 2014	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 93,290	\$ 95,800
Short-term investments	235,645	179,593
Accounts receivable, net of allowances for doubtful accounts of \$788 at June 28, 2014 and \$797 at December 28, 2013	69,042	72,124
Inventories	45,557	45,271
Deferred income taxes	17,658	18,878
Prepaid expenses and other current assets	47,785	47,651
Total current assets	508,977	459,317
Long-term investments	10,993	10,632
Property and equipment, net	129,357	132,445
Goodwill	228,781	228,781
Other intangible assets, net	124,106	131,593
Other assets, net	22,251	28,382
Total assets	\$ 1,024,465	\$ 991,150
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 24,745	\$ 22,126
Current portion of long-term debt	10,000	7,500
Accrued expenses	65,672	45,975
Deferred income on shipments to distributors	33,437	30,853
Income taxes	896	2,693
Total current liabilities	134,750	109,147
Long-term debt	82,500	87,500
Other non-current liabilities	29,610	55,941
Total liabilities	246,860	252,588
Commitments and contingencies		
Stockholders equity:		
Preferred stock \$0.0001 par value; 10,000 shares authorized; no shares issued and outstanding		
Common stock \$0.0001 par value; 250,000 shares authorized; 43,406 and 42,779 shares issued and outstanding at June 28, 2014 and December 28, 2013, respectively	4	4
Additional paid-in capital	65,199	48,630
Retained earnings	713,001	690,612
Accumulated other comprehensive loss	(599)	(684)

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Total stockholders' equity		777,605		738,562
Total liabilities and stockholders' equity	\$	1,024,465	\$	991,150

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

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Revenues	\$ 154,918	\$ 141,543	\$ 300,609	\$ 286,918
Cost of revenues	56,255	52,770	114,841	110,773
Gross margin	98,663	88,773	185,768	176,145
Operating expenses:				
Research and development	41,844	37,387	84,329	74,969
Selling, general and administrative	36,017	32,357	70,628	61,510
Operating expenses	77,861	69,744	154,957	136,479
Operating income	20,802	19,029	30,811	39,666
Other income (expense):				
Interest income	200	152	502	487
Interest expense	(780)	(831)	(1,578)	(1,673)
Other income (expense), net	(6)	114	61	62
Income before income taxes	20,216	18,464	29,796	38,542
Provision for income taxes	5,937	5,852	7,407	5,896
Net income	\$ 14,279	\$ 12,612	\$ 22,389	\$ 32,646
Earnings per share:				
Basic	\$ 0.33	\$ 0.30	\$ 0.52	\$ 0.77
Diluted	\$ 0.32	\$ 0.29	\$ 0.51	\$ 0.76
Weighted-average common shares outstanding:				
Basic	43,462	42,552	43,271	42,370
Diluted	44,218	43,269	44,137	43,191

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

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	\$ 14,279	\$ 12,612	\$ 22,389	\$ 32,646
Other comprehensive income (loss), before tax				
Net changes to available-for-sale securities				
Unrealized gains (losses) arising during the period	59	(1,093)	472	(1,207)
Reclassification for gains included in net income		(232)		(232)
Net changes to cash flow hedges				
Unrealized gains (losses) arising during the period	(486)	1,101	(627)	1,144
Reclassification for losses included in net income	143	141	286	322
Other comprehensive income (loss), before tax	(284)	(83)	131	27
Provision (benefit) for income taxes	(99)	(29)	46	10
Other comprehensive income (loss)	(185)	(54)	85	17
Comprehensive income	\$ 14,094	\$ 12,558	\$ 22,474	\$ 32,663

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

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

	Six Months Ended	
	June 28, 2014	June 29, 2013
Operating Activities		
Net income	\$ 22,389	\$ 32,646
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	6,427	6,634
Amortization of other intangible assets and other assets	8,839	5,635
Stock-based compensation expense	18,559	13,684
Income tax benefit (shortfall) from stock-based awards	377	(489)
Excess income tax benefit from stock-based awards	(589)	(243)
Deferred income taxes	4,665	9,277
Changes in operating assets and liabilities:		
Accounts receivable	3,082	9,388
Inventories	(123)	(1,028)
Prepaid expenses and other assets	3,394	5,023
Accounts payable	3,846	(2,271)
Accrued expenses	(4,902)	(6,013)
Deferred income on shipments to distributors	2,584	293
Income taxes	(5,130)	(6,439)
Net cash provided by operating activities	63,418	66,097
Investing Activities		
Purchases of available-for-sale investments	(117,744)	(121,994)
Proceeds from sales and maturities of available-for-sale investments	61,803	146,870
Purchases of property and equipment	(3,339)	(6,498)
Purchases of other assets	(2,726)	(2,438)
Net cash provided by (used in) investing activities	(62,006)	15,940
Financing Activities		
Proceeds from issuance of common stock, net of shares withheld for taxes	8,943	9,512
Excess income tax benefit from stock-based awards	589	243
Repurchases of common stock	(10,954)	
Payments on debt	(2,500)	(3,750)
Net cash provided by (used in) financing activities	(3,922)	6,005
Increase (decrease) in cash and cash equivalents	(2,510)	88,042
Cash and cash equivalents at beginning of period	95,800	105,426
Cash and cash equivalents at end of period	\$ 93,290	\$ 193,468

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the condensed consolidated financial position of Silicon Laboratories Inc. and its subsidiaries (collectively, the Company) at June 28, 2014 and December 28, 2013, the condensed consolidated results of its operations for the three and six months ended June 28, 2014 and June 29, 2013, the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 28, 2014 and June 29, 2013, and the Condensed Consolidated Statements of Cash Flows for the six months ended June 28, 2014 and June 29, 2013. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the three and six months ended June 28, 2014 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited Condensed Consolidated Financial Statements do not include certain footnotes and financial presentations normally required under U.S. generally accepted accounting principles (GAAP). Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 28, 2013, included in the Company's Form 10-K filed with the Securities and Exchange Commission (SEC) on January 31, 2014.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2014 will have 53 weeks with the extra week occurring in the fourth quarter of the year. Fiscal 2013 had 52 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks.

Revenue Recognition

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

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

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recent Accounting Pronouncements

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

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

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

Table of Contents**Silicon Laboratories Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****2. Earnings Per Share**

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	\$ 14,279	\$ 12,612	\$ 22,389	\$ 32,646
Shares used in computing basic earnings per share	43,462	42,552	43,271	42,370
Effect of dilutive securities:				
Stock options and other stock-based awards	756	717	866	821
Shares used in computing diluted earnings per share	44,218	43,269	44,137	43,191
Earnings per share:				
Basic	\$ 0.33	\$ 0.30	\$ 0.52	\$ 0.77
Diluted	\$ 0.32	\$ 0.29	\$ 0.51	\$ 0.76

For the three months ended June 28, 2014 and June 29, 2013 and the six months ended June 28, 2014 and June 29, 2013, approximately 0.1 million, 0.5 million, 0.2 million and 0.4 million shares, respectively, were not included in the diluted earnings per share calculation since the shares were anti-dilutive.

3. Cash, Cash Equivalents and Investments

The Company's cash equivalents and short-term investments as of June 28, 2014 consisted of municipal bonds, corporate bonds, variable-rate demand notes, commercial paper, money market funds, certificates of deposit, asset-backed securities, international government bonds, U.S. government bonds and U.S. government agency. The Company's long-term investments consisted of auction-rate securities. In fiscal 2008, auctions for many of the Company's auction-rate securities failed because sell orders exceeded buy orders. As of June 28, 2014, the Company held \$12.4 million par value auction-rate securities, all of which have experienced failed auctions. The underlying assets of the securities consisted of student loans and municipal bonds, of which \$10.4 million were guaranteed by the U.S. government and the remaining \$2.0 million were privately insured. As of June 28, 2014, \$6.0 million had credit ratings of AA, \$2.0 million had a credit rating of A and \$4.4 million of the auction-rate securities had credit ratings of BBB. These securities have contractual maturity dates ranging from 2033 to 2046 at June 28, 2014. The Company is receiving the underlying cash flows on all of its auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the securities, a buyer is found outside of the auction process or the underlying securities mature. The Company is unable to predict if these funds will become available before their maturity dates.

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

The Company does not expect to need access to the capital represented by any of its auction-rate securities prior to their maturities. The Company does not intend to sell, and believes it is not more likely than not that it will be required to sell, its auction-rate securities before their anticipated recovery in market value or final settlement at the underlying par value. The Company believes that the credit ratings and credit support of the security issuers indicate that they have the ability to settle the securities at par value. As such, the Company has determined that no other-than-temporary impairment losses existed as of June 28, 2014.

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

	June 28, 2014			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and Cash Equivalents:				
Cash on hand	\$ 56,959	\$	\$	\$ 56,959
Available-for-sale securities:				
Money market funds	16,670			16,670
Commercial paper	13,446			13,446
Certificates of deposit	5,315			5,315
Municipal bonds	900			900
Total available-for-sale securities	36,331			36,331
Total cash and cash equivalents	\$ 93,290	\$	\$	\$ 93,290
Short-term Investments:				
Available-for-sale securities:				
Municipal bonds	\$ 157,600	\$ (2)	\$ 290	\$ 157,888
Corporate bonds	32,470	(15)	67	32,522
Variable-rate demand notes	29,645			29,645
Commercial paper	6,542			6,542
Asset-backed securities				