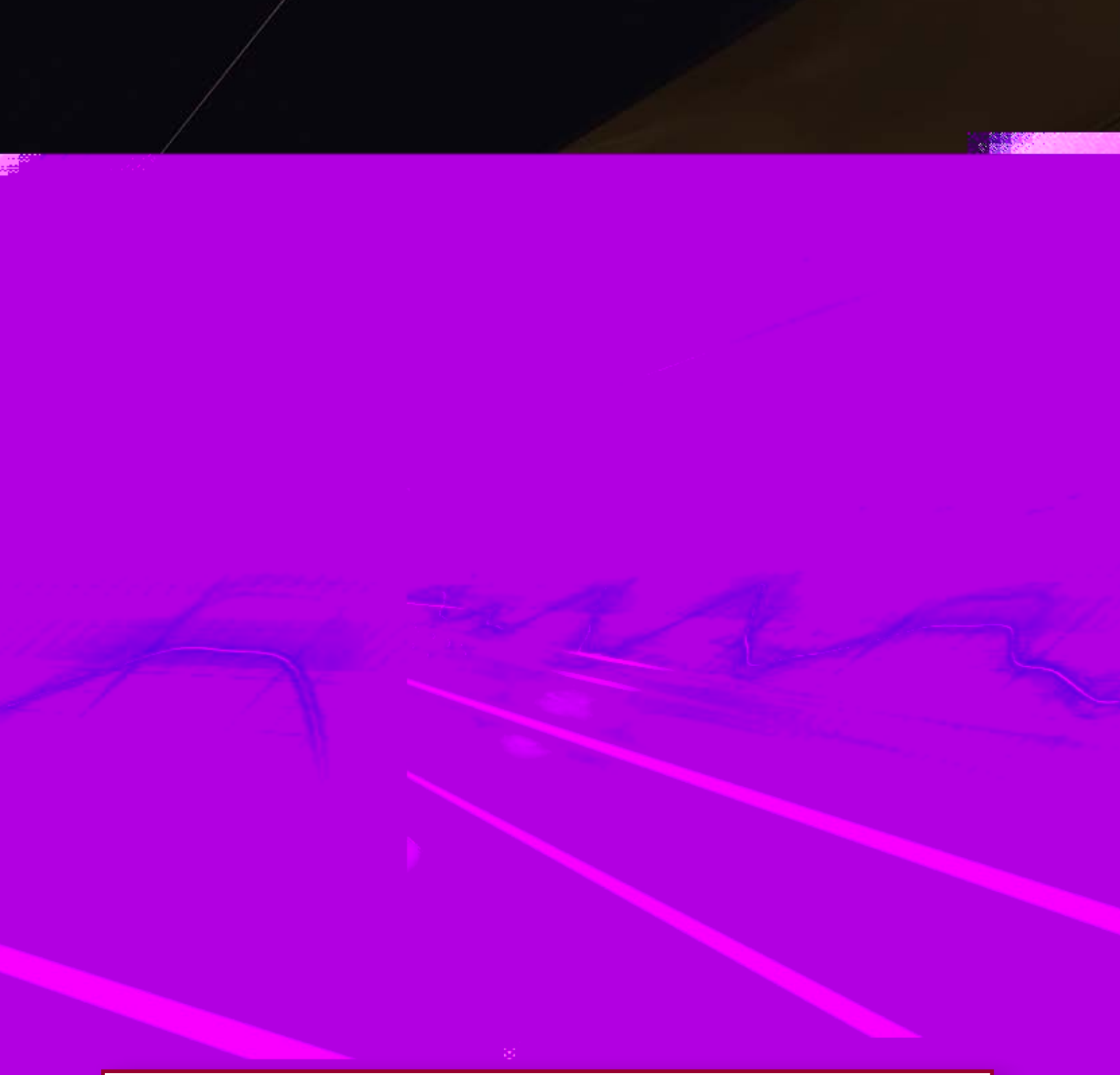
SILICON LABS


# Engineering for a mixed-signal world.

SILICON LABORATORIES 2011 ANNUAL REPORT



## Silicon Laboratories Inc. is a global leader in the innovation of mixed-signal integrated circuit (IC) technology bridging the analog world we live in and the digital world of computing.

The company applies its renowned design expertise to develop proprietary analog-intensive, mixed-signal ICs that offer significant advantages in performance, size, cost and power consumption over traditional solutions. The company's product portfolio targets a broad range of markets including consumer, communications, computing, industrial and automotive. The company, founded in 1996, has over 1,300 patents issued or pending. Based in Austin, Texas, Silicon Laboratories' common stock is traded on the NASDAQ® exchange under the ticker symbol "SLAB."

## FINANCIAL HIGHLIGHTS

In 2011, Silicon Labs performed in line with the industry despite macroeconomic headwinds. Strong revenue ramps in new products were able to offset demand weakness in many of our end markets as well as some secular declines in maturing products. Revenue of $492 million was about flat with 2010 and non-GAAP gross margin was slightly below our target of 62 percent. Operating expenses generally declined as a percentage of revenue throughout the year as we continued to tightly manage spending to reflect the changing market environment and protect profitability. We continued to make a considerable investment in R&D and believe that this critical funding will be the basis for potential future growth.

## NON-GAAP FINANCIALS*

IN THOUSANDS, EXCEPT PER SHARE DATA

| | 1Q11 | 2Q11 | 3Q11 | 4Q11 | FY11 |
|---|---|---|---|---|---|
| **REVENUE (000's)** | **$119,636** | **$126,197** | **$119,100** | **$126,692** | **$491,625** |
| % GROWTH | 6.9% | 5.5% | (5.6%) | 6.4% | (0.3%) |
| **NON-GAAP MEASURES*** | | | | | |
| **GROSS MARGIN** | **$73,645** | **$78,334** | **$73,232** | **$77,483** | **$302,694** |
| % OF SALES | 61.6% | 62.1% | 61.5% | 61.2% | 61.6% |
| **R&D** | **$29,747** | **$30,464** | **$28,134** | **$29,564** | **$117,909** |
| % OF SALES | 24.9% | 24.1% | 23.6% | 23.3% | 24.0% |
| **SG&A** | **$23,193** | **$22,540** | **$22,434** | **$22,466** | **$90,633** |
| % OF SALES | 19.4% | 17.9% | 18.8% | 17.7% | 18.4% |
| **OPERATING EXPENSES** | **$52,940** | **$53,004** | **$50,568** | **$52,030** | **$208,542** |
| % OF SALES | 44.3% | 42.0% | 42.5% | 41.1% | 42.4% |
| **OPERATING INCOME** | **$20,705** | **$25,330** | **$22,664** | **$25,453** | **$94,152** |
| % OF SALES | 17.3% | 20.1% | 19.0% | 20.1% | 19.2% |
| **NET INCOME** | **$18,204** | **$21,865** | **$19,111** | **$21,384** | **$80,564** |
| % OF SALES | 15.2% | 17.3% | 16.0% | 16.9% | 16.4% |
| **NON-GAAP EARNINGS** | **$0.40** | **$0.48** | **$0.44** | **$0.49** | **$1.80** |

Silicon Labs was founded on principles of conservative financial management, and has shown impressive operating performance through semiconductor industry cycles. Over the last five years, the company generated $492 million in cash flow from operations and has committed to returning that cash to shareholders through a very successful share repurchase program. In 2011, the company repurchased shares in excess of $100 million. Since the program's inception in 2006, the company has used more than three quarters of a billion dollars for repurchases, totaling over 22 million shares and reducing our float by 35 percent.

*Please see the supplemental tables provided in this report for a reconciliation of GAAP to non-GAAP results in Appendix I. Past performance does not guarantee future results. This Annual Report to Shareholders contains forward-looking statements, and actual results could differ materially. Risk factors that could cause actual results to differ are set forth in the "Risk Factors" section and throughout our 2011 Form 10-K, which is included in this Annual Report.

# Letter to Our Shareholders

2011 was a challenging year for the semiconductor industry as economic weakness reduced end-user demand and a number of natural disasters disrupted supply chains. For Silicon Labs, it marked an important transition as we put the secular decline in our handset FM and set-top box modem products behind us. It also marked the final chapter of our multi-year transformation into a well-diversified growth-oriented business.

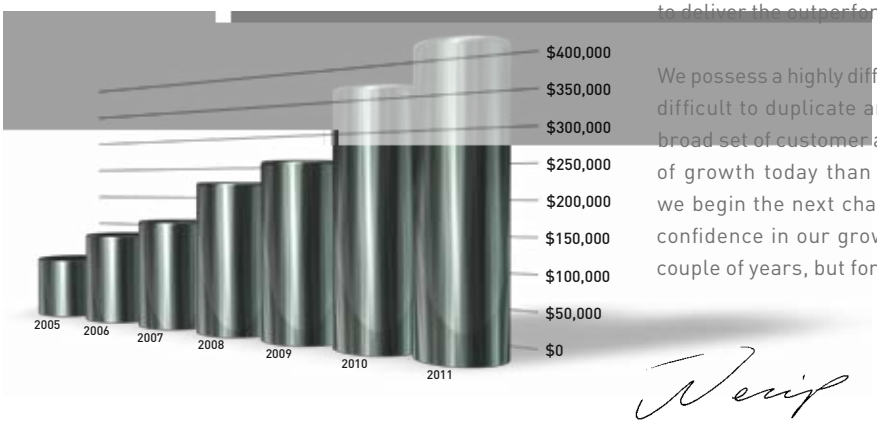
The journey we started in 2006 following the crucial decision to monetize our transceiver business took strong investment discipline and unwavering focus on gaining market share to result in the complexion of the business we enjoy today. We have built upon our core competencies in mixed-signal design to create a series of highly differentiated products that have garnered significant success in the marketplace.

To do this, we focus our world-class design team on tackling challenging technical problems for large existing markets. We design semiconductor solutions that offer meaningful integration, performance, power and cost advantages. Our products displace incumbents and often fundamentally change how customers design and manufacture their systems, resulting in a long-term competitive advantage.

As a company that has been able to outperform the industry over multiple business cycles, our discipline of staying focused on those things we can control, in particular how we invest in new products, has served us well during this multi-year transformation. In fact, if we look at the revenue profile of those products we've been investing in, the very high compounded annual growth rate is evidence of the strong return on our R&D investment.

### 30% CAGR FOR INVESTMENT PRODUCTS

EXCLUDES MODEMS AND FM RADIOS INTO HANDSETS




Our strongest product cycle in 2011 is a great example. We introduced a radical change in how the RF front-end of a television is designed, integrating dozens of components into a single mixed-signal IC. Our silicon TV tuner solution was adopted in 20 percent of iDTVs in its first year of production; an impressive number that we think will increase to over 30 percent in 2012. We've also benefited from new product cycles in Human Interface technology. Our touch controllers have expanded beyond industrial applications as we secured our first Smartphone design win, establishing the basis for what could be a large and fast growing business for us over the next several years.

Our broad-based business, which includes our MCU and Timing products sold into thousands of customers and hundreds of applications, is also benefiting from share gains. New products continue to extend our technology leadership and allow us to outgrow the end markets. Many of the most challenging system design hurdles our customers face are mixed-signal in nature — reducing power budgets, adding wireless or other communications, integrating sensors, providing more interfaces for machine-to-machine and human-to-machine interactions. Our competency in this area is providing not only significant growth opportunities, but also increasing our strategic value to customers and creating a rich funnel of new product ideas.

In 2012, I expect that any recovery in end-user demand will be modest and fragile. But with the change in complexion of our business and the layering on of multiple high-potential new product cycles, I believe we're entering 2012 from a position of strength. We are once again very well positioned to begin to deliver the outperformance we've become known for.

We possess a highly differentiated capability that has proven difficult to duplicate and is increasingly critical across a broad set of customer applications. We have more engines of growth today than any other time in our history. As we begin the next chapter of Silicon Labs, this gives me confidence in our growth potential, not just for the next couple of years, but for the long-term.



Necip Sayiner
President and CEO,
Silicon Laboratories

# Mega-trends fueling mixed-signal design

Innovation in electronics has been relentless. As a result, electronics products

## THE INTERNET OF THINGS

Combine billions of IP-enabled (Internet protocol) devices, wireless sensor networks, machine-to-machine (M2M) communications, Smartphone apps, and cloud computing, and the result is the practical realization of the "Internet of Things."

In 2012, we'll see the first waves of the Internet of Things in our homes, offices, factories, warehouses, hospitals and in metro infrastructure, transportation and agriculture. What makes the Internet of Things interesting to a mixed-signal IC company like Silicon Labs is that this new paradigm calls for devices with a combination of functions including capturing information from the external world, accurately processing it, and then communicating it, often through a reliable, low-cost wireless link. And doing this while consuming minimal power.

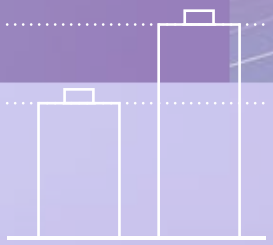
These mixed-signal challenges require sophisticated analog capability paired with efficient digital design and software and firmware expertise. These capabilities need to be combined into a single IC to reduce the footprint and power requirements and they need to be delivered in a standard, low cost process technology like CMOS to ensure they are cost effective.

Silicon Labs is one of the few companies with a successful track record designing high performance, low power, mixed-signal ICs in CMOS. For example, our latest microcontrollers, wireless receivers and digital isolators are all breaking records in terms of our new design wins as we intercept this trend.

Our latest wireless MCUs enable up to

**65% longer battery life**

than competing solutions

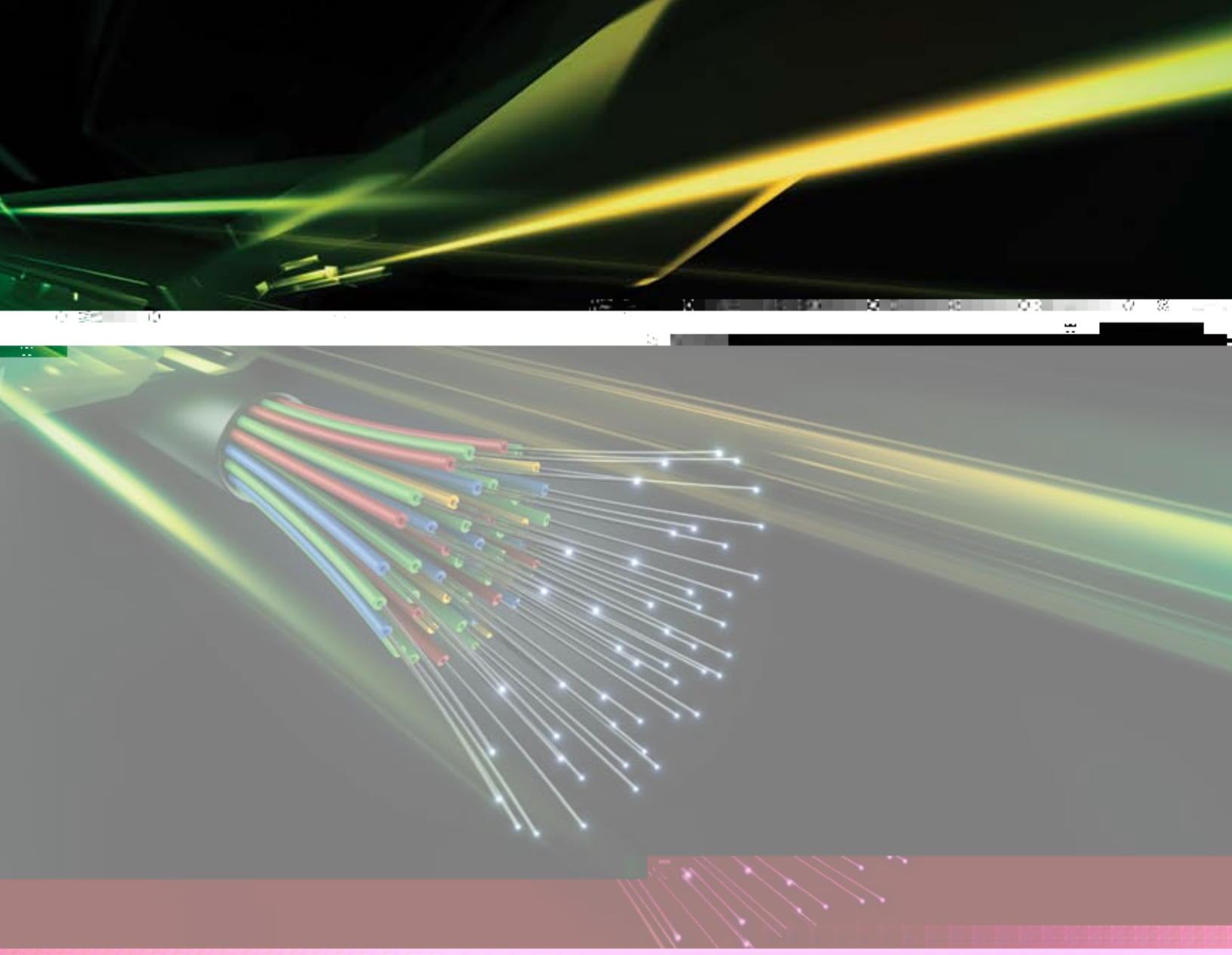


## GREENER POWER

The advent of the Internet of Things is also linked to the increasing relevance of reducing power consumption in electronics and using greener power sources. Surveys of electronics equipment manufacturers indicate that making their end products more "green" is now a critical design consideration. In many applications our customers need to extend battery life. In some cases, batteries need to last decades. In others, customers are attempting to harvest energy and eliminate batteries altogether. They need to do this without compromising system performance.

Optimizing power is driven by smart mixed-signal circuit design. Silicon Labs is leading the industry in low power mixed-signal devices. In 2011, we introduced our latest advancement in low power wireless MCUs based on patented technology that enables 40 percent less system current draw and up to 65 percent longer battery life than competing solutions.

Silicon Labs' low power technology also provides one of the most energy-efficient wireless sensor node solutions powered by a solar energy harvesting source. In addition to being environmentally friendly and virtually inexhaustible, harvested energy provides a cost-effective, convenient alternative to batteries in many applications. Silicon Labs' turnkey energy harvesting reference design enables customers to implement self-sustaining, ultra-low-power wireless sensor networks for home and building automation, security systems, industrial control applications, medical monitoring devices, agricultural monitoring systems and more.




Increases in bandwidth
rely on high-performance timing devices—just like those in our portfolio

## BIGGER, FASTER PIPES

All of this connectivity is creating tremendous demand for more bandwidth worldwide, requiring investment in networking infrastructure to support faster pipes. These networks are transitioning from 10G to 40G and now to 100G and rely heavily on high performance timing devices like those in our clock and oscillator portfolio. Our programmable devices are not constrained by the supply chain issues that plague traditional clock and oscillator products, and industry leading performance allows telecom equipment makers to use our comprehensive portfolio of timing ICs across their products. While this market may ebb and flow quarter to quarter, we believe the long-term trend is in our favor as we expand our footprint in the timing market.

# Industry observers expect these mega-trends will be the force behind industry growth over the [illegible]

[illegible] products in development position Silicon Labs to be at the center of these key market drivers.


## EASIER AND MORE ACCESSIBLE TECHNOLOGY

And finally, expectations of electronics have changed completely with the introduction of the iPhone® and similar products that have created new use cases for consumers interacting with electronics. The demand for smaller, more cost effective and user-friendly electronics from handsets to home automation controls is accelerating. Emerging economies are intensifying these demands as they bring new consumers to the global marketplace.

Silicon Labs' formula for relentless integration without performance compromise, our highly sensitive and responsive analog circuits and designs that consolidate the bill of materials to reduce system cost will play an integral role in helping customers to achieve their goals. Newly acquired clocks that are the smallest in the industry, high performance touch controllers, and integrated AM/FM radios are just a few examples of the Silicon Labs products supporting this trend.

## 2011 DIRECTORS

**NAV S. SOOCH**
Chairman, Silicon Laboratories

**NECIP SAYINER, PhD**
President and Chief Executive Officer,
Silicon Laboratories

**DAVID R. WELLAND**
Vice President and Fellow,
Silicon Laboratories

**WILLIAM G. BOCK**

**HARVEY B. CASH**
InterWest Partners,
General Partner

**KRISTEN M. ONKEN**

**ROBERT TED ENLOE, III**
Balquita Partners, Ltd.,
Managing General Partner

**LAURENCE G. WALKER, PhD**

**BILL WOOD**
Silverton Partners,
General Partner

## 2011 EXECUTIVE OFFICERS

**NECIP SAYINER, PhD**
President and Chief Executive Officer

**PAUL WALSH**
Vice President and
Chief Financial Officer

**G. TYSON TUTTLE**
Senior Vice President and
Chief Operating Officer

**JONATHAN IVESTER**
Senior Vice President
of Worldwide Operations

**KURT HOFF**
Vice President of Worldwide Sales

## CORPORATE INFORMATION

Stock listing: Common stock
traded on NASDAQ®

**SYMBOL**
SLAB

**OPTIONS**
The Company's options are traded on the Chicago Board Option Exchange and the American Stock Exchange.

**LEGAL COUNSEL**
DLA Piper US LLP
401 Congress Avenue, Suite 2500
Austin, Texas 78701

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**
Ernst & Young LLP
401 Congress Avenue, Suite 1800
Austin, Texas 78701

**TRANSFER AGENT AND REGISTRAR**

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, New York 10038
800-937-5449

**STOCK DATA**
As of January 31, 2012, there were 126 holders of record of the Company's Common Stock.

The following table shows the record high and low per share prices of the Company's Common Stock as reported by the NASDAQ for the periods.

| | HIGH | LOW |
|---|---|---|
| Q1 2011 | $50.27 | $41.48 |
| Q2 2011 | $46.28 | $37.56 |
| Q3 2011 | $42.88 | $30.36 |
| Q4 2011 | $45.10 | $31.92 |

**ANNUAL MEETING**
The Silicon Laboratories Inc. annual meeting will be held on Thursday, April 19, 2012 at 9:30 am Central Time at the Lady Bird Johnson Wildflower Center, 4801 La Crosse Avenue, Austin, Texas, 78739.

**INVESTOR RELATIONS**
For more information about Silicon Laboratories, please visit our website at www.silabs.com, or contact:

Investor Relations
Silicon Laboratories Inc.
400 West Cesar Chavez
Austin, Texas 78701
512-464-9254
investor.relations@silabs.com

Design by Frank+Victor Design, Austin, TX.
www.frankandvictor.com

SILICON LABORATORIES INC. | 400 WEST CESAR CHAVEZ | AUSTIN, TEXAS 78701 | 512-416-8500 | WWW.SILABS.COM