

SILICON LABORATORIES INC
Form 10-Q
October 28, 2009
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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 October 3, 2009

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)

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

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

Non-accelerated filer

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 October 21, 2009, 45,670,190 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 expects, anticipates, intends, believes 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)**

	October 3, 2009	January 3, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 149,072	\$ 172,272
Short-term investments	228,935	101,267
Accounts receivable, net of allowance for doubtful accounts of \$645 at October 3, 2009 and \$1,011 at January 3, 2009	61,487	36,144
Inventories	33,510	28,293
Deferred income taxes	7,437	6,439
Prepaid expenses and other current assets	17,869	18,297
Total current assets	498,310	362,712
Long-term investments	25,344	51,821
Property, equipment and software, net	28,698	30,496
Goodwill	105,109	105,515
Other intangible assets, net	43,804	49,728
Other assets, net	16,894	23,973
Total assets	\$ 718,159	\$ 624,245
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 26,840	\$ 22,274
Accrued expenses	30,176	29,119
Deferred income on shipments to distributors	31,966	21,599
Income taxes		4
Total current liabilities	88,982	72,996
Long-term obligations and other liabilities	50,513	48,789
Total liabilities	139,495	121,785
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; 45,577 and 44,613 shares issued and outstanding at October 3, 2009 and January 3, 2009, respectively	5	4
Additional paid-in capital	117,555	75,711
Retained earnings	465,633	432,793
Accumulated other comprehensive loss	(4,529)	(6,048)
Total stockholders equity	578,664	502,460
Total liabilities and stockholders equity	\$ 718,159	\$ 624,245

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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		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
Revenues	\$ 125,913	\$ 113,483	\$ 313,830	\$ 316,282
Cost of revenues	44,878	44,174	117,336	120,593
Gross margin	81,035	69,309	196,494	195,689
Operating expenses:				
Research and development	25,904	25,785	77,841	73,836
Selling, general and administrative	28,592	25,940	78,221	75,035
In-process research and development		10,250		10,250
Operating expenses	54,496	61,975	156,062	159,121
Operating income	26,539	7,334	40,432	36,568
Other income (expense):				
Interest income	546	2,073	2,083	9,277
Interest expense	(51)	(71)	(154)	(325)
Other income (expense), net	8	(43)	298	(540)
Income before income taxes	27,042	9,293	42,659	44,980
Provision for income taxes	4,603	8,139	9,819	18,369
Net income	\$ 22,439	\$ 1,154	\$ 32,840	\$ 26,611
Earnings per share:				
Basic	\$ 0.50	\$ 0.02	\$ 0.73	\$ 0.54
Diluted	\$ 0.47	\$ 0.02	\$ 0.71	\$ 0.53
Weighted-average common shares outstanding:				
Basic	45,170	47,331	44,814	49,036
Diluted	47,322	48,385	46,127	50,083

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

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Silicon Laboratories Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended	
	October 3, 2009	October 4, 2008
Operating Activities		
Net income	\$ 32,840	\$ 26,611
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property, equipment and software	9,021	7,927
Loss (gain) on disposal of property, equipment and software	32	(15)
Amortization of other intangible assets and other assets	5,924	5,118
Stock compensation expense	32,176	30,393
In-process research and development		10,250
Income tax benefit from employee stock-based awards	1,672	1,108
Excess income tax benefit from employee stock-based awards	(1,378)	(810)
Deferred income taxes	626	339
Changes in operating assets and liabilities:		
Accounts receivable	(25,016)	(5,838)
Inventories	(5,256)	(1,367)
Prepaid expenses and other assets	3,444	8,930
Accounts payable	5,656	(1,258)
Accrued expenses	3,801	(6,922)
Deferred income on shipments to distributors	10,367	965
Income taxes	4,246	5,654
Net cash provided by operating activities	78,155	81,085
Investing Activities		
Purchases of available-for-sale investments	(182,039)	(151,470)
Proceeds from sales and maturities of available-for-sale investments	80,312	271,824
Proceeds from sales of trading securities	2,600	
Purchases of property, equipment and software	(6,991)	(7,861)
Proceeds from the sale of assets		14,265
Purchases of other assets	(2,763)	(4,828)
Acquisitions of businesses, net of cash acquired	(2,800)	(74,560)
Net cash provided by (used in) investing activities	(111,681)	47,370
Financing Activities		
Proceeds from issuance of common stock	26,322	7,649
Excess income tax benefit from employee stock-based awards	1,378	810
Repurchases of common stock	(12,325)	(246,031)
Repurchases of stock to satisfy employee tax withholding	(5,049)	(3,980)
Net cash provided by (used in) financing activities	10,326	(241,552)
Decrease in cash and cash equivalents	(23,200)	(113,097)
Cash and cash equivalents at beginning of period	172,272	264,408
Cash and cash equivalents at end of period	\$ 149,072	\$ 151,311

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 October 3, 2009 and January 3, 2009, the condensed consolidated results of its operations for the three and nine months ended October 3, 2009 and October 4, 2008, and the Condensed Consolidated Statements of Cash Flows for the nine months ended October 3, 2009 and October 4, 2008. All intercompany balances and transactions have been eliminated. The condensed consolidated results of operations for the three and nine months ended October 3, 2009 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. Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended January 3, 2009, included in the Company's Form 10-K filed with the Securities and Exchange Commission (SEC) on February 11, 2009.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2009 will have 52 weeks and fiscal 2008 had 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. The extra week in fiscal 2008 was added to the first quarter, making such quarter consist of 14 weeks.

Reclassifications

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

Revenue Recognition

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

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued the following:

- FASB Accounting Standards Codification (ASC) 820-10-65, formerly FASB Staff Position (FSP) FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This ASC also includes guidance on identifying circumstances that indicate a transaction is not orderly.
- FASB ASC 320-10-65, formerly FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements.
- FASB ASC 825-10-65, formerly FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements.

These ASCs are effective for reporting periods ending after June 15, 2009 and were adopted by the Company on April 5, 2009. The adoption of the ASCs did not have a material impact on the Company's financial statements.

In June 2008, the FASB issued FASB ASC 260-10-45, formerly FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. ASC 260-10-45 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method described in FASB ASC 260, *Earnings per Share*. ASC 260-10-45 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years on a retrospective basis. The Company adopted ASC 260-10-45 at the beginning of fiscal 2009. The adoption did not 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		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
Net income	\$ 22,439	\$ 1,154	\$ 32,840	\$ 26,611
Shares used in computing basic earnings per share	45,170	47,331	44,814	49,036
Effect of dilutive securities:				
Stock options and awards	2,152	1,054	1,313	1,047
Shares used in computing diluted earnings per share	47,322	48,385	46,127	50,083
Earnings per share:				
Basic	\$ 0.50	\$ 0.02	\$ 0.73	\$ 0.54
Diluted	\$ 0.47	\$ 0.02	\$ 0.71	\$ 0.53

Approximately 0.9 million, 3.9 million, 3.1 million and 3.7 million weighted-average dilutive potential shares of common stock have been excluded from the earnings per share calculation for the three months ended October 3, 2009 and October 4, 2008, and for the nine months ended October 3, 2009 and October 4, 2008, respectively, as they were anti-dilutive.

3. Financial Instruments*Investments*

The Company's short-term investments consist primarily of U.S. government agency bonds and discount notes, corporate bonds, municipal bonds, U.S. treasury bills, U.S. government bonds, commercial paper, international government bonds and auction-rate securities purchased through UBS (UBS auction-rate securities). The Company's long-term investments consist of non-UBS auction-rate securities. Early in fiscal 2008, auctions for many of the Company's auction-rate securities failed because sell orders exceeded buy orders. As of October 3, 2009, the Company held \$51.6 million par value auction-rate securities, all of which experienced failed auctions. The underlying assets of the securities

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consisted of student loans and municipal bonds, of which \$47.6 million were guaranteed by the U.S. government and the remaining \$4.0 million were privately insured. As of October 3, 2009, \$40.6 million of the auction-rate securities had credit ratings of AAA, \$4.0 million had credit ratings of AA and \$7.0 million had a credit rating of BBB. These securities had contractual maturity dates ranging from 2025 to 2046 and with current yields of 0.51% to 2.85% per year at October 3, 2009. 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)**

In November 2008, the Company entered into an agreement with UBS AG, which provides the Company certain rights to sell to UBS the auction-rate securities which were purchased through them. As of October 3, 2009, the Company held \$24.2 million par value auction-rate securities purchased from UBS. The Company has the option to sell these securities to UBS at par value from June 30, 2010 through July 2, 2012. UBS, at its discretion, may purchase or sell these securities on the Company's behalf at any time provided the Company receives par value for the securities sold. The issuers of the auction-rate securities continue to have the right to redeem the securities at their discretion. The agreement allows for the continuation of the accrual and payment of interest due on the securities. The agreement also provides the Company with access to loans of up to 75% of the market value of the unredeemed securities until June 30, 2010. These loans would carry interest rates which would be consistent with the interest income on the related auction-rate securities. As of October 3, 2009, the Company had no loans outstanding under this agreement.

The Company's right to sell the auction-rate securities to UBS commencing June 30, 2010 represents a put option for a payment equal to the par value of the auction-rate securities. As the put option is non-transferable and cannot be attached to the auction-rate securities if they are sold to another entity other than UBS, it represents a freestanding instrument between the Company and UBS. The Company elected to record the put option at fair value. The Company has classified the UBS auction-rate securities as trading securities and, accordingly, recognizes changes in fair value in earnings. Adjustments to the fair values of the put option and the trading securities generally offset each other and are recorded in other income (expense), net. The Company intends to exercise its option to sell its UBS auction-rate securities to UBS on June 30, 2010 and has therefore classified both the UBS auction-rate securities and the related put option as short-term investments as of October 3, 2009.

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 non-UBS 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 October 3, 2009.

The Company's available-for-sale investments consist of the following (in thousands):

Debt Security	Cost	October 3, 2009		Fair Value
		Gross Unrealized Losses	Gross Unrealized Gains	
U.S. government agency	\$ 68,157	\$	\$ 76	\$ 68,233
Corporate bonds	46,857		47	46,904
Municipal bonds	40,018		215	40,233
U.S. treasury bills	28,478		9	28,487
Auction rate securities	27,450	(2,106)		25,344
Commercial paper	9,775			9,775
U.S. government bonds	9,108		21	9,129
International government bonds	8,011		8	8,019

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\$	237,854	\$	(2,106)	\$	376	\$	236,124
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Table of Contents**Silicon Laboratories Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

Debt Security	Cost	January 3, 2009		Fair Value
		Gross Unrealized Losses	Gross Unrealized Gains	
Municipal bonds	\$ 88,907	\$	\$ 503	\$ 89,410
Auction-rate securities	30,000	(4,260)		25,740
U.S. government agency	10,001		56	10,057
	\$ 128,908	\$ (4,260)	\$ 559	\$ 125,207

All of the Company's available-for-sale investments with gross unrealized losses had been in a continuous loss position for more than 12 months as of October 3, 2009 and had been in a continuous loss position for less than 12 months as of January 3, 2009. The gross unrealized losses as of October 3, 2009 and January 3, 2009 were due primarily to the illiquidity of the Company's auction-rate securities.

The following summarizes the contractual underlying maturities of the Company's available-for-sale investments at October 3, 2009 (in thousands):

	Cost	Fair Value
Due in one year or less	\$ 129,808	\$ 130,075
Due after one year through three years	80,596	80,705
Due after ten years	27,450	25,344
	\$ 237,854	\$ 236,124

In addition, the Company has made equity investments in non-publicly traded companies that it accounts for under the cost method. The Company periodically reviews these 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 is exposed to interest rate fluctuations in the normal course of its business, including through its corporate headquarters leases. The base rents for these leases are calculated using a variable interest rate based on the three-month LIBOR. The Company has entered into interest rate swap agreements with notional values of \$44.3 million and \$50.1 million and, effectively, fixed the rent payment amounts on these leases through March 2011 and March 2013, respectively. The Company's objective is to offset gains and losses resulting from changes in interest rates with losses and gains on the derivative contracts, thereby reducing volatility of earnings. The Company does not use derivative contracts for speculative purposes.

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The interest rate swap agreements are designated and qualify as cash flow hedges. The effective portion of the gain or loss on interest rate swaps is recorded in accumulated other comprehensive loss as a separate component of stockholders' equity and is subsequently recognized in earnings when the hedged exposure affects earnings. Cash flows from derivatives are classified as cash flows from operating activities in the Consolidated Statement of Cash Flows.

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

The Company estimates the fair values of derivatives based on quoted prices and market observable data of similar instruments. If the lease agreements or the interest rate swap agreements are terminated prior to maturity, the fair value of the interest rate swaps recorded in accumulated other comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the agreements at the time of termination. During the nine months ended October 3, 2009, the Company did not discontinue any cash flow hedges.

The Company measures the effectiveness of its cash flow hedges by comparing the change in fair value of the hedged item with the change in fair value of the interest rate swap. The Company recognizes ineffective portions of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Statement of Income. As of October 3, 2009, no portions of the gains or losses from the hedging instruments were excluded from the assessment of effectiveness. There was no hedge ineffectiveness for any of the periods presented.

The Company's derivative financial instruments consisted of the following (in thousands):

		October 3, 2009	
		Balance Sheet	
		Location	Fair Value
Cash flow hedges:			
Interest rate swaps		Long-term obligations and other liabilities	\$ 5,239

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

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) during the:			Location of Gain (Loss) Reclassified into Income	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) during the:	
	Three Months Ended		October 4,		Three Months Ended	
	October 3,	October 4,	2008		October 3,	October 4,
	2009	2008			2009	2008
Interest rate swaps	\$ (1,111)	\$ (1,160)	Rent expense	\$ (775)	\$	
	Nine Months Ended			Nine Months Ended		
	October 3,	October 4,		October 3,	October 4,	
	2009	2008		2009	2008	
Interest rate swaps	\$ (1,587)	\$ (1,160)	Rent expense	\$ (1,950)	\$	

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The Company expects to reclassify \$3.1 million of its interest rate swap losses included in accumulated other comprehensive loss as of October 3, 2009 into earnings in the next 12 months, which is offset by lower rent payments.

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

The Company's interest rate swap agreements contain provisions that require it to maintain unencumbered cash and highly-rated short-term investments of at least \$150 million. If the Company's unencumbered cash and highly-rated short-term investments are less than \$150 million, it would be required to post collateral with the counterparty in the amount of the fair value of the interest rate swap agreements in net liability positions. Both of the Company's interest rate swaps were in a net liability position at October 3, 2009. No collateral has been posted with the counterparties as of October 3, 2009.

4. Fair Value of Financial Instruments

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

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

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.

The following summarizes the valuation of the Company's financial instruments (in thousands). The table does 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 October 3, 2009 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash equivalents	\$ 134,863	\$	\$	\$ 134,863
Short-term investments (1)	204,812		24,123	228,935

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Long-term investments (2)					25,344	25,344
	\$	339,675	\$	\$	49,467	\$ 389,142
Liabilities						
Derivative instruments	\$		\$	5,239	\$	5,239
	\$		\$	5,239	\$	5,239

(1) Included in the Company's short-term investments are \$66.2 million of U.S. government agency debt securities, \$52.8 million of corporate debt securities, \$40.2 million of municipal debt securities, \$37.6 million of U.S. government debt securities, \$21.5 million of UBS auction-rate securities classified as trading together with a \$2.6 million for a put option and \$8.0 million of international government debt securities.

(2) The Company's long-term investments consist entirely of available-for-sale auction-rate securities.

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

The Company's cash equivalents and short-term investments (other than its UBS auction-rate securities and put option) are valued using quoted prices and other relevant information generated by market transactions involving identical assets. The Company's auction-rate securities and put option 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, a discount to reflect the Company's inability to liquidate the securities and counterparty risk. The Company's derivative instruments are valued using quoted prices and market observable data of similar instruments.

The following summarizes the activity in Level 3 financial instruments for the three and nine months ended October 3, 2009 (in thousands):

	Three Months Ended			Nine Months Ended		
	Auction Rate Securities	Put Option	Total	Auction Rate Securities	Put Option	Total
Beginning balance	\$ 43,540	\$ 4,881	\$ 48,421	\$ 46,859	\$ 4,962	\$ 51,821
Net purchases, sales, issuances and settlements	(1,325)		(1,325)	(4,299)	(301)	(4,600)
Unrealized gains (losses)	2,331		2,331	2,154		2,154
Net recognized gains (losses)	2,362	(2,322)	40	2,194	(2,102)	92
Balance at October 3, 2009	\$ 46,908	\$ 2,559	\$ 49,467	\$ 46,908	\$ 2,559	\$ 49,467
Gain (loss) for period included in earnings attributable to the Level 3 financial instruments still held at October 3, 2009 related to:						
Trading securities	\$ 2,362	\$	\$ 2,362	\$ 2,194	\$	\$ 2,194
Fair value of the put option		(2,322)	(2,322)		(2,102)	(2,102)
	\$ 2,362	\$ (2,322)	\$ 40	\$ 2,194	\$ (2,102)	\$ 92

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. Balance Sheet Details

Balance sheet details consist of the following (in thousands):

Inventories

	October 3, 2009	January 3, 2009
Work in progress	\$ 26,159	\$ 23,474
Finished goods	7,351	4,819
	\$ 33,510	\$