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

FORM 10-K

(Mark One)

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

For the yearly period ended December 29, 2001

Or

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

For the transition period from to

Commission file number:

SILICON LABORATORIES INC.

(Exact name of registrant as specified in its charter)

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

(512) 416-8500

(Registrant's telephone number, including area code)

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $851,153,000 as of December 29, 2001, based upon the closing sale price on the Nasdaq National Market System reported for such date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 48,696,980 shares of the Registrant's common stock issued and outstanding as of January 15, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business and Factors Affecting Future Operating Results

GENERAL

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

INDUSTRY BACKGROUND

In a December 2001 report, Dataquest projected that the communications semiconductor market will enter a growth phase beginning in 2002, with an estimated 17% compound annual growth rate through 2006. This forecast projects total communications semiconductor market revenues will reach $64 billion by

2004. This growth is being driven in large part by the demand for communications services, which has increased at a rapid rate in recent years due to a number of factors, including the growth of Internet usage, development of new communications technologies, availability of improved communications services at lower costs, broad deployment of optical networks and remote access requirements for corporate networks. This demand has fueled tremendous growth in the number of wireless and wireline communications devices and optical networking applications. For example, in wireless markets, the demand for wireless phones and other wireless devices, such as pagers and personal digital assistants, has grown rapidly as digital wireless

services have become increasingly popular and affordable. In wireline markets, demand has increased for communications capabilities in a wide range of products, including personal computers, cable and satellite set-top boxes, fax machines, credit card verification machines, automated teller machines and remote gaming systems. Consumers increasingly demand higher capacity connections at their residences using cable modems or high speed digital subscriber lines (DSL). The demand for greater and faster Internet access by households and businesses has increased the need to significantly upgrade the communications backbone to handle this traffic, increasing the need for smaller, faster and better performing optical networking systems that route this traffic.

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

Manufacturers of communications devices face accelerating time-to-market demands and must adapt to evolving industry standards and new technologies. Because analog-intensive, mixed-signal IC design expertise is difficult to find, these manufacturers increasingly are turning to third parties to provide advanced mixed-signal ICs. Designing the analog component of a mixed-signal IC involves great complexity and difficulty, because the performance of an analog IC depends on the creative analog expertise of engineers to optimize speed, power, amplitude and resolution within the constraints of standard manufacturing processes. The development of analog design expertise typically requires years of practical analog design experience under the guidance of a senior engineer, and engineers with the required level of skill and expertise are in short supply.

Many third-party IC providers lack sufficient analog expertise to develop compelling mixed-signal ICs. As a result, manufacturers of communications devices are often faced with inadequate mixed-signal ICs and are challenged to find third-party providers that can supply them with mixed-signal ICs with greater functionality, smaller size and lower power requirements at a reduced cost and shorter time-to-market.

PRODUCTS

We provide mixed-signal ICs for use in various communication applications across eight product lines. Our products integrate the functions of numerous discrete components required by most existing mixed-signal solutions for communications devices into single chips or chipsets. By doing so, we are able to create products that:

- require less board space;

- can offer superior performance;

- provide increased reliability;

- reduce system power requirements; and

- reduce costs.

The following table summarizes the ICs for the various markets that we currently offer or have introduced to customers:

PRODUCT LINES and APPLICATIONS	DESCRIPTION
- GSM/GPRS	Synthesizer A radio frequency, or RF, synthesizer generates high

wireless phones frequency signals that are used in wireless - GSM/GPRS data communications communications systems to select a particular radio devices channel. We provide RF Synthesizers to the Global System - Wideband CDMA 3G handsets for Mobile Communications (GSM)/General Packet Radio - wireless local area networks Services (GPRS) markets, as well as third generation(3G) - cordless phones wireless data handsets, industrial, science and medical - Satellite radio receivers (ISM) band applications, and Wideband Code Division - handheld point-of-sale Multiple Access (W-CDMA) applications. GPRS, or General terminals Packet Radio Service, brings wireless Internet access to - Wireless headsets GSM users through data transfer and signaling over GSM radio networks. Market dynamics drive a need for new, highly-integrated electronics that reduce component count and consume less power. Our synthesizers address that requirement. Aero-TM-Transceiver This chipset provides highly integrated transmit - GSM/GPRS wireless phones

and receive radio electronics that are found - GSM/GPRS data communications between the antennae electronics and the digital baseband devices section of a GSM/GPRS mobile handset or wireless data - Personal digital assistants communication devices. The Aero Transceiver addresses - PCMCIA data cards dual or triple band requirements, requires a smaller footprint than competing solutions in this form-factor sensitive market and supports wireless data transmission. The Aero Transceiver chipset is designed using 100% standard CMOS process technology which enables an aggressive roadmap to future cost reduction and further integration. The most popular standard world-wide for mobile handsets is the GSM. The Aero Transceiver chipset is highly optimized to satisfy the GSM specifications. Silicon Direct Access Arrangement Products (DAA) Provides the functionality of both a DAA and a codec. A DAA - personal computer modems provides electrical isolation between a wireline device, - host

modems such as a modem, and the telephone line to guard against - data/fax/voice modems power surges in the telephone line, while the codec - Audio Modem Riser Cards provides analog-to-digital and - Mobile Daughter Cards digital-to-analog conversion. Traditional DAA - Communication and Network implementations contain numerous discrete components to Riser (CNR) Cards provide functionality comparable to that which we provide - Modem on Motherboard in a single chipset. This family of products includes - Mini PCI cards offerings to support different computer interface - fax machines standards. Some versions of this chipset are programmable - handheld organizers for differing international telephone standards, which - set-top boxes enables manufacturers to distribute their products globally - video conferencing systems without costly country-specific design modifications. A - speaker phones complimentary voice codec product can be combined with the - PBXs DAA to support speakerphone applications. - voice recognition

systems - Web telephony products 3 ISOmodem-TM- The ISOmodem combines an analog modem with a silicon DAA, - set-top boxes resulting in a complete modem implemented in a very small - digital cable boxes form factor. The ISOmodem products are designed for - credit card verification embedded modem applications, which are typically found - industrial power meters outside of the personal computer area. The ISOmodem - postage meters contains a programmable line interface that meets global - security systems telephone line requirements, allowing manufacturers to - remote medical monitoring implement a single modem design world-wide. The ISOmodem family includes embedded modem solutions for speeds ranging from 2400 bps to 56Kbps, suitable for a wide range of applications ProSLIC-TM- The ProSLIC provides the analog telephone interface on - telephone switchboard systems the source end of the telephone which generates dial - cable telephony tone, busy tone, caller ID and ring signal. Telephone - wireless local loop providing

source end electronics have historically been at the remote access for a wireline telephone company central office, but recently have been system migrating to the customer premises. Our ProSLIC product - voice over Internet protocol family has offerings for short-haul applications suitable - voice over digital subscriber for the customer premises as well as long-haul lines applications suitable for the traditional telephone - digital broadband to analog company central office. This family includes a dual telephone adapters ProSLIC that provides for higher port density and lower cost per phone line. DSL Analog Front End The DSL Analog Front End, or AFE, is designed to provide - personal computer modems the connectivity functions for business or residential - external modems asymmetric digital subscriber line, or ADSL, connection - residential gateways at the user end in customer premises equipment. Such a -network interface devices connection addresses the business and residential demand for DSL

broadband higher capacity connectivity as compared to traditional standard dial-up analog phone line transmission speeds. The DSL AFE supports several ADSL communication standards enabling various upload and download data rates. When combined with our DAA products for analog phone line connectivity, our combined product offering provides a single modem design to address both the prevalent analog modem and the emerging ADSL services. The ability to dial up the analog phone line in order to provision the ADSL connection or run remote diagnostics can assist in the implementation and maintenance of this ADSL broadband connection. This product is in early stages of customer evaluation and is not yet being produced in volume. SiPHY-TM- Optical Physical Layer Transceivers We offer a family of high-speed physical layer ICs that - Optical port cards for SONET meet the high-speed fiber Synchronous Optical Network, or - SONET/SDH/ATM routers SONET, specifications. The transceiver operates at a rate - SONET/SDH test equipment of 2.5 gigahertz

transmission speed commonly referred to - Optical transponder modules as OC-48 and 10 gigahertz speed commonly referred to as - Add/drop multiplexers OC-192. A transceiver provides both the transmit and - SONET/SDH regenerators receive function in the physical layer. In addition to - Digital cross connects the transceiver products, we offer a stand-alone - Board-level serial links transmitter and stand-alone receiver product. We also offer a family of clock and data recovery chips to provide specific functions at multiple speeds up to the OC-48 rate. This IC family utilizes our proprietary digital signal processing technology to reduce the device's sensitivity to board-level noise and improve performance. This product is in early stages of customer evaluation and is not yet being produced in volume. 4 Cesium-TM- Precision Clocks Integrated Circuits This precision clock product family includes various - Optical port cards for SONET products ranging from general purpose clock multiplier - SONET/SDH test equipment

products up to high performance multi-port, redundant, - SONET/SDH/ATM switches multiple frequency range clock multipliers and - SONET/SDH/ATM routers regenerators. SONET optical network systems operate in a - Optical transponder modules synchronous manner requiring very high precision clock sources. Our knowledge gained in developing the physical layer transceiver subsections provided us the technology to offer these highly precise clock products. Traditionally, these clock sources have been performed by expensive, bulky modules, complicated discrete implementations requiring numerous components or current incomplete IC offerings needing supplemental corrective circuitry in order to meet specifications. As the optical network market makes a transition from OC-48 transmission speeds to OC-192 speeds, the need for precision clock sources throughout the synchronous optical network becomes a key design feature for our customers.

CUSTOMERS, SALES AND MARKETING

We market our products to original equipment manufacturers and other providers of applications in the wireless, wireline and optical networking

communications markets. The following is a list of certain customers that purchased our products in fiscal 2001 for inclusion in products or devices offered to their customers:

- 3Com
- Agere Systems
- Ambit
- Ciena
- Echostar
- Panasonic
- PC-TEL
- Samsung
- Smart Link
- Sony
- Texas Instruments
- Thomson

We maintain four sales offices in North America and provide European sales support through our United Kingdom subsidiary. The Asia Pacific area is supported through our Japanese subsidiary. Our direct sales force includes regional sales managers in the field and area business managers at our headquarters to further support customer communications. Many of these managers have engineering degrees. We maintain a dedicated Web site for our field sales organization, which includes technical documentation, backlog information, order status, product availability and new product introduction information, to support our communications with that organization. Additionally, we provide direct communication to all field sales personnel as part of a structured sales communications program.

We also utilize independent sales representatives and distributors to generate sales of our products. We have relationships with many independent sales representatives and distributors worldwide whom we have selected based on their understanding of the mixed-signal IC marketplace and their ability to provide effective field sales support for our products. For the year ended December 29, 2001, sales through these representatives and distributors accounted for 57% of our sales.

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

Due to the complex and innovative nature of our ICs, we employ experienced applications engineers who work closely with customers to support the design-win process, and can significantly accelerate the customer's time required to bring a product to market. A design-win occurs when a customer has designed our ICs into its product architecture. A considerable amount of effort to assist the customer in incorporating our ICs into its products typically is required prior to any sale. In many cases, our innovative ICs require significantly different implementations than existing approaches and, therefore, successful implementations may require extensive communication with potential customers.

The amount of time required to achieve a design win can vary substantially depending on a customer's development cycle, which can be relatively short (such as three months) or very long (such as two years) based on a wide variety of customer factors. Due to this extensive design-win process, once a completed design architecture has been implemented and produced in high volumes, our customers are reluctant to significantly alter their designs. We believe this promotes relatively long product life cycles for our ICs and high barriers to entry for competitive products, even at lower price levels for such competing products. Finally, our close collaboration with our customers provides us with knowledge of derivative product ideas or completely new product line offerings that may not otherwise arise in other new product discussions.

RESEARCH AND DEVELOPMENT

Through our research and development efforts, we apply our experienced analog and mixed-signal engineering talent and expertise to create new ICs that integrate functions typically performed inefficiently by multiple discrete components. This integration generally results in lower costs, smaller die sizes, lower power demands and enhanced price/performance characteristics. We attempt to reuse successful techniques for integration in new applications where similar benefits can be realized. We believe that reliable and precise analog and mixed-signal ICs can only be developed by teams of engineers that coordinate their efforts under the direction of senior engineers who have significant analog experience and are familiar with the intricacies of designing these ICs for commercial volume production. The development of test methodologies is a critical activity in releasing a new product for commercial success. We believe that we have attracted some of the best engineers in our industry. As of December 29, 2001, we had 111 employees involved in research and development.

Research and development expenses were $29.0 million, $19.4 million, and $8.3 million in fiscal 2001, 2000, and 1999, respectively.

TECHNOLOGY

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

In providing mixed-signal ICs for our customers, we believe our key competitive advantages are: (1) analog CMOS design expertise; (2) digital signal processing design expertise; and (3) our broad understanding of communication systems technology and trends. To fully capitalize on these advantages, we have assembled a world-class development team with exceptional analog and mixed-signal design expertise led by accomplished senior engineers.

ANALOG CMOS DESIGN EXPERTISE

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

Designing analog ICs is significantly more complicated than designing digital ICs. While advanced software tools exist to help automate digital IC

design, there are far fewer tools for advanced analog IC design. In many cases, our analog circuit design efforts begin at the fundamental transistor level. We believe that we have a demonstrated ability to design the most difficult analog, optical electronics and RF circuits using standard CMOS technologies. For example, our DAA product family replaces bulky, discrete modem components, such as transformers, relays and opto-isolators, with highly integrated CMOS mixed-signal ICs. Similarly, bulky wireless phone components such as oscillators are replaced by our integrated CMOS frequency synthesizer products. Our design expertise in the technically challenging optical networking market has allowed us to reduce the number of supplemental components used in our customers' products while providing lower levels of noise in the circuit operation. This is a key technical consideration in high speed optical networks.

DIGITAL SIGNAL PROCESSING DESIGN EXPERTISE

We consider the partitioning of a circuit's functionality to be a proprietary and creative design technique. Our digital signal processing design expertise maximizes the price/performance characteristics of both the analog and digital functions and allows our ICs to work in an optimized manner to accomplish particular tasks. Generally, we surround core analog circuitry with inexpensive digital CMOS transistors, which allows our ICs to perform the required analog functions with increased digital capabilities. For example, our ProSLIC product is designed to function more efficiently than traditional products for the source end of the telephone line which involve a two chip combination requiring more board space and numerous external components. The ProSLIC product is partitioned by combining a core analog design that provides analog-to-digital conversion and digital-to-analog conversion with optimized digital signal processing functions such as data compression, data expansion, filtering and tone generation. In this manner, we can isolate the higher voltage required to ring a telephone in low-cost, off-chip high voltage transistors or a small, complimentary high voltage chip, thereby enabling us to fulfill the remaining core functions with a single CMOS chip. As a further example, our

SiPHY Optical Physical Layer Transceivers utilize an architecturally advanced phase locked loop circuit based principally on digital signal processing. By performing a significant portion of this function in the digital domain in a monolithic chip, the circuit has been able to satisfy the demanding specifications of the optical network SONET standard using inexpensive CMOS transistors.

UNDERSTANDING OF COMMUNICATION SYSTEMS TECHNOLOGY AND TRENDS

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

MANUFACTURING

As a fabless IC manufacturer, we conduct IC design and development in our facilities in the United States and electronically transfer our proprietary IC designs to third-party semiconductor fabricators who process silicon wafers to produce the ICs that we design. Our IC designs use industry-standard complementary metal oxide semiconductor, or CMOS, manufacturing process technology to achieve a level of performance normally associated with more expensive special-purpose IC fabrication technology. We believe the use of CMOS technology facilitates the rapid production of our ICs within a lower cost framework. Our IC production employs submicron process geometries which are readily available from leading foundry suppliers worldwide, thus ensuring the availability of manufacturing capability over our products' life cycles. We currently rely on Taiwan Semiconductor Manufacturing Co. and its affiliate, Vanguard International Semiconductor, to manufacture substantially all of our semiconductor wafers.

Once the silicon wafers have been produced, they are shipped directly to our third-party assembly subcontractors. The assembled ICs are then forwarded for

final testing, typically to our facilities, prior to shipping to our customers. We believe that our fabless manufacturing model significantly reduces our capital requirements and allows us to focus our resources on the design, development and marketing of our ICs.

COMPETITION

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

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

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

We anticipate that the market for our products will continually evolve and will be subject to rapid technological change. In addition, as we target and supply products to numerous communications markets and applications, we face competition from a relatively large number of competitors. Across our product offerings, we compete with Agere Systems, AMCC, Analog Devices, Broadcom, Conexant, CP Claire, Cypress, ESS, Fujitsu, Hitachi, Infineon Technologies, Legerity (formerly the Advanced Micro Devices telecom division), Maxim Integrated Products, National Semiconductor, Philips, Semtech, Texas

Instruments, Vitesse Semiconductor Corp, and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and innovative start-up semiconductor design companies. Our competitors may also offer bundled chipset kit arrangements offering a more complete product despite the technical merits or advantages of our products. In addition, our customers could develop products or technologies internally that would replace their need for our products and would become a source of competition. As the markets for communications products grow, we also may face competition from traditional communications device companies. These companies may enter the mixed-signal semiconductor market by introducing their own products, including components within their products that would eliminate the need for our ICs, or by entering into strategic relationships with or acquiring other existing IC providers.

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

INTELLECTUAL PROPERTY

Our future success depends in part upon our proprietary technology. We seek to protect our technology through a combination of patents, copyrights, trade secrets, trademarks and confidentiality procedures. As of December 29, 2001, we had been granted 39 United States patents in the IC field. We also have filed 86 applications for additional patents covering our proprietary technology. There can be no assurance that patents will ever be issued with respect to these applications. Furthermore, it is possible that any patents held by us may be invalidated, circumvented, challenged or licensed to others. In addition, there can be no assurance that such patents will provide us with competitive advantages or adequately safeguard our proprietary rights.

In addition, we claim copyright protection for proprietary documentation used in our products. We have filed for registration, or are in the process of filing for registration, the visual image of each IC that we have manufactured in commercial quantities with the United States Copyright Office. We have registered the "Silicon Laboratories" logo as a trademark in the United States. All other trademarks, service marks or trade names appearing in this report are the property of their respective owners. We also attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants, and through other security measures. We intend to protect our rights vigorously, but there can be no assurance that our efforts will be successful. In addition, the laws of other countries in which our products are sold may not protect our products and intellectual property rights to the same extent as the laws of the United States.

While our ability to effectively compete depends in large part on our ability to protect our intellectual property, we believe that our technical expertise and ability to introduce new products in a timely manner will be an important factor in maintaining our competitive position.

Many participants in the semiconductor and communications industries have a significant number of patents and have frequently demonstrated a readiness to commence litigation based on allegations of patent and other intellectual property infringement. From time to time, third parties may assert infringement claims against us. We may not prevail in any such litigation or may not be able to license any valid and infringed patents from third parties on commercially reasonable terms, if at all. Litigation, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time. Any such litigation could materially adversely affect us. Other than industry standard licenses with our vendors, such as wafer fabrication tool libraries, computer-aided design applications and business software applications, we do not have material licenses.

EMPLOYEES

As of December 29, 2001, we employed 279 people, including 65 in manufacturing, 111 in engineering development, 63 in marketing, 23 in sales and 17 in administration. Our success depends on the continued service of our key technical and senior management personnel and on our ability to continue to attract, retain and motivate highly skilled analog and mixed-signal engineers. The competition for such personnel is intense. We have never had a work stoppage

and none of our employees are represented by a labor organization. We consider our employee relations to be good.

ENVIRONMENTAL REGULATION

Federal, state and local regulations impose various environmental controls on the storage, use, discharge and disposal of certain chemicals and gases used in the semiconductor industry. Our compliance with these laws and regulations has not had a material impact on our financial position or results of operations.

RISKS RELATED TO OUR BUSINESS

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

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

- changing requirements of customers within the communications markets;
- accurate prediction of market requirements;
- timely completion and introduction of new designs;

- timely qualification and certification of our ICs for use in our customers' products;
- commercial acceptance and volume production of the products into which our ICs will be incorporated;
- availability of foundry and assembly capacity;
- achievement of high manufacturing yields;
- quality, price, performance, power use and size of our products;
- availability, quality, price and performance of competing products and technologies;
- our customer service and support capabilities and responsiveness;
- successful development of our relationships with existing and potential customers; and
- changes in technology, industry standards or end-user preferences.

We cannot provide any assurance that products which we recently have developed or may develop in the future will achieve market acceptance. We have introduced to market or are in development of many ICs including:

- a family of RF synthesizers, which are used to generate high frequency signals that are used in wireless communications systems to select a particular radio channel;
- an Aero-TM- Transceiver chipset, providing a highly integrated radio communication section of a GSM wireless handset with versatile interfaces to other electronic sections of the handset;
- an ISOmodem, which is a miniaturized modem that can be embedded in electronic devices with low transmission requirements, such as credit card verification devices, to provide quick network access;
- a higher speed ISOmodem product to serve additional embedded modem markets demanding faster transmission requirements such

as next generation set-top boxes;

- a family of ProSLIC products, which provides dial tone, busy tone, caller ID and ring signal functions at the source end of the telephone addressing long-haul and short-haul applications;

- a Digital Subscriber Line, or DSL, Analog Front End providing a highly integrated interface for DSL modems with legacy support for traditional analog phone line functionality; and

- a family of optical networking products, which feature highly integrated physical layer and clock circuits designed for SONET/ATM routers, multiplexers, digital cross connects and optical transceiver modules.

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

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

In fiscal 2001, our three largest customers, in the aggregate, accounted for approximately 40% of our revenues. Of these customers, PC-Tel accounted for 15%, Agere Systems for 13% and Samsung for 12% of our fiscal 2001 revenues. Most 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 effect sales to these dominant customers,

as well as the ability of these customers to sell products that incorporate our IC products. In the future, these customers may decide not to purchase our ICs at all, purchase fewer ICs than they did in the past or alter their purchasing patterns, particularly because:

- we do not have any material long-term purchase arrangements with these or any of our other customers;

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

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

Our largest customer, PC-TEL, has reported declines in its revenues in recent periods from comparable fiscal periods in 1999 and 2000. If PC-TEL's revenues continue to decline or remain at reduced levels, we believe that our results of operations will be significantly and adversely affected.

While we have been the sole supplier of the direct access arrangement, or DAA, IC used in PC-TEL's soft modem DAA products, we anticipate that PC-TEL will regularly evaluate alternative sources of supply in the future in order to diversify its supplier base, which would increase its negotiating leverage with us and protect its ability to secure DAA components. We believe that any second source of DAA ICs for PC-TEL could have an adverse effect on the prices we are able to charge PC-TEL and the volume of DAA ICs that we sell to PC-TEL, which would negatively affect our revenues and operating results.

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.

WE HAVE DEPENDED ON OUR DAA FAMILY OF PRODUCTS FOR A MAJORITY OF OUR REVENUES IN FISCAL 2001, AND SUBSTANTIAL REDUCTIONS IN ORDERS FOR DAA PRODUCTS WOULD SIGNIFICANTLY REDUCE OUR REVENUES

A majority of our sales in fiscal 2001 were derived from sales of our DAA family of ICs. This product family, in turn, is highly dependent on sales to the personal computer industry which currently faces reduced levels of demand relative to earlier forecasts. Continued diversification of our sales through the introduction and commercial acceptance of products other than DAA will be required to reduce our reliance on sales of our DAA products. A decline in overall demand for personal computers, reduced market acceptance of our DAA products or the introduction of products with superior price/performance

characteristics by our competitors could significantly reduce our sales. In addition, substantially all of our DAA products that we have sold include technology related to one or more of our issued U.S. patents. If these patents are found to be invalid or unenforceable, our competitors could introduce competitive products that could reduce both the volume and price per unit of our products.

In August 2001, TDK Semiconductor Corporation filed suit against us alleging that certain of our DAA products infringe a TDK-held patent. We have filed a response denying the alleged infringement. If our DAA products are found to infringe TDK's patent, our future operating results and financial condition could be substantially adversely affected.

During fiscal 2001, we experienced a significant reduction in orders for our DAA family of products as a result of reduced demand for personal computers relative to earlier forecasts. Due to this reduction and other factors, we experienced a decline of 28.1% in revenues in fiscal 2001 as compared to fiscal 2000, which resulted in a significant reduction in gross profits, lower gross margins and net losses in fiscal 2001.

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

We may 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. It is likely that in some

future period our operating results will be below the expectations of public market analysts or investors. If this occurs, our stock price may drop, perhaps significantly.

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

- the timing and volume of orders received from our customers;
- the rate of acceptance of our products by our customers, including the acceptance of new products we may develop for integration in the products manufactured by such customers, which we refer to as "design wins";
- the time lag between "design wins" and production orders;
- the demand for, and life cycles of, the products incorporating our ICs;
- the rate of adoption of mixed-signal ICs in the markets we target;
- deferrals of customer orders in anticipation of new products or product enhancements from us or our competitors or other providers of ICs;
- changes in product mix; and
- the rate at which new markets emerge for products we are currently developing or for which our design expertise can be utilized to develop products for these new markets.

The mobile telephone market is characterized by rapid fluctuations in demand which results in corresponding fluctuations in the demand for our wireless products that are incorporated in mobile telephones. Additionally, the rate of technology acceptance by our customers results in fluctuating demand for our products as customers are reluctant to incorporate a new IC into their products until the new IC has achieved market acceptance. However, once a new IC achieves market acceptance, demand for the new IC can quickly accelerate and demand can quickly decline for the product that the new IC replaces.

Due to the terrorist attacks of September 11, 2001 and subsequent world events, the demand for consumer-oriented products, such as personal computers and mobile wireless handsets, may face significant declines for a prolonged period of time. The supply chain for these consumer-oriented products experienced weak consumer demand, excess inventory, low factory utilization rates, a pattern of slower upgrade cycles for personal computers, delay of next generation of mobile handset technology and overall sluggishness even before the events of September 11, 2001. The combination of the then existing business

conditions and the loss of consumer confidence driven by the events of September 11, 2001 may result in a deterioration in demand for our semiconductor component products which could unfavorably impact our revenues, operating results and stock price.

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

We were incorporated in 1996 and did not begin generating revenues until the second quarter of 1998. As a result, we have only a short history from which to predict future revenues. This limited operating experience, combined with the rapidly evolving nature of the markets in which we sell our products and other factors which are beyond our control, reduce our ability to accurately forecast quarterly or annual revenues. Additionally, because most of our expenses are fixed in the short term or incurred in advance of anticipated revenues, we may not be able to decrease our expenses in a timely manner to offset any shortfall of revenues. During fiscal 2001, despite our reduced level of revenues relative to fiscal 2000, we expanded our staffing and increased our expenses in anticipation of future sales growth. If our sales do not increase as and to the extent that we anticipated, we likely will incur significant losses due to our higher expense levels.

WE DEPEND ON OUR CUSTOMERS TO SUPPORT OUR PRODUCTS

Our products are currently used by our customers to produce modems, telephone equipment, mobile telephones, various wireless devices, and optical networking equipment. We rely on our customers to provide hardware, software, intellectual property indemnification and other technical support for the devices that use our products. If our customers do not provide the required functionality or if our customers do not provide satisfactory support for their products, the demand for these devices that incorporate our products may diminish. Any reduction in the demand for these devices would significantly reduce our revenues.

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

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

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

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

We currently do not have long-term supply contracts with any of our third-party vendors, and therefore, they are not obligated to perform services or supply products to us for any specific period, or in any specific quantities, except as may be provided in a particular purchase order. Although we believe that other semiconductor foundries or assembly contractors can adequately address our needs, we expect that it would take approximately two to nine months to transition performance of these services from our current providers to new providers. Such a transition may also require a qualification process by our customers or their end customers. We generally place orders for products with some of our suppliers approximately four months prior to the anticipated delivery date, with order volumes based on our forecasts of demand from our customers. Accordingly, if we do not accurately forecast demand for our products, we may be unable to obtain adequate foundry or assembly capacity from our third-party contractors to meet our customers' delivery requirements, or we may accumulate excess inventories. On occasion, we have been unable to

adequately respond to unexpected increases in customer purchase orders, and therefore, were unable to benefit from this incremental demand. None of our third-party foundry or assembly contractors have provided assurances to us that adequate capacity will be available to us within the time required to meet additional demand for our products.

From our inception through fiscal 2001, substantially all of the silicon wafers for the products that we shipped were manufactured either by Taiwan Semiconductor Manufacturing Co. or Vanguard International Semiconductor, an affiliate of Taiwan Semiconductor Manufacturing Co. Our customers typically complete their own qualification process. If we fail to balance customer demand across semiconductor fabrications properly, we might not be able to fulfill demand for our products, which would adversely affect our operating results. Additionally, a resulting write off of unusable or excess inventories would contribute to a decline in earnings.

THE SEMICONDUCTOR MANUFACTURING PROCESS IS HIGHLY COMPLEX AND, FROM TIME TO TIME, MANUFACTURING YIELDS MAY FALL BELOW OUR EXPECTATIONS WHICH COULD RESULT IN OUR INABILITY TO TIMELY SATISFY DEMAND FOR OUR PRODUCTS.

The manufacture of silicon wafers for our products is a highly complex and technologically demanding process. Although we work closely with our foundries to minimize the likelihood of reduced manufacturing yields, our foundries from time to time have experienced lower than anticipated manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance deficiencies. If our foundries fail to 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.

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

As part of our growth strategy, we will continue to evaluate opportunities to acquire other businesses or technologies that would complement our current offerings, expand the breadth of our markets or enhance our technical capabilities. Acquisitions that we may potentially 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;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with entering markets in which we lack prior experience; and
- potential loss of key employees of the acquired company.

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

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

political unrest where our customers' facilities are located would likely reduce our sales to such customers.

WE ARE SUBJECT TO INCREASED INVENTORY RISKS AND COSTS BECAUSE WE BUILD OUR PRODUCTS BASED ON FORECASTS PROVIDED BY CUSTOMERS BEFORE RECEIVING PURCHASE ORDERS FOR THE PRODUCTS

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

demand for our products may not materialize, manufacturing based on forecasts subjects us to increased risks of high inventory carrying costs and increased obsolescence and may increase our operating costs.

WE MAY NOT BE ABLE TO MAINTAIN OUR HISTORICAL GROWTH RATE

Although we experienced revenue and earnings growth in annual periods prior to 2001, we may not be able to return to these growth rates. Our fiscal 2001 revenues declined sequentially from fiscal 2000 by 28.1% which resulted in a significant reduction in gross profits, lower gross margin percentage and a net loss in fiscal 2001. Although we may gain significant market share in a relatively short period of time following the introduction of a new product, resulting in revenue growth, incremental gains in market share for these newly introduced products may not occur. Additionally, the time lag by a customer from purchase of initial orders of our product to follow-on production volume orders, if any, may extend for several quarterly periods. Accordingly, you should not rely on the results of any prior quarterly or annual periods as an indication of our future operating performance.

WE ARE A RELATIVELY SMALL COMPANY WITH LIMITED RESOURCES COMPARED TO SOME OF OUR CURRENT AND POTENTIAL COMPETITORS AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY AND INCREASE MARKET SHARE

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

In addition, our largest competitors may restructure their operations to create separate companies that are more focused on providing the types of products we produce. For example, Rockwell's restructuring in 1998 led to the creation of Conexant which is a significant competitor. Conexant has announced further plans to spin off multiple businesses to create focus in specific areas. Additionally, Siemens spun off its semiconductor business in 1999 to create a more focused company named Infineon Technologies. In July 2000, Lucent Technologies spun off its microelectronics business, which included its optoelectronics components and integrated circuits division, into a separate company named Agere Systems in order to accelerate the growth of the business and alleviate strategic conflicts with Lucent's competitors. Increased competition could decrease our prices, reduce our sales, lower our margins or decrease our market share. These and other competitive pressures may prevent us from competing successfully against current or future competitors, and may materially harm our business.

WE DEPEND ON OUR KEY PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO RETAIN OUR CURRENT PERSONNEL AND HIRE ADDITIONAL PERSONNEL, OUR ABILITY TO DEVELOP AND SUCCESSFULLY MARKET OUR PRODUCTS COULD BE HARMED

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

dependent on Navdeep Sooch, our co-founder, Chief Executive Officer and Chairman of the Board, Daniel Artusi, our Chief Operating Officer, Jeffrey Scott, our co-founder and Vice President, and David Welland, our co-founder and Vice President. There is currently a shortage of qualified personnel with significant experience in the design, development, manufacturing, marketing and sales of analog and mixed-signal communications ICs. In particular, there is a shortage of engineers who are familiar with the intricacies of the design and manufacturability of analog elements, and competition for such personnel is intense. Our key technical personnel represent a significant asset and serve as the 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, including engineers and sales and marketing personnel, could delay the development and introduction of, and negatively impact our ability to sell, our products.

OUR RESEARCH AND DEVELOPMENT EFFORTS ARE FOCUSED ON A LIMITED NUMBER OF NEW TECHNOLOGIES AND PRODUCTS, AND ANY DELAY IN THE DEVELOPMENT, OR ABANDONMENT, OF THESE TECHNOLOGIES OR PRODUCTS BY INDUSTRY PARTICIPANTS, OR THEIR FAILURE TO ACHIEVE MARKET ACCEPTANCE, COULD COMPROMISE OUR COMPETITIVE POSITION

Our ICs are used as components in communications devices in 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. In fiscal 2001, our research and development expense was $29.0 million, which represented 39.1% of our revenues compared to $19.4 million, or 18.8% of our revenues in fiscal 2000. A number of large companies in the communications ICs industries are actively involved in the development of these new technologies and standards. Should any of these companies delay or abandon their efforts to develop commercially available products based on new technologies and standards, our research and development efforts with respect to these technologies and standards likely would have no appreciable value. In addition, if we do not correctly anticipate new technologies and standards, or if the products that we develop based on these new technologies and standards fail to achieve market acceptance, our competitors may be better able to address market demand than would we. Furthermore, if markets for these new technologies and standards develop later than we anticipate, or do not develop at all, demand for our products that are currently in development would suffer, resulting in lower sales of these products than we currently anticipate. We have introduced to market a RF synthesizer product for use in wireless phones operating on the GSM standard. The RF synthesizer is also compatible with GPRS standard, which is the emerging data communications protocol for GSM based wireless phones. We cannot be certain whether these standards will not change, thereby making our products unsuitable or impractical. In the area of optical networking, our clock and data recovery integrated circuit operates within stringent specifications for high speed communications systems known as SONET. Changes to this standard could make our products uncompetitive or unsuitable to changing system requirements and result in our inability to sell these products.

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

Our products are complex and may contain errors when first introduced or as new versions are released. We rely primarily on our in-house testing personnel to design test operations and procedures to detect any errors prior to delivery of our products to our customers. Because our products are manufactured by third parties, should problems occur in the operation or performance of our ICs, we may experience delays in meeting key introduction dates or scheduled delivery dates to our customers. These errors also could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations and business reputation problems.

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

Although our DAA products are compliant with published specifications, these established specifications might not adequately address all conditions that must be satisfied in order to operate in harsh environments. This includes environments where there are wide variations in electrical quality, telephone line quality, static electricity and operating temperatures or that may be affected by lightning or improper handling by customers and end users. Our

products have had a limited period of time in the field under operation, and these environmental factors may result in unanticipated returns of our products. Any necessary modifications could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations and business reputation problems.

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

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

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

In fiscal 2001, substantially all of our test operations were performed in-house. A minor portion of test operations is provided by our contract manufacturers or other third parties. While we expect that performing testing in-house provides us with advantages in terms of lower per unit cost, quality control and shorter time required to bring a product to market, we may encounter difficulties and delays in maintaining or expanding our internal test capabilities. In addition, final testing of complex semiconductors requires substantial resources to acquire state-of-the-art testing equipment and hiring additional qualified personnel, which has increased our fixed costs. If demand for our products does not support the effective utilization of these employees and additional equipment, we may not realize any benefit from foregoing the use of outside vendors and utilizing internal final testing. Any decrease in the demand for our products could result in the underutilization of our testing equipment and personnel. If our internal test operations are underused or mismanaged, we may incur significant costs that could adversely affect our operating results.

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

We have opened additional sales offices in international markets to expand our international sales activities in Europe and the Pacific Rim region and intend to increase our staffing in international sales. Our planned international sales growth will be limited if we are unable to hire additional personnel and develop relationships with international distributors. We may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including:

- increased complexity and costs of managing international operations;
- protectionist laws and business practices that favor local competition in some countries;
- multiple, conflicting and changing laws, regulations and tax schemes;
- longer sales cycles;
- greater difficulty in accounts receivable collection and longer collection periods;
- high levels of distributor inventory subject to rights of return to us; and

- political and economic instability.

To date, all of our sales to international customers and purchases of components from international suppliers have been denominated in U.S. dollars.

As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for our international customers to purchase, thus rendering them less competitive.

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

In recent periods, we have significantly increased the scope of our operations and expanded our workforce from 42 employees at January 2, 1999 to 279 employees at December 29, 2001. This growth has placed, and any future growth of our operations will continue to place, a significant strain on our management personnel, systems and resources. We anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. We also expect that we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. If we are unable to effectively manage our expanding operations, our business could be materially and adversely affected.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY, WHICH WOULD NEGATIVELY AFFECT OUR ABILITY TO COMPETE

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

SIGNIFICANT LITIGATION OVER INTELLECTUAL PROPERTY IN OUR INDUSTRY MAY CAUSE US TO BECOME INVOLVED IN COSTLY AND LENGTHY LITIGATION WHICH COULD SERIOUSLY HARM OUR BUSINESS

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. From time to time, we receive letters from various industry participants alleging infringement of patents, trademarks or misappropriation of trade secrets. The exploratory nature of these inquiries has become relatively common in the semiconductor industry. We typically respond when appropriate and as advised by legal counsel. We have been involved in litigation to protect our intellectual property rights in the past and may become involved in such litigation again in the future. In the future, we may become involved in litigation to defend allegations of infringement asserted by others. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights. Legal proceedings initiated by us to protect our intellectual property rights could also result in counterclaims or countersuits against us. Any litigation, regardless of its outcome, would likely be time consuming and expensive to resolve and would divert our management's time and attention. Any intellectual property litigation also could force us to take specific actions, including:

- cease selling products that use the challenged intellectual property;

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

- redesign those products that use infringing intellectual property; or

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

In August 2001, TDK Semiconductor Corporation commenced a lawsuit against us for alleged willful infringement by our DAA products of a TDK-held patent. TDK's complaint seeks unspecified treble damages, costs and attorneys' fees, and an injunction. In September 2001, we served and filed an answer to TDK's complaint, in which we denied the alleged infringement and asserted that their patent is invalid. This lawsuit may involve significant expense and may also divert our management's time and attention from other aspects of our business. Due to the inherent uncertainties of litigation, we are unable to predict the outcome of this matter. For further information regarding this litigation, please see "Part II, Item 1. Legal Proceedings."

FAILURE TO MANAGE OUR DISTRIBUTION CHANNEL RELATIONSHIPS COULD IMPEDE OUR FUTURE GROWTH

The future growth of our business will depend in 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. As we execute our indirect sales strategy, we will need to manage the potential conflicts that may arise with our direct sales efforts. The inability to successfully execute or manage a multi-channel sales strategy could impede our future growth.

RISKS RELATED TO OUR INDUSTRY

WE ARE SUBJECT TO THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry has experienced significant downturns, often connected with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Specific areas of the communications markets have contributed to the overall decline and volatility of the semiconductor industry. For example, the semiconductor industry has suffered a downturn due to reductions in the actual unit sales of personal computers and wireless phones as compared to previous robust forecasts, and forecasts of excess capacity in the fiber optic networks. Additionally, changing and competing technical standards in airwave interfaces such as GSM and CDMA for mobile handsets, migration to higher speed communication protocols in the optical space and the return to prominence of the traditional bell regional operating companies compared to the competitive local exchange companies all have contributed to the volatility in the communications area of the semiconductor industry. This downturn has resulted in a material adverse effect on our business and operating results. The severity and duration of these industry-wide trends are currently unclear and the material adverse effect on our business may continue in the future.

Due to the cyclical nature of the semiconductor industry, any upturn in business could result in increased competition for access to third-party foundry and assembly capacity. We are dependent on the availability of such capacity to manufacture and assemble our ICs. None of our third-party foundry or assembly contractors have provided assurances that adequate capacity will be available to us.

COMPETITION WITHIN THE NUMEROUS MARKETS WE TARGET MAY REDUCE SALES OF OUR PRODUCTS AND REDUCE MARKET SHARE

The markets for semiconductors in general, and for mixed-signal ICs in particular, are intensely competitive. We expect that the market for our products will continually evolve and will be subject to rapid technological change. In addition, as we target and supply products to numerous markets and applications, we face competition from a relatively large number of competitors. Across all of our product areas, we compete with Agere Systems, AMCC, Analog Devices, Broadcom, Conexant, CP Clare, Cypress, ESS, Fujitsu, Hitachi, Infineon Technologies, Legerity (formerly the Advanced Micro Devices

telecom division), Maxim Integrated Products, National Semiconductor, Philips, Semtech, Texas Instruments, Vitesse Semiconductor Corp, and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and innovative start-up semiconductor design companies. Some of our customers, such as Agere Systems, Intel, Motorola, and Texas Instruments, are also large, established semiconductor suppliers. Our sales to and support of these customers may enable them to become a source of competition to us, despite our efforts to protect our intellectual property rights. As the markets for communications products grow, we also may face competition from traditional communications device companies. These companies may enter the mixed-signal semiconductor market by introducing their own ICs or by entering into strategic relationships with or acquiring other existing providers of semiconductor products.

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

We may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices. We have reduced the average unit price of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. Our customers may use their current excess inventory situation to negotiate lower prices in the future. If we are unable to offset any such reductions in our average selling prices by increasing our sales volumes, our gross profits and revenues will suffer. To maintain gross margins, we will need to develop and introduce new products and product enhancements on a timely basis and continually reduce our costs. Our failure to do so would cause our revenues and gross margins to decline.

OUR CUSTOMERS REQUIRE OUR PRODUCTS TO UNDERGO A LENGTHY AND EXPENSIVE QUALIFICATION PROCESS WHICH DOES NOT ASSURE PRODUCT SALES

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

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

Generally, our products comprise only a part of a communications device. All components of such devices must uniformly comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in 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 communications applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial

design wins. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense.

Item 2. Properties

The Company's primary facilities, housing test operations, research, design engineering, administration, as well as elements of sales and marketing are located in Austin, Texas. These facilities consist of approximately 107,000 square feet with lease terms expiring through January 2007. In addition to these properties, we lease approximately 5,600 square feet in Nashua, New Hampshire for engineering activities and various other locations throughout the United States, England, and Japan, each under 1,500 square feet, for sales, marketing and design activities.

We believe that these facilities are sufficient to meet our needs through December 2002.

Item 3. Legal Proceedings

PATENT INFRINGEMENT LITIGATION

On August 7, 2001, TDK Semiconductor Corporation commenced a lawsuit in the United States District Court for the Central District of California against us for alleged infringement of TDK's United States Patent No. 5,654,984. TDK's complaint asserts that we have infringed their '984 patent by making, using and selling in the United States certain DAA semiconductor chipsets, including our Si3035 and Si3044 products, and that the infringement was and continues to be willful. Their complaint seeks unspecified treble damages, costs and attorneys' fees, and an injunction.

On September 27, 2001, we served and filed an answer to their complaint, in which we denied infringement and asserted that TDK's '984 patent is invalid.

For a description of risks associated with this pending lawsuit, please see "Risk Factors - 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."

SECURITIES LITIGATION

On December 6, 2001, a class action complaint for violations of U.S. federal securities laws was filed in the United States District Court, Southern District of New York against Silicon Laboratories Inc., four officers individually and the three investment banking firms who served as representatives of the underwriters in connection with our initial public offering of common stock which became effective on March 23, 2000. The complaints allege liability against us and the individual defendants under Sections 11 and 15 of the Securities Act of 1933 and against the underwriters under Sections 11 and 12(a) of the Securities Act of 1933 and Sections 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. These claims are brought on the grounds that the registration statement and prospectus for our initial public offering did not disclose that (1) the underwriters solicited and received additional, excessive and undisclosed commissions from certain investors, and (2) the underwriters had agreed to allocate shares of the offering in exchange for a commitment from the customers to purchase additional shares in the aftermarket at pre-determined higher prices. We are aware that at least 1000 purported securities class action lawsuits against approximately 45 underwriter defendants and at least 300 issuer companies and certain of their current and former officers have been made in connection with various initial and secondary public offerings conducted in recent years. No specific amount of damages is claimed. These cases are subject to the Private Securities Litigation Reform Act of 1995. This case and all of the other lawsuits filed in the Southern District of New York making similar allegations have been coordinated before the Honorable Shira A. Scheindlin. We intend to vigorously contest this case. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period. Furthermore, there can be no assurances regarding the outcome of the litigation or any related claims for indemnification or contribution between or among us, any of the underwriters, or any of our officers and directors.

We are not currently involved in any other material legal proceedings.

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

None.

PART II

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

Our common stock has been quoted on the Nasdaq National Market under the symbol "SLAB" since our initial public offering on March 23, 2000. The table below shows the high and low per-share sales prices of our common stock for the periods indicated, as reported by the Nasdaq National Market. As of December 29, 2001, there were 331 holders of record of our common stock.

	HIGH	LOW
Year Ended December 30, 2000		
First Quarter	$105.75	$62.98
Second Quarter	102.75	45.50
Third Quarter	78.00	36.00
Fourth Quarter	42.13	10.13
For Fiscal 2000	105.75	10.13
Year Ended December 29, 2001		
First Quarter	26.00	11.25
Second Quarter	28.99	14.23
Third Quarter	24.20	12.95
Fourth Quarter	41.24	10.23
For Fiscal 2001	41.24	10.23

We have never declared or paid any cash dividends on our common stock and we do not intend to pay cash dividends in the foreseeable future. We currently expect to retain any future earnings to fund the operation and expand of our business. In addition, our credit agreements with our bank lender prohibit us from paying cash dividends on our capital stock without the prior consent of the lender.

Our registration statement (Registration No. 333-94853) under the Securities Act of 1933, as amended, relating to our initial public offering of our common stock became effective on March 23, 2000. A total of 3,680,000 shares of common stock were registered. We sold a total of 3,200,000 shares of our common stock and selling stockholders sold a total of 480,000 shares to an underwriting syndicate. The managing underwriters were Morgan Stanley & Co. Incorporated, Lehman Brothers Inc., and Salomon Smith Barney Inc. The offering commenced and was completed on March 24, 2000, at a price to the public of $31.00 per share. The initial public offering resulted in net proceeds to us of $90.6 million, after deducting underwriting commissions of $6.9 million and offering expenses of $1.6 million. We used $15 million of the proceeds as part of the consideration paid in the acquisition of Krypton Isolation, Inc. (Krypton) on August 9, 2000. Another $4.3 million was used to pay off equipment loans provided by Imperial Bank. We used another $1.0 million of the proceeds as part of the consideration paid in the acquisition of SNR Semiconductor Incorporated (SNR) on October 2, 2000. As of December 29, 2001, the remaining proceeds were invested in government securities and other short-term, investment-grade, interest bearing instruments.

Item 6. Selected Consolidated Financial Data

The selected consolidated balance sheet data as of fiscal year end 2001 and 2000 and the selected consolidated statements of operations data for fiscal 2001, 2000 and 1999 have been derived from audited consolidated financial statements included in this Form 10-K. The selected consolidated balance sheet data as of fiscal year end 1999, 1998 and 1997 and the selected consolidated statements of operations data for fiscal 1998 and 1997 have been derived from audited consolidated financial statements not included in this Form 10-K. You should read this selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the notes to those statements included in this Form 10-K. (In thousands, except per share data).

CONSOLIDATED STATEMENTS OF OPERATIONS DATA

Fiscal Year					
	2001	2000	1999	1998	1997
Revenues	$ 74,065	$103,103	$46,911	$ 5,609	$ --
Cost of revenues	31,930	35,601	15,770	2,371	--
Gross profit	42,135	67,502	31,141	3,238	--
Operating expenses:					
Research and development	28,978	19,419	8,297	4,587	1,364
Selling, general and administrative	20,056	17,648	7,207	2,095	627
Write off of in-process research & development	--	394	--	--	--
Goodwill amortization	4,187	3,307	--	--	--
Impairment of goodwill and other intangible assets	34,885	--	--	--	--
Amortization of deferred stock compensation	5,276	3,761	976	8	--
Operating expenses	93,382	44,529	16,480	6,690	1,991
Operating income (loss)	(51,247)	22,973	14,661	(3,452)	(1,991)
Other income (expenses):					
Interest Income	3,622	4,038	402	261	178
Interest Expense	(751)	(1,162)	(699)	(206)	(22)
Income (loss) before income taxes	(48,376)	25,849	14,364	(3,397)	(1,835)
Provision (benefit) for income taxes	(2,803)	11,832	3,324	--	--
Net income (loss)	$(45,573)	$14,017	$11,040	$(3,397)	$(1,835)
Net income (loss) per share:					
Basic	$ (.99)	$ .37	$ .73	$ (.37)	$ (1.04)
Diluted	$ (.99)	$ .29	$ .25	$ (.37)	$ (1.04)
Weighted-average common shares outstanding:					
Basic	45,914	38,326	15,152	9,129	1,760
Diluted	45,914	48,788	43,657	9,129	1,760

CONSOLIDATED BALANCE SHEET DATA:

	December 29, 2001	December 30, 2000	January 1, 2000	January 2, 1999	January 3, 1998
Cash, cash equivalents and short-term investments	$101,248	$96,438	$14,706	$5,824	$3,778
Working capital	106,556	103,347	14,281	5,209	2,045
Total assets	145,021	184,840	41,958	14,014	6,023
Long-term liabilities	3,817	5,125	6,223	2,153	747
Redeemable convertible preferred stock	--	--	12,750	12,750	5,250
Total stockholders' equity (deficit)	125,407	162,951	8,003	(5,149)	(1,776)

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS REPORT ON FORM 10-K. EXCEPT FOR THE HISTORICAL FINANCIAL INFORMATION CONTAINED HEREIN, THE MATTERS DISCUSSED IN THIS REPORT ON FORM 10-K 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 STATEMENTS INCLUDE DECLARATIONS REGARDING THE INTENT, BELIEF OR CURRENT EXPECTATIONS OF SILICON LABORATORIES AND ITS MANAGEMENT AND MAY BE

SIGNIFIED BY THE WORDS "EXPECTS," "ANTICIPATES," "INTENDS," "BELIEVES" OR SIMILAR LANGUAGE. PROSPECTIVE INVESTORS 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 BELOW AND ELSEWHERE IN THIS REPORT. OUR FISCAL YEAR-END FINANCIAL REPORTING PERIODS ARE A 52- OR 53-WEEK YEAR ENDING ON THE SATURDAY CLOSEST TO DECEMBER 31ST. FISCAL 1999 HAD 52 WEEKS AND ENDED ON JANUARY 1, 2000. FISCAL 2000 HAD 52 WEEKS AND ENDED ON DECEMBER 30, 2000. FISCAL 2001 HAD 52 WEEKS AND ENDED ON DECEMBER 29, 2001.

OVERVIEW

We design and develop proprietary, analog-intensive, mixed-signal ICs for the rapidly growing communications industry. Our innovative ICs can dramatically reduce the cost, size and system power requirements of the products that our customers sell to their end-user customers. We currently offer ICs that can be incorporated into communications devices, such as modems and wireless phones, as well as cable and satellite set-top boxes, residential communication gateways for cable or DSL, cable modems, optical network equipment and remote gaming devices. Customers during fiscal 2001 included 3Com, Agere Systems, Ambit, Ciena, Echostar, Panasonic, PC-TEL, Samsung, Smart Link, Sony, Texas Instruments and Thomson.

Our company was founded in 1996. Our business has grown rapidly since our inception, as reflected by our employee headcount, which increased to 279 employees at the end of fiscal 2001, from 256 at the end of fiscal 2000, 148 at the end of fiscal 1999, and 42 at the end of fiscal 1998. As a "fabless" semiconductor company, we rely on third-party semiconductor fabricators to manufacture the silicon wafers that reflect our IC designs. Each wafer contains numerous die, which are cut from the wafer to create a chip for an IC. We also rely on third-party assemblers to assemble and package these die prior to final product testing and shipping.

We offer numerous mixed-signal communication ICs across eight product lines. We commenced research and development for our first IC product, the direct access arrangement, or DAA, in October 1996. We introduced our DAA product in the first quarter of fiscal 1998, and first received acceptance of this product for inclusion in a customer's device, which we refer to as a "design win", in March 1998. The first commercial shipment of our DAA product was made in April 1998. Based on the success of our family of DAA products, we became profitable in the fourth quarter of fiscal 1998. A majority of our sales to date have been derived from sales of our various DAA products and we expect to diversify our sales with new products. In fiscal 1999, we introduced two additional ICs, a voice codec product, which encodes analog signals within the voice frequency range into digital signals and decodes digital voice signals back into analog signals, and our ISO modem product. In addition, we introduced our RF synthesizer product in fiscal 1999. In fiscal 2000, we introduced our ProSLIC product and a clock and data recovery product suitable for SONET physical layer applications. In fiscal 2001, we introduced a GSM transceiver chipset, a digital subscriber line analog front end and added several new optical networking products, among other product introductions. We will be less dependent on our DAA products for future sales to the extent that these products, or other products that we may introduce, are incorporated into devices sold by our customers. For a further description of our eight product lines, please see "Part I, Item 1. Business--Products."

Since our inception, a few customers have accounted for a substantial portion of our revenues. During fiscal 2001, our three largest customers accounted for 40% of our sales, including 15% for PC-TEL, 13% for Agere Systems and 12% for Samsung. In fiscal 2000, PC-TEL accounted for 46% of our revenues. In fiscal 1999, our three largest customers accounted for 84% of our revenues, including 62% for PC-TEL, 12% for Smart Link and 10% for 3Com. No other customer accounted for more than 10% of our revenues in any of these years. To date, a significant portion of our revenues has been generated through our direct sales force. In fiscal 1998, we began to establish a network of independent sales representatives and distributors worldwide to support our sales and marketing activities. We anticipate that sales through these representatives and distributors will increase as a percentage of our revenues in future periods. However, we expect to continue to experience significant customer concentration in direct sales to key customer accounts until we are able to diversify revenues with new customers.

On October 22, 2001, our largest customer, PC-TEL, announced that its revenues for the quarter ended on September 30, 2001 were below PC-TEL's previous expectations due to lack of demand for personal computers. PC-TEL also reported significant operating losses. Additionally, PC-TEL has recently

announced changes to its executive team, including in the chief executive officer, chief financial officer and vice president, development positions. We believe that this revenue shortfall and corresponding operating losses by PC-TEL combined with the changes in the executive team creates uncertainty for us as to the level of business we may derive from PC-TEL in the first half of fiscal year 2002.

The percentage of our revenues to customers located outside of the United States was 66% in fiscal 2001, 21% in fiscal 2000 and 7% in fiscal 1999. All of our revenues to date have been denominated in U.S. dollars. We believe that a greater percentage of our revenues will be made to customers outside of the United States as our products receive greater acceptance in international markets.

The sales cycle for the test and evaluation of our ICs can range from 1 month to 12 months or more. An additional 3 to 6 months or more may be required before a customer ships a significant volume of devices that incorporate our ICs. Due to this lengthy sales cycle, we may experience a significant delay between incurring expenses for research and development and selling, general and administrative efforts, and the generation of corresponding sales, if any. Consequently, if sales in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters would be adversely affected.

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

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

REVENUES. Revenues are generated principally by sales of our ICs. We recognize revenue upon the transfer of title, which generally occurs upon shipment to our customers. Revenues are deferred on shipments to distributors until they are resold by such distributors. Our products typically carry a one-year replacement warranty. Our revenues are subject to variation from period to period due to the volume of shipments made within a period and the prices we charge for our products. The vast majority of our revenues were negotiated at prices that reflect a discount from the list prices for our products. These discounts are made for a variety of reasons, including to establish a relationship with a new customer, as an incentive for customers to purchase products in larger volumes or in response to competition. In addition, as a product matures, we expect that the average selling price for that product will decline due to the greater availability of competing products. Therefore, our ability to increase revenues in the future is dependent on increased demand for our established products and our ability to ship larger volumes of those products in response to such demand, as well as customer acceptance of newly introduced products.

COST OF REVENUES. Cost of revenues includes the cost of purchasing finished silicon wafers processed by independent foundries; costs associated with assembly, test and shipping of those products; costs of personnel and equipment associated with manufacturing support, logistics and quality assurance; an allocated portion of our occupancy costs; and allocable depreciation of testing equipment and leasehold improvements. Generally, we depreciate equipment over four years on a straight line basis. We also depreciate our leasehold improvements over the shorter of the estimated useful life or the applicable lease term. Recently introduced products tend to have higher cost of revenues per unit due to initially low production volumes required by our customers and higher costs associated with new package variations. Generally, as production volumes for a product increase, unit production costs tend to decrease as our semiconductor fabricators and assemblers achieve greater economies of scale for that product. Additionally, the cost of wafer procurement, which is a significant component of cost of goods sold, varies cyclically with overall demand for semiconductors.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of compensation and related costs of employees engaged in research and development activities, as well as an allocated portion of our occupancy costs for such operations. We depreciate our research and development equipment over four years and amortize our purchased software from computer-aided design tool vendors over four years. Development activities include the design of new

products and creation of test methodologies to assure compliance with required specifications.

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

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

GOODWILL AMORTIZATION. Goodwill amortization includes the amortization of goodwill purchased in connection with our acquisitions of Krypton and SNR. Goodwill is amortized over four to five years using the straight line method.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS. Impairment of goodwill and other intangible assets reflects the charge to write-down that portion of the carrying value of goodwill and other intangible assets that is in excess of their fair value.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. In connection with the grant of stock options and direct issuances of stock to our employees, we recorded deferred stock compensation, representing, for accounting purposes, the difference between the exercise price of option grants, or the issuance price of direct issuances of stock, and the deemed fair value of our common stock at the time of such grants or issuances. The deferred stock compensation is amortized over the vesting period of the applicable options or shares, generally five to eight years. The amortization of deferred stock compensation is recorded as an operating expense.

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

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

PROVISION (BENEFIT) FOR INCOME TAXES. We accrue a provision (benefit) for federal and state income taxes at the applicable statutory rates, as adjusted for certain credits, permanent differences and other items.

RESULTS OF OPERATIONS

COMPARISON OF FISCAL 2001 TO FISCAL 2000

REVENUES. Revenues in fiscal 2001 were $74.1 million, representing a decrease of $29.0 million or 28.1% from revenues of $103.1 million in fiscal 2000. The decrease in the dollar amount of revenues was primarily due to a decline in the sales volume of our DAA family of products, reflecting the rapid deterioration in demand for personal computers. Revenues from non-DAA products, such as the ISOmodem, the ProSLIC, the RF Synthesizer and our optical networking products, accounted for approximately 45.1% of revenues in fiscal 2001 as compared to 13.2% of revenues in fiscal 2000.

GROSS PROFIT. Cost of revenues decreased $3.6 million, or 10.1%, to $32.0 million in fiscal 2001 from $35.6 million in fiscal 2000, and represented 43.2% of revenues in fiscal 2001 and 34.5% of revenues in fiscal 2000, respectively. Gross profit in fiscal 2001 was $42.1 million or 56.8% of revenues, a decrease of $25.4 million or 37.6% as compared with gross profit of $67.5 million or 65.5% of revenues in fiscal 2000. The decrease in both the dollar amount of gross profit and gross margin percentage was primarily due to the substantial decrease in sales volume, decreased utilization of our testing capacity and higher reserves for excess inventory due to greater fluctuations in demand for our products. The future direction of gross margins is uncertain due to many factors such as the severity and duration of the personal computer industry downturn, our ability to sell existing inventory on hand, our ability to successfully introduce to market and sell new products, the selling prices for existing and new products, the extent to which our competitors introduce new products to market, and future product cost considerations with our vendors.

RESEARCH AND DEVELOPMENT. Research and development expense in fiscal 2001 was $29.0 million or 39.1% of revenues, which reflected an increase of $9.6

million or 49.5% as compared with research and development expense of $19.4 million or 18.8% of revenues in fiscal 2000. The increase in the dollar amount of research and development expense was principally due to significant increases in new product development initiatives, usage of more expensive advanced silicon CMOS processes, and increased spending to develop test methodologies for new products. As a percentage of revenues, research and development expense increased significantly due to the substantial decrease in sales volume in fiscal 2001. We expect that research and development expense will continue to increase in absolute dollars in future periods as we develop new ICs, and may fluctuate as a percentage of revenues due to changes in sales volume and new product development initiatives.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense in fiscal 2001 was $20.0 million or 27.0% of revenues, which reflected an increase of $2.3 million or 13.0% as compared to selling, general and administrative expense of $17.7 million or 17.1% of revenues in fiscal 2000. The increase in the dollar amount of selling, general and administrative expense was principally attributable to increased staffing, but was partially offset by a decrease in spending on patent litigation fees. We expect our legal expenses to increase as a result of the infringement lawsuit filed against us by TDK Semiconductor Corporation in August 2001. We also expect that selling, general and administrative expense will increase in absolute dollars in future periods as we expand our sales channels, marketing efforts and administrative infrastructure. In addition, we expect selling, general and administrative expense to fluctuate as a percentage of revenues because of (1) the likelihood that indirect distribution channels, which entail the payment of commissions, will account for a larger portion of our revenues in future periods and, therefore, increase our selling, general and administrative expense relative to a direct sales force performing at satisfactory levels of productivity; (2) fluctuating usage of advertising to promote our products and, in particular, our newly introduced products; and (3) potential significant variability in our future sales volume. We expect our directors and officers liability insurance premiums to increase or our coverage limits to decline, or both, as a result of significantly constrained capacity in this segment of the insurance industry.

WRITE OFF OF IN-PROCESS RESEARCH & DEVELOPMENT. There was no write off of in-process research & development in fiscal 2001. Write off of in-process research & development in fiscal 2000 was $0.4 million as a result of the acquisition of Krypton.

GOODWILL AMORTIZATION. Goodwill amortization in fiscal 2001 was $4.2 million compared to $3.3 million in fiscal 2000. This increase was primarily due to the timing of the acquisitions of Krypton and SNR in late fiscal 2000. In fiscal 2001 we recorded a charge to reduce the carrying value of goodwill as discussed below in "IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS."

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS. During fiscal 2001, we performed an assessment of the carrying value of our long-lived assets recorded in connection with our acquisitions of Krypton and SNR. This assessment was performed because we became aware of the following factors and circumstances:

- - The revenue streams associated with those assets had decreased significantly since their acquisition and we did not expect to have any significant or identifiable future cash flows related to those assets;
- - We determined that further development or alternative uses of the acquired technologies were remote; and
- - The Krypton office was closed in August of 2001 and the related employees had since either ceased to work for us or been reassigned to new projects which were unrelated to the projects on which they previously worked.

As a result of this assessment, the Company concluded that the value of these assets had become permanently impaired and recorded charges of $33.3 million to write off related goodwill and $1.6 million to reduce the carrying value of related intangible assets to their fair value.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. We have recorded deferred stock compensation for the difference between the exercise price of option grants or the issuance price of direct issuances of stock, and the deemed fair value of our common stock at the time of such grants or issuances. We are amortizing this amount over the vesting periods of the applicable options or restricted stock,

which resulted in amortization expense of $5.3 million in fiscal 2001 as compared to $3.8 million in fiscal 2000. The increase in the dollar amount of

amortization of deferred stock compensation was due to additional deferred stock compensation for options and restricted stock issued.

INTEREST INCOME. Interest income in fiscal 2001 was $3.6 million as compared to $4.0 million in fiscal 2000. This decrease was primarily due to lower interest rates.

INTEREST EXPENSE. Interest expense in fiscal 2001 was $0.8 million as compared to $1.2 million in fiscal 2000. The decrease in interest expense was primarily due to lower levels of debt in fiscal 2001.

PROVISION (BENEFIT) FOR INCOME TAXES. Our effective tax rate, excluding the impacts of non-deductible write off of in-process research & development, amortization of goodwill, impairment of goodwill and other intangible assets and deferred stock compensation, was a benefit of 69.6% in fiscal 2001, as compared to our effective tax provision rate of 35.5% in fiscal 2000. The current period's tax benefit rate was higher than the prior comparable period's tax provision rate primarily due to the current period's increased tax benefit from the estimated research and development tax credit in proportion to the amount of the current period's pre-tax loss.

COMPARISON OF FISCAL 2000 TO FISCAL 1999

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

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

RESEARCH AND DEVELOPMENT. Research and development expense in fiscal 2000 was $19.4 million or 18.8% of revenues, which reflected an increase of $11.1 million or 134% as compared with research and development expense of $8.3 million or 17.7% of revenues in fiscal 1999. The increased research and development expense was due to product development activities in all product lines to develop new products and new test methodologies.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense in fiscal 2000 was $17.7 million or 17.1% of revenues, which reflected an increase of $10.4 million or 145% as compared to selling, general and administrative expense of $7.2 million or 15.4% of revenues in fiscal 2000. The increase in the dollar amount of selling, general and administrative expense was attributable to our legal expenses of $2.8 million, or 2.7% of revenues, related to the infringement lawsuit we filed against Analog Devices and 3Com in January 2000 and settled during the quarter ended December 30, 2000. Increases in staffing in all areas of selling, general and administration also contributed to the rise in spending. Promotional activities for new product introductions and expenses related to operating as a public company, such as increased legal, investor relations and directors and officers liability insurance, added to these higher levels of expense as compared to the prior year. Selling, general and administrative expense, excluding the legal fees associated with the infringement lawsuit, decreased as a percentage of revenue due to substantially higher revenue levels in fiscal 2000.

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

issued in fiscal 2000 and fiscal 1999.

WRITE OFF OF IN-PROCESS RESEARCH & DEVELOPMENT. Write off of in-process research & development was $0.4 million in fiscal 2000 as a result of the fiscal 2000 acquisition of Krypton.

GOODWILL AMORTIZATION. Goodwill amortization was $3.3 million in fiscal 2000 as a result of the fiscal 2000 acquisitions of Krypton and SNR.

INTEREST INCOME. Interest income was $4.0 million in fiscal 2000 as compared to $0.4 million in fiscal 1999. The increase in interest income was primarily due to higher cash balances invested in short-term investments reflecting the proceeds of our initial public offering completed in March of 2000.

INTEREST EXPENSE. Interest expense was $1.2 million in fiscal 2000 as compared to $0.7 million in fiscal 1999. The increase in interest expense was primarily due to higher average levels of debt and lease financing during the year used to finance capital expenditures, particularly relating to the acquisition of IC testing equipment and leasehold improvements.

PROVISION (BENEFIT) FOR INCOME TAXES. Our effective tax rate excluding the impact of non-deductible goodwill, deferred compensation and write-off of in-process research & development was 35.5% and 21.7% for fiscal 2000 and fiscal 1999, respectively. Our tax rate increased in fiscal 2000 because we had substantially utilized all of our net operating loss carryforwards by the end of the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity as of December 29, 2001 consisted of $101.2 million in cash, cash equivalents and short-term investments in addition to our bank credit facilities. Our bank credit facilities include a revolving line of credit available for borrowings and letters of credit of up to the lesser of $5.0 million or 80% of eligible accounts receivable at the bank's prime lending rate (4.75% as of December 29, 2001). At December 29, 2001, a letter of credit for $0.4 million related to a building lease was outstanding under the revolving line of credit and $4.6 million was available for new borrowings based on the 80% of eligible accounts receivable limitation.

The bank facility is secured by our accounts receivable, inventories, capital equipment and all other unsecured assets (excluding intellectual property). The line of credit and the separate letter of credit facility contain provisions that prohibit the payment of cash dividends and require the maintenance of tangible net worth and compliance with financial ratios, which measure our immediate liquidity and our ongoing ability to pay back our outstanding obligations. Any default on one of the bank facilities will cause all of the bank facilities to be in default under these agreements. We believe we were in compliance with all covenants at December 29, 2001.

We also have entered into agreements with three institutional lenders for equipment financing to purchase or lease equipment, leasehold improvements and software. At December 29, 2001, the amount outstanding under these agreements was $3.4 million. This indebtedness bears effective interest rates (including end-of-term interest payments of $1.3 million) ranging from 12.5% to 14.6% per annum, is secured by certain equipment, and is repayable over approximately the next two years.

During fiscal 2001, cash provided by operating activities was $11.7 million. This compares to cash provided by operating activities of $22.6 million during fiscal 2000 and cash provided by operating activities of $12.3 million in fiscal 1999. This reduction in cash flow in fiscal 2001 was primarily due to the significant reduction in revenues during the period.

Due to the nature of our business, we experience working capital needs in the areas of accounts receivable and inventory. Typically, we bill our customers on an open account basis with net 30 day payment terms or other specific terms and conditions that may vary from account to account as individually negotiated with customers. As of December 29, 2001, we had an accounts receivable balance of $10.5 million. If sales levels were to increase, it is likely that the level of receivables would also increase. In the event that customers delay their payments to us, the levels of accounts receivable would also increase. In the area of inventory, we believe that in order to maintain an adequate supply of product for our customers, we must carry a certain level of inventory. This inventory level may vary based principally upon either orders received from customers or our forecast of demand for these products. Other considerations in determining inventory levels may include the product life cycle stage of our

products, customer demands for consignment inventory arrangements, and competitive situations in the marketplace. To address this difficult, subjective and complex area of judgment of determining proper inventory levels in a consistent manner, we apply a set of methods, assumptions and estimates to arrive at the net inventory amount by completing the following procedures which collectively comprise a critical accounting policy. First, we identify any inventory that has been previously reserved in prior periods. This inventory remains reserved until sold, destroyed or otherwise dispositioned. Second, we examine the inventory line items that may have some form of obsolescence due to non-conformance with electrical and mechanical standards as identified by our quality assurance personnel. Third, the remaining inventory not otherwise identified to be reserved is compared to an assessment of product history and forecasted demand, typically six months, or actual firm backlog on hand. Finally, an analysis of the result of this methodology is compared against the product life cycle and competitive situations in the marketplace driving the outlook for the consumption of the inventory and the appropriateness of the resulting inventory levels. As of December 29, 2001, we had net inventory balance of $5.2 million resulting from the application of this critical accounting policy which we deemed adequate to address these inventory considerations.

Capital expenditures decreased by $10.9 million to $6.2 million in fiscal 2001 from $17.1 million in fiscal 2000. This decrease in the dollar amount of capital expenditures was primarily due to the completion of our internal test floor for existing products in fiscal 2000 and spending controls implemented during fiscal 2001. The expenditures in fiscal 2001 were incurred to purchase semiconductor test equipment for new products, design software and engineering tools, other computer equipment, leasehold improvements and software to support our business capabilities. We anticipate capital expenditures of approximately $14.0 million for fiscal 2002, primarily to fund additional test floor, high speed capabilities and expand new product development activities.

Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, the timing and extent of research and development projects and the expansion of our sales and marketing activities. We believe our existing cash balances and credit facilities are sufficient to meet our capital requirements through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. We may enter into acquisitions or strategic arrangements in the future which also could require us to seek additional equity or debt financing. There can be no assurances that additional equity or debt financing, if required, will be available to us on acceptable terms or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) Nos. 141 and 142, BUSINESS COMBINATIONS and GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 replaces Accounting Principles Board (APB) No. 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS No. 141 and SFAS No. 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS No. 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 will be

reclassified to goodwill. Companies are required to adopt SFAS No. 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. We adopted SFAS No. 142 on December 30, 2001, which was the beginning of fiscal 2002. In connection with the adoption of SFAS No. 142, we will be required to perform a transitional goodwill impairment assessment. The adoption of SFAS No. 141 and SFAS No. 142 will not have a material impact on our results of operations and financial position since the Company's existing balances of goodwill and other intangible assets are not significant due to impairment charges recorded in fiscal 2001 under SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in

short-term instruments. Due to the nature of our short-term investments, we have concluded that there is no material market risk exposure.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and supplementary data required by this item are included in part IV, Item 14 of this Form 10-K and are presented beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Certain information required by Part III is omitted from this report because we will file a definitive Proxy Statement pursuant to Regulation 14A (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this report, and certain information to be included therein is incorporated herein by reference.

Item 10. Directors and Executive Officers of the Registrant

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management

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

Item 13. Certain Relationships and Related Transactions

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

PART IV

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

(a) 1. Financial Statements

SILICON LABORATORIES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

2. Schedules

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

3. Exhibits

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

(b) Reports on Form 8-K.

During fiscal year 2001, we filed the following Current Reports on Form 8-K:

Not applicable

(c) Exhibits

Exhibit Number	
-------	3.1* Form of Fourth Amended and Restated Certificate of Incorporation of Silicon Laboratories Inc. filed as Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (Securities and Exchange Commission File No. 333-94853 (the "IPO Registration Statement")).
	3.2* Form of Amended and Restated Bylaws of Silicon Laboratories Inc. filed as Exhibit 3.2 to the IPO Registration Statement.
	4.1* Specimen certificate for shares of common stock filed as Exhibit 4.1 to the IPO Registration Statement.
	10.1* Form of Indemnification Agreement between Silicon Laboratories Inc. and each of its directors and executive officers (filed as Exhibit 10.1 to the IPO Registration Statement).
	10.2* Silicon Laboratories Inc. 2000 Stock Incentive Plan (filed as Exhibit 10.2 to the IPO Registration Statement).
	10.3* Silicon Laboratories Inc. Employee Stock Purchase

Plan (filed as Exhibit 10.3 to the IPO Registration Statement). 32 Exhibit Number ------- 10.4* Amended and Restated Investors' Rights Agreement dated June 2, 1998 by and among Silicon Laboratories Inc. and certain holders of preferred stock or common stock (filed as Exhibit 10.4 to the IPO Registration Statement). 10.5* Lease Agreement dated June 26, 1998 by and between Silicon Laboratories Inc. and S.W. Austin Office Building Ltd. (filed as Exhibit 10.5 to the IPO Registration Statement). 10.6* Lease Agreement dated October 27, 1999 by and between Silicon Laboratories Inc. and Stratus 7000 West Joint Venture (filed as Exhibit 10.6 to the IPO Registration Statement). 10.7* Master Loan and Security Agreement dated April 22, 1999 by and between Silicon Laboratories Inc. and FINOVA Capital Corporation (filed as Exhibit 10.7 to the IPO Registration Statement). 10.8* Lease Agreement dated June 29, 2000 by and between Silicon Laboratories Inc. and Stratus 7000 West Joint Venture. (filed as Exhibit 10.19 to the

Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2000) 10.9* Master Revolving Note dated September 5, 2001 by and between Silicon Laboratories Inc. and Comerica Bank-Texas filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q dated October 22, 2001. 10.10* Letter of Credit Agreement dated September 5, 2001 by and between Silicon Laboratories Inc. and Comerica Bank-Texas filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q dated October 22, 2001. 10.11* Security Agreement dated September 5, 2001 by and between Silicon Laboratories Inc. and Comerica Bank-Texas filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q dated October 22, 2001. 10.12* Advance Formula Agreement dated September 5, 2001 by and between Silicon Laboratories Inc. and Comerica Bank-Texas filed as Exhibit 10.4 to the Quarterly Report on Form 10-Q dated October 22, 2001. 21 Subsidiaries of the Registrant. 23.1 Consent of Ernst & Young LLP, Independent Auditors.

- ----------
* Incorporated herein by reference to the indicated filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Austin, Texas, on January 22, 2002.

SILICON LABORATORIES INC.

By: /s/ NAVDEEP S. SOOCH

Navdeep S. Sooch
CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD

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

NAME	TITLE	DATE
/s/ NAVDEEP S. SOOCH	Chief Executive Officer and Chairman of the Board (principal executive officer)	January 22, 2002
Navdeep S. Sooch	Vice President and Chief Financial Officer (principal financial and accounting officer)	January 22, 2002
/s/ JOHN W. MCGOVERN	Director	January 22, 2002
/s/ JEFFREY W. SCOTT	Vice President and Director	January 22, 2002
- Jeffrey W. Scott		
/s/ DAVID R. WELLAND	Vice President and	

Director
January
22, 2002 -

- David R.
Welland
/s/
WILLIAM P.
WOOD
Director
January
22, 2002 -

- William
P. Wood
/s/ H.
BERRY CASH
Director
January
22, 2002 -

- H. Berry
Cash /s/
WILLIAM G.
BOCK
Director
January
22, 2002 -

- William
G. Bock

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Silicon Laboratories Inc.

We have audited the accompanying consolidated balance sheets of Silicon Laboratories Inc. as of December 29, 2001 and December 30, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 29, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Silicon Laboratories Inc. at December 29, 2001 and December 30, 2000, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ERNST & YOUNG LLP

Austin, Texas
January 16, 2002

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

DECEMBER 29, 2001	DECEMBER 30, 2000
ASSETS	
Current assets:	
Cash and cash equivalents	$ 82,346	$ 51,902
Short-term investments	18,902	44,536
Accounts receivable, net of allowance for doubtful accounts of $490 at December 29, 2001 and $758 at December 30, 2000	10,543	13,616
Inventories	5,221	7,219
Deferred income taxes	2,268	1,719
Prepaid expenses and other	3,073	1,119
Total current assets	122,353	120,111
Property, equipment and software, net	20,038	22,625
Goodwill and other intangible assets	199	39,686
Other assets	2,431	2,418
Total assets	$145,021	$184,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,999	$ 8,728
Accrued expenses	3,897	2,406
Deferred revenue	2,862	2,640
Current portion of long-term liabilities	2,039	2,078
Income taxes payable	--	912
Total current liabilities	15,797	16,764
Long-term debt and leases	1,363	3,390
Other long-term liabilities	2,454	1,735
Total liabilities	19,614	21,889
Stockholders' equity: Common stock--$.0001 par value; 250,000 shares authorized; 48,640 and 48,117 shares issued and outstanding at December 29, 2001 and December 30, 2000, respectively	5	5
Additional paid-in capital	170,567	165,404
Stockholder notes receivable	(794)	(1,202)
Deferred stock compensation	(18,603)	(21,061)
Retained earnings (accumulated deficit)	(25,768)	19,805
Total stockholders' equity	125,407	162,951
Total liabilities and stockholders' equity	$145,021	$184,840

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

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

	DECEMBER 29, 2001	DECEMBER 30, 2000	JANUARY 1, 2000
Revenues	$ 74,065	$103,103	$46,911
Cost of revenues	31,930	35,601	15,770
Gross profit	42,135	67,502	31,141
Operating expenses:			
Research and development	28,978	19,419	8,297
Selling, general and administrative	20,056	17,648	7,207
Write off of in-process research & development	--	394	--
Goodwill amortization	4,187	3,307	--
Impairment of goodwill and other intangible assets	34,885	--	--
Amortization of deferred stock compensation	5,276	3,761	976
Operating expenses	93,382	44,529	16,480
Operating income (loss)	(51,247)	22,973	14,661
Other income (expense):			
Interest income	3,622	4,038	402
Interest expense	(751)	(1,162)	(699)
Income (loss) before income taxes	(48,376)	25,849	14,364
Provision (benefit) for income taxes	(2,803)	11,832	3,324
Net income (loss)	$(45,573)	$14,017	$11,040
Net income (loss) per share:			
Basic	$ (0.99)	$ 0.37	$ 0.73
Diluted	$ (0.99)	$ 0.29	$ 0.25
Weighted-average common shares outstanding:			
Basic	45,914	38,326	15,152
Diluted	45,914	48,788	43,657

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

SILICON LABORATORIES INC. CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (IN THOUSANDS)

	Common Stock		Total Additional				
	Stockholder Deferred Retained						
	Stockholders' Number Of	Par	Paid-In	Notes			
	Stock	Earnings	Equity	Shares	Value	Capital	Receivable
Compensation	(Deficit)	(Deficit)					
Balance as of January 2, 1999	28,642	$3	$ 721				
$(215)	$ (406)	$(5,252)	$(5,149)				
Exercises of stock options	1,411	--	2,047				
(1,267)	--	--	780				
Income tax benefit from exercise of stock options							
--	--	91	--	--	--	91	
Repurchase and cancellation of unvested shares							
(37)	--	(10)	10	--	--	--	
Compensation							

expense related to stock options and direct stock issuances to non-employees	--	--	266	--	--	266
Deferred stock compensation	--	--	15,899	--	(15,899)	--
Amortization of deferred stock compensation	--	--	--	--	975	975
Net income	--	--	--	--	11,040	11,040
Balance as of January 1, 2000	30,016	3	19,014	(1,472)	(15,330)	5,788
Conversion of Preferred Stock to Common Stock	13,884	2	12,849	--	--	12,851
Net Proceeds from Initial Public Offering	3,200	--	90,646	--	--	90,646
Compensation expense related to warrants	--	--	153	--	--	153
Exercises of stock options	573	--	1,705	--	--	1,705
Income tax benefit from exercise of stock options	--	--	1,685	--	--	1,685
Repurchase and cancellation of unvested shares	(25)	--	(70)	--	--	(70)
Repayment of stockholder notes receivable	--	--	270	--	--	270
Employee Stock Purchase Plan	29	--	700	--	--	700
Deferred stock compensation	--	--	9,458	--	(9,458)	--
Amortization of deferred stock compensation	--	--	--	--	3,761	3,761
Purchase acquisitions	440	--	29,264	--	(34)	29,230
Net income	--	--	--	--	14,017	14,017
Balance as of December 30, 2000	48,117	5	165,404	(1,202)	(21,061)	19,805	162,951
Exercises of stock options and warrants	469	--	587	--	--	587
Income tax benefit from exercise of stock options	--	--	662	--	--	662
Repurchase and cancellation of unvested shares	(14)	--	(24)	24	--	--
Repayment of stockholder notes receivable	--	--	384	--	--	384
Employee Stock Purchase Plan	68	--	1,120	--	--	1,120
Deferred stock compensation	--	--	2,818	--	(2,818)	--
Amortization of deferred stock compensation	--	--	--	--	5,276	5,276
Net loss	--	--	--	--	(45,573)	(45,573)
Balance as of December 29, 2001	48,640	$5	$170,567	$(794)	$(18,603)	$(25,768)	$125,407

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

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

YEAR ENDED ---------- DECEMBER 29, DECEMBER 30, JANUARY 1, 2001 2000 2000 ------------ -------- ---- ---------- OPERATING ACTIVITIES Net income (loss)..... $(45,573) $14,017 $11,040 Adjustments to reconcile net income (loss) to cash provided by operating activities: Depreciation and amortization of property, equipment and software.. 7,968 6,218 1,972 Amortization of goodwill, other intangible assets and other assets. 4,608 3,532 -- Impairment of goodwill and other intangible assets..... 34,885 -- -- Amortization of deferred stock compensation..... 5,276 3,761 975 Amortization of note/lease end-of-term interest payments..... 322 323 142 Compensation expense related to stock options, direct stock issuance, and warrants to non-employees..... -- 153 266 Income tax benefit from exercise of stock options..... 662 1,685 91 Changes in operating assets and liabilities: Investment interest receivable..... 706 (608) -- Accounts receivable..... 3,072 (3,105) (7,447) Inventories..... 1,998 (3,847) (2,202) Prepaid expenses and other..... 133 (557) (300) Income tax receivable..... (2,086) -- -- Other assets..... 71 (811) (218) Accounts payable..... (979) 847 4,232 Accrued expenses..... 1,491 1,136 854 Deferred revenue..... 222 1,634 1,006 Deferred income taxes..... (152) (302) (963) Income taxes payable..... (912) (1,466) 2,822 ---------- ---------- ---------- Net cash provided by operating activities..... 11,712 22,610 12,270 INVESTING ACTIVITIES Purchases of short-term investments..... (59,210) (63,012) (9,385) Maturities of short-term investments..... 84,138 25,593 5,833 Purchases of property, equipment and software..... (5,400) (15,843) (9,904) Purchases of other assets..... (821) (1,250) -- Acquisition of businesses, net of cash acquired..... -- (14,433) -- ---------- ------- ---------- Net cash provided by (used in) investing activities..... 18,707 (68,945) (13,456) FINANCING ACTIVITIES Proceeds from long-term debt..... -- 3,532 6,424 Payments on long-term debt..... (1,535) (6,350) (1,274) Proceeds from equipment lease financing..... -- -- 976 Payments on capital leases..... (531) (493) (390) Proceeds from repayment of stockholder notes..... 384 270 -- Proceeds from exercise of warrants..... -- 100 -- Proceeds from Employee Stock Purchase Plan..... 1,120 700 -- Repurchase and cancellation of common stock..... -- (70) -- Net proceeds from initial public offering..... -- 90,646 -- Net proceeds from exercises of stock options..... 587 1,705 780 ---------- ---------- ---------- Net cash provided by financing activities..... 25 90,040 6,516 ---------- ---------- ---------- Increase in cash and cash equivalents..... 30,444 43,705 5,330 Cash and cash equivalents at beginning of period..... 51,902 8,197 2,867 ---------- ---- -------- ---------- Cash and cash equivalents at end of period..... $82,346 $51,902 $8,197 ========== ========== ========== SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: Interest paid..... $ 424 $ 827 $ 593 ========== ========== ========== Income

taxes paid (received).....
$(1,104) $11,855 $1,489 ========== ========== ========== THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

SILICON LABORATORIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 29, 2001

1. ORGANIZATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal year 2001 ended on December 29, 2001, fiscal year 2000 ended on December 30, 2000, and fiscal year 1999 ended on January 1, 2000. All of the periods presented have 52 weeks.

PRINCIPLES OF CONSOLIDATION AND FOREIGN CURRENCY TRANSLATION

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

CASH AND CASH EQUIVALENTS

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

SHORT-TERM INVESTMENTS

The Company's short-term investments have original maturities greater than ninety days and less than one year and have been classified as available-for-sale securities in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. The carrying value of all available-for-sale securities approximates their fair value. Short-term investments at December 29, 2001 and December 30, 2000 consist of the following (in thousands):

Carrying Value -----

------- December 29,
December 30, 2001
2000 ---

Municipal
Securities.....
$15,867 $17,529
Auction Rate
Securities.....
3,035 11,242 U.S.
Treasury
Bills..... --
15,765 ---
-- ---
$18,902 $44,536
===
===

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

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

December 29, 2001	December 30, 2000
--	Work in progress
$3,582	$4,302 Finished goods
1,639	2,917
$5,221	$7,219

PROPERTY, EQUIPMENT, AND SOFTWARE

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

December 29, 2001	December 30, 2000
Equipment	
$24,917	$21,618 Computers and purchased software
8,633	7,147 Furniture and fixtures
940	885 Leasehold improvements
2,182	1,979
36,672	31,629 Accumulated depreciation
(16,634)	(9,004)
$20,038	$22,625

LONG-LIVED ASSETS

The Company evaluates its long-lived assets in accordance with FASB SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. 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 would be written off in the period in which the determination was made.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RISKS AND UNCERTAINTIES

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

Balance at January 2, 1999	$ 56
Additions charged to costs and expenses	513
Write-off of uncollectible accounts	--
Balance at January 1, 2000	569
Balance acquired from Krypton purchase	56
Additions charged to costs and expenses	133
Write-off of uncollectible accounts	--
Balance at December 30, 2000	758
Additions (reductions) charged to costs and expenses	(229)
Write-off of uncollectible accounts	(39)
Balance at December 29, 2001	$490

All of the Company's products are currently fabricated by two companies in Taiwan. The inability by either of these partners to timely deliver wafers to the company could impact the production of the Company's products for a substantial period of time, which could have a material adverse effect on the Company's business, financial condition and results of operations.

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

Year Ended	December 29, 2001	December 30, 2000	January 1, 2000
Customer A	15%	46%	62%

Customer B.....	13	--
Customer C.....	12	--
Customer D.....	--	-- 12
Customer E.....	--	-- 10

REVENUE RECOGNITION

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

ADVERTISING

Advertising costs are expensed as incurred. Advertising expenses were $483,000, $718,000, and $296,700 in the fiscal years ended December 29, 2001, December 30, 2000, and January 1, 2000, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION

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

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

OTHER COMPREHENSIVE INCOME (LOSS)

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

INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, ACCOUNTING FOR INCOME TAXES. This statement requires the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

SEGMENT INFORMATION

The Company has one operating segment, mixed-signal communication ICs, consisting of eight product lines. The Company's chief operating decision

maker is considered to be the Chief Executive Officer and Chairman of the Board. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the operating segment level.

Approximately $48,672,000, $22,059,000, and $3,372,000 of the Company's revenues were from export sales for the fiscal years ended December 29, 2001, December 30, 2000, and January 1, 2000, respectively. The operations and assets of Silicon Laboratories UK Ltd. and Silicon Laboratories K.K. were immaterial in all periods presented.

RECLASSIFICATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS (LOSS) PER SHARE

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

Year Ended		
December 29, 2001	December 30, 2000	January 1, 2000
Net income (loss)	$(45,573)	$14,017	$11,040
Basic:			
Weighted-average shares of common stock outstanding	48,431	43,628	29,177
Weighted-average shares of common stock subject to repurchase	(2,517)	(5,302)	(14,025)
Shares used in computing basic net income (loss) per share	45,914	38,326	15,152
Effect of dilutive securities:			
Weighted-average shares of common stock subject to repurchase	--	5,131	13,370
Convertible preferred stock and warrants	--	3,235	13,965
Stock options	--	2,096	1,170
Shares used in computing diluted net income (loss) per share	45,914	48,788	43,657
Basic net income (loss) per share	$(0.99)	$0.37	$0.73
Diluted net income (loss) per share	$(0.99)	$0.29	$0.25

Approximately 4,199,000 common shares have been excluded from the diluted loss per share calculation for the year ended December 29, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS Nos. 141 and 142, BUSINESS COMBINATIONS and GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 replaces APB No. 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS No. 141 and 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS No. 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets

acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 will be reclassified to goodwill. Companies are required to adopt SFAS No. 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company will adopt SFAS No. 142 on December 30, 2001, the beginning of fiscal 2002. In connection with the adoption of SFAS No. 142, the Company will be required to perform a transitional goodwill impairment assessment. The adoption of SFAS No. 141 and 142 will not have a material impact on the Company's results of operations and financial position since the Company's existing balances of goodwill and other intangible assets are not significant due to impairment charges recorded in fiscal 2001 under SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of intangible assets are as follows (in thousands):

	Customer Technology	Acquired Patents	Workforce	Goodwill	Base Total
Balance at January 1, 2000	$ --	$ --	$ --	$ --	$ --
Acquisition of assets	345	1,006	952	120	40,794 43,218
Amortization	(36)	(84)	(89)	(16)	(3,306) (3,532)
Balance at December 30, 2000	309	922	863	104	37,488 39,686
Amortization	(168)	(101)	(106)	(40)	(4,187) (4,602)
Write-down of assets	(6)	(821)	(757)	--	(33,301) (34,885)
Net balance at December 29, 2001	$ 135	$ --	$ --	$ 64	$ -- $ 199

During fiscal 2001, the Company performed an assessment of the carrying value of the Company's long-lived assets recorded in connection with our acquisitions of Krypton and SNR. This assessment was performed pursuant to FASB SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. The Company performed this assessment because it became aware of the following factors and circumstances:

- - The revenue streams associated with those assets had decreased significantly since their acquisition and the Company did not expect to have any significant or identifiable future cash flows related to those assets;
- - The Company determined that further development or alternative uses of the acquired technologies were remote; and
- - The Krypton office was closed in August of 2001 and the related workforce had since either ceased to work for us or been reassigned to new projects which were unrelated to the projects on which they previously worked.

The Company determined fair value for those assets that had separately identifiable cash flows to be the projected undiscounted future cash flows to be derived from those assets over their remaining estimated useful lives. The Company placed no value on those assets that did not have separately identifiable cash flows as the factors normally judged to constitute future value, such as the expectation of future business and/or revenues, the expectation of ongoing development of new products, the good name and reputation of the acquired company, etc. appeared to be absent.

As a result of this assessment, the Company concluded that the value of those assets had become permanently impaired and recorded charges for $33.3 million to write-off related goodwill and $1.6 million to reduce the carrying value of related intangible assets to their fair value.

4. LONG-TERM LIABILITIES

The Company has a revolving line of credit agreement (the Agreement) with a commercial bank. Under the provisions of the Agreement, the line of credit allows for borrowings of up to the lesser of $5 million or 80% of eligible accounts receivable at the bank's prime lending rate (4.75% as of December 29, 2001). The bank facility is secured by the Company's accounts receivable, inventory, capital equipment and other unsecured assets (excluding intellectual property). At December 29, 2001 and December 30, 2000, a letter of credit for $0.4 million relating to a building lease was outstanding under the facility. As a result, available borrowings under this facility were $4.6 million at December 29, 2001 and December 30, 2000. There are covenants related to net worth and liquidity associated with this line of credit, with which the Company is in compliance as of December 29, 2001.

4. LONG-TERM LIABILITIES (CONTINUED)

Long-term debt and leases consist of the following:

December 29, 2001	December 30, 2000
	(in thousands)
Note payable, at 9.08%, payable in monthly installments of $24,800 through March 1, 2003 with a $200,600 interest payment due at maturity	$ 351	$ 604
Note payable, at 9.77%, payable in monthly installments of $4,100 through June 1, 2003	68	109
Note payable, at 9.91%, payable in monthly installments of $14,000 through September 1, 2003.	270	404
Note payable, at 10.22%, payable in monthly installments of $5,800 through December 1, 2003	126	180
Note payable, at 6.71%, payable in monthly installments of $30,600 through February 28, 2003 with a $243,200 interest payment due at maturity	411	739
Note payable, at 6.92%, payable in monthly installments of $19,300 through July 31, 2003 with a $152,900 interest payment due at maturity	347	548
Note payable, at 7.13%, payable in monthly installments of $40,000 to $46,000 through April 30, 2004 with a $399,200 interest payment due at maturity	1,184	1,605
Note payable, at 7.5%, payable in monthly installments of $9,900 to $11,400 through April 30, 2004 with a $98,100 interest payment due at maturity	292	395
Capital lease obligations	353	884
	3,402	5,468
Current portion	(2,039)	(2,078)
Long-term portion	$1,363	$3,390

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

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

The Company has financed the acquisition of certain computers and other equipment under capital lease transactions which are accounted for as financings and mature through fiscal year 2003. As of December 29, 2001 and December 30, 2000, equipment under capital lease included in property, equipment and software was $353,000 and $884,000, respectively.

4. LONG-TERM LIABILITIES (CONTINUED)

At December 29, 2001, contractual maturities of debt and future minimum annual payments due under capital lease obligations are as follows (in thousands):

Fiscal Year	Debt	Capital Leases	Total
2002	$ 1,698	$ 364	$ 2,062
2003	1,125	12	1,137
2004	226	--	226
	3,049	376	3,425
Less amount representing interest	(23)	(23)	(46)
	3,049	353	3,402
Less current portion	(1,698)	(341)	(2,039)
Long-term debt and leases	$ 1,351	$ 12	$ 1,363

5. STOCKHOLDERS' EQUITY

STOCK SPLIT

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

PREFERRED STOCK

As of December 29, 2001 and December 30, 2000, no shares of preferred stock were outstanding. As of January 1, 2000, Redeemable Convertible Preferred Stock was as follows (in thousands, except per share data):

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

On March 23, 2000, simultaneously with the closing of the Company's initial public offering, all outstanding shares of the Company's Redeemable Convertible

Preferred Stock were converted on a one-for-two ratio into an aggregate of 13,884,190 shares of the Company's common stock. Also upon completion of the public offering, the number of authorized shares of preferred stock increased from 8,000,000 to 10,000,000 shares. The Company's board of directors will have the authority to issue up to 10,000,000 shares of preferred stock in one or more series and to designate the rights, preferences, privileges and restrictions of each of the series.

COMMON STOCK

The Company had 48,640,055 shares of common stock outstanding as of December 29, 2001. Of these shares, 1,745,134 shares were unvested and are subject to rights of repurchase that lapse according to a time based vesting schedule.

5. STOCKHOLDERS' EQUITY (CONTINUED)

As of December 29, 2001, the Company had reserved shares of common stock for future issuance as follows:

Employee Stock Option Plans.....	7,037,014
Employee Stock Purchase Plan.....	543,265
Total shares reserved.....	7,580,279

On January 2, 2002 the amount of shares reserved for the 2000 Stock Incentive Plan and the Employee Stock Purchase Plan automatically increased by 2,432,003 and 243,200, respectively.

EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan (the Purchase Plan) was adopted by the Company's board of directors on January 5, 2000. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at semi-annual intervals. As of December 29, 2001, a total of 640,587 shares of the Company's common stock were authorized for issuance under the Purchase Plan. There were 67,981 and 29,341 shares issued under the Purchase Plan in fiscal 2001 and fiscal 2000, respectively.

STOCK OPTION/STOCK ISSUANCE PLANS

In fiscal 2000, the Company's board of directors and stockholders approved the 2000 Stock Incentive Plan (the 2000 Plan). The 2000 Plan contains programs for (i) the discretionary granting of stock options to employees, non-employee board members and consultants for the purchase of shares of the Company's common stock, (ii) the discretionary issuance of common stock directly to employees (direct issuance shares), (iii) the granting of special below-market stock options to executive officers and other highly compensated employees of the Company for which the exercise price can be paid using earnings deductions and (iv) the automatic issuance of stock options to non-employee board members. Upon the Company's initial public offering, the 2000 Plan incorporated all stock options and direct issuance shares outstanding under the 1997 Stock Option/Stock Issuance Plan (the 1997 Plan). Under the 1997 Plan, employees, members of the Company's board of directors and independent advisors were granted stock options or were issued direct issuance shares as a direct purchase or as a bonus for services rendered to the Company. In connection with the acquisition of Krypton in fiscal 2000, the Company assumed outstanding options for 90,449 shares of the Company's common stock.

The 2000 Plan and the 1997 Plan contain similar terms. The direct issuance shares and the stock options contain vesting provisions ranging from four to eight years. If permitted by the Company, stock options can be exercised immediately and, similar to the direct issuance shares, are subject to repurchase rights which generally lapse in accordance with the vesting schedule. The repurchase rights provide that upon certain defined events, the Company can repurchase unvested shares at the price paid per share. The term of each stock option is no more than ten years from the date of grant. At December 29, 2001, 13,024,157 shares were authorized for issuance under the 2000 Plan. No further options or direct issuances may be granted under the 1997 Plan.

The Company recorded deferred stock compensation of $3,294,000, $9,492,000 and $15,899,000 in connection with stock options granted or assumed for 160,000 shares, 297,697 shares and 2,464,200 shares of common stock during fiscal 2001, 2000 and 1999, respectively. These amounts represent the difference between the exercise price of the stock option and the market price or the subsequently deemed fair value of the Company's common stock. The deferred stock compensation is amortized over the vesting periods of the applicable options, resulting in amortization expense of $5,276,000,

$3,761,000 and $976,000 for fiscal years 2001, 2000 and 1999, respectively.

During fiscal 1999 and 1998, the Company made full recourse loans to employees of $1,267,500 and $147,500, respectively, in connection with the employees' purchase of shares through exercises of options. These full recourse notes are secured by the shares of stock, are interest bearing at rates ranging from 2.5% to 5.9%, have terms of five years, and must be repaid upon the sale of the underlying shares of stock. No loans were issued during fiscal 2001 or 2000.

5. STOCKHOLDERS' EQUITY (CONTINUED)

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

Outstanding Shares Options And Direct Issuances	Weighted-Average Exercise Prices	Available For Grant	Exercise Price
Balance at January 2, 1999	1,251,140	1,312,500	$0.05 - $1.25
$0.31 Additional shares reserved	2,200,000	--	--
Granted	(2,484,200)	2,484,200	1.25 - 16.00
			3.08
Exercised	--	(1,411,474)	0.05 - 5.00
			1.45
Cancelled	5,000	(5,000)	0.25 - 1.75
			0.77
Repurchase and cancellation of unvested shares	37,332	--	0.25
			0.25
Balance at January 1, 2000	1,009,272	2,380,226	0.05 - 16.00
			2.52
Additional shares reserved	2,090,449	--	--
			--
Granted and assumed	(2,413,331)	2,413,331	0.00 - 74.75
			30.92
Exercised	--	(573,308)	0.00 - 31.00
			2.98
Cancelled	138,834	(138,834)	1.75 - 57.50
			31.38
Repurchase and cancellation of unvested shares	25,000	--	2.50 - 10.00
			2.80
Balance at December 30, 2000	850,224	4,081,415	0.00 - 74.75
			18.26
Additional shares reserved	2,462,349	--	--
			--
Granted	(3,110,300)	3,110,300	0.00 - 34.97
			16.46
Exercised	--	(370,641)	0.00 - 15.44
			1.58
Cancelled	175,599	(175,599)	0.28 - 66.00
			21.51
Repurchase and cancellation of unvested shares	13,667	--	0.05 - 2.00
			1.76

Balance at December 29, 2001	391,539	6,645,475
$0.00 - $74.75		$18.26

In addition, the following table summarizes information about stock options that were outstanding and exercisable at December 29, 2001.

Outstanding				Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
$0.00 to $1.25	931,157	6.61	$0.55	875,157	$0.58
1.75 to 5.00	708,991	7.69	2.70	708,991	2.70
10.00 to 15.00	591,732	8.57	12.74	297,491	11.02
15.10 to 22.63	2,862,684	9.52	16.86	254,596	16.06
22.86 to 34.97	865,423	8.47	30.74		

176,815
30.87
35.40 to
52.69
454,655
8.64 49.79
64,872
50.87
55.38 to
74.75
230,833
8.54 60.19
68,869
60.61 - --

- --------
------- --

---- -----
------ ---
------- $
0.00 to
$74.75
6,645,475
8.60
$18.26
2,446,791
$ 9.89

Pro forma information regarding net income (loss) is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock-based awards to employees under the fair value method of that Statement.

5. STOCKHOLDERS' EQUITY (CONTINUED)

The fair value of these stock-based awards was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:
Year Ended -----------

------- December 29,
December 30, January
1, 2001 2000 2000 ----
-------- ------------
---------- Employee
Stock Option Plans:
Expected stock price
volatility 85% 88% --
Risk-free interest
rate..... 4.6%
6.2% 6.0% Expected
life (in
years)..... 5.1 5.6
1.0 Dividend
yield.....
-- -- -- Employee
Stock Purchase Plan:
Expected stock price
volatility 85% 88% --
Risk-free interest
rate..... 3.5%
5.0% -- Expected life
(in months)..... 14
14 -- Dividend
yield.....
-- -- --

The weighted-average fair values of options granted during fiscal 2001, 2000 and 1999 were $12.09, $26.80, and $9.55, respectively. The weighted-average fair values for purchase rights granted under the Purchase Plan for fiscal 2001 and 2000 were $10.05 and $11.94, respectively.

For purposes of pro forma disclosure, the estimated fair value of the Company's stock-based awards to employees is amortized to expense over the vesting period of the underlying instruments. The Company's pro forma information is as follows (in thousands, except per share data):
Year Ended -------------

	December 29, 2001	December 30, 2000	January 1, 2000
Pro forma net income (loss)	$(58,779)	$9,120	$11,014
Pro forma basic net income (loss) per share	(1.28)	.24	.73
Pro forma diluted net income (loss) per share	(1.28)	.19	.25

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

6. COMMITMENTS AND CONTINGENCIES

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

Rent expense under operating leases was $1,724,000, $1,065,000, and $374,000 for fiscal 2001, 2000 and 1999, respectively.

The minimum annual future rentals under the terms of these leases at December 29, 2001 are as follows (in thousands):

FISCAL YEAR	
2002	$1,783
2003	1,795
2004	1,834
2005	1,863
2006	1,083
Thereafter	112
Total minimum lease payments	8,470
Minimum Sublease Rental Income	(234)
Total net minimum lease payments	$8,236

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

On August 7, 2001, TDK Semiconductor Corporation commenced a lawsuit against the Company for alleged willful infringement by our DAA products of a TDK-held patent. TDK's complaint seeks unspecified treble damages, costs and attorneys' fees, and an injunction. On September 27, 2001, the Company served and filed an answer to TDK's complaint, in which the Company denied infringement and asserted that TDK's patent is invalid. This lawsuit may involve significant expense and may also divert management's time and attention from other aspects of the Company's business. Due to the inherent uncertainties of litigation, we are unable to predict the outcome of this matter.

On December 6, 2001, a class action complaint for violations of U.S. federal securities laws was filed in the United States District Court, Southern District of New York against the Company, four officers individually and the three investment banking firms who served as representatives of the underwriters in connection with the Company's initial public offering of common stock completed on March 23, 2000. These claims are brought on the grounds that the registration statement and prospectus for the Company's initial public offering did not disclose that (1) the underwriters solicited and received additional, excessive and undisclosed commissions from certain investors, and (2) the underwriters had agreed to allocate shares in the aftermarket at pre-determined higher prices. No specific amount of damages is claimed. The Company intends to vigorously contest

this case, and is unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

7. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for income tax purposes. Significant components of the Company's deferred taxes as of December 29, 2001 and December 30, 2000 are as follows:

December 29, 2001	December 30, 2000
Deferred tax liabilities:	
Depreciable assets	$1,242	$1,387
Prepaid expenses	182	324
	1,424	1,711
Deferred tax assets:	
Research and development tax credit carryforward	464	--
Reserves and allowances	1,083	906
Deferred revenue	1,088	1,003
Accrued liabilities & other	389	251
	3,024	2,160
Net deferred taxes	$1,600	$ 449

Upon the acquisition of Krypton in August 2000 and of SNR in October 2000, the Company recorded a net deferred tax liability of approximately $360,000 and $49,000, respectively, due to differences between the book and tax basis of acquired assets and assumed liabilities.

7. INCOME TAXES (CONTINUED)

Significant components of the provision (benefit) for income taxes attributable to continuing operations are as follows:

December 29, 2000	December 30, 2000	January 1, 2001
Current:		
Federal	$(1,436)	$10,695	$4,009
State	(215)	917	393
Total Current	(1,651)	11,612	4,402
Deferred:		

Federal..........
(1,031) 202
(993)
State............
(121) 18 (85) --
-------------- -

Total
Deferred...
(1,152) 220
(1,078) --------
-------- -------
--------- ------
------- $(2,803)
$11,832 $3,324
================
================
=============

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

December 29, December 30, January 1,
2001 2000 2000 --------------- --------
-------- ------------- Pre-tax book
income (loss) at statutory rate (35.0)%
35.0% 35.0% State taxes, net of federal
benefit......... (0.2) 4.0 3.0 Non-
deductible intangible amortization and
impairment
charges........................ 27.1 --
-- Non-deductible deferred compensation
expense 3.8 5.1 2.6 Other permanent
items...................... (0.5) 2.5
0.1 Tax
credits................................
(1.0) (0.8) (2.4) Change in valuation
allowance............... -- -- (15.2) -
-------------- --------------- -------
------ (5.8)% 45.8% 23.1%

The exercise of certain stock options which have been granted under the 2000 Plan results in compensation which is includable in the taxable income of the exercising option holder and deductible by the Company for federal and state income tax purposes. Such compensation results from increases in the fair market value of the Company's common stock subsequent to the date of grant of the exercised stock options and, in accordance with APB No. 25, such compensation is not recognized as an expense for financial accounting purposes; however, the related tax benefits are recorded as an increase to additional paid-in capital.

8. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution or 401(k) Plan for the benefit of substantially all employees. To be eligible for the 401(k) Plan, employees must have reached the age of 21. Participants may elect to contribute up to 15% of their compensation to the 401(k) Plan. The Company may make discretionary matching contributions of up to 10% of a participant's compensation as well as discretionary profit-sharing contributions to the 401(k) Plan. The Company's contributions to the 401(k) Plan vest over four years at a rate of 25% per year. The Company contributed $269,000 and $219,000 to the 401(k) Plan during fiscal 2001 and 2000, respectively. No matching contribution was made during fiscal 1999.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

All of the quarterly periods reported here had thirteen weeks. Quarterly financial information for fiscal 2001 and 2000 (in thousands of dollars except per share amounts):

Fiscal 2001 Fiscal 2000 ----------------
----------------------- ---------------
----------------------- Fourth Third
Second First Fourth Third Second First
Quarter Quarter Quarter Quarter Quarter
Quarter Quarter Quarter --------- ------

--- ------- --------- --------- --------
------- ---------
Revenues.....
$23,583 $ 19,925 $16,120 $14,437
$29,703* $29,427 $24,286 $19,687 Cost of
revenues..... 9,583
8,544 7,375 6,428 10,324 10,130 8,390
6,757 --------- --------- ------- ------
--- --------- -------- ------- ---------
Gross
profit.....
14,000 11,381 8,745 8,009 19,379 19,297
15,896 12,930 Operating expenses:
Research and development.....
7,728 7,672 7,070 6,508 6,132 5,263
4,444 3,580 Selling, general &
administrative..... 5,858 5,362 4,746
4,090 4,947 5,128 4,355 3,218 Write-off
of in-process research and
development..... -- --
-- -- -- 394 -- -- Goodwill
amortization..... -- --
2,084 2,103 2,067 1,240 -- -- Impairment
of goodwill and other intangible
assets..... -- 34,885 --
-- -- -- -- -- Amortization of deferred
stock
compensation.....
1,295 1,319 1,331 1,331 1,311 884 787
779 --------- --------- ------- --------
- --------- -------- ------- ---------
Operating
expenses..... 14,881
49,238 15,231 14,032 14,457 12,909 9,586
7,577 --------- --------- ------- ------
--- --------- -------- ------- ---------
Operating income
(loss)..... (881) (37,857)
(6,486) (6,023) 4,922 6,388 6,310 5,353
Other income (expense): Interest
income..... 682 857
1,044 1,039 1,284 1,248 1,258 248
Interest expense.....
(173) (179) (201) (198) (204) (339)
(342) (277) --------- --------- -------
--------- --------- -------- ------- ---
------ Income (loss) before income
taxes..... (372) (37,179) (5,643)
(5,182) 6,002 7,297 7,226 5,324
Provision (benefit) for income
taxes..... (801) (651) (757) (594) 3,136
3,332 3,045 2,319 --------- --------- --
----- --------- --------- -------- -----
-- --------- Net income
(loss)..... $ 429
$(36,528) $(4,886) $(4,588) $ 2,866
$3,965 $4,181 $3,005 ========= =========
======= ========= ========= ========
======= ========= Net income (loss) per
share:
Basic.....
$ .01 $ (.79) $ (.11) $ (.10) $ .06 $
.09 $ .10 $ .14
Diluted.....
$ .01 $ (.79) $ (.11) $ (.10) $ .06 $
.08 $ .08 $ .07 Weighted-average common
shares outstanding:
Basic.....
46,659 46,210 45,840 45,367 44,820
43,917 43,279 21,221
Diluted.....
50,890 46,210 45,840 45,367 49,435
49,987 49,812 45,952

* Includes $2,500 one-time non-refundable payment from Analog Devices, Inc.
pursuant to the patent infringement settlement
AS OF A PERCENTAGE OF REVENUES Fiscal
2001 Fiscal 2000 ----------
---------- ----------
---------- Fourth Third Second
First Fourth Third Second First Quarter

	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	40.6	42.9	45.8	44.5	34.8	34.4	34.5	34.3
Gross profit	59.4	57.1	54.2	55.5	65.2	65.6	65.5	65.7
Operating expenses: Research and development	32.8	38.5	43.9	45.1	20.6	17.9	18.3	18.2
Selling, general & administrative	24.8	26.9	29.4	28.3	16.7	17.4	17.9	16.3
Write-off of in-process research and development	--	--	--	--	--	--	1.3	--
Goodwill amortization	--	--	12.9	14.6	7.0	4.2	--	--
Impairment of goodwill and other intangible assets	--	175.1	--	--	--	--	--	--
Amortization of deferred stock compensation	5.5	6.6	8.3	9.2	4.4	3.0	3.2	4.0
Operating expenses	63.1	247.1	94.5	97.2	48.7	43.9	39.5	38.5
Operating income (loss)	(3.7)	(190.0)	(40.3)	(41.7)	16.5	21.7	26.0	27.2
Other income (expense): Interest income	2.9	4.3	6.5	7.2	4.3	4.2	5.2	1.3
Interest expense	(0.7)	(0.9)	(1.2)	(1.4)	(0.6)	(1.2)	(1.4)	(1.4)
Income (loss) before income taxes	(1.5)	(186.6)	(35.0)	(35.9)	20.2	24.8	29.8	27.0
Provision (benefit) for income taxes	(3.4)	(3.3)	(4.7)	(4.1)	10.5	11.3	12.5	11.8
Net income (loss)	1.9%	(183.3)%	(30.3)%	(31.8)%	9.7%	13.5%	17.2%	15.3%

Exhibit 21

SUBSIDIARIES OF THE COMPANY

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

	Percentage Of Voting Securities Owned By Registrant As Of December 29, 2001	Organized Under Law Of
Silicon Laboratories UK Ltd.	100%	United Kingdom
Silicon Laboratories Isolation, Inc.	100%	State of California
Silicon Laboratories K.K.	100%	Japan

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-39528, 333-45682, and 333-60794) of our report dated January 16, 2002, with respect to the consolidated financial statements of Silicon Laboratories Inc. included in the Annual Report (Form 10-K) for the year ended December 29, 2001.

/s/ ERNST & YOUNG LLP

Austin, Texas
January 16, 2002