



To our shareholders

2006 was a year of significant growth for O₂Micro. While many semiconductor companies struggled for growth, O₂Micro grew revenues 18.3% from \$105.6 million in 2005 to \$124.9 million for the fiscal year ended December 31, 2006. This growth was accentuated by our Q4 record revenues of \$36.3 million.

O₂Micro enhanced its leadership position in analog and mixed signal power management products in 2006. In the Consumer market, O₂Micro is a recognized leader offering backlight inverters, power management units, and LED drivers for high performance solutions used by leading suppliers of LCD TV, LCD monitor, and portable hand held devices. In the Industrial and Transportation markets, O₂Micro offers a variety of power management and battery management products. In the Notebook Computer market, we successfully introduced new products enhancing our leadership including our PCI Express, Chargers, Inverters, Battery Management, and DC/DC products.

Our revenue growth can be attributed not only to the expansion of our analog and mixed signal IC sales in Consumer, Computer, Industrial, and Transportation markets but also our Security Systems that are rapidly gaining international acceptance in the Communications market.

Our increasing R&D investments, including a record \$8.7 million in 2006, will enable us to continue our leadership while expanding our focus into more growth markets. To sustain O₂Micro's growth opportunities, we are also making major capital investments to expand all primary areas of our production capability. This includes significant investments in wafer fabrication partnerships and expansion of our own test production facilities. As a result of significant capital investments made in 2006, we are now in the process of ramping capacity of our wholly owned testing facility near the center of China's rapidly expanding electronics industry.

As we move into the future, O₂Micro will continue to focus on growth and profitability from products that contribute high value to customers and have high barriers to entry for competition. Our Intellectual Property portfolio expanded to 260 patents and 6,461 claims being issued by year end. The value of this intellectual property was made evident by our successful defense of Intellectual Property in the United States court system. While this litigation resulted in large legal expenses in 2006, we expect to recoup much of this expense through court awards, royalties, and ongoing growth.

It is our belief that O₂Micro will maintain a leadership position and ongoing growth through our focus on rapidly growing markets, our system level design expertise, and our ability to provide our customers with leading edge solutions.

Thank you for your continued support of O₂Micro.

A handwritten signature in black ink, appearing to read 'Sterling Du', with a large, stylized flourish at the end.

Sterling Du
Chairman of the Board and
Chief Executive Officer