

# BUSINESS

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## Silicon Labs stock rises as prospects improve

Austin chip designer's announcement of a new product rallies investors

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Silicon Laboratories Inc.'s stock shot up Monday on the strength of stronger revenue prospects and enthusiasm about the company's announcement of an important new chip for low-cost cell phones.

The company's shares closed at \$32.32 a share, up \$5.64, or 21 percent. More than 8.5 million shares were traded, about eight times the typical trading level.

Part of the investor enthusiasm was tied to the announcement of the AeroFone, which combines the major functions of a basic cell phone on a single chip.



**Necip Saviner**  
Silicon Labs CEO says analysts, investors 'see value' in products such as AeroFone.

Silicon Labs officials said early reaction to the new chip from cell phone makers is positive, although volume sales probably won't occur until the second half of 2006.

"It is a combination of solid earnings relative to expectations and the product announcement," said analyst Mark Edelstone with Morgan Stanley & Co. "They delivered on all aspects of their business."

The stronger outlook countered a year-long slide in revenue for the

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company, which has substantial chip sales to the cell phone industry. The recent weak performance had attracted short sellers, who bet that a company's shares will continue to fall in price. They sell borrowed shares and hope that the price will drop by the time they have to repay the loan. If they're wrong, they lose money.

But when Silicon Labs beat analysts' third-quarter revenue expectations, forecast a stronger fourth quarter and announced its new chip, many of those short-sellers were forced to quickly cover their positions by buying Silicon Labs stock, said analyst Cody Acree with Legg Mason Inc. in Dallas.

He cautioned that the early enthusiasm about the AeroFone might be overstated. Several companies are working on similar chips that, if they are completed, could compete with the AeroFone.

Necip Saviner, Silicon Lab's new CEO, said the AeroFone and other recent product announcements "are great accomplishments for our engineering teams, and the industry analysts and financial analysts see the value in that."

Senior company officials previously had acknowledged that Silicon Labs may have spread

itself too thin by taking on too many chip development projects over the past 2½ years. Some of those projects were delayed, but Saviner says many are now turning into attractive new products that will drive future sales.

In the third quarter, the company lost \$745,000, or 1 cent a share, on sales of \$103.9 million, compared with a profit of \$21 million, or 39 cents a share, on sales of \$121 million a year earlier.

Its profit was hurt by a \$13.7 million charge stemming from a write-down of the value of Austin-based Silicon Magike, which Silicon Labs acquired in August.

Not counting that charge, revenue and adjusted net income of 26 cents a share topped analysts' consensus estimates of 24 cents a share on revenue of \$101.6 million.

The company estimated it will have revenue of between \$104 million and \$108 million in the fourth quarter with continued strong profit margins.

It reported its cash and short-term investments totaled \$335.2 million at the end of the quarter, up \$58 million since the start of the year. Silicon Labs has more than 600 workers, most of them based in Austin.

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