2010 Annual Report

Silicon Image Inc.
1060 East Arques Avenue, Sunnyvale, CA 94085
www.SiliconImage.com

Dear Shareholders:

I would like to thank you for your support this past year. Entering 2010, I highlighted four points regarding my expectations for the coming year. These four points included growing revenue year-over-year, reducing our breakeven point, reaching profitability, and continuing to have a strong balance sheet. I am pleased to report that we achieved favorable results relative to those expectations and I believe we are well positioned to continue to grow our targeted digital TV and mobile businesses.

During 2010, the Company achieved year-over-year revenue growth of over 27% with our revenues totaling $191 million, with all segments and regions showing growth. Gross margin was over 59%, increasing by more than 5% from approximately 54% in 2009 as a result of favorable product mix and favorable manufacturing and overhead variances. Although the Company grew its revenues and margins significantly during the year, we managed to reduce non-GAAP operational expenses by approximately $11 million or 10%. As a result, Silicon Image reached profitability in the second quarter of 2010 and closed out the year with a non-GAAP net profit of more than $17 million or $0.22 per diluted share. We added approximately $40 million in cash to an already healthy balance sheet, ending the year with over $190 million in cash with no debt.

Our successful financial performance was the direct result of our dedication to delivering advanced and differentiated connectivity-focused semiconductor and IP products to customers. While the Company has historically tied its new products to the release of new standards, such as HDMI®, or new versions of existing standards, we have adopted a "Standards Plus" business model going forward, and are focused on innovating our products with features over and above the standard. A good example of our success with this approach is our InstaPort™ technology whereby we enable fast switching between devices connected via HDMI to a DTV. Since its inception through March 2011, we have shipped over 86 million InstaPort-enabled devices. For 2011, we have added support for the new Mobile High-Definition Link (MHL™) standard to our DTV port processor resulting in a dual-standard product and creating a more feature-rich solution for the DTV segment. We believe our focus on delivering innovative "Standards Plus" products on a regular basis mitigates the impact of the integration challenge, and maintains our competitive advantage and market leadership position.

Not only did our financial performance improve in 2010, we had several other major accomplishments that I believe position the Company well for many years to come. One major accomplishment was the formation of the MHL Consortium, of which Silicon Image is a founding member. Version 1.0 of the MHL specification was released in June, and the Company introduced its first MHL products in October. We now have MHL transmitters, MHL-to-HDMI bridges, DTV port processors featuring both MHL and HDMI capabilities, and also MHL IP cores all of which make up a complete MHL product portfolio. The introduction of our new MHL products together with our existing mobile HDMI solutions provide us with a great opportunity to successfully penetrate the growing mobile HD device market, which is currently estimated to be in 450 million unit per year range.

The HDMI Consortium reached several significant milestones in 2010, including signing up its 1,000th adopter. There are now more than 1,000 companies worldwide building various HDMI sources, sinks, cables, adapters, and components. HDMI has become ubiquitous and was included in over 500 million products in 2010. The broad adoption of HDMI is very strong. In fact, an HDMI-enabled product is shipped every 19 seconds, and it is forecast that by the end of 2011, there will be an installed base of over 2 billion HDMI-enabled products worldwide.

Mobile

The mobile opportunity is large and exciting and we believe we can be a major player in that growing segment. Prior to the launch of MHL, mobile device manufacturers who had decided to include an HD interface in their products were only able to accomplish this using an HDMI or a proprietary connector. We offer products to address these needs, and in fact, our low-power mobile HDMI solutions have been designed into retail models like the HTC EVO 4G smartphone.

We believe MHL offers an improved mobile HD connectivity solution due to its connector agnostic approach, low pin-count, and battery charging capabilities. Our mobile MHL solutions currently include the SiI9244, a low-power MHL transmitter designed for power-sensitive consumer electronics devices such as smartphones and tablets. Also available is the SiI9292 bridge device that enables the design of low-power, MHL-to-HDMI accessories such as docking stations, converters and adapters, enabling HD audio and video connectivity between mobile devices enabled with MHL and HDTVs and displays with HDMI inputs.

While the mobile HD market is just beginning to take off, we have seen it become an increasing part of our revenue stream totaling over 8% of our product revenue in 2010. With our existing mobile HDMI solutions and the introduction of our mobile MHL products, we anticipate this category will be a significant contributor to our revenue totals in 2011.

Digital TV

In the DTV market, our port processor products are targeted for the mid- to high-end range of products. We are enjoying significant market share in that segment of the market and we expect to continue to grow our market share in 2011 with the addition of another tier one DTV maker. Going into 2011, we have achieved design wins for our DTV port processors in nine of the top-ten DTV makers.

To improve our ability to continue to grow our business, we have focused on aligning our annual cycle of new product introductions to meet the requirements of our customers' product development schedules. With the addition of MHL support to our DTV port processors, we have added a new feature to an already feature-rich device providing another cost-effective innovation for our customers to include in their DTVs. Also, our new Silicon Image ViaPort™ technology demonstrates our ability to continue to provide our customers with new innovations that are valuable to the end consumer. ViaPort technology simplifies DTV connectivity by enabling the addition of an HDMI output to the DTV, allowing consumers to add HDMI sound bars or audio/video receivers downstream from the DTV in a more simplified manner.

Intellectual Property (IP) Licensing

Silicon Image continues to be one of the top IP licensing companies in the world with a strong portfolio of connectivity, video decoding, and image processing cores. Included in our IP portfolio are cores for SATA, HDMI, JPEG decoders, MPEG-2 and H.264 video decoders, and image signal processors. IP licensing continues to represent an important part of our overall business, and together with royalties and consortium membership fees, contribute approximately 15 to 20 percent to our overall revenue.

Simplay Labs

Interoperability is the foundation on which we develop our connectivity technologies and products, and Simplay Labs is a key component of Silicon Image's business model. Simplay Labs continues to enhance our reputation and leadership in the HDMI ecosystem by ensuring high-quality and reliable products for the market. Device interoperability and consumer quality-of-experience are of significant concern to retailers and consumers in the HD market, and the Simplay HD testing program offers one of the most robust and comprehensive testing platforms in the consumer electronics industry. As Silicon Image continues to advance new connectivity standards, Simplay Labs will continue to provide key differentiation for Silicon Image.

* * * *

In summary, I am pleased with our performance in 2010 but also recognize that we still have much work to do. I am excited about our participation and position in growth markets like DTV and mobile and I am also enthusiastic about the possibilities that lie ahead. I believe we have taken the right steps to better position the Company to grow and be successful in the years to come. I believe we are focused on the right growth markets, and we have the right strategic relationships with our customers to continue to create and provide enhanced solutions for consumers. We also have the right team that can execute and take the Company to the next level. I look forward to continuing our success into 2011 and beyond.

Once again, thank you to our shareholders, customers, and employees and for your continued support.

Camillo Martino
Chief Executive Officer
Silicon Image, Inc.

GAAP to Non-GAAP reconciliation

($ In thousands, except percentages) (Unaudited)	December 31, 2010	% of Total Revenue
Revenue	**$191,347**	**100%**
Cost of revenue and operating expenses:		
Cost of revenue	77,749	41%
Operating expenses	105,431	55%
Total cost of revenue and operating expenses	**183,180**	**96%**
GAAP operating income	**8,167**	**4%**
Non-GAAP adjustments:		
Stock-based compensation expense	7,341	4%
Restructuring expense	3,259	2%
Amortization of intangible assets	149	0%
Total Non-GAAP adjustments	**10,749**	**6%**
Non-GAAP operating income	**$ 18,916**	**10%**

Corporate Directory

Board of Directors

Peter Hanelt, Chairman of the Board
William George
John Hodge
Masood Jabbar
Camillo Martino
William Raduchel

Corporate Headquarters

Silicon Image, Inc.
1060 East Arques Avenue
Sunnyvale, California 94085
Phone: 408-616-4000
Fax: 408-830-9530
www.siliconimage.com

Investor Relations

investor@siliconimage.com

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
225 W. Santa Clara St.
San Jose, California 95113

Corporate Officers

Camillo Martino
Chief Executive Officer

Eric Almgren
Vice President, IP Business Group

Noland Granberry
Chief Financial Officer

Sanjay Kalra
Corporate Controller

Edward Lopez
Chief Legal and Administrative Officer

Tim Vehling
Vice President, Products Business Group

Stock Listing

Silicon Image's common stock trades
on the NASDAQ Stock Market
under the symbol: SIMG

Transfer Agent

BNY Mellon Shareowner Services
480 Washington Boulevard, Jersey City, NJ 07310-8015
Domestic Stockholder Inquiries: 800-522-6645
TDD for hearing impaired: 800-231-5469
Foreign Shareowners: 201-680-6578
TDD Foreign Shareowners: 201-680-6610
Web: www.bnymellon.com/shareowner/equityaccess

Outside Counsel

Fenwick & West LLP
801 California Street
Mountain View, California 94041

This letter to stockholders contains forward-looking statements within the meaning of federal securities laws and regulations. These forward-looking statements include, but are not limited to, statements related to Silicon Image's future operating results, including net income and cash flow, and new products and standards. These forward-looking statements involve risks and uncertainties, including the risks of uncertain economic conditions, competition in our markets, the Company's ability to deliver financial performance in-line with its stated goals and other risks and uncertainties described from time to time in Silicon Image's filings with the Securities and Exchange Commission (SEC). These risks and uncertainties could cause the actual results to differ materially from those anticipated by these forward-looking statements. In addition, see the Risk Factors section of the most recent Form 10-K and 10-Q filed by Silicon Image with the U.S. Securities and Exchange Commission. Silicon Image assumes no obligation to update any such forward-looking information.

Silicon Image, the Silicon Image logo, and InstaPort are trademarks, registered trademarks or service marks of Silicon Image, Inc. in the United States and/or other countries. Simplay and Simplay HD are registered trademarks of Silicon Image, Inc. in the United States and/or other countries. HDMI and High-Definition Multimedia Interface are trademarks or registered trademarks of HDMI Licensing, LLC in the United States and/or other countries. SPMT is a trademark of SPMT, LLC in the United States and/or other countries. MHL and the MHL logo are trademarks or registered trademarks of MHL, LLC in the United States and/or other countries. All other trademarks and registered trademarks are the property of their respective owners in the Unites States and/or other countries. HDMI Licensing, LLC; MHL, LL; Simplay Labs, LLC; and SPMT, LLC are wholly owned subsidiaries of Silicon Image, Inc.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

Commission file number 000-26887

SILICON IMAGE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0396307**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification Number)**

1060 East Arques Avenue
Sunnyvale, CA 94085
(Address of principal executive offices)
(Zip Code)

(408) 616-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:
Common Stock, $0.001 par value per share

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☑ No ☐

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). ☐ Yes No ☑

Indicate by check mark 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 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. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes No ☑

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $268,026,413 as of the last business day of Registrant's most recently completed second fiscal quarter, based upon the closing sale price on the Nasdaq National Market reported on such date.

As of January 31, 2011, there were 78,197,694 shares of the Registrant's Common Stock issued and outstanding.

Documents Incorporated By Reference

Portions of the Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III of this Form 10-K.

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TABLE OF CONTENTS

		Page
PART I		
Item 1	Business	1
Item 1A	Risk Factors	8
Item 1B	Unresolved Staff Comments	28
Item 2	Properties	28
Item 3	Legal Proceedings	29
Item 4	Reserved	29
PART II		
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6	Selected Financial Data	31
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8	Financial Statements and Supplementary Data	52
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	52
Item 9A	Controls and Procedures	52
Item 9B	Other Information	55
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	55
Item 11	Executive Compensation	55
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	55
Item 13	Certain Relationships and Related Transactions and Director Independence	55
Item 14	Principal Accountant Fees and Services	55
PART IV		
Item 15	Exhibits and Financial Statement Schedules	56
Signatures		98
Index to Exhibits Filed Together with this Annual Report		99

EXHIBIT 10.33
EXHIBIT 21.01
EXHIBIT 23.01
EXHIBIT 31.01
EXHIBIT 31.02
EXHIBIT 32.01
EXHIBIT 32.02

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These forward-looking statements involve a number of risks and uncertainties, including those identified in the section of this Annual Report on Form 10-K entitled "Factors Affecting Future Results," that may cause actual results to differ materially from those discussed in, or implied by, such forward-looking statements. Forward-looking statements within this Annual Report on Form 10-K are identified by words such as "believes," "anticipates," "expects," "intends," "may," "will", "can", "should", "could", "estimate", based on", "intended", "would", "projected", "forecasted" and other similar expressions. However, these words are not the only means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We undertake no obligation to publicly release the results of any updates or revisions to these forward-looking statements that may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-K with the Securities and Exchange Commission (SEC). Our actual results could differ materially from those anticipated in, or implied by, forward-looking statements as a result of various factors, including the risks outlined elsewhere in this report. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that attempt to advise interested parties of the risks and factors that may affect our business.

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PART I

Item 1. BUSINESS

General

Silicon Image is a leading provider of advanced, interoperable connectivity solutions that enable the reliable distribution and presentation of high-definition (HD) content for consumer electronics (CE), mobile, and personal computer (PC) markets. We deliver our technology via semiconductor and intellectual property (IP) products that are compliant with global industry standards and also feature industry leading Silicon Image innovations such as InstaPort™. Our products are deployed by the world's leading electronics manufacturers in devices such as desktop and notebook PCs, digital televisions (DTVs), Blu-Ray Disc™ players, audio-video receivers, as well as mobile phones, tablets and digital cameras. Silicon Image has driven the creation of the highly successful HDMI® (High-Definition Multimedia Interface) and DVI™ (Digital Visual Interface) industry standards, as well as the MHL™ (Mobile High-Definition Link) and SPMT™ (Serial Port Memory Technology) standards for mobile devices. Via our wholly-owned subsidiary, Simplay Labs LLC, Silicon Image offers manufacturers comprehensive standards interoperability and compliance testing services.

Our customers are product manufacturers in each of our target markets—consumer electronics, mobile, and personal computer. Because we leverage our technologies across different markets, certain of our products may be incorporated into our customers' products used in multiple markets. We sell our products to original product manufacturers (OEMs) throughout the world using a direct sales force and through a network of distributors and manufacturer's representatives. Our revenue is generated principally by sales of our semiconductor products, with other revenues derived from IP core/design licensing and royalty and adopter fees from our standards licensing activities. We maintain relationships with the eco-system of companies that make the products that drive digital content creation, distribution and consumption, including major Hollywood studios, service providers, consumer electronics companies and retailers. Through these and other relationships, we have formed a strong understanding of the requirements for distributing and presenting HD digital video and audio in the home and mobile environments. We have also developed a substantial IP base for building the standards and products necessary to promote opportunities for our products.

Historically, we have grown our business by introducing and promoting the adoption of new technologies and standards and entering new markets. We collaborated with other companies to jointly develop the DVI and HDMI standards. Our first products addressed the PC market. We then introduced products for a variety of CE market segments, including the set top box (STB), game console and DTV markets. Most recently, we have focused our research and development efforts and are developing products based on our innovative digital interconnect core technology for the mobile device market, including digital still cameras, HD camcorders, smartphones, and tablets.

We are a Delaware corporation headquartered in Sunnyvale, California. Our Internet website address is www.SiliconImage.com.

We are not including the information contained on our website as a part of, or incorporating it by reference into, the Annual Report on Form 10-K. We make available through our Internet website—free of charge—our Annual Report on Form 10-K quarterly reports on Form 10-Q current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable, after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Mission

Our mission is to be the leader in advanced interoperable connectivity solutions for consumers. Our "standards plus" business strategy is to grow the available market for our products and IP solutions through the development, introduction and promotion of market leading products which are based on industry standards but also include Silicon Image innovations that our customers value.

Standards Activity

We have been directly involved in the following standards efforts:

High-Definition Multimedia Interface (HDMI) Consortium

In 2002, we formed a consortium with Sony, Matsushita Electric Industrial Co. (Panasonic), Philips, Thomson (Technicolor), Hitachi and Toshiba to develop the HDMI specification, a next-generation digital interface for consumer electronics. The HDMI specification is based on our proprietary TMDS® technology, the same technology underlying DVI, the predecessor to the HDMI specification, which we also developed. The HDMI specification combines uncompressed high-definition video, multi-channel audio, and data into a single digital interface to provide crystal-clear digital quality over a single cable. HDMI technology is fully backward compatible with PCs, displays and consumer electronics devices incorporating the DVI standard. As an HDMI founder, we have actively participated in the evolution of the HDMI specification, and we expect to continue our involvement in this and in other digital interface connectivity standards.

We believe that our leadership in the market for HDMI-enabled products is due to our ability to introduce first-to-market semiconductor and IP solutions to our customers and to continue to promote innovation within the standard.

For CE manufacturers, HDMI technology is a low-cost, standardized means of interconnecting CE devices that enables them to provide customers with feature-rich products delivering a true home theater entertainment experience. For PC and monitor manufacturers, HDMI technology enables a PC to connect to digital TVs and monitors at HD quality levels. The market research firm In-Stat estimates that over 500 million HDMI-enabled products shipped worldwide in 2010, contributing to an installed base of over 1.6 billion HDMI enabled products. In addition, over 1000 companies around the world are HDMI adopters.

Mobile High-Definition Link (MHL™) Consortium

In April 2010 Nokia, Samsung, Silicon Image, Sony, and Toshiba formed the MHL consortium to create an industry standard for an audio/video interface to connect mobile phones and other portable CE devices directly to high-definition televisions (HDTVs) and displays. MHL technology is a low pin count HD audio and video serial link specifically defined for connecting mobile devices to HD displays. The MHL specification was developed as a standard for mobile wired video/audio connectivity, which, we believe, will enable the development of standard-compliant mobile and display products across a broad connectivity ecosystem. MHL technology is based on the same TMDS technology used in the DVI and HDMI specifications while only requiring a single TMDS data pair to transmit video to MHL enabled DTVs at resolutions up to 1080p. As a result, the MHL technology requires only 5 signal pins, making it compatible with small, low pin-count connectors in mobile devices. Reduced pin-count connectors are critical in mobile devices given the greatly limited connector space compared to standard consumer electronic devices such as Blu-Ray players and set top boxes. The MHL specification also enables the provision of power to the mobile device when connected to a DTV thus preserving battery life.

Serial Port Memory Technology (SPMT™) Consortium

SPMT is a first-of-its-kind standard for dynamic random access memory (DRAM). SPMT technology is designed to enable extended battery life, bandwidth flexibility, reduced pin count and lower power demand for mobile and portable devices. Demand by mobile service providers for solutions enabling more data-intensive, media-rich capabilities drove the formation of the SPMT Consortium. The SPMT™ consortium was established by Silicon Image, ARM, Hynix Semiconductor, LG Electronics, and Samsung Electronics in 2009, with Marvell joining the consortium in 2010.

Digital Visual Interface (DVI)

In 1998, together with Intel, Compaq, IBM, Hewlett-Packard, NEC and Fujitsu, Silicon Image announced the formation of the Digital Display Working Group (DDWG) and in 1999, published the DVI 1.0 specification. The DVI 1.0 standard defines a high-speed serial data communication link between computers and digital displays. Today, in many applications, DVI is being replaced by the more feature-rich HDMI interface. In the PC market, DVI technology faces competition from DisplayPort, a digital display interface standard promoted by the Video Electronics Standards Association (VESA) and defining a digital audio/video interconnect intended to be used primarily between a computer and its display monitor or a computer and a home-theater system. A number of companies have introduced products based on the DisplayPort standard including AMD, Apple, Dell, nVidia and ST Micro.

Serial Advanced Technology Attachment (SATA)

We have been a contributor to the SATA standard and a supplier of discrete SATA solutions including controllers, storage processors, port multipliers and bridges. Based on serial signaling technology, the SATA standard specifies a computer bus technology for connecting hard disk drives and other devices and was formed by Intel, Dell, Maxtor, Seagate and Vitesse in 1999. We sell SATA semiconductors primarily to merchant motherboard suppliers, computer OEMs and external drive manufacturers.

Products and Services

We sell our products and services primarily into three markets: consumer electronics, personal computers and storage. Our IP revenues and product revenues over the past three years from the CE, PC and storage markets were as follows:

	Year Ended December 31,		
	2010	2009	2008
Consumer Electronics	$131,362	$102,391	$167,599
Personal Computers	8,562	8,905	40,141
Storage products	12,917	11,372	25,461
Licensing	38,506	27,921	41,214
	$191,347	$150,589	$274,415

CE (DTV & Mobile)

HDMI Port Processors. Our HDMI port processors are targeted for CE products, such as DTV's, AV receivers, sound bars and Home-Theater-In-a-Box (HTIB). Our port processors support the latest version of the HDMI specification and can quickly switch between up to five HDMI inputs using our InstaPort technology. With InstaPort technology, switching time between various HDMI devices attached to a DTV is reduced from approximately 5 seconds to approximately 1 second. In 2010, we introduced an enhanced version of our InstaPort technology—InstaPort™ S technology—which will enable DTV manufacturers with either MHL or HDMI inputs to achieve single-second port switching. In 2010, we introduced two new DTV port processors, the SiI9381A and SiI9387A. The SiI9381A port processor seamlessly interfaces with MHL-enabled mobile devices such as mobile phones and tablets. The SiI9381A also supports four HDMI inputs with InstaPort S—Silicon Image's single-second HDMI port switching technology and integrates HDMI 1.4 Audio Return Channel and Content Type detection.

HDMI and MHL Transmitters. Our HDMI transmitter products are targeted for CE and mobile products, such as Blu-Ray players, STBs, digital camcorders, smartphones, tablets, and A/V receivers. HDMI transmitters convert digital video and audio into HDMI format enabling products to connect to DTV's, AV receivers, and PC monitors that have HDMI inputs. Our MHL transmitter products have been optimized for small-form factor and low-power and are targeted for mobile devices, such as digital cameras and camcorders, smartphones, and

tablets. MHL transmitters convert digital video into the MHL format enabling mobile devices to connect to DTV's and monitors with MHL inputs, or alternatively, to connect to DTV's and monitors with HDMI inputs via an MHL-to-HDMI adapter. In 2010, we introduced the SiI9244, an MHL transmitter for HD video and audio designed for power-sensitive consumer electronics devices such as mobile phones, digital cameras, portable media players and HD camcorders. Eliminating the need for an extra connector, the SiI9244 enables a cost-effective, low-pin count connectivity solution for the delivery of HD content.

MHL-to-HDMI Bridges. Our MHL-to-HDMI bridge products are targeted for docking stations and adapters, connecting new MHL mobile products with existing HDMI enabled DTV's and monitors. In 2010, we introduced the SiI9292, an MHL-to-HDMI bridge which is integral to the design of low-power, MHL-to-HDMI accessory devices such as docking stations, converters and adapters, enabling HD video and audio connectivity between MHL-ready mobile devices and HDTVs with HDMI inputs.

HDMI Receivers. Our HDMI receiver products are targeted for high-definition displays, such as projectors and PC monitors, as well as AV receivers (AVRs). HDMI receivers convert an incoming encrypted serialized stream to digital video and audio, which is then processed by a television or PC monitor for display.

PC

MHL/HDMI-to-HDMI Bridges. Our MHL/HDMI-to-HDMI bridge products are targeted for high-definition displays, such as PC monitors and DTVs, enabling added support for MHL. In 2010, we introduced the SiI1292, an MHL/HDMI-to-HDMI bridge, that is designed to enable single port displays such as HDTVs, PC monitors, multi-function monitors or HD projectors, to connect to MHL-enabled mobile devices via an MHL cable.

DVI Receivers. Our DVI receiver products are targeted for high-definition PC displays, such as monitors and projectors.

Storage

We provide a full line of SATA controllers used in PC, DVR and network attached storage (NAS) applications. The current generation of controllers provides the SATA Gen II features including eSATA signal levels, 3.0 Gbps, native command queuing (NCQ), hot-plug and port multiplier support.

Our bridge products such as the SiI3811 provide PC OEMs with a solution that connects legacy PATA optical drives to the current generation of motherboard chip sets and are used primarily in desktop and laptop PC applications.

Our SteelVine storage processor architecture integrates the capabilities of a complex redundant array of independent disks (RAID) controller into a single-chip architecture. SteelVine storage processors deliver enterprise-class features such as virtualization, RAID, hot-plug and hot spare, in a single cost-effective system-on-a-chip (SoC). Storage processors are currently shipping in PC motherboards as well as external storage solutions.

Simplay Labs, LLC

We believe Simplay Labs LLC, our wholly owned subsidiary, has further enhanced our reputation for quality, reliable products and leadership in the HDMI market. The Simplay HD™ Interoperability Program offers one of the most robust and comprehensive testing platforms in the consumer electronics industry as device interoperability and consumer quality of experience are of significant concern to retailers and consumers in the HD market. Devices that pass the Simplay HD testing program are verified to meet Simplay developed interoperability specifications, and have also demonstrated interoperability through empirical testing against "peer" devices maintained by Simplay Labs. Simplay Labs has service centers operating in the US, South Korea

and China, providing interoperability, quality of experience and performance testing at global testing centers. By December 31, 2010, more than 500 product lines have been Simplay HD-verified and more than 100 manufacturers and retailers have participated in the Simplay HD Interoperability Program, enabling a higher level of consumer trust that their products are fully interoperable with other HDMI products. Simplay Labs also verifies MHL devices for standards compliance and HDMI interoperability. A number of products use the SimplayHD logo on product packaging, within product literature and on website promotions.

In November of 2009, the Simplay Explorer HDMI-CEC R&D development tool was approved as an official HDMI Authorized Test Center (ATC) test tool. The first HDMI-CEC R&D tool of its kind for CE manufacturers, the Simplay CEC Explorer sets a higher standard for development of HDMI CEC features and enables manufacturers to bring products to market faster.

HDMI Licensing, LLC

HDMI Licensing, LLC, our wholly owned subsidiary, is the agent responsible for licensing the HDMI specification, promoting the HDMI standard and educating Adopters, retailers and consumers on the benefits of the HDMI specification. The HDMI specification was developed by Hitachi, Ltd.; Panasonic Corporation; Koninklijke Philips Electronics N.V.; Silicon Image, Inc.; Sony Corporation; Technicolor S.A. and Toshiba Corporation as the all-digital interface standard for the consumer electronics and personal computer markets. The HDMI specification combines uncompressed high-definition video, multi-channel audio, and data in a single digital interface to provide crystal-clear digital quality over a single cable.

As of December 31, 2010, over 1,000 manufacturing companies were adopters of the HDMI. During 2010, the number of HDMI adopters grew by more than 10%, further strengthening the specification's position as the worldwide standard for high-definition digital connectivity. According to market researcher In-Stat, the HDMI specification has become widely adopted and has moved from an emerging standard to a prevalent connectivity standard used in many consumer applications.

MHL LLC

MHL, LLC, our wholly-owned subsidiary, is the agent for overseeing and administering the adoption, licensing, and promotion of the MHL Specification. The MHL Specification was developed by Nokia Corporation, Samsung Electronics Co., Ltd., Silicon Image, Inc., Sony Corporation, and Toshiba Corporation as a standard for mobile wired video/audio connectivity, which will enable the development of standard-compliant mobile and display products across a broad connectivity ecosystem.

SPMT, LLC

SPMT, LLC, our wholly-owned subsidiary, is the entity responsible for licensing the SPMT (Serial Port Memory Technology) memory interface specification. The organization and its founding members define and implement Serial Port Memory Technology as an industry standard memory interface capable of delivering the bandwidth flexibility, scalability, reduced pin count and low power required by future generations of mobile devices. Consortium members include ARM, Hynix Semiconductor, Inc., LG Electronics, Marvell, Samsung Electronics Co., Ltd., and Silicon Image, Inc.

Markets and Customers

We focus our sales and marketing efforts on achieving design wins with original equipment manufacturers (OEMs) of CE, mobile and PC products. A small number of customers and distributors have generated and we expect will continue to generate a significant portion of our revenue. Our top five customers, including distributors, generated 58.3%, 44.2% and 55.1%, of our revenue in 2010, 2009 and 2008, respectively. For the year ended December 31, 2010, sales to Samsung Electronics, Innotech Corporation and Microtek, Inc.

accounted for 17.0%, 11.3% and 11.0% of our revenue, respectively. The percentage of revenue generated through distributors is significant, since many OEMs rely upon third-party manufacturers or distributors to provide purchasing and inventory management functions. Our revenue generated through distributors was 61.1%, 59.2% and 52.1% of our total revenue in 2010, 2009 and 2008, respectively. Please refer to the section of this report titled "Risk Factors" for a discussion of risks associated with the sell-through arrangement with our distributors.

A substantial portion of our business is conducted outside the United States; therefore, we are subject to foreign business, political and economic risks. Nearly all of our products are manufactured offshore, primarily in Asia and for the years ended December 31, 2010, 2009 and 2008, approximately 78.9%, 79.4% and 83.4% of our total revenue, respectively, was generated from customers and distributors located outside of North America, primarily in Asia.

Research and Development

Our research and development efforts continue to focus on innovative technologies and standards, higher-bandwidth, lower-power links, efficient algorithms, architectures and feature-rich implementations for CE (including DTV), mobile and PC applications. By utilizing our patented technologies and optimized architectures, we believe our products can scale with advances in semiconductor manufacturing process technology, simplify system design and provide innovative solutions for our customers. As of December 31, 2010, we had been issued 159 United States patents and had 83 United States patent applications pending. Our U.S. issued patents have expiration dates which range from 2015 to 2029, subject to our payment of periodic maintenance fees. Our policy is to seek to protect our intellectual property rights throughout the world by filing counterparts or our US patent applications in select foreign jurisdictions. A discussion of risks related to our intellectual property is set forth in the section of this report titled "Risk Factors".

We have extensive experience in the areas of high-speed interconnect architecture, circuit design, digital audio-visual (A/V) processor architecture, storage architecture, logic design/verification, firmware/software, digital audio/video systems and storage systems. We have invested and expect that we will continue to invest, significant funds for research and development activities. Our research and development expenses were approximately $55.3 million, $68.2 million and $84.8 million in 2010, 2009 and 2008, respectively, including stock-based compensation expense of $2.6 million, $6.3 million and $7.1 million for 2010, 2009 and 2008, respectively.

Sales and Marketing

We sell our products using a direct sales support and marketing field offices located in North America, Europe, Taiwan, China, Japan and Korea and through a network of distributors located throughout North America, Asia and Europe. Our sales strategy for all products is to achieve design wins with key industry companies in order to grow the markets in which we participate and to promote and accelerate the adoption of industry standards that we support or are developing.

Manufacturing

Wafer Fabrication

Our semiconductor products are designed using standard, complementary metal oxide semiconductor (CMOS) processes, which permit us to use independent wafer foundries to fabricate them. By outsourcing the manufacture of our semiconductor products, we are able to avoid the high cost of owning and operating a semiconductor wafer fabrication facility and to take advantage of our contract manufacturers' high-volume economies of scale. Outsourcing our manufacturing also gives us direct and timely access to various process technologies. This allows us to focus our resources on the innovation, design and quality of our products.

Our semiconductor products are currently fabricated using 0.35, 0.25, 0.18 and 0.13 micron processes. We continuously evaluate the benefits, primarily the improved performance, costs and feasibility, of migrating our products to smaller geometry process technologies. We have conducted certain development projects for some of our customers, involving smaller geometries, namely 90 nm and 65 nm designs. We rely almost entirely on Taiwan Semiconductor Manufacturing Company (TSMC) to produce all of our semiconductor products. Because of the cyclical nature of the semiconductor industry, capacity availability can change quickly and significantly. Risks related to our sole sourcing of the manufacturing of our products are discussed in the section of this report titled "Risk Factors."

Assembly and Test

Our semiconductor products are designed to use low-cost standard packages and to be tested with widely available semiconductor test equipment. We outsource all of our packaging and our test requirements. This enables us to take advantage of high-volume economies of scale and supply flexibility and gives us direct and timely access to advanced packaging and test technologies. Since the fabrication yields of our products have historically been high and the costs of our packaging have historically been low, we test our products after they are assembled. This testing method has not caused us to experience unacceptable failures or yields. Our operations personnel closely review the process and control and monitor information provided to us by our foundries. To ensure quality, we have established firm guidelines for rejecting wafers that we consider unacceptable. However, lack of testing prior to assembly could have adverse effects if there are significant problems with wafer processing. Additionally, for newer products and products for which yield rates have not stabilized, we may conduct bench testing using our personnel and equipment, which is more expensive than fully automated testing.

Quality Assurance

We focus on product quality through all stages of the design and manufacturing process. Our designs are subjected to in depth circuit simulation at temperature, voltage and processing extremes before being fabricated. We also subject pre-production parts to extensive characterization and reliability testing. We also sample early production parts to ensure we are getting the same results as we did during pre-production. We pre-qualify each of our subcontractors through an audit and analysis of the subcontractor's quality system and manufacturing capability. We also participate in quality and reliability monitoring through each stage of the production cycle by reviewing data from our wafer foundries and assembly subcontractors. We closely monitor wafer foundry production to ensure consistent overall quality, reliability and yields. Our independent foundries and our assembly and test subcontractors have achieved International Standards Organization (ISO) 9001 certification.

Competition

The markets in which we participate are intensely competitive and are characterized by rapid technological change, evolving standards, short product life cycles and decreasing prices. We believe that some of the key factors affecting competition in our markets are levels of product integration, compliance with industry standards, time-to-market, cost, product capabilities, system design costs, intellectual property, customer support, quality and reputation.

CE

In the consumer electronics market, our products are designed into a variety of devices, including DTVs, STBs, Blu-ray players, AV receivers, soundbars, and home theater in a box (HTIBs). Our products compete against discrete HDMI products offered by companies such as Analog Devices, Analogix Semiconductor, Parade Technologies and NXP. Our products face competition from companies integrating HDMI receive or HDMI transmit functionality into SoC's, such as Broadcom, Intel, MediaTek, Mstar, Trident, Zoran, Marvell, and STM. We also compete in some instances against in-house semiconductor solutions designed by large consumer electronics OEMs.

Mobile

In the mobile market, our products are designed into a variety of devices, including smartphones, tablets, digital still cameras, and camcorders. Our products compete against discrete HDMI, MHL, or DisplayPort products offered by companies such as Analog Devices, Analogix Semiconductor, and NXP. Our products face competition from companies integrating HDMI or MHL transmit functionality into SoCs, such as Broadcom, Intel, Qualcomm, TI, Nvidia, Marvell, ST Ericsson, Zoran, and MediaTek. We also compete in some instances against in-house semiconductor solutions designed by large consumer electronics OEMs.

PC

In the PC market, Intel and other competitors such as AMD and Nvidia have integrated HDMI and/or DVI into their PC processor and chips sets. Our HDMI and DVI products also face competition from products based on the DisplayPort standard, which is a digital display interface standard being put forth by the Video Electronics Standards Association (VESA) that defines a digital audio/video interconnect intended to be used primarily between a computer and a display. DisplayPort is increasingly replacing DVI as the default standard for PC digital video interconnect technology.

Storage

Our SATA products compete with similar products from ACARD, Atmel, J-Micron, and Marvell. We also compete against AMD, Intel, nVidia, Silicon Integrated Systems, VIA Technologies and other motherboard chip-set makers, which have integrated SATA functionality into their chipsets.

Many of our competitors have longer operating histories and greater presence in key markets, greater name recognition, access to larger customer bases and significantly greater financial, engineering, intellectual property, sales and marketing, manufacturing, distribution, technical and other resources than we do. In particular, well-established semiconductor companies such as Analog Devices, Intel, National Semiconductor and Texas Instruments and consumer electronics manufacturers, such as Panasonic, Sony and Toshiba, may compete against us in the future. We cannot assure that we can compete successfully against current or potential competitors, or that competition will not seriously harm our business.

Employees

As of December 31, 2010, we had a total of 432 full-time employees, including 127 located outside of the United States. None of our employees are represented by a collective bargaining agreement. We have never experienced any work stoppages. We consider our relations with our employees to be good. We depend on the continued service of our key technical, sales and senior management personnel and our ability to attract and retain additional qualified personnel.

Item 1A. RISK FACTORS

A description of the risk factors associated with our business is set forth below. You should carefully consider the following risk factors, together with all other information contained or incorporated by reference in this filing, before you decide to purchase shares of our common stock. These factors could cause our future results to differ materially from those expressed in or implied by forward-looking statements made by us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business. The trading price of our common stock could decline due to any of these risks and you may lose all or part of your investment.

Our success depends on demand for our new products.

Our future growth and success depends on our ability to develop and bring to market on a timely basis new products, such as our products supporting on the new Mobile High-Definition Link (MHL) standard. There can

be no assurance that we will be successful in developing and marketing these new or other future products. Moreover, there is no assurance that our new or future products will achieve the desired level of market acceptance in the anticipated timeframes or that any such new or future products will contribute significantly to our revenue. Our new products face significant competition from established companies that have been selling competitive products for longer periods of time than we have. Our inability to develop and market new products could negatively affect our business and results of operations.

Our success depends on the development and introduction of new products, which we may not be able to do in a timely manner because the process of developing high-performance semiconductor products is complex and costly.

The development of new products is highly complex, and we have experienced delays, some of which exceeded one year, in the development and introduction of new products on several occasions in the past. We have recently introduced new products and will continue to introduce new products in the future. As our products integrate new, more advanced functions, they become more complex and increasingly difficult to design, manufacture and debug. Successful product development and introduction depends on a number of factors, including, but not limited to:

- accurate prediction of market trends and requirements, the establishment and adoption of new standards in the market and the evolution of existing standards, including enhancements or modifications to existing standards such as HDMI, MHL, SPMT, DVI and SATA;
- identification of customer and consumer market needs where we can apply our innovation and skills to create new standards or areas for product differentiation that improve our overall competitiveness either in an existing market or in a new market;
- development of advanced technologies and capabilities and new products that satisfy customer and market requirements;
- competitors' and customers' integration of the functionality of our products into their products, which puts pressure on us to continue to develop and introduce new products with new functionality;
- timely completion and introduction of new product designs; correctly anticipating the market windows that will maximize acceptance of our products and then delivering the products to the markets within the required time frames;
- management of product life cycles;
- use of leading-edge foundry processes, when use of such processes is required and achievement of high manufacturing yields and low cost testing;
- market acceptance of our new products;
- consumer preferences for how they purchase and consume HD video are rapidly changing and our products may not be able to meet shifting consumer preferences; and
- market acceptance of new architectures such as our input processors.

Accomplishing all of this is extremely challenging, time-consuming and expensive and there is no assurance that we will succeed. Product development delays may result from unanticipated engineering complexities, changing market or competitive product requirements or specifications, difficulties in overcoming resource constraints, the inability to license third-party technology or other factors. Competitors and customers may integrate the functionality of our products into their own products, thereby reducing demand for our products. If we are not able to develop and introduce our products successfully and in a timely manner, our costs could increase or our revenue could decrease, both of which would adversely affect our operating results. In addition, it is possible that we may experience delays in generating revenue from these products or that we may never generate revenue from these products. We must work with a semiconductor foundry and with potential customers

to complete new product development and to validate manufacturing methods and processes to support volume production and potential re-work. Each of these steps may involve unanticipated difficulties, which could delay product introduction and reduce market acceptance of the product. In addition, these difficulties and the increasing complexity of our products may result in the introduction of products that contain defects or that do not perform as expected, which would harm our relationships with customers and our ability to achieve market acceptance of our new products. There can be no assurance that we will be able to achieve design wins for our planned new products, that we will be able to complete development of these products when anticipated, or that these products can be manufactured in commercial volumes at acceptable yields, or that any design wins will produce any revenue. Failure to develop and introduce new products, successfully and in a timely manner, may adversely affect our results of operations.

Our annual and quarterly operating results may fluctuate significantly and are difficult to predict, particularly given adverse domestic and global economic conditions.

Our annual and quarterly operating results are likely to vary significantly in the future based on a number of factors many of which we have little or no control. These factors include, but are not limited to:

- the growth, evolution and rate of adoption of industry standards for our key markets, including consumer electronics, mobile, PCs and displays and storage devices and systems;
- our licensing revenue is heavily dependent on a few key licensing transactions being completed for any given period, the timing of which is not always predictable and is especially susceptible to delay beyond the period in which completion is expected and our concentrated dependence on a few licensees in any period for substantial portions of our expected licensing revenue and profits;
- our licensing revenue has been uneven and unpredictable over time and is expected to continue to be uneven and unpredictable for the foreseeable future, resulting in considerable fluctuation in the amount of revenue recognized in a particular quarter;
- the impact of the results of the royalty compliance audits which we regularly perform;
- competitive pressures, such as the ability of competitors to successfully introduce products that are more cost-effective or that offer greater functionality than our products, including integration into their products of functionality offered by our products, the prices set by competitors for their products and the potential for alliances, combinations, mergers and acquisitions among our competitors;
- average selling prices of our products, which are influenced by competition and technological advancements, among other factors;
- government regulations regarding the timing and extent to which digital content must be made available to consumers;
- the availability of other semiconductors or other key components that are required to produce a complete solution for the customer; usually, we supply one of many necessary components;
- the cost of components for our products, including the cost of gold, and prices charged by the third parties who manufacture, assemble and test our products; and
- fluctuations in market demand, one-time sales opportunities and sales goals, sometimes result in heightened sales efforts during a given period that may adversely affect our sales in future periods.

Because we have little or no control over these factors and/or their magnitude, our operating results are difficult to predict. Any substantial adverse change in any of these factors could negatively affect our business and results of operations.

Our annual and quarterly operating results are highly dependent upon how well we manage our business.

Our annual and quarterly operating results are highly dependent upon and may fluctuate based on how well we manage our business. Some of these factors include the following:

- our ability to manage product introductions and transitions, develop necessary sales and marketing channels and manage other matters necessary to enter new market segments;
- our ability to successfully manage our business in multiple markets such as CE, PC, mobile and storage, which may involve additional research and development, marketing or other costs and expenses;
- our ability to enter into licensing deals when expected and make timely deliverables and milestones on which recognition of revenue often depends;
- our ability to engineer customer solutions that adhere to industry standards in a timely and cost-effective manner;
- our ability to achieve acceptable manufacturing yields and develop automated test programs within a reasonable time frame for our new products;
- our ability to manage joint ventures and projects, design services and our supply chain partners;
- our ability to monitor the activities of our licensees to ensure compliance with license restrictions and remittance of royalties;
- our ability to structure our organization to enable achievement of our operating objectives and to meet the needs of our customers and markets;
- the success of the distribution and partner channels through which we choose to sell our products and our ability to manage expenses and inventory levels; and
- our ability to successfully maintain certain structural and various compliance activities in support of our global structure which is designed to result in certain operational benefits as well as an overall lower tax rate and which, if not maintained, may result in us losing these operational and tax benefits.

If we fail to effectively manage our business, this could adversely affect our results of operations.

Our business has been and may continue to be significantly impacted by a deterioration in worldwide economic conditions and uncertainty in the outlook for the global economy makes it more likely that our actual results will differ materially from expectations.

Global credit and financial markets have experienced disruptions, and may continue to experience disruptions in the future, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and continued uncertainty about economic stability. Despite signs of improvement, there can be no assurance that there will not be renewed deterioration in credit and financial markets and confidence in economic conditions. These economic uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. The continued or further tightening of credit in financial markets may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. The volatility in the credit markets has severely diminished liquidity and capital availability. Our CE product revenue, which comprised approximately 68.7%, 68.0% and 61.1% of total revenue for the years ended December 31, 2010, 2009 and 2008, respectively, is dependent on continued demand for consumer electronics, including but not limited to, DTVs, STBs, DVDs and game consoles. Demand for consumer electronics business is a function of the health of the

economies in the United States and around the world. As a result of the recent recession experienced by the US economy and other economies around the world, the demand for overall consumer electronics has been and may continue to be adversely affected. As a result, the demand for our CE, PC and storage products and our operating results have been and may continue to be adversely affected as well. We cannot predict the timing, strength or duration of any economic disruption or subsequent economic recovery, worldwide, in the United States, in our industry, or in the consumer electronics market. These and other economic factors have had and may continue to have a material adverse effect on demand for our CE, PC and storage products and on our financial condition and operating results.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate debt securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates. We may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. Recent adverse events in the global economy and in the credit markets could negatively impact our return on investment for these debt securities and thereby reduce the amount of cash and cash equivalents and investments on our balance sheet.

The licensing component of our business strategy increases business risk and volatility.

Part of our business strategy is to license IP through agreements with companies whereby companies incorporate our IP into their respective technologies that address markets in which we do not want to directly participate. There can be no assurance that additional companies will be interested in licensing our technology on commercially favorable terms or at all. We also cannot ensure that companies who license our technology will introduce and sell products incorporating our technology, will accurately report royalties owed to us, will pay agreed upon royalties, will honor agreed upon market restrictions, will not infringe upon or misappropriate our intellectual property and will maintain the confidentiality of our proprietary information. The IP agreements are complex and depend upon many factors including completion of milestones, allocation of values to delivered items and customer acceptances. Many of these factors require significant judgments. Licensing revenue could fluctuate significantly from period to period because it is heavily dependent on a few key deals being completed in a particular period, the timing of which is difficult to predict and may not match our expectations. Because of its high margin, the licensing revenue portion of our overall revenue can have a disproportionate impact on gross profit and profitability. Also, generating revenue from these arrangements is a lengthy and complex process that may last beyond the period in which efforts begin and, once an agreement is in place, the timing of revenue recognition may be dependent on customer acceptance of deliverables, achievement of milestones, our ability to track and report progress on contracts, customer commercialization of the licensed technology and other factors. Licensing that occurs in connection with actual or contemplated litigation is subject to risk that the adversarial nature of the transaction will induce non-compliance or non-payment. The accounting rules associated with recognizing revenue from these transactions are increasingly complex and subject to interpretation. Due to these factors, the amount of license revenue recognized in any period may differ significantly from our expectations.

We face intense competition in our markets, which may lead to reduced revenue from sales of our products and increased losses.

The CE, PC and storage markets in which we operate are intensely competitive. These markets are characterized by rapid technological change, evolving standards, short product life cycles and declining selling prices. We expect competition for many of our products to increase, as industry standards become widely adopted, as competitors reduce prices and offer products with greater levels of integration, and as new competitors enter our markets.

Our products face competition from companies selling similar discrete products and from companies selling products such as chipsets and system-on-a-chip (SoC) solutions with integrated functionality. Our competitors

include semiconductor companies that focus on the CE, display or storage markets, as well as major diversified semiconductor companies and we expect that new competitors will enter our markets. Current or potential customers, including our own licensees, may also develop solutions that could compete with us, including solutions that integrate the functionality of our products into their solutions. In addition, current or potential OEM customers may have internal semiconductor capabilities and may develop their own solutions for use in their products rather than purchasing them from companies such as us. Some of our competitors have already established supplier or joint development relationships with current or potential customers and may be able to leverage their existing relationships to discourage these customers from purchasing products from us or persuade them to replace our products with theirs. Many of our competitors have longer operating histories, greater presence in key markets, better name recognition, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we do and as a result, they may be able to adapt more quickly to new or emerging technologies and customer requirements, or devote greater resources to the promotion and sale of their products. In particular, well-established semiconductor companies, such as Analog Devices, NXP, Broadcom, Intel, National Semiconductor and Texas Instruments and CE manufacturers, such as Panasonic, Sony, Samsung and Toshiba, may compete against us in the future. Some of our competitors could merge, which may enhance their market presence. Existing or new competitors may also develop technologies that more effectively address our markets with products that offer enhanced features and functionality, lower power requirements, greater levels of integration or lower cost. Increased competition has resulted in and is likely to continue to result in price reductions and loss of market share in certain markets. We cannot assure you that we can compete successfully against current or potential competitors, or that competition will not reduce our revenue and gross margins.

We operate in rapidly evolving markets, which makes it difficult to evaluate our future prospects.

The markets in which we compete are characterized by rapid technological change, evolving customer needs and frequent introductions of new products and standards. As we adjust to evolving customer requirements and technological advances, we may be required to further reposition our existing offerings and to introduce new products and services. We may not be successful in developing and marketing such new offerings, or we may experience difficulties that could delay or prevent the development and marketing of such new offerings. Moreover, new standards that compete with standards that we promote have been and in the future may be introduced from time to time, which could impact our success. Accordingly, we face risks and difficulties frequently encountered by companies in new and rapidly evolving markets. If we do not successfully address these risks and difficulties, our results of operations could be negatively affected.

We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products as well as standard cells and other integrated circuit designs that we may use in multiple products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. Currently most of our products are manufactured in .18 micron and .13 micron, geometry processes. We are now designing a new product in 65 nanometer process technology and planning for the transition to smaller process geometries. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. The transition to 65 nanometer geometry process technology will result in significantly higher mask and prototyping costs, as well as additional expenditures for engineering design tools and related computer hardware. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes.

We are dependent on our relationships with our foundry subcontractor to transition to smaller geometry processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage

the transition in a timely manner, or at all, or that we will be able to maintain our existing foundry relationships or develop new ones. If any of our foundry subcontractors or we experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations.

We will have difficulty selling our products if customers do not design our products into their product offerings or if our customers' product offerings are not commercially successful.

Our products are generally incorporated into our customers' products at the customers' design stage. As a result, we rely on manufacturers to select our products to be designed into their products. Without these "design wins," it is very difficult to sell our products. We often incur significant expenditures on the development of a new product without any assurance that a manufacturer will select our product for design into its own product. Additionally, in some instances, we are dependent on third parties to obtain or provide information that we need to achieve a design win. Some of these third parties may be our competitors and, accordingly, may not supply this information to us on a timely basis, if at all. Once a manufacturer designs a competitor's product into its product offering, it becomes significantly more difficult for us to sell our products to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. Furthermore, even if a manufacturer designs one of our products into its product offering, we cannot be assured that its product will be commercially successful or that we will receive any revenue from that product. Sales of our products largely depend on the commercial success of our customers' products. Our customers generally can choose at any time to stop using our products if their own products are not commercially successful or for any other reason. We cannot assure you that we will continue to achieve design wins or that our customers' equipment incorporating our products will ever be commercially successful.

Our products typically have lengthy sales cycles. A customer may decide to cancel or change its product plans, which could cause us to lose anticipated sales. In addition, our average product life cycles tend to be short and, as a result, we may hold excess or obsolete inventory that could adversely affect our operating results.

After we have developed and delivered a product to a customer, the customer will usually test and evaluate our product prior to designing its own equipment to incorporate our product. Our customers generally need three months to over six months to test, evaluate and adopt our product and an additional three months to over nine months to begin volume production of products that incorporate our products. Due to this lengthy sales cycle, we may experience significant delays from the time we incur operating expenses and make investments in inventory until the time that we generate revenue from these products. It is possible that we may never generate any revenue from these products after incurring such expenditures. Even if a customer selects our product to incorporate into its products, we have no assurances that the customer will ultimately market and sell its products or that such efforts by our customer will be successful. The delays inherent in our lengthy sales cycle increase the risk that a customer will decide to cancel or change its product plans. Such a cancellation or change in plans by a customer could cause us to lose sales that we had anticipated. In addition, anticipated sales could be materially and adversely affected if a significant customer curtails, reduces or delays orders during our sales cycle or chooses not to release equipment that contains our products. Further, the combination of our lengthy sales cycles coupled with worldwide economic conditions could have a compounding negative impact on the results of our operations.

While our sales cycles are typically long, our average product life cycles tend to be short as a result of the rapidly changing technology environment in which we operate. As a result, the resources devoted to product sales and marketing may not generate material revenue for us and from time to time, we may need to write off excess and obsolete inventory. If we incur significant marketing expenses and investments in inventory in the future that if we are not able to recover and we are not able to compensate for those expenses, our operating results could be adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions but still hold higher cost products in inventory, our operating results would be harmed.

Our customers may not purchase anticipated levels of products, which can result in excess inventories.

We generally do not obtain firm, long-term purchase commitments from our customers and, in order to accommodate the requirements of certain customers, we may from time to time build inventory that is specific to that customer in advance of receiving firm purchase orders. The short-term nature of our customers' commitments and the rapid changes in demand for their products reduce our ability to accurately estimate the future requirements of those customers. Should the customer's need shift so that they no longer require such inventory, we may be left with excessive inventories, which could adversely affect our operating results.

We depend on a few key customers and the loss of any of them could significantly reduce our revenue.

Historically, a relatively small number of customers and distributors have generated a significant portion of our revenue. For the year ended December 31, 2010, revenue from Samsung Electronics, Innotech Corporation and Microtek, Inc. accounted for 17.0%, 11.3% and 11.0% of our total revenue, respectively. For the year ended December 31, 2009, revenue from Microtek, Inc. and Weikeng Industrial accounted for 11.9% and 10.3% of our total revenue, respectively. For the year ended December 31, 2008, revenue from World Peace Industrial, Microtek, Inc., Weikeng Industrial and Innotech Corporation represented 14.6%, 11.8%, 11.5% and 10.5% of our total revenue, respectively. In addition, an end-customer may buy our products through multiple distributors, contract manufacturers and /or directly, which could create an even greater concentration. We cannot be certain that customers and key distributors that have accounted for significant revenue in past periods, individually or as a group, will continue to sell our products and generate revenue. As a result of this concentration of our customers, our results of operations could be negatively affected if any of the following occurs:

- one or more of our customers, including distributors, becomes insolvent or goes out of business;
- one or more of our key customers or distributors significantly reduces, delays or cancels orders; and/or
- one or more significant customers selects products manufactured by one of our competitors for inclusion in their future product generations.

While our participation in multiple markets has broadened our customer base, as product mix fluctuates from quarter to quarter, we may become more dependent on a small number of customers or a single customer for a significant portion of our revenue in a particular quarter, the loss of which could adversely affect our operating results.

We sell our products through distributors, which limits our direct interaction with our end customers, therefore reducing our ability to forecast sales and increasing the complexity of our business.

Many original equipment manufacturers ("OEMs") rely on third-party manufacturers or distributors to provide inventory management and purchasing functions. Distributors generated 61.1%, 59.2% and 52.1% of our revenue for the years ended December 31, 2010, 2009 and 2008, respectively. Selling through distributors reduces our ability to forecast sales and increases the complexity of our business, requiring us to:

- manage a more complex supply chain;
- monitor and manage the level of inventory of our products at each distributor;
- estimate the impact of credits, return rights, price protection and unsold inventory at distributors; and
- monitor the financial condition and credit-worthiness of our distributors, many of which are located outside of the United States and the majority of which are not publicly traded.

Since we have limited ability to forecast inventory levels at our end customers, it is possible that there may be significant build-up of inventories in the distributor channel, with the OEM or the OEM's contract manufacturer. Such a buildup could result in a slowdown in orders, requests for returns from customers, or requests to move out planned shipments. This could adversely impact our revenues and profits.

Any failure to manage these challenges could disrupt or reduce sales of our products and unfavorably impact our financial results.

Governmental action against companies located in offshore jurisdictions may lead to a reduction in the demand for our common shares.

Recent federal and state legislation has been proposed, and additional legislation may be proposed in the future which, if enacted, could have an adverse tax impact on both us and our stockholders. For example, the ability to defer taxes as a result of permanent investments offshore could be limited, thus raising our effective tax rate.

We have made acquisitions in the past and may make acquisitions in the future, and these acquisitions involve numerous risks.

Our growth depends upon market growth and our ability to enhance our existing products and introduce new products on a timely basis. Acquisition of companies or intangible assets is a strategy we may use to develop new products and enter new markets. We may acquire additional companies or technologies in the future. Acquisitions involve numerous risks, including, but not limited to, the following:

- difficulty and increased costs in assimilating employees, including our possible inability to keep and retain key employees of the acquired business;
- disruption of our ongoing business;
- discovery of undisclosed liabilities of the acquired companies and legal disputes with founders or stockholders of acquired companies;
- inability to commercialize acquired technology; and
- the need to take impairment charges or write-downs with respect to acquired assets.

No assurance can be given that our prior acquisitions or our future acquisitions, if any, will be successful or provide the anticipated benefits, or that they will not adversely affect our business, operating results or financial condition. Failure to manage growth effectively and to successfully integrate acquisitions made by us could materially harm our business and operating results.

For example, in January 2007, we completed the acquisition of sci-worx, now Silicon Image, GmbH. In 2009, because of our decision to focus on discrete semiconductor products and related intellectual property, we decided to restructure our research and development operations resulting in the closure of our two sites in Germany.

Industry cycles may strain our management and resources.

Cycles of growth and contraction in our industry may strain our management and resources. To manage these industry cycles effectively, we must:

- improve operational and financial systems;
- train and manage our employee base;
- successfully integrate operations and employees of businesses we acquire or have acquired;
- attract, develop, motivate and retain qualified personnel with relevant experience; and
- adjust spending levels according to prevailing market conditions.

If we cannot manage industry cycles effectively, our business could be seriously harmed.

The cyclical nature of the semiconductor industry may create constrictions in our foundry, test and assembly capacity.

The semiconductor industry is characterized by significant downturns and wide fluctuations in supply and demand. This cyclicality has led to significant fluctuations in product demand and in the foundry, test and assembly capacity of third-party suppliers. Production capacity for fabricated semiconductors is subject to allocation, whereby not all of our production requirements would be met. This may impact our ability to meet demand and could also increase our production costs and inventory levels. Cyclicality has also accelerated decreases in average selling prices per unit. We may experience fluctuations in our future financial results because of changes in industry-wide conditions. Our financial performance has been and may in the future be, negatively impacted by downturns in the semiconductor industry. In a downturn situation, we may incur substantial losses if there is excess production capacity or excess inventory levels in the distribution channel.

We depend on third-party sub-contractors to manufacture, assemble and test nearly all of our products, which reduce our control over the production process.

We do not own or operate a semiconductor fabrication facility. We rely on one third party semiconductor foundry overseas to produce substantially all of our semiconductor products. We also rely on outside assembly and test services to test all of our semiconductor products. Our reliance on independent foundries, assembly and test facilities involves a number of significant risks, including, but not limited to:

- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply, potentially resulting in higher inventory levels; and
- lack of availability of, or delayed access to, next-generation or key process technologies.

We do not have a long-term supply agreement with any of our subcontractors and instead obtain production services on a purchase order basis. Our outside sub-contractors have no obligation to manufacture our products or supply products to us for any specific period of time, in any specific quantity or at any specific price, except as set forth in a particular purchase order. Our requirements represent a small portion of the total production capacity of our outside foundry, assembly and test facilities and our sub-contractors may reallocate capacity on short notice to other customers who may be larger and better financed than we are, or who have long-term agreements with our sub-contractors, even during periods of high demand for our products. This foundry may allocate or move production of our products to different foundries under their control, even in different locations, which may be time consuming, costly and difficult, have an adverse affect on quality, yields and costs and require us and/or our customers to re-qualify the products, which could open up design wins to competition and result in the loss of design wins and design-ins. If our subcontractors are unable or unwilling to continue manufacturing our products in the required volumes, at acceptable quality, yields and costs and in a timely manner, our business will be substantially harmed. As a result, we would have to identify and qualify substitute sub-contractors, which would be time-consuming, costly and difficult; there is no guarantee that we would be able to identify and qualify such substitute sub-contractors on a timely basis or obtain commercially reasonable terms from them. This qualification process may also require significant effort by our customers and may lead to re-qualification of parts, opening up design wins to competition and loss of design wins and design-ins. Any of these circumstances could substantially harm our business. In addition, if competition for foundry, assembly and test capacity increases, our product costs may increase and we may be required to pay significant amounts or make significant purchase commitments to secure access to production services.

The complex nature of our production process, which can reduce yields and prevent identification of problems until well into the production cycle or, in some cases, after the product has been shipped.

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to achieve acceptable product yields. Product yields depend on both our product design and the

manufacturing process technology unique to the semiconductor foundry. Since low yields may result from either design or process difficulties, identifying problems can often only occur well into the production cycle, when an actual product exists that can be analyzed and tested.

Further, we only test our products after they are assembled, as their high-speed nature makes earlier testing difficult and expensive. As a result, defects often are not discovered until after assembly. This could result in a substantial number of defective products being assembled and tested or shipped, thus lowering our yields and increasing our costs. These risks could result in product shortages or increased costs of assembling, testing or even replacing our products.

Although we test our products before shipment, they are complex and may contain defects and errors. In the past we have encountered defects and errors in our products. Because our products are sometimes integrated with products from other vendors, it can be difficult to identify the source of any particular problem. Delivery of products with defects or reliability, quality or compatibility problems, may damage our reputation and our ability to retain existing customers and attract new customers. In addition, product defects and errors could result in additional development costs, diversion of technical resources, delayed product shipments, increased product returns, warranty and product liability claims against us that may not be fully covered by insurance. Any of these circumstances could substantially harm our business.

We face foreign business, political and economic risks because a majority of our products and our customers' products are manufactured and sold outside of the United States.

A substantial portion of our business is conducted outside of the United States. As a result, we are subject to foreign business, political and economic risks. Nearly all of our products are manufactured in Taiwan or elsewhere in Asia. For the years ended December 31, 2010, 2009 and 2008, approximately 78.9%, 79.4% and 83.4% of our total revenue respectively, was generated from customers and distributors located outside of United States, primarily in Asia. We anticipate that sales outside of the United States will continue to account for a substantial portion of our revenue in future periods. In addition, we undertake various sales and marketing activities through regional offices in several other countries and we have significantly expanded our research and development operations outside of the United States. We intend to continue to expand our international business activities. Accordingly, we are subject to international risks, including, but not limited to:

- political, social and economic instability;
- exposure to different business practices and legal standards, particularly with respect to intellectual property;
- natural disasters and public health emergencies;
- nationalization of business and blocking of cash flows;
- trade and travel restrictions;
- the imposition of governmental controls and restrictions;
- burdens of complying with a variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- unexpected changes in regulatory requirements;
- foreign technical standards;
- changes in taxation and tariffs;
- difficulties in staffing and managing international operations;
- fluctuations in currency exchange rates;

- difficulties in collecting receivables from foreign entities or delayed revenue recognition;
- expense and difficulties in protecting our intellectual property in foreign jurisdictions;
- exposure to possible litigation or claims in foreign jurisdictions; and,
- potentially adverse tax consequences.

Any of the factors described above may have a material adverse effect on our ability to increase or maintain our foreign sales. In addition, original equipment manufacturers that design our semiconductors into their products sell them outside of the United States. This exposes us indirectly to foreign risks. Because sales of our products are denominated exclusively in United States dollars, relative increases in the value of the United States dollar will increase the foreign currency price equivalent of our products, which could lead to a change in the competitive nature of these products in the marketplace. This in turn could lead to a reduction in sales and profits.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results.

In 2009, as part of our plan to enhance our operational efficiency and to lower our overall cost structure, we decided to restructure our research and development operations resulting in the closure of our two R&D sites in Germany. As a result, we have transitioned certain of our R&D activities to new locations in Asia. As part of our current business model, we outsource certain of our R&D activities in response to certain peak resource requirements and on-going development activities. If we are unable to properly manage and effectively utilize these resources, they could have adverse effects on our business, financial condition and operating results.

Moreover, if new competitors, technological advances by existing competitors, our entry into new markets, or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. If we are required to invest significantly greater resources than anticipated in research and development efforts without a corresponding increase in revenue, our operating results could decline. Research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development and these investments may be independent of our level of revenue which could negatively impact our financial results. In order to remain competitive, we anticipate that we will continue to devote substantial resources to research and development, and we expect these expenses to increase in absolute dollars in the foreseeable future due to the increased complexity and the greater number of products under development.

The success of our business depends upon our ability to adequately protect our intellectual property.

We rely on a combination of patent, copyright, trademark, mask work and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We have been issued patents and have a number of pending patent applications. However, we cannot assure you that any patents will be issued as a result of any applications or, if issued, that any claims allowed will protect our technology. In addition, we do not file patent applications on a worldwide basis, meaning we do not have patent protection in some jurisdictions. It may be possible for a third-party, including our licensees, to misappropriate our copyrighted material or trademarks. It is possible that existing or future patents may be challenged, invalidated or circumvented and effective patent, copyright, trademark and trade secret protection may be unavailable or limited in foreign countries. It may be possible for a third-party to copy or otherwise obtain and use our products or technology without authorization, develop similar technology independently or design around our patents in the United States and in other jurisdictions. It is also possible that some of our existing or new licensing relationships will enable other parties to use our intellectual property to compete against us. Legal actions to enforce intellectual property rights tend to be lengthy and expensive and the outcome often is not predictable. As a result, despite our efforts and expenses, we may be unable to prevent others from infringing upon or misappropriating

our intellectual property, which could harm our business. In addition, practicality also limits our assertion of intellectual property rights. Patent litigation is expensive and its results are often unpredictable. Assertion of intellectual property rights often results in counterclaims for perceived violations of the defendant's intellectual property rights and/or antitrust claims. Certain parties after receipt of an assertion of infringement will cut off all commercial relationships with the party making the assertion, thus making assertions against suppliers, customers and key business partners risky. If we forgo making such claims, we may run the risk of creating legal and equitable defenses for an infringer.

We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products, services or technology without our authorization. Also, current or former employees may seek employment with our business partners, customers or competitors, and we cannot assure you that the confidential nature of our proprietary information will be maintained in the course of such future employment. Additionally, current, departing or former employees or third parties could attempt to penetrate our computer systems and networks to misappropriate our proprietary information and technology or interrupt our business. Because the techniques used by computer hackers and others to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate, counter or ameliorate these techniques. As a result, our technologies and processes may be misappropriated, particularly in countries where laws may not protect our proprietary rights as fully as in the United States.

Our products may contain technology provided to us by other parties such as contractors, suppliers or customers. We may have little or no ability to determine in advance whether such technology infringes the intellectual property rights of a third party. Our contractors, suppliers and licensors may not be required to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages. In addition, we may have little or no ability to correct errors in the technology provided by such contractors, suppliers and licensors, or to continue to develop new generations of such technology. Accordingly, we may be dependent on their ability and willingness to do so. In the event of a problem with such technology, or in the event that our rights to use such technology become impaired, we may be unable to ship our products containing such technology, and may be unable to replace the technology with a suitable alternative within the time frame needed by our customers.

Our participation in working groups for the development and promotion of industry standards in our target markets, including the DVI and HDMI specifications, requires us to license some of our intellectual property for free or under specified terms and conditions, which may make it easier for others to compete with us in such markets.

A key element of our business strategy includes participating in working groups to establish industry standards in our target markets, promoting and enhancing specifications and developing and marketing products based on such specifications and future enhancements. We are a promoter of the Digital Display Working Group (DDWG), which published and promotes the DVI specification, and a founder in the working groups that develop and promote the HDMI specification and the MHL specification. In connection with our participation in such working groups:

- we must license for free specific elements of our intellectual property to others for use in implementing the DVI specification; and we may license additional intellectual property for free as the DDWG promotes enhancements to the DVI specification;
- we must license specific elements of our intellectual property to others for use in implementing the HDMI specification and we may license additional intellectual property as the HDMI founders group promotes enhancements to the HDMI specification; and

- we must agree not to assert certain necessary patent claims against other members of the MHL consortium who may infringe such claims in implementing the MHL specification and this non-assert obligation may cover more of our patent portfolio as the MHL promoter group promotes enhancements to the MHL specification.

Accordingly, certain companies that implement the DVI, HDMI and MHL specifications in their products can use specific elements of our intellectual property to compete with us, in certain cases, for free. Although in the case of the HDMI and MHL specifications, there are annual fees and royalties associated with the adopters' agreements, there can be no assurance that our shares of such annual fees and royalties will adequately compensate us for having to license or refrain from asserting our intellectual property.

Through our wholly-owned subsidiary, HDMI Licensing, LLC, we act as agent of the HDMI specification and are responsible for promoting and administering the specification. We receive all the license fees paid by adopters of the HDMI specification to cover the costs we incur to promote and administer the HDMI specification. There can be no assurance that, going forward, we will continue to act as agent of the HDMI specification and/or receive all the license fees paid by HDMI adopters. After an initial period during which we received all of the royalties paid by HDMI adopters, in 2007, the HDMI founders reallocated the royalties to reflect each founder's relative contribution of intellectual property to the HDMI specification, and following this reallocation, our portion of HDMI royalties was reduced to approximately 62%. In 2010, HDMI founders again reviewed the allocation of HDMI royalties and agreed on an allocation formula that further reduced the portion of HDMI royalties received by us effective January 2011. Further, we expect that HDMI founders will continue to review the allocation of HDMI royalties from time to time and there can be no assurance regarding the portion of HDMI royalties received by us in the future.

Through our wholly-owned subsidiary, MHL, LLC, we act as agent of the MHL specification and are responsible for promoting and administering the specification. As agent, we are entitled to receive license fees paid by adopters of the MHL specification sufficient to reimburse us the costs we incur to promote and administer the specification. Given the limited number of MHL adopters to date, we do not believe that the license fees paid by such adopters will be sufficient to reimburse us for these costs and there can be no assurance that the license fees paid by MHL adopters will ever be sufficient to reimburse us the cost we incur as agent of the specification.

We intend to promote and continue to be involved and actively participate in other standard setting initiatives. For example, we also recently joined the Serial Port Memory Technology Working Group (SPMTWG) to develop and promote a new memory technology. Accordingly, we may license additional elements of our intellectual property to others for use in implementing, developing, promoting or adopting standards in our target markets, in certain circumstances at little or no cost. This may make it easier for others to compete with us in such markets. In addition, even if we receive license fees and/or royalties in connection with the licensing of our intellectual property, there can be no assurance that such license fees and/or royalties will adequately compensate us for having to license our intellectual property.

Our success depends in part on our relationships with strategic partners and use of technologies.

We have entered into and expect to continue to enter into strategic partnerships with third parties. Negotiating and performing under these strategic partnerships involves significant time and expense; we may not realize anticipated increases in revenue, standards adoption or cost savings; and these strategic partnerships may make it easier for the third parties to compete with us; any of which may have a negative effect our business and results of operations.

Strategic partnerships that we enter into with third parties may not result in the anticipated results. For example, in February 2007, we entered into a licensing agreement with Sunplus Technology Co., Ltd. (Sunplus), which granted us the rights to use and further develop advanced IP technology. Previously, we believed that the

IP licensed under this agreement enhanced our ability to develop DTV technology and other related consumer product offerings. Based on the Company's product strategy as of October 2009, we realized the IP obtained through the Sunplus agreement did not align with our product roadmap and during October 2009, we decided to write off our investment in Sunplus IP. This decision was prompted by a change in our product strategy due to market place and related competitive dynamics.

Our business may be impacted as a result of the adoption of competing standards and technologies by the broader market.

The success of our business has been significantly related to our participation in standard setting organizations. From time to time, competing standards have been established which negatively impact the success of existing standards or jeopardize the creation of a new standard. DisplayPort is an example of a competing standard on a different technology base which has created an alternative high definition connectivity methodology in the PC space. This standard has been adopted by several large PC manufactures. While currently not as widely recognized as the HDMI standard, DisplayPort does represent a viable alternative to the HDMI or MHL standards. If DisplayPort should gain broader adoption, our HDMI or MHL businesses could be negatively impacted and our revenues could be reduced.

Our business is dependent on the continued adoption and widespread implementation of the HDMI™ specification.

Our success is largely dependent upon the continued adoption and widespread implementation of the HDMI specification. More than 75% of our revenue is derived from the sale of HDMI enabled products and the licensing of our HDMI technology. Our leadership in the market for HDMI-enabled products and intellectual property has been based on our ability to introduce first-to-market semiconductor and IP solutions to our customers and to continue to innovate within the standard. Therefore, our inability to be first to market with our HDMI enabled products and intellectual property or to continue to drive innovation in the HDMI specification could have an adverse impact on our business going forward. In addition, the establishment and adoption by the markets we sell into of a competing digital interconnect technology could have an adverse impact on our ability to sell our products and license our intellectual property and therefore our revenues and business.

As the agent for the HDMI specification, we derive revenue from the license fees paid by adopters, and as a founder we derive revenue from the royalties paid by the adopters of the HDMI technology. Any development that has the effect of lowering the number of adopters of the HDMI standard will negatively impact these license fees and royalties. Also, when the HDMI consortium was first formed, we received 100% of the royalties collected from HDMI adopters. During 2007, the founders agreed to share the HDMI adopter's royalty revenues among the various founders, such that we no longer receive all of the royalties, and in 2010, the HDMI founders agreed upon a royalty allocation formula that reduced our share of HDMI royalties effective January 2011. The allocation of license fees and royalty revenue among the HDMI founders is an issue that is reviewed and discussed by the founders from time to time. There can be no assurance that going forward we will continue to act as agent of the HDMI specification or to receive the share of HDMI license fees and royalties that we currently receive. If our share of these license fees and royalties is reduced, this decision will have a negative impact on our revenues. Refer to the previously discussed risk factor above which also discusses the sharing of HDMI royalty revenues amoung various founders.

Our success depends on managing our relationship with Intel.

Intel has a dominant role in many of the markets in which we compete, such as PC and storage and is a growing presence in the CE market. We have a multi-faceted relationship with Intel that is complex and requires significant management attention, including:

- Intel and Silicon Image have been parties to business cooperation agreements;

- Intel and Silicon Image are parties to a patent cross-license;
- Intel and Silicon Image worked together to develop HDCP;
- an Intel subsidiary has the exclusive right to license HDCP, of which we are a licensee;
- Intel and Silicon Image were two of the promoters of the DDWG;
- Intel is a promoter of the SATA working group, of which we are a contributor;
- Intel is a supplier to us and a customer for our products;
- we believe that Intel has the market presence to drive adoption of SATA by making it widely available in its chipsets and motherboards, which could affect demand for our products;
- we believe that Intel has the market presence to affect adoption of HDMI by either endorsing complementary technology or promulgating a competing standard, which could affect demand for our products;
- Intel may potentially integrate the functionality of our products, including SATA, DVI, or HDMI into its own chips and chipsets, thereby displacing demand for some of our products;
- Intel may design new technologies that would require us to re-design our products for compatibility, thus increasing our R&D expense and reducing our revenue;
- Intel's technology, including its 845G and later chipsets, may lower barriers to entry for other parties who may enter the market and compete with us; and
- Intel may enter into or continue relationships with our competitors that can put us at a relative disadvantage.

Our cooperation and competition with Intel can lead to positive benefits, if managed effectively. If our relationship with Intel is not managed effectively, it could seriously harm our business, negatively affect our revenue and increase our operating expenses.

New Releases of Microsoft Windows® and Apple Mac OS® operating systems may render our chips inoperable

ICs targeted to PC, laptop, or netbook designs (whether running Microsoft Windows®, Apple Mac OS® or Linux operating systems) often require device driver software to operate. This software is difficult to produce and requires various certifications such as Microsoft's Windows Hardware Quality Labs (WHQL) before being released. Each new revision of an operating system may require a new software driver and associated testing/certification. Failure to produce this software can have a negative impact on our relation with Microsoft and/or Apple and may damage our reputation as a quality supplier of SATA and HDMI products in the eyes of end consumers.

We have granted Intel rights with respect to our intellectual property, which could allow Intel to develop products that compete with ours or otherwise reduce the value of our intellectual property.

We entered into a patent cross-license agreement with Intel in which each of us granted the other a license to use the patents filed by the grantor prior to a specified date, except for identified types of products. We believe that the scope of our license to Intel excludes our current products and anticipated future products. Intel could, however, exercise its rights under this agreement to use our patents to develop and market other products that compete with ours, without payment to us. Additionally, Intel's rights to our patents could reduce the value of our patents to any third-party who otherwise might be interested in acquiring rights to use our patents in such products. Finally, Intel could endorse competing products, including a competing digital interface, or develop its own proprietary digital interface. Any of these actions could substantially harm our business and results of operations.

We may become engaged in additional intellectual property litigation that could be time-consuming, may be expensive to prosecute or defend and could adversely affect our ability to sell our product.

In recent years, there has been significant litigation in the United States and in other jurisdictions involving patents and other intellectual property rights. This litigation is particularly prevalent in the semiconductor industry, in which a number of companies aggressively use their patent portfolios to bring infringement claims. In addition, in recent years, there has been an increase in the filing of so-called "nuisance suits," alleging infringement of intellectual property rights. These claims may be asserted as counterclaims in response to claims made by a company alleging infringement of intellectual property rights. These suits pressure defendants into entering settlement arrangements to quickly dispose of such suits, regardless of merit. In addition, as is common in the semiconductor industry, from time to time we have been notified that we may be infringing certain patents or other intellectual property rights of others. Responding to such claims, regardless of their merit, can be time consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. As each claim is evaluated, we may consider the desirability of entering into settlement or licensing agreements. No assurance can be given that settlements will occur or that licenses can be obtained on acceptable terms or that litigation will not occur. In the event there is a temporary or permanent injunction entered prohibiting us from marketing or selling certain of our products, or a successful claim of infringement against us requiring us to pay damages or royalties to a third-party and we fail to develop or license a substitute technology, our business, results of operations or financial condition could be materially adversely affected.

Any potential intellectual property litigation against us or in which we become involved may be expensive and time-consuming and may divert our resources and the attention of our executives. It could also force us to do one or more of the following:

• stop selling products or using technology that contains the allegedly infringing intellectual property;

• attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all; and

• attempt to redesign products that contain the allegedly infringing intellectual property.

If we take any of these actions, we may be unable to manufacture and sell our products. We may be exposed to liability for monetary damages, the extent of which would be very difficult to accurately predict. In addition, we may be exposed to customer claims, for potential indemnity obligations and to customer dissatisfaction and a discontinuance of purchases of our products while the litigation is pending. Any of these consequences could substantially harm our business and results of operations.

We have entered into and may again be required to enter into, patent or other intellectual property cross-licenses.

Many companies have significant patent portfolios or key specific patents, or other intellectual property in areas in which we compete. Many of these companies appear to have policies of imposing cross-licenses on other participants in their markets, which may include areas in which we compete. As a result, we have been required, either under pressure of litigation or by significant vendors or customers, to enter into cross licenses or non-assertion agreements relating to patents or other intellectual property. This permits the cross-licensee, or beneficiary of a non-assertion agreement, to use certain or all of our patents and/or certain other intellectual property for free to compete with us. Our results of operations could be adversely affected by the use of cross-licensee or beneficiary of a non-assertion agreement of all our patents and/or certain other intellectual property.

We indemnify certain of our licensing customers against infringement.

We indemnify certain of our licensing agreements customers for any expenses or liabilities resulting from third-party claims of infringements of patent, trademark, trade secret, or copyright rights by the technology we license. Certain of these indemnification provisions are perpetual from execution of the agreement and, in some

instances; the maximum amount of potential future indemnification is not limited. To date, we have not paid any such claims or been required to defend any lawsuits with respect to any claim. In the event that we were required to defend any lawsuits with respect to our indemnification obligations, or to pay any claim, our results of operations could be materially adversely affected.

We must attract and retain qualified personnel to be successful and competition for qualified personnel is increasing in our market.

Our success depends to a significant extent upon the continued contributions of our key management, technical and sales personnel, many of who would be difficult to replace. The loss of one or more of these employees could harm our business. Although we have entered into a limited number of employment contracts with certain executive officers, we generally do not have employment contracts with our key employees. Our success also depends on our ability to identify, attract and retain qualified technical, sales, marketing, finance and managerial personnel. Competition for qualified personnel is particularly intense in our industry and in our location. This makes it difficult to retain our key personnel and to recruit highly qualified personnel. We have experienced and may continue to experience, difficulty in hiring and retaining candidates with appropriate qualifications. To be successful, we need to hire candidates with appropriate qualifications and retain our key executives and employees. Replacing departing executive officers and key employees can involve organizational disruption and uncertain timing.

The volatility of our stock price has had an impact on our ability to offer competitive equity-based incentives to current and prospective employees, thereby affecting our ability to attract and retain highly qualified technical personnel. If these adverse conditions continue, we may not be able to hire or retain highly qualified employees in the future and this could harm our business. In addition, regulations adopted by The NASDAQ Stock Market requiring shareholder approval for all stock option plans, as well as regulations adopted by the New York Stock Exchange prohibiting NYSE member organizations from giving a proxy to vote on equity compensation plans unless the beneficial owner of the shares has given voting instructions, could make it more difficult for us to grant options to employees in the future. In addition, FASB ASC No. 718-10, *Stock Compensation,* requires us to record compensation expense for options granted to employees. To the extent that new regulations make it more difficult or expensive to grant options to employees, we may incur increased cash compensation costs or find it difficult to attract, retain and motivate employees, either of which could harm our business.

If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require restatement or our filings may not be timely and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price. While we have not identified any material weaknesses in the past three years, we cannot assure you that a material weakness will not be identified in the future.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal control over financial reporting as of the end of each year and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. Section 404 also requires our independent registered public accounting firm to report on, our internal control over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the

degree of compliance with policies or procedures may occur. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As a result, we cannot assure you that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

We have experienced transitions in our management team, our board of directors in the past and may continue to do so in the future, which could result in disruptions in our operations and require additional costs.

We have experienced a number of transitions with respect to our board of directors and executive officers in recent quarters, including the following:

- In December 2008, Dale Zimmerman resigned from his position as vice president of worldwide marketing.
- In March 2009, Paul Dal Santo resigned from his position as chief operating officer.
- In September 2009, Steve Tirado resigned from his positions as chief executive officer and director and Hal Covert was appointed as president and chief operating officer.
- In January 2010, Camillo Martino was appointed as chief executive officer and director.
- In January 2010, Harold Covert, who was appointed president and chief operating officer on September 25, 2009 while we undertook a search for a new chief executive officer, agreed to continue in his capacity as our president (but to no longer serve as chief financial officer or chief operating officer) during a transitional period from January 6, 2010 through September 30, 2010. On January 5, 2010, our Board of Directors also elected Mr. Covert to the Board, effective January 15, 2010 and through September 30, 2010.
- In March 2010, J. Duane Northcutt resigned from his position as chief technology officer.
- In March 2010, Tim Vehling, former vice president of worldwide marketing, was appointed as vice president of the products business group and Eric Almgren, former vice president of business development and IP licensing, was appointed as vice president of the IP business group.
- In April 2010, Noland Granberry was appointed as our chief financial officer.
- In April 2010, Sal Cobar resigned from his position as vice president of worldwide sales.
- In September 2010, Harold Covert resigned from his positions as president and director.
- Any future transitions may result in disruptions in our operations and require additional costs.

We have been and may continue to become the target of securities class action suits and derivative suits which could result in substantial costs and divert management attention and resources.

Securities class action suits and derivative suits are often brought against companies, particularly technology companies, following periods of volatility in the market price of their securities. Defending against these suits, even if meritless, can result in substantial costs to us and could divert the attention of our management.

Our operations and the operations of our significant customers, third-party wafer foundries and third-party assembly and test subcontractors are located in are as susceptible to natural disasters.

Our operations are headquartered in the San Francisco Bay Area, which is susceptible to earthquakes. TSMC, the outside foundry that produces the majority of our semiconductor products, is located in Taiwan. Siliconware Precision Industries Co. Ltd., or SPIL, Advanced Semiconductor Engineering, or ASE, and Amkor Taiwan are subcontractors located in Taiwan that assemble and test our semiconductor products. For the years ended December 31, 2010, 2009 and 2008 customers and distributors located in Japan generated 29.9%, 27.1% and 24.0%,of our revenue, respectively, and customers and distributors located in Taiwan generated 22.5%, 25.2% and 19.8% of our revenue, respectively. Both Taiwan and Japan are susceptible to earthquakes, typhoons and other natural disasters.

Our business, including a potential reduction of revenues, would be negatively affected if any of the following occurred:

- an earthquake or other disaster in the San Francisco Bay Area or the Los Angeles area damaged our facilities or disrupted the supply of water or electricity to our headquarters;
- an earthquake, typhoon or other disaster in Taiwan or Japan resulted in shortages of water, electricity or transportation, limiting the production capacity of our outside foundries or the ability of ASE to provide assembly and test services;
- an earthquake, typhoon or other disaster in Taiwan or Japan damaged the facilities or equipment of our customers and distributors, resulting in reduced purchases of our products; or
- an earthquake, typhoon or other disaster in Taiwan or Japan disrupted the operations of suppliers to our Taiwanese or Japanese customers, outside foundries or ASE, which in turn disrupted the operations of these customers, foundries or ASE and resulted in reduced purchases of our products or shortages in our product supply.

Terrorist attacks or war could lead to economic instability and adversely affect our operations, results of operations and stock price.

The United States has taken and continues to take, military action against terrorism and currently has troops in Iraq and in Afghanistan. In addition, the current tensions regarding nuclear arms in North Korea and Iran could escalate into armed hostilities or war. Acts of terrorism or armed hostilities may disrupt or result in instability in the general economy and financial markets and in consumer demand for the OEM's products that incorporate our products. Disruptions and instability in the general economy could reduce demand for our products or disrupt the operations of our customers, suppliers, distributors and contractors, many of whom are located in Asia, which would in turn adversely affect our operations and results of operations. Disruptions and instability in financial markets could adversely affect our stock price. Armed hostilities or war in South Korea could disrupt the operations of the research and development contractors we utilize there, which would adversely affect our research and development capabilities and ability to timely develop and introduce new products and product improvements.

Changes in environmental rules and regulations could increase our costs and reduce our revenue.

Several jurisdictions have implemented rules that would require that certain products, including semiconductors, be made "green," which means that the products need to be lead free and be free of certain banned substances. All of our products are available to customers in a green format. While we believe that we are generally in compliance with existing regulations, such environmental regulations are subject to change and the jurisdictions may impose additional regulations which could require us to incur costs to develop replacement products. These changes will require us to incur cost or may take time or may not always be economically or technically feasible, or may require disposal of non-compliant inventory. In addition, any requirement to dispose or abate previously sold products would require us to incur the costs of setting up and implementing such a program.

Provisions of our charter documents and Delaware law could prevent or delay a change in control and may reduce the market price of our common stock.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include:

- authorizing the issuance of preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- requiring advance notice of stockholder nominations for the board of directors;
- providing the board of directors the opportunity to expand the number of directors without notice to stockholders;
- prohibiting cumulative voting in the election of directors;
- requiring super-majority voting to amend some provisions of our certificate of incorporation and bylaws;
- limiting the persons who may call special meetings of stockholders; and
- prohibiting stockholder actions by written consent.

Provisions of Delaware law also may discourage, delay or prevent someone from acquiring or merging with us.

The price of our stock fluctuates substantially and may continue to do so.

The stock market has experienced extreme price and volume fluctuations that have affected the market valuation of many technology companies, including Silicon Image. These factors, as well as general economic and political conditions, may materially and adversely affect the market price of our common stock in the future. The market price of our common stock has fluctuated significantly and may continue to fluctuate in response to a number of factors, including, but not limited to:

- actual or anticipated changes in our operating results;
- changes in expectations of our future financial performance;
- changes in market valuations of comparable companies in our markets;
- changes in market valuations or expectations of future financial performance of our vendors or customers;
- changes in our key executives and technical personnel; and
- announcements by us or our competitors of significant technical innovations, design wins, contracts, standards or acquisitions.

Due to these factors, the price of our stock may decline. In addition, the stock market experiences volatility that is often unrelated to the performance of particular companies. These market fluctuations may cause our stock price to decline regardless of our performance.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

Our current headquarters, consisting of approximately 126,686 square feet of space in Sunnyvale, California, is leased through July 31, 2011, of which we ceased to use a total of 33,766 square feet in 2009 and

2010. We have approximately 6,899 square feet of space in Irvine, California that is being leased through November 30, 2012, which we ceased to use in 2009 and 25,227 square feet of space in two locations in China, which are being leased through July 23, 2011 and June 30, 2012. These facilities house our corporate offices, the majority of our engineering team, as well as a portion of our sales, marketing, operations and corporate services organizations.

We also lease facilities in Japan, Korea, and Taiwan. We believe that our existing properties are in good condition and suitable for the conduct of our business.

On January 6, 2011, we entered into a seven-year lease agreement (the "Lease") with Christensen Holdings, L.P., a California limited partnership. Pursuant to the Lease, we are leasing an office building in Sunnyvale, California consisting of approximately 128,154 square feet, together with the non-exclusive right to use parking facilities and other amenities. This new office building will house our new corporate headquarters, which we expect to begin occupying in June 2011, just prior to the expiration of the lease agreement for our current headquarters in July 2011.

Item 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Item 4. RESERVED

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares have been traded on the NASDAQ Stock Market since our initial public offering on October 6, 1999. Our common shares trade under the symbol "SIMG". Our shares are not listed on any other markets or exchanges. The following table shows the high and low closing prices for our common shares as reported by the NASDAQ Stock Market:

	High	Low
2010		
Fourth Quarter	$8.11	$4.51
Third Quarter	4.93	3.12
Second Quarter	3.97	3.00
First Quarter	$3.15	$2.29
2009		
Fourth Quarter	$2.70	$2.11
Third Quarter	3.39	2.23
Second Quarter	3.19	2.17
First Quarter	$4.44	$2.04

As of January 31, 2011, we had approximately 84 holders of record of our common stock and the closing price of our common stock was $6.86. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

We have never declared or paid cash dividends on shares of our capital stock. We intend to retain any future earnings to finance growth and do not anticipate paying cash dividends.

In February 2007, our Board of Directors authorized a stock repurchase program under which we were authorized to purchase up to $100.0 million of common stock, on the open market, or in negotiated or block transactions, over a 36 month period. As of December 31, 2007, we had repurchased a total of 5.0 million shares at a total cost of $38.1 million. In February 2008, our Board of Directors authorized an additional $100.0 million stock repurchase program, under which shares may be repurchased over a period of three years, to commence following completion of our accelerated stock repurchase plan ("ASR") (see below). Purchases under this program may be increased, decreased or discontinued at any time without prior notice.

In February 2008, we entered into an ASR with Credit Suisse International (Credit Suisse), to purchase shares of common stock for an aggregate purchase price of approximately $62.0 million paid in February 2008. We received 11.5 million shares under the agreement, based on a predetermined price, which was subject to an adjustment based on the volume weighted average price during the term of the ASR. In accordance with the ASR agreement, on June 25, 2008, we chose to settle the arrangement in cash (rather than shares) and made a final payment of approximately $6.2 million for the purchase of shares. The ASR terminated on June 30, 2008 with final settlement taking place in July 2008 ("settlement date"). On the settlement date, Credit Suisse returned approximately $1.0 million based on the volume weighted average share price during the period. In accordance with the relevant accounting guidance, we reflected the 11.5 million shares repurchased and the $68.2 million paid to Credit Suisse as treasury stock and recorded the $1.0 million received as part of other income in the consolidated statement of income in the second and third quarters of 2008.

With the repurchase, we completed our original stock repurchase program announced on February 2007 and repurchased approximately $5.0 million of our stock under the new $100.0 million stock repurchase program approved by the Board of Directors in February 2008.

For securities authorized for issuance under equity compensation plans please See Note 5 of our Notes to Consolidated Financial Statements included in Item 15(a) of this report.

Item 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in connection with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K. Historical results of operations are not necessarily indicative of future results.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except employees and per share data)				
Statements of Operations Data:					
Revenue	$191,347	$ 150,589	$274,415	$320,503	$294,958
Cost of revenue (1)	77,749	69,786	113,726	140,443	121,247
Gross margin	113,598	80,803	160,689	180,060	173,711
% of revenue	59.4%	53.7%	58.6%	56.2%	58.9%
Research and development (2)	$ 55,313	$ 68,229	$ 84,819	$ 77,994	$ 63,598
% of revenue	28.9%	45.3%	30.9%	24.3%	21.6%
Selling, general and administrative (3)	$ 46,710	$ 55,000	$ 71,719	$ 70,340	$ 67,597
% of revenue	24.4%	36.5%	26.1%	21.9%	22.9%
Restructuring expense (4)	$ 3,259	$ 22,907	$ 5,858	$ —	$ —
% of revenue	1.7%	15.2%	2.1%	—	—
Impairment of intangible assets	$ —	$ 28,296	$ —	$ —	$ —
% of revenue	—	18.8%	—	—	—
Impairment of goodwill	$ —	$ 19,210	$ —	$ —	$ —
% of revenue	—	12.8%	—	—	—
Income (loss) from operations	$ 8,167	$(117,317)	$ (8,055)	$ 28,155	$ 47,252
Net income (loss)	$ 8,182	$(129,109)	$ 10,063	$ 19,001	$ 42,465
Net income (loss) per share:					
Basic	$ 0.11	$ (1.72)	$ 0.13	$ 0.22	$ 0.51
Diluted	$ 0.10	$ (1.72)	$ 0.13	$ 0.22	$ 0.49
Weighted average shares—basic	76,957	74,912	75,570	85,557	82,787
Weighted average shares—diluted	78,277	74,912	76,626	87,388	86,791
Consolidated Balance Sheet and Other Data as of Year End:					
Cash and cash equivalents	$ 29,942	$ 29,756	$ 95,414	$137,822	$ 81,921
Short-term investments	$160,538	$ 120,866	$ 89,591	$111,889	$168,724
Working capital	$184,746	$ 163,482	$186,112	$223,688	$262,080
Total assets	$250,619	$ 225,438	$326,541	$412,948	$380,231
Other long-term liabilities	$ 13,356	$ 9,573	$ 8,064	$ 13,910	$ 538
Total stockholders' equity	$191,196	$ 171,519	$278,947	$313,847	$305,222
Regular full-time employees	432	526	610	635	442
(1) Includes stock-based compensation expense	$ 558	$ 986	$ 1,445	$ 1,597	$ 2,427
(2) Includes stock-based compensation expense	$ 2,631	$ 6,252	$ 7,134	$ 8,411	$ 11,108
(3) Includes stock-based compensation expense	$ 4,152	$ 10,863	$ 10,893	$ 9,442	$ 13,696
(4) Includes stock-based compensation expense	$ —	$ —	$ 14	$ —	$ —

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Silicon Image is a leading provider of advanced, interoperable connectivity solutions that enable the reliable distribution and presentation of HD content for CE, mobile, and PC markets. We deliver our technology via semiconductor and IP products that are compliant with global industry standards and also feature industry leading Silicon Image innovations such as InstaPort™. Silicon Image's products are deployed by the world's leading electronics manufacturers in devices such as desktop and notebook PCs, DTVs, Blu-Ray Disc™ players, audio-video receivers, as well as mobile phones, tablets and digital cameras. We have driven the creation of the highly successful HDMI® and DVI™ industry standards, as well as the latest standards for mobile devices—SPMT™ and MHL™. Via our wholly-owned subsidiary, Simplay Labs, LLC. Silicon Image offers manufacturers comprehensive standards interoperability and compliance testing services. Founded in 1995, we are headquartered in Sunnyvale, California, with regional engineering and sales offices in China, Japan, Korea, and Taiwan.

Our mission is to be the leader in advanced interoperable connectivity solutions for consumers. Our "standards plus" business strategy is to grow the available market for our products and IP solutions through the development, introduction and promotion of market leading products which are based on industry standards but also include Silicon Image innovations that our customers value. We believe that our innovation around our core competencies, establishing industry standards and building strategic relationships, positions us to continue to drive change in the emerging world of high quality digital media storage, distribution and presentation.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and all known facts and circumstances that we believe are relevant. Actual results may differ materially from our estimates. We believe the accounting policies discussed below to be most critical to an understanding of our financial condition and results of operations because they require us to make estimates, assumptions and judgments about matters that are inherently uncertain.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

Revenue from products sold directly to end-users, or to distributors that are not entitled to price concessions and rights of return, is generally recognized when title and risk of loss has passed to the buyer which typically occurs upon shipment. All shipping costs are charged to cost of product revenue.

Revenue from products sold to distributors with agreements allowing for stock rotations is generally recognized upon shipment. Reserves for stock rotations are estimated based primarily on historical experience and provided for at the time of shipment.

For products sold to distributors with agreements allowing for price concessions and stock rotation rights/product returns, we recognize revenue based on when the distributor reports that it has sold the product to its customer. Our recognition of such distributor sell-through is based on point of sales reports received from the distributor which establishes a customer, quantity and final price. Revenue is not recognized upon our shipment of the product to the distributor, since, due to certain forms of price concessions, the sales price is not substantially fixed or determinable at the time of shipment. Price concessions are recorded when incurred, which is generally at the time the distributor sells the product to its customer. Additionally, these distributors have stock

rotation rights permitting them to return products to us, up to a specified amount for a given period of time. When the distributor reports that it has sold product to its customer, our sales price to the distributor is fixed. Once we receive the point of sales reports from the distributor, it has satisfied all the requirements for revenue recognition with respect to the product reported as sold and any product returns/stock rotation and price concession rights that the distributor has under its distributor agreement with us lapsed at that time. Pursuant to our distributor agreements, older, end-of-life and certain other products are generally sold with no right of return and are not eligible for price concessions. For these products, revenue is recognized upon shipment and title transfer assuming all other revenue recognition criteria are met.

At the time of shipment to distributors, we record a trade receivable for the selling price since there is a legally enforceable right to payment, we relieve inventory for the carrying value of goods shipped since legal title has passed to the distributor and until revenue is recognized, we record the gross margin in "deferred margin on sale to distributors," a component of current liabilities in our consolidated balance sheet. Deferred margin on the sale to distributor effectively represents the gross margin on the sale to the distributor. However, the amount of gross margin we recognize in future periods will be less than the originally recorded deferred margin on sales to distributor as a result of negotiated price concessions. We sell each item in our product price book to all of our distributors worldwide at a relatively uniform list price. However, distributors resell our products to end customers at a very broad range of individually negotiated price points based on customer, product, quantity, geography, competitive pricing and other factors. The majority of our distributors' resales are priced at a discount from the list price. Often, under these circumstances, we remit back to the distributor a portion of their original purchase price after the resale transaction is completed. Thus, a portion of the "deferred margin on the sale to distributor" balance represents a portion of distributors' original purchase price that will be remitted back to the distributor in the future. The wide range and variability of negotiated price concessions granted to the distributors does not allow us to accurately estimate the portion of the balance in the deferred margin on the sale to distributors that will be remitted back to the distributors. In addition to the above, we also reduce the deferred margin by anticipated or determinable future price protections based on revised price lists, if any.

We derive revenue from the license of our internally developed intellectual property (IP). We enter into IP licensing agreements that generally provide licensees the right to incorporate our IP components in their products with terms and conditions that vary by licensee. Revenue earned under contracts with our licensees is classified as licensing revenue. Our license fee arrangements generally include multiple deliverables and for multiple deliverable arrangements, we follow the guidance in Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") No. 605-25-25, *Multiple-Element Arrangements Revenue Recognition*, to determine whether there is more than one unit of accounting. To the extent that the deliverables are separable into multiple units of accounting, we allocate the total fee on such arrangements to the individual units of accounting using the residual method, if objective and reliable evidence of fair value does not exist for delivered elements. We then recognize revenue for each unit of accounting depending on the nature of the deliverable(s) comprising the unit of accounting in accordance with the revenue recognition criteria mentioned above.

The IP licensing agreements generally include a nonexclusive license for the underlying IP. Fees under these agreements generally include (a) license fees relating to our IP, (b) support, typically for one year; and (c) royalties payable following the sale by our licensees of products incorporating the licensed technology. The license for our IP has standalone value and can be used by the licensee without support. Further, objective and reliable evidence of fair value exists for support. Accordingly, license and support fees are each treated as separate units of accounting.

Certain licensing agreements provide for royalty payments based on agreed upon royalty rates. Such rates can be fixed or variable depending on the terms of the agreement. The amount of revenue we recognize is determined based on a time period or on the agreed-upon royalty rate, extended by the number of units shipped by the customer. To determine the number of units shipped, we rely upon actual royalty reports from our customers when available and rely upon estimates in lieu of actual royalty reports when we have a sufficient

history of receiving royalties from a specific customer for us to make an estimate based on available information from the licensee such as quantities held, manufactured and other information. These estimates for royalties necessarily involve the application of management judgment. As a result of our use of estimates, period-to-period numbers are "trued-up" in the following period to reflect actual units shipped. Such true-ups have not been significant. In cases where royalty reports and other information are not available to allow us to estimate royalty revenue, we recognize revenue only when royalty reports are received.

For contracts related to licenses of our technology that involve significant modification, customization or engineering services, we recognize revenue in accordance with the provisions of FASB ASC No. 605-35-25, *Construction-Type and Production-Type Contracts Revenue Recognition.* Revenues derived from such license contracts are accounted for using the percentage-of-completion method.

We determine progress to completion based on input measures using labor-hours incurred by our engineers. The amount of revenue recognized is based on the total contract fees and the percentage of completion achieved. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. If there is significant uncertainty about customer acceptance, or the time to complete the development or the deliverables by either party, we apply the completed contract method. If application of the percentage-of-completion method results in recognizable revenue prior to an invoicing event under a customer contract, we recognize the revenue and record an unbilled receivable assuming collectability is reasonably assured. Amounts invoiced to our customers in excess of recognizable revenues are recorded as deferred revenue.

Stock-based Compensation

We account for stock-based compensation in accordance with the provisions of FASB ASC No. 718-10-30, *Stock Compensation Initial Measurement,* which requires the measurement and recognition of compensation expense for all stock-based awards made to employees, directors including employee stock options, restricted stock units ("RSUs"), performance share awards and employee stock purchases under our Employee Stock Purchase Plan ("ESPP") based on estimated fair values. Following the provisions of FASB ASC No. 718-50-25, *Employee Share Purchase Plans Recognition,* our ESPP is considered a compensatory plan, therefore, we are required to recognize compensation cost for grants made under the ESPP. We estimate the fair value of stock options granted using the Black-Scholes-Merton ("BSM") option-pricing model and a single option award approach. The BSM model requires various highly subjective assumptions including volatility, expected option life, and risk-free interest rate. Management estimates volatility for a given option grant by evaluating the historical volatility of the period immediately preceding the option grant date that is at least equal in length to the option's expected term. Consideration is also given to unusual events (either historical or projected) or other factors that might suggest that historical volatility will not be a good indicator of future volatility. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that had not been exercised at the time. In accordance with FASB ASC No. 718-10-35*, Subsequent Measurement of Stock Compensation,* we generally recognize stock-based compensation expense, net of estimated forfeitures, on a ratable basis for all share-based payment awards over the requisite service periods of the awards, which is generally the vesting period or the remaining service (vesting) period.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected-to-vest. If our actual forfeiture rate is materially different from our estimate, our recorded stock-based compensation expense could be different.

Financial Instruments

Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Our investments in debt and marketable equity securities have been classified and accounted for as available-for-sale. We determine the appropriate classification of such securities at the time of purchase and we reevaluate such classification as of each balance sheet date. We classify our marketable debt securities as short-term investments because of our intention to sell the securities within a relatively short period of time. Unrealized gains and losses on these investments are reported as a separate component of accumulated other comprehensive income (loss). The investments are adjusted for amortization of premiums and discounts to maturity and such amortization is included in interest income. We periodically assess whether our investments with unrealized loss positions are other than temporarily impaired. Other-than-temporary impairment charges exists when we have the intent to sell the security and we will more likely than not be required to sell the security before anticipated recovery or we do not expect to recover the entire amortized cost basis of the security. We determine other than temporary impairments based on the specific identification method and are reported in the consolidated statements of operations.

Derivative Financial Instruments

We account for our derivative instruments as either assets or liabilities and we carry them at fair value. Derivatives that are not defined as hedges must be adjusted to fair value through earnings. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in stockholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the derivative gain (loss) is reported in each reporting period in other income (expense) on our consolidated statement of operations. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

Fair Value Measurements

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The fair value measurement standard establishes a consistent framework for measuring fair value whereby inputs used in valuation techniques are assigned a hierarchical level. The assignment to a level is based on whether the market participant assumptions used in determining fair value are obtained from independent sources (observable inputs) or reflect our own assumptions of market participant valuation (unobservable inputs). Categorization within the fair value hierarchy is determined by the lowest level of input that is significant to the fair value measurement. The following are the hierarchical levels of inputs to measure fair value:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are inactive; quoted prices for similar assets and liabilities in active markets; or significant inputs that are observable, either directly or indirectly; or

Level 3 Prices or valuations that require inputs that are both unobservable and significant to the fair value measurement.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and view an inactive market as one in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Allowance for Doubtful Accounts

We review collectability of accounts receivable on an on-going basis and provide an allowance for amounts we estimate may not be collectible. During our review, we consider our historical experience, the age of the receivable balance, the credit-worthiness of the customer and the reason for the delinquency. Delinquent account balances are written-off after we have determined that the likelihood of collection is remote.

Inventories

We record inventories at the lower of actual cost, determined on a first-in first-out (FIFO) basis, or market. Actual cost approximates standard cost, adjusted for variances between standard and actual. Standard costs are determined based on our estimate of material costs, manufacturing yields, costs to assemble, test and package our products and allocable indirect costs. We record differences between standard costs and actual costs as variances. These variances are analyzed and are either included on the consolidated balance sheet or the consolidated statement of operations in order to state the inventories at actual costs on a FIFO basis. Standard costs are re-evaluated quarterly.

Provisions are recorded for excess and obsolete inventory and are estimated based on a comparison of the quantity and cost of inventory on hand to our forecast of customer demand. Customer demand is dependent on many factors and requires us to use significant judgment in our forecasting process. We also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Generally, inventories in excess of six months forecasted demand are written down to zero (unless specific facts and circumstances warrant no write-down or a write-down to a different value) and the related provision is recorded as a cost of revenue. Once a provision is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods we forecast demand for the product.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

We review property and equipment, goodwill and other certain identifiable intangibles for impairment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and certain identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair market value. We do not amortize goodwill, rather such asset is required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired.

In 2009, we determined that our goodwill was impaired and recognized a total impairment charge of $19.2 million in our 2009 consolidated statement of operations under operating expenses, "Impairment of Goodwill," which reduced goodwill to zero as of December 31, 2009. Also, in 2009, we made an impairment evaluation of

our long-lived assets and determined that our investment in certain technology of Sunplus Technology Co., Ltd. (the "Sunplus IP") was impaired and recognized an impairment charge of $28.3 million in our 2009 consolidated statement of operations under operating expenses, "Impairment of Intangible Assets," which reduced the investment in Sunplus IP to zero as of December 31, 2009. There were no goodwill and other intangible asset impairment charges recorded in fiscal years 2010 and 2008.

We amortize our intangible assets with definite lives over their estimated useful lives and we review these assets for impairment. All of our acquired intangible assets were fully amortized as of December 31, 2010.

Income Taxes

We account for income taxes in accordance with the FASB ASC No. 740 ("ASC 740"), *Accounting for Income Taxes.* We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to our tax provision in the subsequent period when such a change in estimate occurs.

We use an asset and liability approach for accounting of deferred income taxes, which requires recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements, but have not been reflected in our taxable income. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carry-forwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred income tax assets will be realized based on the realization criteria set forth in ASC No. 740. To the extent that we believe any amounts are not more likely than not to be realized, we record a valuation allowance to reduce our deferred income tax assets. In the event we determine that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if we subsequently realize deferred income tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize and measure potential liabilities based upon criteria set forth in ASC 740. Based upon these criteria, we estimate whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities may result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities is less than the amount ultimately assessed, a further charge to expense would result.

Significant judgment is required in determining any valuation allowance recorded against deferred income tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred income tax assets that could be realized, we will adjust our valuation allowance with a corresponding effect to the provision for income taxes in the period in which such determination is made.

Significant judgment is also required in evaluating our uncertain tax positions under ASC 740 and determining our provision for income taxes. Although we believe our reserves for uncertain tax positions are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the

extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserves for uncertain tax positions and any changes to the reserves that are considered appropriate, as well as the related net interest and penalties, if applicable.

Restructuring Expenses

We record provisions for workforce reduction costs and exit costs when they are probable and estimable. Severance paid under ongoing benefit arrangements is recorded in accordance with FASB ASC No. 712-10-25, *Nonretirement Postemployment Benefits Recognition.* One-time termination benefits and contract settlement and lease costs are recorded in accordance with FASB ASC No. 420-10-25, *Exit or Disposal Cost Obligations Recognition*. At each reporting date, we evaluate our accruals related to workforce reduction charges, contract settlement and lease costs to ensure that these accruals are still appropriate. Restructuring expense accruals related to future lease commitments on exited facilities include estimates, primarily related to sublease income over the lease terms and other costs for vacated properties. Increases or decreases to the accruals for changes in estimates are classified as restructuring expenses in the consolidated statement of operations.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset, or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

From time to time, we are involved in disputes, litigation, and other legal actions. We are aggressively defending our current litigation matters. However, there are many uncertainties associated with any litigation, and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any future intellectual property litigation may require us to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, which could result in the need to adjust our liability and record additional expenses.

Guarantees, Indemnifications and Warranty Liabilities

Certain of our licensing agreements indemnify our customers for expenses or liabilities resulting from claimed infringements of patent, trademark or copyright by third parties related to the intellectual property content of our products. Certain of these indemnification provisions are perpetual from execution of the agreement and, in some instances; the maximum amount of potential future indemnification is not limited. To date, we have not paid any such claims or been required to defend any lawsuits with respect to a claim.

At the time of revenue recognition, we provide an accrual for estimated costs (included in accrued liabilities in the accompanying consolidated balance sheets) to be incurred pursuant to our warranty obligation. Our estimate is based primarily on historical experience.

Commitments, Contingencies and Concentrations

Historically, a relatively small number of customers and distributors have generated a significant portion of our revenue. For instance, our top five customers, including distributors, generated 58.3%, 44.2% and 55.1% of our revenue in 2010, 2009 and 2008, respectively. The percentage of revenue generated through distributors tends to be significant, since many OEMs rely upon third-party manufacturers or distributors to provide purchasing and inventory management functions. In 2010, 61.1% of our revenue was generated through distributors, compared to 59.2% and 60.2% in 2009 and 2008, respectively. Samsung Electronics accounted for 17.0% of our revenue in 2010. Microtek Corporation comprised 11.0%, 11.9% and 11.8% of our revenue in 2010, 2009 and 2008, respectively. Weikeng Industrial generated 9.9%, 10.3% and 11.5% of our revenue in 2010, 2009 and 2008, respectively. Innotech Corporation comprised 11.3% and 10.5% of our revenue in 2010 and 2008, respectively. Revenue from World Peace Inc. comprised 14.6% of our revenue in 2008.

We have been named as defendants in a number of judicial and administrative proceedings incidental to its business and may be named again from time to time, and although adverse decisions or settlements may occur in one or more of such cases, the final resolution of these matters, individually or in the aggregate, is not expected to have a material adverse effect on our results of operations, financial position or cash flows.

A significant portion of our revenue is generated from products sold overseas. Sales (including licensing) to customers in Asia, including distributors, generated 73.6%, 67.3% and 71.2% of our revenue in 2010, 2009 and 2008, respectively. The reason for our geographical concentration in Asia is that most of our products are incorporated into flat panel displays, graphic cards and motherboards, the majority of which are manufactured in Asia. The percentage of our revenue derived from any country is dependent upon where our end customers choose to manufacture their products. Accordingly, variability in our geographic revenue is not necessarily indicative of any geographic trends, but rather is the combined effect of new design wins and changes in customer manufacturing locations. Primarily all revenue to date has been denominated in U.S. dollars.

Recent Accounting Pronouncements

In December 2010, FASB issued Accounting Standards Update (ASU) No. 2010-29*, Business Combinations* (ASC Topic 805). The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also improve the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination(s). The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is permitted. As we did not enter into any business combinations in fiscal year 2010, we believe that the adoption this update will not have any material impact on our financial statement disclosures. However, if we enter into material business combinations in the future, the adoption of this update may have significant impact on our financial statement disclosures.

In December 2010, FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other* (ASC Topic 350). Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step test. When a goodwill impairment test is performed (either on an annual or interim basis), an entity must assess whether the carrying amount of a reporting unit exceeds its fair value (Step 1). If it does, an entity must perform an additional test to determine whether goodwill has been impaired and to calculate the amount of that impairment (Step 2). The amendments in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors require that

goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. As we do not have any significant intangible assets, we believe that the impact of adopting this update will not be material on our consolidated results of operations and financial position.

In April 2010, FASB issued ASU No. 2010-17, *Revenue Recognition-Milestone Method* (ASC Topic 605). The amendments in this update provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. Determining whether a milestone is substantive requires judgment that should be made at the inception of the arrangement. To meet the definition of a substantive milestone, the consideration earned by achieving the milestone (1) would have to be commensurate with either the level of effort required to achieve the milestone or the enhancement in the value of the item delivered, (2) would have to relate solely to past performance, and (3) should be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. The amendments in this update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We do not believe the impact of the adoption of this guidance will have a material effect on our consolidated results of operations and financial position.

In January 2010, FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (ASC Topic 820)—Improving Disclosures About Fair Value Measurements*. The ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on our consolidated results of operations and financial position.

In October 2009, the Financial Accounting Standards Board (FASB) issued ASU No. 2009-14, *Software (Accounting Standards Codification (ASC) Topic 985)—Certain Revenue Arrangements That Include Software Elements*, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 965-605, *Software-Revenue Recognition* to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. This update requires expanded qualitative and quantitative disclosures and is effective for our first quarter of fiscal year 2011. We are currently evaluating the impact of adopting this update on our consolidated results of operations and financial position.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (ASC Topic 605)—Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of ASC subtopic 605-25, *Revenue Recognition-Multiple Element Arrangements* by allowing the use of the "best estimate of selling price" in addition to vendor-specific objective evidence (VSOE) and verifiable objective evidence (VOE) (now referred to as TPE standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. This update requires expanded qualitative and

quantitative disclosures and is effective for our first quarter of fiscal year 2011. We are currently evaluating the impact of adopting this update on our consolidated results of operations and financial position.

Annual Results of Operations

Revenue by product line was as follows:

	2010	Change	2009	Change	2008
			(Dollars in thousands)		
Consumer Electronics	$131,362	28.3%	$102,391	-38.9%	$167,599
Personal Computer	8,562	-3.9%	8,905	-77.8%	40,141
Storage	12,917	13.6%	11,372	-55.3%	25,461
Total product revenue	$152,841	24.6%	$122,668	-47.4%	$233,201
Percentage of total revenue	79.9%		81.5%		85.0%
Licensing revenue	$ 38,506	37.9%	$ 27,921	-32.3%	$ 41,214
Percentage of total revenue	20.1%		18.5%		15.0%
Total revenue	$191,347	27.1%	$150,589	-45.1%	$274,415

Our consolidated total revenue for the year ended December 31, 2010 was $191.3 million, an increase of $40.8 million, or 27.1%, from the year ended December 31, 2009. The significant increase in revenue was primarily due to increased demand for our CE products and the increase in our licensing revenue. Revenue from our CE products and licensing during the year ended December 31, 2010 increased by $29.0 million or 28.3% and $10.6 million or 37.9%, respectively, compared to the same period in 2009. The $1.5 million or 13.6% increase in revenue in 2010 compared to 2009 from our storage product line also contributed positively to the total revenue in 2010. The increase in our CE and storage products was primarily due to an increase in unit product shipments. Our unit shipments during the year ended December 31, 2010 for CE and storage increased by 38.5% and 11.8%, respectively, compared to the same period in 2009. The higher unit shipments in our CE product line were primarily driven by increased demand for our port processors from the DTV market and higher demand for our mobile products due to the new products we introduced in 2010. The increase in unit shipments in our storage product was primarily due to higher demand for our SATA controllers. The impact of the 38.5% increase in unit shipments to our CE revenue was partially offset by a 7.7% decrease in the average selling price of our CE products.

Our licensing activity is complementary to our product sales and helps us to monetize our intellectual property and accelerate market adoption curves associated with our technology. IP licensing continues to represent an important part of our overall business. Revenue from licensing accounted for 20.1% and 18.5% of our total revenue for the years ended December 31, 2010 and 2009, respectively. Licensing revenue during the year ended December 31, 2010 increased by $10.6 million or 37.9% when compared to the same period in 2009. The significantly higher licensing revenue during the year ended December 31, 2010 compared to the licensing revenue during the same period in 2009 was primarily due to the increase in licensing activities in 2010 and to the $7.1 million additional royalties we recorded during fiscal year 2010 as a result of the completion of certain licensing audit activities during that year.

Total revenue for 2009 was $150.6 million and represented a decline of 45.1% from 2008 levels. Revenue from all our product lines in 2009 decreased when compared to revenue generated in 2008. Revenue in 2009 from CE, PC, storage and licensing decreased by 38.9%, 77.8%, 55.3% and 32.3%, respectively, when compared to the revenue generated in these product lines in 2008. Revenue from our product lines decreased by $110.5 million or 47.4% from $233.2 million in 2008 to $122.7 million in 2009. Product shipments in 2009 decreased by approximately 31.1% and average selling price declined by approximately 24.8% when compared to the shipments and average selling price in 2008, primarily due to the ongoing global recession, increased competition, product mix changes in the DTV market and our ongoing product transition as customers transition

from HDMI receivers to more cost effective Port Processors. Another factor that caused the unit shipments to decrease from fiscal year 2008 to 2009 was the integration of the HDMI and SATA functionality into PC chip sets.

We also experienced significant declines in our licensing revenues for the year ended December 31, 2009 as compared to the licensing revenues generated in 2008. Revenue from licensing accounted for 18.5% and 15.0% of our total revenues for the years ended December 31, 2009 and 2008, respectively. The decrease in licensing revenues in 2009 as compared to 2008 was due primarily to the overall softening of demand for consumer products as a result of the deterioration of the global economic climate.

COST OF REVENUE AND GROSS MARGIN

	2010	Change	2009	Change	2008
	(Dollars in thousands)				
Cost of product revenue (1)	$ 77,480	13.0%	$68,574	-39.1%	$112,539
Product gross profit	75,361	39.3%	54,094	-55.2%	120,662
Product gross profit margin	49.3%		44.1%		51.7%
(1) Includes stock-based compensation expense	$ 558		$ 986		$ 1,445
Cost of licensing revenue	$ 269	-77.8%	$ 1,212	2.1%	$ 1,187
Licensing gross profit	38,237	43.2%	26,709	-33.3%	40,027
Licensing gross profit margin	99.3%		95.7%		97.1%
Total cost of revenue	$ 77,749	11.4%	$69,786	-38.6%	$113,726
Total gross profit	113,598	40.6%	80,803	-49.7%	160,689
Total gross profit margin	59.4%		53.7%		58.6%

Cost of revenue consists primarily of costs incurred to manufacture, assemble and test our products, and costs to license our technology which involves modification, customization or engineering services, as well as other overhead costs relating to the aforementioned costs including stock-based compensation expense. Our overall gross profit, as a percentage of revenue, was 59.4% for the year ended December 31, 2010 and 53.7% for the year ended December 31, 2009. Total cost of revenue for the year ended December 31, 2010 increased by $8.0 million or 11.4%, when compared to the total cost of revenue in the same period in 2009. The increase in the total cost of revenue was primarily due to the growth in revenue volume during the same comparative periods.

Product gross profit margin for the year ended December 31, 2010 was 49.3%, compared to 44.1% for the year ended December 31, 2009. The 5.2% increase in product gross profit margin during the year ended December 31, 2010 compared to the same period in 2009 was primarily attributable to the 5.3% increase in the gross profit margin due to the wafer, testing and assembly cost reductions in 2010 and 4.0% increase in the gross profit margin due to better yields, better overhead absorption resulting from our higher revenue volume in 2010 than in 2009 and lower stock-based compensation expense, partially offset by the 4.1% decrease in the gross profit margin due to the decrease in the average selling price.

Our licensing gross profit margin for the year ended December 31, 2010 was 99.3%, compared to 95.7% for the year ended December 31, 2009. Licensing gross margin during the year ended December 31, 2010 increased by 3.6%, compared to the same period in 2009 primarily due to higher revenue and lower mix of IP customization projects during the year ended December 31, 2010 compared to the same period in 2009.

Overall gross profit margin was 53.7% and 58.6% for the years ended December 31, 2009 and 2008, respectively. Product mix, unfavorable variances and the impact of fixed overhead with lower revenue volume during the year ended December 31, 2009 were the primary reasons for the decrease in cost of revenue and the decrease in gross margin as percentage of revenue in 2009 compared to 2008. Increased competition in all business lines as reflected in the decline in the average selling price also contributed to the overall decrease in the gross margin in 2009 when compared to 2008.

OPERATING EXPENSES

Research and development	2010	Change	2009	Change	2008
			(Dollars in thousands)		
Research and development(1)	$55,313	-18.9%	$68,229	-19.6%	$84,819
Percentage of total revenue	28.9%		45.3%		30.9%
(1) Includes stock-based compensation expense	2,631		6,252		7,134

Research and development (R&D). R&D expense consists primarily of employee compensation and benefits, fees for independent contractors, the cost of software tools used for designing and testing our products and costs associated with prototype materials. R&D expense for the year ended December 31, 2010 decreased by $12.9 million or 18.9%, when compared to the R&D expense incurred in the same period in 2009. The decrease in R&D expense was primarily attributable to the decrease in stock-based compensation expense and reduced expenses due to the restructuring programs implemented in 2009 and expense management controls implemented internally. R&D expense for the year ended December 31, 2010 included stock-based compensation expense of $2.6 million, as compared to $6.3 million for the year ended December 31, 2009. The stock-based compensation expense for the year ended December 31, 2010 was significantly lower than the expense in the same period in 2009 primarily due to the $1.1 million cumulative adjustment we recognized in 2009 related to the errors we identified as to how our third party software provider was calculating the stock-based compensation expense. The lower average headcount in 2010 compared to 2009 due to the restructuring programs implemented in 2009 also significantly contributed to the lower stock-based compensation expense in 2010 compared to 2009. At the end of 2009, we closed the two R&D sites in Germany resulting in a reduction of R&D expense. These reductions were partially offset by additional expenses incurred as a result of increasing our R&D presence in Asia in 2010. The increase in bonus compensation of $1.6 million in 2010 compared to 2009 driven by the better overall company performance also partially offset the decrease in R&D expense in 2010 compared to 2009.

R&D expenses decreased by $16.6 million or 19.6% in the year ended December 31, 2009 as compared to the comparable period in 2008, primarily due to lower compensation related expenses as a result of lower headcount due to restructuring activities and lower R&D project related and tape-out expenses, partially offset by the $1.1 million additional stock-based compensation expense due to the previously mentioned cumulative adjustment in 2009.

Selling general and administrative	2010	Change	2009	Change	2008
			(Dollars in thousands)		
Selling, general and administrative (1)	$46,710	-15.1%	$55,000	-23.3%	$71,719
Percentage of total revenue	24.4%		36.5%		26.1%
(1) Includes stock-based compensation expense	4,152		10,863		10,893

Selling, general and administrative (SG&A). SG&A expense consists primarily of compensation, including stock-based compensation expense, sales commissions, professional fees, and marketing and promotional expenses. SG&A expense during the year ended December 31, 2010 was $8.3 million or 15.1% lower than the SG&A expense incurred in the same period in 2009 primarily due to the nonrecurring charges that we incurred in 2009. In 2009, we incurred approximately $2.0 million in professional fees associated with a potential strategic acquisition which we evaluated but decided not to pursue, $1.2 million compensation expense related to the compensation package provided to our former Chief Executive Officer upon his resignation in September 2009 and $2.8 million stock-based compensation expense cumulative adjustment pertaining to the errors we identified with respect to the stock-based compensation expense calculated by our third-party software. Not considering the impact of these 2009 nonrecurring charges, SG&A expense for the year ended December 31, 2010 would have been $2.3 million lower than what was incurred in the same period in 2009, which was primarily attributable to the lower compensation related expenses resulting from the restructuring programs implemented in 2009. The increase in bonus of $1.9 million in 2010 compared to 2009 driven by the better overall company performance partially offset the decrease in SG&A expense in 2010 compared to 2009.

SG&A expense for the year ended December 31, 2009 was $16.7 million or 23.3% lower than in the year ended December 31, 2008 due to lower compensation related expenses and legal expenses, partially offset by the non-recurring expenses that we incurred in 2009, such as the $2.8 million stock-based compensation cumulative adjustment, $2.0 million professional fees and $1.2 million compensation given to the CEO. Had it not been for these one-time expenses, SG&A expense for the year ended December 31, 2009 would have been lower by $22.7 million or 31.7% when compared to the SG&A expense for the same period in 2008. The decrease in SG&A expense was mainly attributable to the significant decrease in average head count because of the restructuring programs completed in 2009.

Restructuring	2010	Change	2009	Change	2008
	(Dollars in thousands)				
Restructuring expense	$3,259	-85.8%	$22,907	291.0%	$5,858
Percentage of total revenue	1.7%		15.2%		2.1%

Restructuring. The total restructuring expense for the year ended December 31, 2010 consisted primarily of $2.0 million related to contract termination cost, a charge of $0.9 million relating to operating lease termination costs and a charge of $0.3 million related to retirement of certain fixed assets. During 2010, the Company was in the process of transitioning certain R&D work from Europe to Asia and as a result of this transition, the Company decided to cease using the services of certain European engineers which resulted in an accrual of future costs of $2.0 million payable under the related contract without any future economic benefit to the Company. The Company recorded such future costs as restructuring expense in 2010.

In 2009, we announced restructuring plans to realign and focus our resources on our core competencies and in order to better align our revenues and expenses. The restructuring expense for the year ended December 31, 2009, consisted primarily of $22.1 million of employee severance and benefit arrangements related to the closure in 2009 of our two R&D sites in Germany, a charge of $0.6 million relating to retirement of certain assets and a charge of $0.2 million relating to operating lease termination costs.

In 2008, we announced restructuring plans to improve the effectiveness and efficiency of our operating model as part of our program to pursue continuous improvement. The restructuring expense for the year ended December 31, 2008, consisted primarily of $4.6 million related to employee severance and benefit arrangements due to the termination of 57 employees, a charge of $1.1 million relating to retirement of certain assets and a charge of $0.2 million relating to operating lease termination costs.

Amortization of intangible assets	2010	Change	2009	Change	2008
	(Dollars in thousands)				
Amortization of intangible assets	$149	-96.7%	$4,478	-29.5%	$6,348
Percentage of total revenue	0.1%		3.0%		2.3%

Amortization of intangible assets. Amortization of intangible assets was $0.1 million for the year ended December 31, 2010, as compared to $4.5 million in 2009 and $6.3 million in 2008. The significant sequential decrease in the amortization of intangible assets was primarily due to the complete amortization of acquired intangible assets and write-off in 2009 of the investment in an intellectual property. Please see related discussion in Impairment of Intangible Assets below.

Impairment of intangible assets. In 2009, we determined that, in light of certain changes to our product strategy, the intellectual property licensed from Sunplus Technology Co., Ltd in February 2007 (the "Sunplus IP") no longer aligned with our product roadmap and therefore would not be used. In connection with the decision to discontinue the use of the Sunplus IP, we wrote-off the unamortized balance of the investment in Sunplus IP of $28.3 million and recognized a pre-tax impairment charge of $28.3 million in the 2009 consolidated statement of operations under operating expense, "Impairment of Intangible Assets." See more discussion about this impairment in Note 11 of our Notes to Consolidated Financial Statements under Item I of Part IV. There was no impairment of intangible assets in 2010 and 2008.

Impairment of Goodwill. In 2009, we assessed goodwill for impairment and noted indicators of impairment including a sustained and significant decline in our stock price, depressed market conditions and declining industry trends. In 2009, our stock price had been in a period of sustained decline and the business climate had deteriorated substantially in light of the economic crisis. Based on the result of the impairment analysis that we performed, we determined that the goodwill was impaired. As such, we wrote off the entire goodwill balance and recognized goodwill impairment charge of approximately $19.2 million in the 2009 consolidated statement of operations under operating expense, "Impairment of Goodwill." See more discussion about this impairment in Note 12 of our Notes to Consolidated Financial Statements under Item I of Part IV. There was no impairment of goodwill in 2010 and 2008.

Interest income and others, net	2010	Change	2009	Change	2008
	(Dollars in thousands)				
Interest income	2,335	-18.8%	2,874	-38.3%	4,660
Reversal of a subsidiary's accumulated foreign currency translation adjustment	$1,366	100.0%	$ —	—	$ —
Others	$ (77)	-158.8%	$ 131	-91.7%	$1,585
Total	$3,624	20.6%	$3,005	-51.9%	$6,245
Percentage of total revenue	1.9%		2.0%		2.3%

*Interest income and other, net.*Interest income and others, net in 2010, principally included interest income of $2.3 million and a favorable transfer to income of a subsidiary's accumulated foreign currency translation adjustments of $1.4 million from accumulated Other Comprehensive Income (OCI) presented under consolidated statement of stockholders' equity. In 2010, we transferred the accumulated foreign currency translation adjustment of our wholly owned subsidiary in Germany whose facilities and offices had been substantially liquidated during 2010, to income.

Interest income for the year ended December 31, 2010 decreased by 18.8% compared to the same period in 2009 primarily due to the decline in interest rates as a result of macro-economic conditions. Interest income for the year ended December 31, 2009 decreased by 38.3% compared to the same period in 2008 mainly due to the lower average total cash balances in 2009 compared to 2008.

Provision (benefit) for income taxes	2010	Change	2009	Change	2008
	(Dollars in thousands)				
Provision (benefit) for income taxes	$3,609	-75.6%	$14,797	-224.6%	$(11,873)
Percentage of total revenue	1.9%		9.8%		-4.3%

Provision (benefit) for income taxes. For the year ended December 31, 2010, we recorded an income tax provision of $3.6 million, compared to income tax provision of $14.8 million in 2009 and income tax benefit of $11.9 million in 2008. Our effective income tax rate was 30.6% in 2010. In 2010, the difference between the expense for income taxes and the income tax expense determined by applying the statutory federal income tax rate of 35% was due primarily to foreign withholding taxes and changes in the valuation allowance.

For the year ended December 31, 2009, we recorded an income tax provision of $14.8 million, compared to income tax benefit of $11.9 million in 2008. Our effective income tax rate was (13%) in 2009. In 2009, the difference between the expense for income taxes and the income tax benefit determined by applying the statutory federal income tax rate of 35% was due primarily to the following items: (1) $43.0 million of tax expense related to a valuation allowance being recorded to offset deferred taxes recorded on the balance sheet, (2) $3.8 million of expense associated with the geographic and tax jurisdictional mix of earnings within the Company's global business structure, (3) $7.6 million of tax expense associated with stock-based compensation expense being reversed for tax purposes, (4) $5.3 million expense of foreign unbenefited losses, and (5) $3.8 million tax expense associated with non-deductible goodwill write-off for book purposes. Offsetting these expenses are benefits of: (1) $5.6 million related to a worthless stock deduction for its investment in the Company's German subsidiary, and (2) $3.2 million related to federal and state research and development tax credits generated during 2009.

For the year ended December 31, 2008, we recorded an income tax benefit of $11.9 million. Our effective income tax rate was 656% in 2008. In 2008, the difference between the benefit for income taxes and the income tax determined by applying the statutory federal income tax rate of 35% was due primarily to the following items: (1) $5.0 million of tax benefits related to the geographic and tax jurisdictional mix of earnings within the Company's global business structure, (2) $4.2 million of tax benefits associated with research and development tax credits and related FIN 48 reserves re-evaluated by the Company during the fourth quarter of 2008 upon completion of a study of credits claimed through 2007, (3) $1.6 million of tax benefits related to federal and state research and development tax credits generated during 2008, and (4) $0.9 million of tax benefits associated with tax exempt interest income.

Liquidity and Capital Resources

	2010	Change	2009	Change	2008
			(Dollars in thousands)		
Cash and cash equivalents	$ 29,942	$ 186	$ 29,756	$(65,658)	$ 95,414
Short term investments	160,538	39,672	120,866	31,275	89,591
Total cash, cash equivalents and short term investments	$190,480	39,858	$150,622	(34,383)	$185,005
Percentage of total assets	76.0%		66.8%		56.7%
Total current assets	$230,813	$22,985	$207,828	$(17,814)	$225,642
Total current liabilities	(46,067)	(1,721)	(44,346)	(4,816)	(39,530)
Working capital	$184,746	$21,264	$163,482	$(22,630)	$186,112

At December 31, 2010, we had $184.7 million of working capital including $190.5 million of cash, cash equivalents and short-term investments. Cash and cash equivalents and short-term investments increased by $39.9 million from $150.6 million in 2009 to $190.5 million in 2010 primarily due to net income tax refunds totaling to approximately $18.1 million, proceeds from stock option exercises and purchases under our employee stock purchase program totaling to approximately $5.6 million, and increased cash collections of receivables, partially offset by the $17.4 million cash used to pay our restructuring liability.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, inventories, deferred income taxes and prepaid expenses and other current assets, reduced by accounts payable, accrued and other current liabilities, deferred license revenue and deferred margin on sales to distributors. Working capital at December 31, 2010 increased by approximately $21.3 million when compared to the working capital at December 31, 2009 primarily due to the $23.0 million increase in operating assets, partially offset by the $1.7 million increase in operating liabilities. The $23.0 million increase in operating assets was primarily related to the $39.9 million increase in total cash, cash equivalents and short-term investments and $2.5 million increase in inventories, partially offset by the $21.0 million decrease in prepaid expenses and other current assets. The $2.5 million increase in inventories was primarily due to the increasing demand for our products while the $21.0 million decrease in prepaid expenses and other current assets was primarily attributed to the net income tax refunds. The $1.7 million increase in operating liabilities was primarily due to the $10.5 million increase in deferred margin on sales to distributors and $1.1 million increase in deferred license revenue, partially offset by the $10.4 million decrease in accrued and other current liabilities. The $10.5 million increase in deferred margin on sales to distributors was mainly due to the increasing activities with our distributors driven by the increasing demand for our products while the $10.4 million decrease in accrued and other current liabilities was mainly attributable to the payment of the restructuring liability, primarily related to the severance and termination benefits.

We believe that our current cash, cash equivalents and short-term investment balances together with income derived from sales of our products and licensing will be sufficient to meet our liquidity requirements for at least the next twelve months.

At December 31, 2009, we had $163.5 million of working capital including $150.6 million of cash, cash equivalents and short-term investments. Cash and cash equivalents and short-term investments decreased by $34.4 million from $185.0 million in 2008 to $150.6 million in 2009 primarily due to the cash used in operating and investing activities for the year ended December 31, 2009.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, prepaid expenses and other current assets, inventories and deferred income taxes reduced by accounts payable, accrued and other current liabilities, deferred license revenue, and deferred margin on sales to distributors. Working capital at December 31, 2009 decreased by approximately $22.6 million when compared to the working capital at December 31, 2008 primarily due to the decreases in cash and cash equivalents and short-term investments, the increase in operating assets, such as accounts receivable and prepaid expenses and other current assets and the decrease in deferred margin on sales to distributors, partially offset by the decrease in inventories and the increase in operating liabilities, such as accounts payable and accrued and other liabilities.

	2010	2009	2008
	(Dollars in thousands)		
Cash provided by (used in) operating activities	$ 46,494	$(29,664)	$ 25,641
Cash provided by (used in) investing activities	(50,725)	(38,066)	14,825
Cash (used in) provided by financing activities	3,954	1,354	(82,152)
Effect of exchange rate changes on cash and cash equivalents	463	718	(722)
Net increase (decrease) in cash and cash equivalents	$ 186	$(65,658)	$(42,408)

Operating Activities

The $46.5 million cash generated from our operating activities during the year ended December 31, 2010 was primarily due to net income, a decrease in prepaid expenses and other assets and an increase in operating liabilities, such as deferred license revenue and deferred margin on sales to distributors, partially offset by the increases in net accounts receivable and inventories and by the decrease in accrued and other liabilities.

Prepaid expenses and other assets decreased by approximately $21.4 million primarily due to net income tax refunds during the year ended December 31, 2010. Deferred margin on sales to distributors increased by $10.5 million, which was attributable to the increasing activities with our distributors driven by the increasing demand for our products. Deferred license revenue increased by $2.6 million primarily due to the new licensing agreements we entered into during the year ended December 31, 2010. Accrued and other liabilities decreased by $8.1 million primarily due to the $15.5 million net decrease in the balance of restructuring liability due to payments of severance benefits during the year ended December 31, 2010, partially offset by the increases in other accrued liabilities, such as accrued payroll and related expenses, which increased by $3.9 million, and royalties payable, which increased by $3.0 million. The increase in accrued payroll and related expenses was attributable mainly to the bonus and sales commission accruals, which was a direct result of the significant increase in revenues during fiscal year 2010 compared to fiscal year 2009. The increase in royalties payable was mainly due to the increase in the share of the HDMI founders as a result of increased royalties in 2010 compared to 2009.

The $29.7 million cash used in operating activities during the year ended December 31, 2009 was primarily due to the cash used for working capital as a result of the increase in operating assets, such as accounts receivable and prepaid expenses and other current assets and decrease in deferred margin on sales to distributors, partially offset by the decrease in inventories and the increase in operating liabilities, such as accounts payable and accrued liabilities and other current liabilities.

Net accounts receivable increased to $21.7 million at December 31, 2009 as compared to $5.9 million at December 31, 2008 primarily due to the timing of invoicing, distributor price protection credits and collection.

Prepaid expenses and other current assets increased by $11.8 million primarily due to income tax receivable and prepayment for certain R&D engineering services. Deferred margin on sales to distributors decreased by $3.9 million because of lower activities with our distributors. Inventory decreased by $5.0 million primarily due to our tighter inventory management and lower inventory requirements for the first quarter of fiscal year 2010. Accounts payable increased by $3.6 million mainly because of the timing of vendor payments. Accrued and other liabilities increased by $6.4 million primarily due to the $13.8 million increase in restructuring accrual, partially offset by the decreases in bonus accrual of approximately $1.6 million, accrued payroll and other payroll related expenses of approximately $2.6 million, accruals for software and IP liabilities of approximately $2.5 million and other miscellaneous accruals. The decrease in bonus accruals was due to the elimination of the bonus program in 2009 while the decrease in accrued payroll and other payroll related expenses was primarily due to (1) decrease in accrued commissions due to lower sales; and, (2) decrease in ESPP liability due to lower participation in 2009 compared to 2008.

In the year ended December 31, 2008, our operating activities provided $25.6 million of cash. The cash generated from working capital consisted primarily of the strong cash collection on our accounts receivable, efficient management of inventory offset by cash used in prepaid expenses and other assets, accounts payables, accrued liabilities, deferred revenue and deferred margin on sale to distributors.

Investing Activities

The $50.7 million cash used in investing activities during the year ended December 31, 2010 was due primarily to net purchases of short-term investments of approximately $42.8 million, net investment in property and equipment of approximately $4.7 million and other investing activities amounting to approximately $3.2 million. During the year ended December 31, 2010, we purchased $166.9 million and sold $124.1 million short-term investments.

The $38.1 million cash used in investing activities during the year ended December 31, 2009 was due primarily to net purchases of short-term investments of approximately $34.0 million and net investment in property and equipment of approximately $4.1 million. During the year ended December 31, 2009, we purchased $165.1 million and sold $131.1 million short-term investments.

In 2008, net cash generated from our investing activities was $14.8 million, consisting primarily of proceeds from the sale of short-term investments (net of purchases) of $21.8 million, partially offset by purchases of property and equipment of $7.0 million.

We held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities. We are not a capital-intensive business. Our purchases of property and equipment in 2010, 2009 and 2008 related mainly to testing equipment, leasehold improvements and information technology infrastructure.

Financing Activities

The $4.0 million net cash generated from our financing activities during the year ended December 31, 2010 was primarily due to the proceeds from stock option exercises and purchases under our employee stock purchase program totaling approximately $5.6 million and to the excess tax benefits from employee stock-based transactions of approximately $0.8 million, partially offset by payments to vendor of financed purchases of software and intangibles of approximately $1.2 million and cash used to repurchase restricted stock units for income tax withholding of approximately $1.2 million.

The $1.4 million net cash generated from our financing activities during the year ended December 31, 2009 was primarily due to the proceeds from stock option exercises and purchases under our employee stock purchase program of approximately $2.8 million, partially offset by payments to vendor of financed purchases of software and intangibles of approximately $1.2 million and cash used to repurchase restricted stock units for income tax withholding of approximately $0.3 million.

In 2008, net cash used in financing activities was $82.2 million, consisting primarily of repurchases of common stock of $68.2 million, payment of $19.3 million in connection with the financing of intangibles and software purchased, partially offset by the proceeds from stock option exercises and purchases under our employee stock purchase program of $4.8 million.

Cash Requirements and Commitments

In addition to our normal operating cash requirements, our principal future cash requirements will be to fund capital expenditures, share repurchases and any strategic acquisitions, in addition we have approximately $5.7 million in commitments for fiscal years including and beyond 2011 as disclosed in the operating lease and other commitments table below.

Contractual Obligations

In December 2002, we entered into a non-cancelable operating lease agreement for our principal operating facility in Sunnyvale, California. In June 2004, we entered into an amendment to the operating lease agreement to expand the leased premises. In May 2006, we entered into an amendment of the lease agreement to further expand the leased premises, to extend the lease expiration date to July 2011, and to set the monthly rental payments at $146,237, with annual increases of 3% thereafter. We also lease an operating facility in Irvine, California, pursuant to a non-cancelable operating lease agreement with a term that extends through November 2012 and provides for base monthly rental payments of approximately $14,800 is required.

We also lease office spaces in China, Japan, Korea, and Taiwan.

Rent expense totaled $2.6 million, $4.1 million and $5.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Our future operating lease and R&D engineering services commitments at December 31, 2010 were as follows (in thousands):

	Payments Due In		
Contractual Obligations:	**Total**	**Less Than 1 Year**	**1-3 Years**
Engineering services commitments	$3,645	$3,645	$—
Operating lease obligations	2,080	1,796	284
Total	$5,725	$5,441	$284

On January 6, 2011, we entered into a seven-year lease agreement (the "Lease") with Christensen Holdings, L.P., a California limited partnership. Pursuant to the Lease, we are leasing an office building in Sunnyvale, California consisting of approximately 128,154 square feet, together with the non-exclusive right to use parking facilities and other amenities. This new office building will house our new corporate headquarters, which we expect to begin occupying in June 2011, just prior to the expiration of the lease agreement for our current headquarters in July 2011. The future minimum lease payments under this Lease agreement are as follows (in thousands):

	Total	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
Operating lease obligations	$10,064	$654	$1,359	$1,414	$1,470	$1,599	$3,568

As of December 31, 2010, we are committed to make loans of approximately $5.5 million in 2011 to a third party company pursuant to a note agreement secured by certain intellectual property assets.

The amounts above exclude liabilities under FASB ASC 740-10, *"Income Taxes—Recognition section"* amounting to approximately $23.8 million as of December 31, 2010 as the Company is unable to reasonably estimate the ultimate amount or timing of settlement. See Note 3, "Income Taxes," for further discussion.

Long-Term Liquidity

Based on our estimated cash flows, we believe our existing cash and short-term investments are sufficient to meet our capital and operating requirements for at least the next twelve months. We expect to continue to invest in property and equipment in the ordinary course of business. Our future operating and capital requirements depend on many factors, including the levels at which we generate product revenue and related margins, the extent to which we generate cash through stock option exercises and proceeds from sales of shares under our employee stock purchase plan, the timing and extent of licensing revenue, investments in inventory, property, plant and equipment and accounts receivable, the cost of securing access to adequate manufacturing capacity, our operating expenses, including legal and patent assertion costs and general economic conditions. In addition, cash may be required for future acquisitions should we choose to pursue any. While we believe that our current cash, cash equivalents and short-term investment balances together with income derived from sales of our products and licensing will be sufficient to meet our liquidity requirements in the foreseeable future, to the extent existing resources and cash from operations are insufficient to support our activities, we may need to raise additional funds through public or private equity or debt financing. These funds may not be available when we need them, or if available, we may not be able to obtain them on terms favorable to us.

Global credit and financial markets have experienced extreme disruptions since mid-2008, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. There can be no assurance that there will not be further deterioration in credit and financial markets and confidence in economic conditions. These economic uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. The current tightening of credit in financial markets may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including government and corporate securities and money market funds. These securities are classified as available for sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss). We also limit our exposure to interest rate and credit risk by establishing and monitoring clear policies and guidelines of our fixed income portfolios. The guidelines also establish credit quality standards, limits on exposure to any one issuer and limits on exposure to the type of instrument. Due to the limited duration and credit risk criteria established in our guidelines we do not expect the exposure to interest rate risk and credit risk to be material. If interest rates rise, the market value of our investments may decline, which could result in a realized loss if we are forced to sell an investment before its scheduled maturity. As of December 31, 2010, we had an investment portfolio of securities as reported in short-term investments, including those classified as cash equivalents of approximately $166.4 million. A sensitivity analysis was performed on our investment portfolio as of December 31, 2010. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value changes that would result from a parallel shift in the yield curve of plus 50, 100, or 150 basis points over a twelve-month time horizon.

The following represents the potential change to the value of our investments given a shift in the yield curve used in our sensitivity analysis.

0.5%	1.0%	1.5%
$ 656,000	$1,313,000	$1,969,000

As of December 31, 2009, we had an investment portfolio of securities as reported in short-term investments, including those classified as cash equivalents of approximately $128.4 million. These securities are subject to interest rate fluctuations. The following represents the potential change to the value of our fixed income securities given a shift in the yield curve used in our sensitivity analysis.

0.5%	1.0%	1.5%
$ 427,000	$854,000	$1,281,000

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash equivalents and short-term investments and accounts receivable. A majority of our cash and investments are maintained with a major financial institutions headquartered in the United States. As part of our cash and investment management processes, we perform periodic evaluations of the credit standing of the financial institutions and we have not sustained any credit losses from investments held at these financial institutions. The counterparties to the agreements relating to our investment securities consist of various major corporations and financial institutions of high credit standing.

We perform on-going credit evaluations of our customers' financial condition and may require collateral, such as letters of credit, to secure accounts receivable if deemed necessary. We maintain an allowance for potentially uncollectible accounts receivable based on our assessment of collectability.

Foreign Currency Exchange Risk

A majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, certain operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the Euro, the South Korean Won, Taiwan Dollar and the Chinese Yuan. Additionally, many of our foreign distributors price our products in the local currency of the countries in which they sell. Therefore, significant strengthening or weakening of the U.S. dollar relative to those foreign currencies could result in reduced demand or lower U.S. dollar prices or vice versa, for our products, which would negatively affect our operating results. Cash balances held in foreign countries are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. The following represents the potential impact of a change in the value of the U.S. dollar compared to the foreign currencies which we use in our operations. The following represents the potential impact of a change in the value of the U.S. dollar compared to the Euro, British Pound, Japanese Yen, Chinese Yuan, Taiwan Dollar and Korean Won for the years ended December 31, 2010 and 2009. This sensitivity analysis aggregates our annual activity in these currencies, translated to U.S. dollars, and applies a change in the U.S. dollar value of 5%, 7.5% and 10%.

Fiscal Year 2010

5.0%	7.5%	10.0%
$1.0 million	$1.5 million	$2.1 million

Fiscal Year 2009

5.0%	7.5%	10.0%
$1.9 million	$2.9 million	$3.9 million

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements and Supplemental Data required by this item are set forth at the pages indicated at Item 15(a).

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management is required to evaluate our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our disclosure controls and procedures, they are included in the scope of our periodic controls evaluation. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") are effective to ensure that information required to be disclosed by us in the reports filed and submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting.

Management conducted an assessment of the Company's internal control over financial reporting as of December 31, 2010 based on the framework established by the Committee of Sponsoring Organization (COSO) of the Treadway Commission in Internal Control—Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2010, our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the fourth quarter of our 2010 fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Silicon Image, Inc.

We have audited the internal control over financial reporting of Silicon Image, Inc. and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated February 16, 2011 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
February 16, 2011

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is herein incorporated by reference from Silicon Image's Proxy Statement for its 2011 Annual Meeting of Stockholders.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is herein incorporated by reference from Silicon Image's Proxy Statement for its 2011 Annual Meeting of Stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is herein incorporated by reference from Silicon Image's Proxy Statement for its 2011 Annual Meeting of Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is herein incorporated by reference from Silicon Image's Proxy Statement for its 2011 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is herein incorporated by reference from Silicon Image's Proxy Statement for its 2011 Annual Meeting of Stockholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Form:

1. *Financial Statements:*

	Page
Consolidated Balance Sheets at December 31, 2010 and December 31, 2009	57
Consolidated Statements of Operations for each of the three years ended December 31, 2010	58
Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2010	59
Consolidated Statements of Cash Flows for each of the three years ended December 31, 2010	60
Notes to the Consolidated Financial Statements	61
Unaudited Selected Quarterly Financial Data for the two years ended December 31, 2010	95
Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm	97

2. *Financial Statement Schedules*

Financial Statement Schedules have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the consolidated financial statements or Notes thereto.

3. *Exhibits.*

The exhibits listed in the Index to Exhibits are incorporated herein by reference as the list of exhibits required as part of this Annual Report on Form 10-K.

SILICON IMAGE, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 29,942	$ 29,756
Short-term investments	160,538	120,866
Accounts receivable, net of allowances for doubtful accounts of $1,620 at December 31, 2010 and $1,428 at December 31, 2009	22,598	21,664
Inventories	10,212	7,746
Prepaid expenses and other current assets	6,515	27,512
Deferred income taxes	1,008	284
Total current assets	230,813	207,828
Property and equipment, net	11,404	14,449
Deferred income taxes, non-current	4,795	2,336
Intangible and other assets, net	3,607	825
Total assets	$ 250,619	$ 225,438
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 10,615	$ 10,141
Accrued and other current liabilities	17,771	28,150
Deferred margin on sales to distributors	13,484	2,944
Deferred license revenue	4,197	3,111
Total current liabilities	46,067	44,346
Other long-term liabilities	13,356	9,573
Total liabilities	59,423	53,919
Commitments and contingencies (Notes 4 and 7)		
Stockholders' Equity:		
Convertible preferred stock, par value $0.001; 5,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, par value $0.001; 150,000,000 shares authorized; shares issued and outstanding: 78,191,027 - 2010 and 75,419,173 - 2009	95	93
Additional paid-in capital	476,915	463,189
Treasury stock	(107,745)	(106,562)
Accumulated deficit	(177,957)	(186,139)
Accumulated other comprehensive income (loss)	(112)	938
Total stockholders' equity	191,196	171,519
Total liabilities and stockholders' equity	$ 250,619	$ 225,438

See accompanying Notes to Consolidated Financial Statements.

SILICON IMAGE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2010	2009	2008
Revenue:			
Product	$152,841	$ 122,668	$233,201
Licensing	38,506	27,921	41,214
Total revenue	191,347	150,589	274,415
Cost of revenue and operating expenses:			
Cost of product revenue (1)	77,480	68,574	112,539
Cost of licensing revenue	269	1,212	1,187
Research and development (2)	55,313	68,229	84,819
Selling, general and administrative (3)	46,710	55,000	71,719
Restructuring expense (4) (Note 8)	3,259	22,907	5,858
Amortization of intangible assets	149	4,478	6,348
Impairment of intangible assets (Note 11)	—	28,296	—
Impairment of goodwill (Note 12)	—	19,210	—
Total cost of revenue and operating expenses	183,180	267,906	282,470
Income (loss) from operations	8,167	(117,317)	(8,055)
Interest income and other, net	3,624	3,005	6,245
Income (loss) before provision for income taxes	11,791	(114,312)	(1,810)
Income tax expense (benefit)	3,609	14,797	(11,873)
Net income (loss)	$ 8,182	$(129,109)	$ 10,063
Net income (loss) per share—basic	$ 0.11	$ (1.72)	$ 0.13
Net income (loss) per share—diluted	$ 0.10	$ (1.72)	$ 0.13
Weighted average shares—basic	76,957	74,912	75,570
Weighted average shares—diluted	78,277	74,912	76,626
(1) Includes stock-based compensation expense	$ 558	$ 986	$ 1,445
(2) Includes stock-based compensation expense	2,631	6,252	7,134
(3) Includes stock-based compensation expense	4,152	10,863	10,893
(4) Includes stock-based compensation expense	—	—	14

See accompanying Notes to Consolidated Financial Statements.

SILICON IMAGE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at January 1, 2008	84,313	$ 90	$418,796	$ (38,096)	$ (67,093)	$ 150	$ 313,847
Net income	—	—	—	—	10,063	—	10,063
Change in unrealized net gain on available-for-sale investments, net of tax	—	—	—	—	—	219	219
Foreign currency translation adjustments, net of tax	—	—	—	—	—	(436)	(436)
Total comprehensive income	—	—	—	—	—	—	9,846
Common stock issued under stock option plans	487	1	1,711	—	—	—	1,712
Common stock issued for ESPP	808	1	3,045	—	—	—	3,046
Repurchase of common stock	(11,538)	—	—	(68,180)	—	—	(68,180)
Tax deficiency from employee stock-based compensation plans	—	—	(810)	—	—	—	(810)
Stock-based compensation expense	—	—	19,486	—	—	—	19,486
Balance at December 31, 2008	74,070	92	442,228	(106,276)	(57,030)	(67)	278,947
Net loss					(129,109)	—	(129,109)
Change in unrealized net gain on available-for-sale investments, net of tax	—	—	—	—	—	251	251
Foreign currency translation adjustments, net of tax	—	—	—	—	—	754	754
Total comprehensive loss	—	—	—	—	—	—	(128,104)
Common stock issued under stock option plans	295	—	403	—	—	—	403
Issuances of common stocks for restricted stock units	261	—	—	—	—	—	—
Repurchases of restricted stock units for tax withholding	(94)	—	—	(286)	—	—	(286)
Common stock issued for ESPP	887	1	2,401	—	—	—	2,402
Excess tax benefit from employee stock-based compensation plans	—	—	56	—	—	—	56
Stock-based compensation expense	—	—	18,101	—	—	—	18,101
Balance at December 31, 2009	75,419	93	463,189	(106,562)	(186,139)	938	171,519
Net income					8,182	—	8,182
Change in unrealized net loss on available-for-sale investments, net of tax	—	—	—	—	—	(356)	(356)
Reversal of a subsidiary's accumulated translation adjustment upon substantial liquidation						(1,366)	(1,366)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	583	583
Fair value of effective cashflow hedges, net of tax	—	—	—	—	—	89	89
Total comprehensive income	—	—	—	—	—	—	7,132
Common stock issued under stock option plans	781	1	3,013	—	—	—	3,014
Issuances of common stocks for restricted stock units	1,201	—	—	—	—	—	—
Repurchases of restricted stock units for tax withholding	(444)	—	—	(1,183)	—	—	(1,183)
Common stock issued for ESPP	1,234	1	2,608	—	—	—	2,609
Excess tax benefit from employee stock-based compensation plans	—	—	764	—	—	—	764
Stock-based compensation expense	—	—	7,341	—	—	—	7,341
Balance at December 31, 2010	78,191	$ 95	$476,915	$(107,745)	$(177,957)	$ (112)	$ 191,196

See accompanying Notes to Consolidated Financial Statements

SILICON IMAGE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$ 8,182	$(129,109)	$ 10,063
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation	7,674	8,960	10,349
Stock-based compensation expense	7,341	18,101	19,486
Amortization of investment premium	2,916	3,045	1,189
Tax benefit (deficiency) from employee stock-based compensation plans	764	56	(810)
Asset impairment due to restructuring	302	649	1,063
Provision for doubtful accounts	301	23	1,218
Amortization of intangible assets	149	4,478	6,348
Loss on disposal and retirement of property and equipment	7	180	554
Deferred income taxes	(3,183)	32,238	(10,896)
Reversal of a subsidiary's accumulated foreign currency translation adjustment	(1,366)	—	—
Excess tax benefits from employee stock-based transactions	(764)	(85)	(548)
Realized gain on sale of short-term investments	(134)	(7)	(301)
Impairment of intangible assets	—	28,296	—
Impairment of goodwill	—	19,210	—
Changes in assets and liabilities:			
Accounts receivable	(1,234)	(15,756)	14,114
Inventories	(2,466)	5,029	7,423
Prepaid expenses and other assets	21,403	(11,768)	(1,303)
Accounts payable	1,624	3,600	(10,684)
Accrued and other liabilities	(8,146)	6,370	(550)
Deferred margin on sales to distributors	10,540	(3,937)	(19,562)
Deferred license revenue	2,584	763	(1,512)
Cash provided by (used in) operating activities	46,494	(29,664)	25,641
Cash flows from investing activities:			
Proceeds from sales of short-term investments	124,061	131,082	246,370
Purchases of short-term investments	(166,871)	(165,144)	(224,499)
Purchases of property and equipment	(4,666)	(4,124)	(7,046)
Other investing activities	(3,249)	—	—
Proceeds from sale of property and equipment	—	120	—
Cash provided by (used in) investing activities	(50,725)	(38,066)	14,825
Cash flows from financing activities:			
Proceeds from issuances of common stock	5,623	2,805	4,758
Excess tax benefits from employee stock-based transactions	764	85	548
Payments for vendor financed purchases of software and intangibles	(1,250)	(1,250)	(19,278)
Repurchases of restricted stock units for income tax withholding	(1,183)	(286)	—
Payments to acquire treasury stock	—	—	(68,180)
Cash provided by (used in) financing activities	3,954	1,354	(82,152)
Effect of exchange rate changes on cash and cash equivalents	463	718	(722)
Net increase (decrease) in cash and cash equivalents	186	(65,658)	(42,408)
Cash and cash equivalents—beginning of year	29,756	95,414	137,822
Cash and cash equivalents—end of year	$ 29,942	$ 29,756	$ 95,414
Supplemental cash flow information:			
Net refund (cash payment) for income taxes	$ 18,102	$ 8,236	$ (3,624)
Restricted stock units vested	$ 3,282	$ 793	$ —
Property and equipment purchased but not paid for	$ 931	$ 779	$ 79
Unrealized net gain (loss) on short-term investments	$ (356)	$ 251	$ 219

See accompanying Notes to Consolidated Financial Statements.

SILICON IMAGE, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Company

Silicon Image, Inc. (referred to herein as "we", "our", "the Company", or "Silicon Image"), a Delaware corporation, was incorporated June 11, 1999. Silicon Image is a leading provider of advanced, interoperable connectivity solutions that enable the reliable distribution and presentation of HD content for CE, mobile, and PC markets. The Company delivers its technology via semiconductor and IP products that are compliant with global industry standards and also feature industry leading Silicon Image innovations such as InstaPort™. Silicon Image's products are deployed by the world's leading electronics manufacturers in devices such as desktop and notebook PCs, DTVs, Blu-Ray Disc™ players, audio-video receivers, as well as mobile phones, tablets and digital cameras. Silicon Image has driven the creation of the highly successful HDMI® and DVI™ industry standards, as well as the latest standards for mobile devices—SPMT™ (Serial Port Memory Technology) and MHL™ (Mobile High-Definition Link). Via its wholly-owned subsidiary, Simplay Labs, LLC, Silicon Image offers manufacturers comprehensive standards interoperability and compliance testing services.

Basis of presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from these estimates. Areas where significant judgment and estimates are applied include revenue recognition, stock-based compensation, short-term investments, allowance for doubtful accounts, inventory valuation, income taxes, deferred tax assets, accrued liabilities, guarantees, and legal matters, and realization of long-lived assets. The consolidated financial statements include the accounts of Silicon Image, Inc. and its subsidiaries after elimination of intercompany balances and transactions.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

Revenue from products sold directly to end-users, or to distributors that are not entitled to price concessions and rights of return, is generally recognized when title and risk of loss has passed to the buyer which typically occurs upon shipment. All shipping costs are charged to the cost of product revenue.

Revenue from products sold to distributors with agreements allowing for stock rotations is generally recognized upon shipment. Reserves for stock rotations are estimated based primarily on historical experience and provided for at the time of shipment.

For products sold to distributors with agreements allowing for price concessions and stock rotation rights/ product returns, the Company recognizes revenue based on when the distributor reports that it has sold the product to its customer. The Company's recognition of such distributor sell-through is based on point of sales reports received from the distributor which establishes a customer, quantity and final price. Revenue is not recognized upon the Company's shipment of the product to the distributor, since, due to certain forms of price concessions, the sales price is not substantially fixed or determinable at the time of shipment. Price concessions are recorded when incurred, which is generally at the time the distributor sells the product to its customer. Additionally, these distributors have stock rotation rights permitting them to return products to the Company, up to a specified amount for a given period of time. When the distributor reports that it has sold product to its

customer, the Company's sales price to the distributor is fixed. Once the Company receives the point of sales reports from the distributor, it has satisfied all the requirements for revenue recognition with respect to the product reported as sold and any product returns/stock rotation and price concession rights that the distributor has under its distributor agreement with the Company lapsed at that time. Pursuant to the Company's distributor agreements, older, end-of-life and certain other products are generally sold with no right of return and are not eligible for price concessions. For these products, revenue is recognized upon shipment and title transfer assuming all other revenue recognition criteria are met.

At the time of shipment to distributors, the Company records a trade receivable for the selling price since there is a legally enforceable right to payment, relieves inventory for the carrying value of goods shipped since legal title has passed to the distributor and, until revenue is recognized, records the gross margin in "deferred margin on sale to distributors," a component of current liabilities in its consolidated balance sheet. Deferred margin on the sale to distributor effectively represents the gross margin on the sale to the distributor. However, the amount of gross margin the Company recognizes in future periods will be less than the originally recorded deferred margin on sales to distributor as a result of negotiated price concessions. The Company sells each item in its product price book to all of its distributors worldwide at a relatively uniform list price. However, distributors resell the Company's products to end customers at a very broad range of individually negotiated price points based on customer, product, quantity, geography, competitive pricing and other factors. The majority of the Company's distributors' resale is priced at a discount from the list price. Often, under these circumstances, the Company remits back to the distributor a portion of their original purchase price after the resale transaction is completed. Thus, a portion of the "deferred margin on the sale to distributor" balance represents a portion of distributor's original purchase price that will be remitted back to the distributor in the future. The wide range and variability of negotiated price concessions granted to the distributors does not allow the Company to accurately estimate the portion of the balance in the deferred margin on the sale to distributors that will be remitted back to the distributors. In addition to the above, the Company also reduces the deferred margin by anticipated or determinable future price protections based on revised price lists, if any.

The Company derives revenue from the license of its internally developed intellectual property (IP). The Company enters into IP licensing agreements that generally provide licensees the right to incorporate its IP components in their products with terms and conditions that vary by licensee. Revenue earned under contracts with the Company's licensees is classified as licensing revenue. The Company's license fee arrangements generally include multiple deliverables and for multiple deliverable arrangements it follows the guidance in FASB ASC No. 605-25-25, *Multiple-Element Arrangements Revenue Recognition*, to determine whether there is more than one unit of accounting. To the extent that the deliverables are separable into multiple units of accounting, the Company allocates the total fee on such arrangements to the individual units of accounting using the residual method, if objective and reliable evidence of fair value does not exist for delivered elements. The Company then recognizes revenue for each unit of accounting depending on the nature of the deliverable(s) comprising the unit of accounting in accordance with the revenue recognition criteria mentioned above.

The IP licensing agreements generally include a nonexclusive license for the underlying IP. Fees under these agreements generally include (a) license fees relating to the Company's IP, (b) support, typically for one year; and (c) royalties payable following the sale by the Company's licensees of products incorporating the licensed technology. The license for the Company's IP has standalone value and can be used by the licensee without support. Further, objective and reliable evidence of fair value exists for support. Accordingly, license and support fees are each treated as separate units of accounting.

Certain licensing agreements provide for royalty payments based on agreed upon royalty rates. Such rates can be fixed or variable depending on the terms of the agreement. The amount of revenue the Company

recognizes is determined based on a time period or on the agreed-upon royalty rate, extended by the number of units shipped by the customer. To determine the number of units shipped, the Company relies upon actual royalty reports from its customers when available and relies upon estimates in lieu of actual royalty reports when it has a sufficient history of receiving royalties from a specific customer for it to make an estimate based on available information from the licensee such as quantities held, manufactured and other information. These estimates for royalties necessarily involve the application of management judgment. As a result of the Company's use of estimates, period-to-period numbers are "trued-up" in the following period to reflect actual units shipped. In cases where royalty reports and other information are not available to allow the Company to estimate royalty revenue, the Company recognizes revenue only when royalty reports are received.

For contracts related to licenses of the Company's technology that involve significant modification, customization or engineering services, the Company recognizes revenue in accordance with the provisions of FASB ASC No. 605-35-25, *Construction-Type and Production-Type Contracts Revenue Recognition.* Revenues derived from such license contracts are accounted for using the percentage-of-completion method.

The Company determines progress to completion based on input measures using labor-hours incurred by its engineers. The amount of revenue recognized is based on the total contract fees and the percentage of completion achieved. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. If there is significant uncertainty about customer acceptance, or the time to complete the development or the deliverables by either party, the Company applies the completed contract method. If application of the percentage-of-completion method results in recognizable revenue prior to an invoicing event under a customer contract, the Company recognizes the revenue and records an unbilled receivable assuming collectability is reasonably assured. Amounts invoiced to the Company's customers in excess of recognizable revenues are recorded as deferred revenue.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with the provisions of FASB ASC No. 718-10-30, *Stock Compensation Initial Measurement*, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees, directors including employee stock options, restricted stock units ("RSUs"), performance share awards and employee stock purchases under our Employee Stock Purchase Plan ("ESPP") based on estimated fair values. Following the provisions of FASB ASC No. 718-50-25, *Employee Share Purchase Plans Recognition*, our ESPP is considered a compensatory plan, therefore, we are required to recognize compensation cost for grants made under the ESPP. The Company estimates the fair value of stock options granted using the Black-Scholes-Merton ("BSM") option-pricing model and a single option award approach. The BSM model requires various highly subjective assumptions including volatility, expected option life, and risk-free interest rate. Management estimates volatility for a given option grant by evaluating the historical volatility of the period immediately preceding the option grant date that is at least equal in length to the option's expected term. Consideration is also given to unusual events (either historical or projected) or other factors that might suggest that historical volatility will not be a good indicator of future volatility. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that had not been exercised at the time. In accordance with FASB ASC No. 718-10-35, *Subsequent Measurement of Stock Compensation*, the Company generally recognizes stock-based compensation expense, net of estimated forfeitures, on a ratable basis for all share-based payment awards over the requisite service periods of the awards, which is generally the vesting period or the remaining service (vesting) period.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and the Company uses different assumptions, the stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected-to-vest. If the actual forfeiture rate is materially different from the estimate, the recorded stock-based compensation expense could be different.

Financial Instruments

Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company's debt and marketable equity securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. The Company classifies its marketable debt securities as short-term investments because the Company's intention to sell the securities within a relatively short period of time. Unrealized gains and losses on these investments are reported as a separate component of accumulated other comprehensive income (loss). The investments are adjusted for amortization of premiums and discounts to maturity and such amortization is included in interest income. The Company periodically assesses whether its investments with unrealized loss positions are other than temporarily impaired. Other-than-temporary impairment charges exists when the entity has the intent to sell the security, it will more likely than not be required to sell the security before anticipated recovery or it does not expect to recover the entire amortized cost basis of the security. Other than temporary impairments are determined based on the specific identification method and are reported in the consolidated statements of operations.

Derivative Financial Instruments

Silicon Image is a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company has operations in the United States, Europe and Asia, however, a majority of its revenue, costs of revenue, expense and capital purchasing activities are being transacted in U.S. Dollars. As a corporation with international as well as domestic operations, the Company is exposed to changes in foreign exchange rates. These exposures may change over time and could have a material adverse impact on the Company's financial results. Periodically, the Company uses foreign currency forward contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. The Company does not enter into derivatives for speculative or trading purposes. The Company uses derivative instruments primarily to manage exposures to foreign currency fluctuations on forecasted cash flows and balances primarily denominated in Euro. The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. These derivatives are designated as cash flow hedges and have maturities of less than one year.

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivatives that are not defined as hedges must be adjusted to fair value through earnings. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in stockholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the derivative gain (loss) is reported in each reporting period in other income (expense) on the Company's consolidated statement of operations. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

FASB's fair value measurement standard establishes a consistent framework for measuring fair value whereby inputs used in valuation techniques are assigned a hierarchical level. The assignment to a level is based on whether the market participant assumptions used in determining fair value are obtained from independent sources (observable inputs) or reflect the Company's own assumptions of market participant valuation (unobservable inputs). Categorization within the fair value hierarchy is determined by the lowest level of input that is significant to the fair value measurement. The following are the hierarchical levels of inputs to measure fair value:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are inactive; quoted prices for similar assets and liabilities in active markets; or significant inputs that are observable, either directly or indirectly; or

Level 3 Prices or valuations that require inputs that are both unobservable and significant to the fair value measurement.

The Company considers an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and views an inactive market as one in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Further information about the Company financial instruments can be found in Note 9 below.

Concentration of Credit Risk

The Company's customer base for its products is concentrated with a small number of distributors. Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily accounts receivable, cash equivalents and short-term investments. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The allowance for doubtful accounts is based upon the expected collectability of all accounts receivable. The Company places its cash equivalents and short-term investments in investment-grade, highly liquid debt instruments and limits the amount of credit exposure to any one issuer.

Concentration of Other Risk

The semiconductor industry is characterized by rapid technological change, competitive pricing pressures, and cyclical market patterns. The Company's results of operations are affected by a wide variety of factors, including general economic conditions, both domestically and abroad; economic conditions specific to the semiconductor industry; demand for the Company's products; the timely introduction of new products; implementation of new manufacturing technologies; manufacturing capacity; the ability to manufacture efficiently; the availability and cost of materials and supplies; competition; the ability to safeguard patents and intellectual property in a rapidly evolving market; and reliance on assembly and wafer fabrication subcontractors and on independent distributors and sales representatives. As a result, the Company may experience substantial period-to-period fluctuations in future operating results due to the factors mentioned above or other factors.

Allowance for Doubtful Accounts

The Company reviews collectability of accounts receivable on an on-going basis and provides an allowance for amounts it estimates may not be collectible. During the Company's review, it considers its historical experience, the age of the receivable balance, the credit-worthiness of the customer and the reason for the delinquency. Delinquent account balances are written-off after the Company has determined that the likelihood of collection is remote. The table below presents the changes in the allowance for doubtful accounts for the years ended December 31, 2010, 2009 and 2008.

	2010	2009	2008
		In thousands	
Balance at January 1	$1,428	$1,778	$ 1,565
Provision for doubtful accounts, net of reversals and recoveries	301	23	1,218
Write offs	(109)	(373)	(1,005)
Balance at December 31	$1,620	$1,428	$ 1,778

Inventories

The Company records inventories at the lower of actual cost, determined on a first-in first-out (FIFO) basis, or market. Actual cost approximates standard cost, adjusted for variances between standard and actual. Standard costs are determined based on the Company's estimate of material costs, manufacturing yields, costs to assemble, test and package its products and allocable indirect costs. The Company records differences between standard costs and actual costs as variances. These variances are analyzed and are either included on the consolidated balance sheet or the consolidated statement of operations in order to state the inventories at actual costs on a FIFO basis. Standard costs are evaluated quarterly.

Provisions are recorded for excess and obsolete inventory and are estimated based on a comparison of the quantity and cost of inventory on hand to the Company's forecast of customer demand. Customer demand is dependent on many factors and requires the Company to use significant judgment in its forecasting process. The Company must also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Generally, inventories in excess of six months forecasted demand are written down to zero (unless specific facts and circumstances warrant no write-down or a write-down to a different value) and the related provision is recorded as a cost of revenue. Once a provision is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods the Company forecasts demand for the product.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

The Company reviews property and equipment, goodwill and other certain identifiable intangibles for impairment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and certain identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair market value. The Company does not amortize goodwill, rather such asset is required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired.

In 2009, the Company determined that its goodwill was impaired and recognized a total impairment charge of $19.2 million in the 2009 consolidated statement of operations under operating expenses, "Impairment of Goodwill," which reduced goodwill to zero as of December 31, 2009. Also, in 2009, the Company made an impairment evaluation of its long-lived assets and determined that its investment in Sunplus IP was impaired and recognized an impairment charge of $28.3 million in the 2009 consolidated statement of operations under operating expenses, "Impairment of Intangible Assets," which reduced the investment in Sunplus IP to zero as of December 31, 2009. There were no goodwill and other intangible impairment charges recorded in fiscal years 2010 and 2008.

The Company amortizes its intangible assets with definite lives over their estimated useful lives and reviews these assets for impairment. The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from one to seven years. Amortization expense for intangible assets was $0.2 million, $4.5 million and $6.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, all of the Company's acquired intangibles assets were completely amortized.

The Company assigns the following useful lives to its fixed assets—three years for computers and software, one to five years for equipment and five to seven years for furniture and fixtures. Leasehold improvements and assets held under capital leases are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life, which ranges from two to five years. Depreciation expense was $7.7 million, $9.0 million and $10.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Income Taxes

The Company accounts for income taxes in accordance with the FASB ASC No. 740 ("ASC 740"), *Accounting for Income Taxes.* The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to our tax provision in the subsequent period when such a change in estimate occurs.

The Company uses an asset and liability approach for accounting of deferred income taxes, which requires recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in its financial statements, but have not been reflected in its taxable income. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carry-forwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect

for the years in which those tax assets are expected to be realized or settled. The Company regularly assesses the likelihood that our deferred income tax assets will be realized from recoverable income taxes or recovered from future taxable income based on the realization criteria set forth in ASC 740. To the extent that the Company believes any amounts are not more likely than not to be realized, the Company records a valuation allowance to reduce the deferred income tax assets. In the event the Company determines that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if the Company subsequently realizes that deferred income tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made. In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes and measures potential liabilities based upon criteria set forth in ASC 740. Based upon these criteria, the Company estimates whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities may result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. If the Company's estimate of tax liabilities is less than the amount ultimately assessed, a further charge to expense would result.

Significant judgment is required in determining any valuation allowance recorded against deferred income tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that the Company changes its determination as to the amount of deferred income tax assets that could be realized, it will adjust its valuation allowance with a corresponding effect to the provision for income taxes in the period in which such determination is made.

Significant judgment is also required in evaluating the Company's uncertain tax positions under ASC 740 and determining its provision for income taxes. Although the Company believes its reserves for uncertain tax positions are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in the Company's historical income tax provisions and accruals. The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserves for uncertain tax positions and any changes to the reserves that are considered appropriate, as well as the related net interest and penalties, if applicable.

At December 31, 2010, the Company had gross deferred income tax assets, related primarily to stock-based compensation, accruals and reserves that are not currently deductible, depreciable and amortizable items, net operating loss, and tax credit carry forwards of $50.9 million, which have been partially offset by a $45.1 million of valuation allowance. At December 31, 2009, the Company had gross deferred income tax assets, related primarily to stock-based compensation, accruals and reserves that are not currently deductible, depreciable and amortizable items, net operating loss, and tax credit carry forwards of $45.6 million, which have been offset by a $43.0 million of valuation allowance.

Guarantees, Indemnifications and Warranty Liabilities

Certain of the Company's licensing agreements indemnify its customers for expenses or liabilities resulting from claimed infringements of patent, trademark or copyright by third parties related to the intellectual property content of our products. Certain of these indemnification provisions are perpetual from execution of the

agreement and, in some instances; the maximum amount of potential future indemnification is not limited. To date, the Company has not paid any such claims or been required to defend any lawsuits with respect to a claim.

At the time of revenue recognition, the Company provides an accrual for estimated costs (included in accrued liabilities in the accompanying consolidated balance sheets) to be incurred pursuant to its warranty obligation. The Company's estimate is based primarily on historical experience. The accrual and the related expense for known issues were not significant during the periods presented. Due to product testing and the short time typically between product shipment and the detection and correction of product failures, and considering the historical rate of payments on indemnification claims, the accrual and related expense for estimated incurred but unidentified issues were not significant during the periods presented.

Restructuring Expenses

The Company records provisions for workforce reduction costs and exit costs when they are probable and estimable. Severance paid under ongoing benefit arrangements is recorded in accordance with FASB ASC No. 712-10-25, *Nonretirement Postemployment Benefits Recognition.* One-time termination benefits and contract settlement and lease costs are recorded in accordance with FASB ASC No. 420-10-25, *Exit or Disposal Cost Obligations Recognition*. At each reporting date, the Company evaluates its accruals related to workforce reduction charges, contract settlement and lease costs to ensure that these accruals are still appropriate. Restructuring expense accruals related to future lease commitments on exited facilities include estimates, primarily related to sublease income over the lease terms and other costs for vacated properties. Increases or decreases to the accruals for changes in estimates are classified as restructuring expenses in the consolidated statement of operations.

Foreign Currency Translation and Re-measurement

The Company determines the functional currency for its foreign subsidiaries by reviewing the currencies in which their respective operating activities occur. For the Company's foreign subsidiaries where the local country's currency is the functional currency, the Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using the average exchange rates during the period. Gains and losses from these translations are credited or charged to foreign currency translation included in accumulated other comprehensive income in stockholders' equity. The Company's subsidiaries that use the U.S. dollar as their functional currency re-measure monetary assets and liabilities denominated in currencies other than the U.S. dollar at exchange rates in effect at the end of each period, and inventories, property, and nonmonetary assets and liabilities at historical rates. Any adjustments arising from re-measurements are included in other income (expense) in the consolidated statements of operations. Upon substantial liquidation of a subsidiary, the balance of accumulated foreign currency translation adjustment of such subsidiary which is included in accumulated other comprehensive income in stockholders' equity is transferred to the statement of operations. During 2010, the Company had substantially completed the liquidation of its wholly-owned German subsidiary. As a result, the Company transferred $1.4 million accumulated foreign currency translation adjustment from accumulated other comprehensive income in the statement of stockholders' equity to other income in the 2010 consolidated statement of operations.

Research and Development

Research and development costs are expensed as incurred. It is the Company's policy to record a reduction to research and development expense for funding received from outside parties for research and development

projects. During the years ended December 31, 2010, 2009 and 2008, the Company recorded a reduction to research and development expense totaling approximately $0.1 million, $0.3 million and $0.5 million, respectively, related to funding received from outside parties for one engineering project.

Net Income (Loss) Per Share

Basic net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted income (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the employee stock purchase plan and unvested RSUs. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

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

	Year Ended December 31,		
	2010	2009	2008
Numerator:			
Net income (loss)	$ 8,182	$(129,109)	$10,063
Denominator:			
Weighted-average outstanding shares used to compute basic net income (loss) per share	76,957	74,912	75,570
Effect of dilutive securities	1,320	—	1,056
Weighted average outstanding shares used to compute diluted net income (loss) per share	78,277	74,912	76,626
Net income (loss) per share—basic	$ 0.11	$ (1.72)	$ 0.13
Net income (loss) per share—diluted	$ 0.10	$ (1.72)	$ 0.13

For the years ended December 31, 2010 and 2008, approximately 7.2 million and 12.4 million weighted-average securities were excluded from the calculation of diluted net income per share, respectively, because their inclusion would have been anti-dilutive. As a result of the net loss for the year ended December 31, 2009, approximately 13.4 million common stock equivalents for the year ended December 31, 2009 were excluded in the computation of diluted net loss per share because their effect would have been anti-dilutive.

Recent Accounting Pronouncements

In December 2010, FASB issued Accounting Standards Update (ASU) No. 2010-29*, Business Combinations* (ASC Topic 805). The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also improve the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination(s). The amendments in this update are

effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is permitted. As the Company did not enter into any business combinations in fiscal year 2010, the Company believes that the adoption of this update will not have any material impact on its financial statement disclosures. However, if the Company enters into material business combinations in the future, the adoption of this update may have significant impact on its financial statement disclosures.

In December 2010, FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other* (ASC Topic 350). Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step test. When a goodwill impairment test is performed (either on an annual or interim basis), an entity must assess whether the carrying amount of a reporting unit exceeds its fair value (Step 1). If it does, an entity must perform an additional test to determine whether goodwill has been impaired and to calculate the amount of that impairment (Step 2). The amendments in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. As the Company does not have any significant intangible assets, the Company believes that the impact of adopting this update will not be material on its consolidated results of operations and financial position.

In April 2010, FASB issued ASU No. 2010-17, *Revenue Recognition-Milestone Method* (ASC Topic 605). The amendments in this update provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. Determining whether a milestone is substantive requires judgment that should be made at the inception of the arrangement. To meet the definition of a substantive milestone, the consideration earned by achieving the milestone (1) would have to be commensurate with either the level of effort required to achieve the milestone or the enhancement in the value of the item delivered, (2) would have to relate solely to past performance, and (3) should be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. The amendments in this update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The Company does not believe that the impact of the adoption of this guidance will have a material effect on its consolidated results of operations and financial position.

In January 2010, FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (ASC Topic 820)—Improving Disclosures About Fair Value Measurements*. The ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on the Company's consolidated results of operations and financial position.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-14, *Software (Accounting Standards Codification (ASC) Topic 985)—Certain Revenue Arrangements That Include Software Elements*, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 965-605, *Software-Revenue Recognition* to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. This update requires expanded qualitative and quantitative disclosures and is effective for the Company's first quarter of fiscal year 2011. The Company is currently evaluating the impact of adopting this update on its consolidated results of operations and financial position.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (ASC Topic 605)—Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of ASC subtopic 605-25, *Revenue Recognition-Multiple Element Arrangements* by allowing the use of the "best estimate of selling price" in addition to vendor-specific objective evidence (VSOE) and verifiable objective evidence (VOE) (now referred to as TPE standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. This update requires expanded qualitative and quantitative disclosures and is effective for the Company's first quarter of fiscal year 2011. The Company is currently evaluating the impact of adopting this update on its consolidated results of operations and financial position.

NOTE 2—CONSOLIDATED BALANCE SHEET COMPONENTS

Cash, cash equivalents and short-term investments consisted of the following as of December 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Estimated Fair Value
Classified as current assets:			
Cash	$ 24,084	$—	$ 24,084
Cash equivalents:			—
Money market funds	5,407	—	5,407
Municipal securities	451	—	451
Total cash equivalents	5,858	—	5,858
Total cash and cash equivalents	29,942	—	29,942
Short-term investments:			
Municipal securities	$ 79,442	$ 30	$ 79,472
Corporate securities	61,401	185	61,586
United States government agencies	19,376	104	19,480
Total short-term investments	160,219	319	160,538
Total cash and cash equivalents and short-term investments	$190,161	$319	$190,480

For investments in securities classified as available-for-sale, market value and the amortized cost of debt securities have been classified in accordance with the following maturity groupings based on the contractual maturities of those securities as of December 31, 2010.

	Amortized Cost	Market Value
	(In thousands)	
Contractual maturity		
Less than 1 year	$107,454	$107,632
1-5 years	52,765	52,906
Total	$160,219	$160,538

Cash, cash equivalents and short-term investments consisted of the following as of December 31, 2009 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Estimated Fair Value
Classified as current assets:			
Cash	$ 22,236	$—	$ 22,236
Cash equivalents:			
Commercial paper	7,500	—	7,500
Money market funds	20	—	20
Total cash equivalents	7,520	—	7,520
Total cash and cash equivalents	29,756	—	29,756
Short-term investments:			
Municipal securities	$105,577	$588	$106,165
Corporate securities	10,944	75	11,019
United States government agencies	3,371	11	3,382
Money market funds	300	—	300
Total short-term investments	120,192	674	120,866
Total cash and cash equivalents and short-term investments	$149,948	$674	$150,622

For investments in securities classified as available-for-sale, market value and the amortized cost of debt securities have been classified in accordance with the following maturity groupings based on the contractual maturities of those securities as of December 31, 2009.

	Amortized Cost	Market Value
	(In thousands)	
Contractual maturity		
Less than 1 year	$ 85,321	$ 85,768
1-5 years	34,871	35,098
Total	$120,192	$120,866

Components of inventory, prepaid expenses and other current assets and property and equipment consisted of the following:

	December 31,	
	2010	2009
	(In thousands)	
Inventories:		
Raw materials	$ 3,558	$ 2,800
Work in process	1,753	916
Finished goods	4,901	4,030
	$ 10,212	$ 7,746
Prepaid expense and other current assets:		
Interest receivable	$ 1,292	$ 1,395
Prepaid software maintenance	2,285	2,384
Income tax receivable	—	21,405
Others	2,938	2,328
	$ 6,515	$ 27,512
Property and equipment:		
Computers and software	$ 21,387	$ 21,614
Equipment	30,523	27,050
Furniture and fixtures	2,470	2,564
	54,380	51,228
Less: accumulated depreciation	(42,976)	(36,779)
Total property and equipment, net	$ 11,404	$ 14,449

The components of accrued liabilities and other long-term liabilities were as follows:

	December 31,	
	2010	2009
	(In thousands)	
Accrued and other current liabilities:		
Accrued payroll and related expenses	$ 6,691	$ 2,826
Royalties payable	4,240	1,282
Accrued restructuring (see Note 8)	1,849	17,313
Others	4,991	6,729
	$17,771	$28,150
Other long-term liabilities:		
Non-current liability for uncertain tax positions	$11,858	$ 9,344
Non-current deferred license revenue	1,498	—
Others	—	229
	$13,356	$ 9,573

NOTE 3—INCOME TAXES

Income (loss) before income taxes and the income tax provision (benefit) consisted of the following (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Income (loss) before provision for income taxes:			
U.S.	$ 1,574	$ (76,325)	$(36,077)
Non U.S.	10,217	(37,987)	34,267
Total income (loss) before provision (benefit) for income taxes	$11,791	$(114,312)	$ (1,810)

	Year Ended December 31,		
	2010	2009	2008
Provision (benefit) for taxes			
Current:			
Federal	$ (615)	$(21,138)	$ (3,470)
State	35	184	(409)
Foreign	6,572	3,555	3,811
Total current provision (benefit)	5,992	(17,399)	(68)
Deferred:			
Federal	(2,914)	21,696	(8,076)
State	3	8,467	(3,281)
Foreign	(236)	1,977	362
Total deferred provision (benefit)	$(3,147)	$ 32,140	$(10,995)
Charge (benefit) in lieu of taxes attributable to employee stock-based plans	764	56	(810)
Income tax provision (benefit)	$ 3,609	$ 14,797	$(11,873)

The charge in lieu of taxes represents the tax provision from deductions for employee stock transactions, short of related amounts reported for financial reporting purposes that is recorded as a direct increase to additional paid-in capital instead of a decrease to the income tax provision (benefit).

Our effective tax rate differs from the federal statutory rate due to the following (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Tax provision (benefit) at federal statutory rate	$ 4,127	$(40,040)	$ (633)
Foreign income and withholding taxes	6,269	3,975	(2,463)
Stock-based compensation expense	3,216	7,553	966
State income taxes	184	(162)	(3,062)
Non-deductible expenses	43	41	77
Tax credits	(5,035)	(3,185)	(5,914)
Impact of valuation allowance	(4,598)	43,033	—
Federal exempt interest income	(530)	(941)	(865)
Foreign unbenefited losses	—	5,251	—
Non-deductible goodwill write-off	—	3,828	—
Worthless stock deduction	—	(5,579)	—
Others	(67)	1,023	21
Income tax provision (benefit)	$ 3,609	$ 14,797	$(11,873)

The Company's 2010 income tax expense includes a $4.6 million reduction of a valuation allowance to offset deferred tax assets which are more likely than not to be realized. Additionally, the Company's foreign income inclusions and foreign withholding taxes have provided a $6.3 million detriment to its tax rate.

Deferred income tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of net deferred income tax assets were (in thousands):

	December 31,	
	2010	2009
Net operating loss carryforwards	$ 7,845	$ 2,466
Tax credits	26,102	19,012
Stock-based compensation expense	11,283	13,760
Accruals and other reserves	2,022	6,671
Inventory valuation	1,588	73
Depreciable and amortizable items	767	2,247
Capitalized research and development	58	323
Other items not currently deductible	1,192	1,101
Total Deferred tax assets	$ 50,857	$ 45,653
Less: valuation allowance	(45,054)	(43,033)
Net deferred tax assets	$ 5,803	$ 2,620
Reported as:		
Deferred income taxes, current	1,008	284
Deferred income taxes, non-current	4,795	2,336
Net deferred taxes	$ 5,803	$ 2,620

The Company records valuation allowances that reduce deferred tax assets to the amounts that, based upon available evidence, are more likely than not to be realized. The Company's valuation allowance as of December 31, 2010 was approximately $45.0 million (including $29.0 million for federal deferred tax assets and $16.0 million for state and foreign deferred tax assets) which is an increase of $2.0 million compared to December 31, 2009. The $2.0 million increase was primarily comprised of increases in deferred tax assets as a result of the movement of temporary differences during the year. The valuation allowance was maintained as a result of weighing all positive and negative evidence, including the Company's cumulative loss over the past three years and the difficulty of forecasting sufficient future taxable income. The valuation allowance reflects the conclusion of management that it is more likely than not that benefits from certain deferred tax assets will not be realized. If actual results differ from these estimates or these estimates are adjusted in future periods, the valuation allowance may require adjustment which could materially impact the Company's financial position and results of operations.

As of December 31, 2010, the Company had state net operating loss carryforwards of approximately $39.7 million, which will start to expire in 2033, if not utilized. For California tax purposes, effective January 1, 2011, companies have the right to elect, on a year by year basis, sourcing revenues to California under a single sales factor apportionment. In the fourth quarter, the Company has determined that it is more likely than not that the single sales factor will be elected for 2011 and accordingly adjusted the value of its California deferred tax assets, which is offset by a reduction in the valuation allowance on such deferred tax assets by approximately $1 million.

As of December 31, 2010, the Company had research credit carryforwards for federal purposes of approximately $8.6 million that will carryforward until 2025, when these credits begin to expire. As of December 31, 2010, the Company had research credit carryforwards for state purposes of approximately $18.3 million that will carry forward indefinitely. In the event the Company was to experience a future cumulative ownership change of greater than 50% pursuant to Internal Revenue Code sections 382 and 383 or similar state and foreign rules, the Company's ability to utilize the losses and credit carryforwards may be limited.

As of December 31, 2010, 2009 and 2008, the Company had gross tax effected unrecognized tax benefits of $23.8 million, $20.3 million, and $18.4 million, of which $8.5 million, $5.0 million, and $5.8 million, respectively, if recognized, would affect the effective tax rate. The Company does not believe there will be any material changes in its unrecognized tax benefits over the next twelve months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Balance as of January 1	$20,270	$18,374	$20,719
Tax positions related to the current period:			
Gross increase	3,174	2,841	2,131
Tax positions related to the prior period:			
Gross increase	647	142	656
Gross decrease	—	—	(5,132)
Settlements	(320)	(1,087)	—
Balance as of December 31	$23,771	$20,270	$18,374

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for income taxes. During the years ended December 31, 2010, 2009 and 2008, the Company accrued approximately $155,000, $341,000 and $35,000, respectively of additional interest related to unrecognized tax benefits. The Company conducts business globally and, as a result, it and its subsidiaries file income tax returns in various jurisdictions throughout the world including with the U.S. federal and various U.S. state jurisdictions as well as with various foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. The Company remains subject to federal and state examination for all years from 1996 and forward by virtue of the tax attributes carrying forward from those years. The Company also remains subject to examination in most foreign jurisdictions for all years since 2002 or the year we began operations in those countries if later. The Company is currently under examination in the state of California for the 2006 and 2007 tax years.

NOTE 4—LEASE AND OTHER CONTRACTUAL OBLIGATIONS

Operating Leases

The Company's future operating lease commitments at December 31, 2010 were as follows (in thousands):

	Total	2011	2012
Operating lease obligations	$2,080	$1,796	$284

In December 2002, the Company entered into a non-cancelable operating lease agreement for its principal operating facility in Sunnyvale, California. In June 2004, the Company entered into an amendment to the operating lease agreement to expand the leased premises. In May 2006, the Company entered into an amendment to the operating lease agreement to further expand the leased premises, to extend the lease expiration date to July 2011, and to set the monthly rental payments at $146,237, with annual increases of 3% thereafter. The Company also leases an operating facility in Irvine, California, pursuant to a non-cancelable operating lease agreement with a term that extends through November 2012 and provides for base monthly rental payments of approximately $14,800 is required.

The Company also leases office spaces in China, Japan, Korea, and Taiwan.

On January 6, 2011, the Company entered into a seven-year lease agreement (the "Lease") with Christensen Holdings, L.P., a California limited partnership. Pursuant to the Lease, the Company is leasing an office building in Sunnyvale, California consisting of approximately 128,154 square feet, together with the non-exclusive right to use parking facilities and other amenities. This new office building will house the Company's new corporate headquarters, which the Company expects to begin occupying in June 2011, just prior to the expiration of the lease agreement for the Company's current headquarters in July 2011. The future minimum lease payments under this Lease agreement are as follows (in thousands):

	Total	2011	2012	2013	2014	2015	Thereafter
Operating lease obligations	$10,064	$654	$1,359	$1,414	$1,470	$1,599	$3,568

Other Contractual Obligations

As of December 31, 2010, the Company is committed to make loans of approximately $5.5 million in 2011 to a third party company pursuant to a note agreement secured by certain intellectual property assets.

As of December 31, 2010, the Company is committed to make payments totaling to approximately $3.6 million in fiscal year 2011 relating to certain R&D agreements.

NOTE 5—STOCKHOLDERS' EQUITY

1999 Equity Incentive Plan (the "1999 Plan")

In October 1999, the Board of Directors adopted the 1999 Equity Incentive Plan (the "1999 Plan") which provides for the granting of incentive stock options (ISOs) and non-qualified stock options (NSOs) to employees, directors and consultants. In accordance with the 1999 Plan, the stated exercise price shall not be less than 100% of the fair market value of our common stock on the date of grant for ISOs and NSOs. The number of shares reserved for issuance under the 1999 Plan increased automatically on January 1 of each year by an amount equal to 5% of our total outstanding common shares as of the immediately preceding December 31. The plan expired in October 2009.

In June and July 2001, in connection with the CMD Technology, Inc. (CMD) and Silicon C Communication Lab, Inc. (SCL) acquisitions, the Company assumed all outstanding options and options available for issuance under the CMD 1999 Stock Incentive Plan and SCL 1999 Stock Option Plan. In April 2004, in connection with the TransWarp acquisition, the Company assumed all outstanding options and options available for issuance under the TransWarp Stock Option Plan. The terms of these Plans are very similar to those of the 1999 Plan. The Company's assumption of the CMD, SCL and TransWarp Plans and the outstanding options did not require the approval of and was not approved by, the Company's stockholders.

Options granted under the above mentioned stock option plans are exercisable over periods not to exceed ten years and vest over periods ranging from one to five years and generally vest annually as to 25% of the shares subject to the options, although stock option grants to members of our Board of Directors vest monthly, over periods not to exceed four years. Some options provide for accelerated vesting if certain identified milestones are achieved. Effective in May 2008, the board of directors determined that no further options would be granted under the 1999 Plan, and all outstanding options would continue to be governed and remain outstanding in accordance with their existing terms.

2008 Equity Incentive Plan (the "2008 Plan")

In April 2008, the board of directors adopted the 2008 Equity Incentive Plan *(the "2008 Plan")*, and in May 2008, the 2008 Plan was approved by the stockholders, as a replacement for the 1999 Stock Option Plan (the "1999 Plan"). The 2008 Plan provides for the grant of non-qualified and incentive stock options, restricted stock awards, stock bonus awards, stock appreciation rights, restricted stock unit awards and performance stock awards to employees, directors and consultants, under the direction of the compensation committee of the board of directors or those persons to whom administration of the 2008 Plan, or part of the 2008 Plan, has been delegated or permitted by law. The exercise price for incentive stock options and stock appreciation rights is generally at least 100% of the fair market value of the underlying shares on the date of grant. Options generally vest over 48 months measured from the date of grant. Options generally expire no later than seven years after the date of grant, subject to earlier termination upon an optionee's cessation of employment or service. Under this stock plan, as of the approval date, the original maximum number of shares authorized for issuance was 4.0 million. The Company held its 2010 Annual Meeting of Stockholders on May 19, 2010 at which the Company's stockholders approved an increase of 9 million shares to the number of shares that can be issued under the 2008 Plan and also approved an increase of up to 2 million additional shares that the Company could only use for the stockholder-approved Stock Option Exchange Program (the "*Exchange Program*"). The Company completed the Exchange Program in September 2010 and 1.7 million of the 2 million maximum issuable shares for the Exchange Program were used. As of December 31, 2010, the 2008 Plan had 9 million shares available for issuance. Please see related discussion below about the Exchange Program.

Non-plan Stock Options

As inducement to the Company's chief executive officer who joined the Company in January 2010, the Company granted him an option to purchase 1 million shares of the Company's common stock. The option's exercise price was equal to the closing price of the common stock on January 15, 2010. The option will vest as follows subject to the chief executive officer's continued employment with the Company: (a) 10% of the shares subject to the option shall vest on January 1, 2011; (b) an additional 20% of the shares subject to the option shall vest on January 1, 2012; (c) an additional 30% of the shares subject to the option shall vest on January 1, 2013; and (d) an additional 40% of the shares subject to the option shall vest on January 1, 2014. The stock option was an inducement option granted outside of the Company's 2008 Equity Incentive Plan and without shareholder approval pursuant to NASDAQ Marketplace Rule 4350(i)(1)(A). The stock option is exercisable for a term of 10 years and will expire on January 15, 2020. There were no options granted outside of the Company's 2008 Equity Incentive Plan in 2009 and 2008.

Determining Fair Value

Valuation and amortization method—The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option valuation model and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Expected Life—The expected life of the options represents the estimated period of time until exercised and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules, and expectations of future employee behavior. The expected term for the ESPP is based on the term of the purchase period.

Expected Volatility—The volatility rate is based on the Company's historical common stock volatility derived from historical stock price data for historical periods commensurate with the options' expected life.

Risk-Free Interest Rate—The risk-free interest rate is based on the implied yield currently available on United States Treasury zero-coupon issues with a term equal to the expected life at the date of grant of the options.

Expected Dividend—The expected dividend is based on our history and expected dividend payouts. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

As required by FASB ASC 718-10-35, *Subsequent Measurement of Stock Compensation,* management makes an estimate of expected forfeitures and is recognizing stock-based compensation expense only for those equity awards expected to vest.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	Year Ended December 31		
	2010	2009	2008
Employee Stock Options Plans:			
Expected life in years	4.2	4.7	4.8
Expected volatility	64.4%	64.4%	64.5%
Risk-free interest rate	1.8%	2.3%	2.8%
Expected dividends	none	none	none
Weighted average grant date fair value	$ 1.67	$ 1.38	$ 2.81
Employee Stock Purchase Plan:			
Expected life in years	0.50	0.50	0.50
Expected volatility	60.2%	85.6%	65.8%
Risk-free interest rate	0.2%	0.8%	3.0%
Expected dividends	none	none	none
Weighted average grant date fair value	$ 0.96	$ 1.03	$ 1.77

Stock-based compensation expense

The following table shows total stock-based compensation expense included in the Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Cost of sales	$ 558	$ 986	$ 1,445
Research and development	2,631	6,252	7,134
Selling, general and administrative	4,152	10,863	10,893
Restructuring expense	—	—	14
Stock-based compensation before tax effects	7,341	18,101	19,486
Income tax effects	—	—	(5,668)
Stock-based compensation after tax effects	$7,341	$18,101	$13,818

At December 31, 2010, the total stock-based compensation expense related to unvested stock options granted to employees under the stock option plans, but not yet recognized was approximately $3.3 million, after estimated forfeitures. This cost will generally be recognized on a ratable basis over an estimated weighted-average period of approximately 3.0 years and will be adjusted if necessary, in subsequent periods, if actual forfeitures differ from those estimates.

As of December 31, 2010, the Company had $3.1 million of total unrecognized compensation expense related to RSUs, after estimated forfeitures. The unamortized compensation expense will generally be recognized on a ratable basis over the weighted average estimated remaining life of 1.7 years and will be adjusted if necessary, in subsequent periods, if actual forfeitures differ from those estimates.

At December 31, 2010, the total stock-based compensation expense related to options to purchase common shares under the ESPP but not yet recognized was approximately $130,000. This expense will be recognized on a straight-line basis over a weighted-average period of approximately 1.5 months.

For the years ended December 31, 2010, 2009 and 2008, we recorded $0.8 million, $0.1 million and $0.5 million of excess tax benefits from equity-based compensation plans, respectively, as a financing cash inflow.

Stock Option Exchange Program

On August 4, 2010, the Company launched a voluntary stockholder-approved Exchange Program to permit the Company's eligible employees to exchange some or all of their outstanding stock options to purchase the Company's common stock with an exercise price greater than or equal to $6.64 per share, whether vested or unvested, for a lesser number of new RSUs. Non-employee members of the Board of Directors and the Company's named executive officers, including its chief financial officer, were not eligible to participate in the Exchange Program.

In accordance with the terms and conditions of the Exchange Program, on September 1, 2010 (the "Grant Date"), the Company accepted outstanding options to purchase an aggregate of 3,988,947 shares of the Company's common stock and issued, in exchange, an aggregate of 1,130,623 new RSUs. Of the 1,130,623 new RSUs, 1,039,393 will vest on the first anniversary of the Grant Date and 91,230 will vest on the second

anniversary of the Grant Date. Each RSU granted in the Exchange Program represents the right to receive one share of the Company's common stock upon vesting of the RSU. The new RSUs were issued from the Company's 2008 Equity Incentive Plan. In accordance with the guidelines of the 2008 Plan, each RSU award granted from the 2008 Plan will reduce the number of shares available for issuance by 1.5 shares. As such, the equivalent shares of the 1,130,623 new RSUs issued under the Exchange Program that was taken out from the shares available for issuance were 1,695,934. Please see the rollforward schedule of shares available for issuance under the 2008 Plan below. Pursuant to the provisions of the Exchange Program, the stock options cancelled under the program were not returned to the respective equity plans.

The Exchange Program did not result in any significant incremental stock-based compensation expense.

Stock Options and Awards Activity

The following table summarizes the Company's options outstanding with respect to its Stock Option Plans, including options granted outside of the Plans, excluding restricted stock units (RSU's) (in thousands except per share data):

	Number of Option Shares Outstanding						
		Non-Stockholder Approved					
	Stockholder Approved Plan	Plans From Acquisitions	Non-Plan*	Total	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Terms in Years	Aggregate Intrinsic Value
At January 1, 2008	12,003	1,697	330	14,030	$ 8.92		
Granted	1,384	—	—	1,384	5.10		
Canceled	(1,009)	(69)	—	(1,078)	9.96		
Exercised	(267)	(220)	—	(487)	3.51		
At December 31, 2008	12,111	1,408	330	13,849	$ 8.65		
Granted	186	—	—	186	2.55		
Canceled	(3,916)	(180)	—	(4,096)	9.21		
Exercised	(56)	(109)	(130)	(295)	1.36		
At December 31, 2009	8,325	1,119	200	9,644	$ 8.51		
Granted	906	—	1,000	1,906	3.29		
Forfeitures and cancellations	(1,795)	(20)	—	(1,815)	8.26		
Options cancelled in the Exchange Program	(3,551)	(398)	(40)	(3,989)	10.73		
Exercised	(525)	(256)	—	(781)	3.86		
At December 31, 2010	3,360	445	1,160	4,965	$ 5.54	5.53	$12,955
Vested and expected to vest at December 31, 2010				4,427	$ 5.80	5.26	$10,823
Exercisable at December 31, 2010				2,743	$ 7.18	3.83	$ 4,357

* primarily used as inducements for new officers

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have received had all option holders exercised their options on December 31, 2010. The aggregate intrinsic value is the difference between the Company's closing stock price on the last trading day of the fiscal year 2010 and the exercise price, multiplied by the number of outstanding or exercisable in-the-money options. The aggregate intrinsic value excludes the effect of stock options that have a zero or negative intrinsic value. The total pre-tax intrinsic value of options exercised, representing the difference between the market value of the Company's common stock on the date of the exercise and the exercise price of each option, for the years ended December 31, 2010, 2009 and 2008 was $2.0 million, $0.3 million and $1.5 million, respectively. The total grant date fair value of the options which vested during the years ended December 31, 2010, 2009 and 2008 was $4.9 million, $12.6 million and $21.7 million, respectively.

Information with respect to options outstanding at December 31, 2010 is as follows:

	Options Outstanding			Options Exercisable	
Ranges of Exercise Prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Shares	Weighted Average Exercise Price
	(In thousands)		(In Years)	(In thousands)	
$ 1.14 – $ 2.63	319	$ 1.77	2.34	256	$ 1.60
$ 2.79 – $ 2.79	1,013	2.79	9.00	—	—
$ 3.16 – $ 3.37	56	3.30	2.38	37	3.30
$ 3.50 – $ 3.50	500	3.50	6.45	—	—
$ 3.58 – $ 4.44	543	4.04	3.86	304	4.23
$ 4.45 – $ 4.84	501	4.55	6.88	272	4.50
$ 5.00 – $ 6.23	650	5.82	4.98	519	5.80
$ 6.26 – $ 8.93	512	7.28	2.89	511	7.28
$ 9.15 – $11.25	500	10.18	4.56	489	10.20
$11.62 – $15.48	371	13.81	4.56	355	13.90
	4,965	$ 5.54	5.53	2,743	$ 7.18

Restricted Stock Units

The RSUs that the Company grants to its employees typically vest ratably over a certain period of time, subject to the employee's continuing service to the Company over that period. RSUs granted to non-executive employees typically vest over a four-year period. RSUs granted to executives typically vest over a period of between one and four years.

RSUs are converted into shares of the Company's common stock upon vesting on a one-for-one basis. The cost of the RSUs is determined using the fair value of the Company's common stock on the date of the grant. Compensation is recognized on a straight-line basis over the requisite service period of each grant adjusted for estimated forfeitures. Each RSU award granted from the 2008 plan will reduce the number of shares available for issuance by 1.5 shares.

A summary of the RSUs outstanding as of December 31, 2010 was as follows: (in thousands):

	Number of Units	Weighted- Average Grant Date Fair Value Per Share
Outstanding at January 1, 2008	—	$ —
Granted	3,805	4.52
Vested	—	—
Forfeitures and cancellations	(93)	4.67
Outstanding at December 31, 2008	3,712	$4.51
Granted	1,879	2.55
Vested	(261)	4.39
Forfeitures and cancellations	(2,611)	4.22
Outstanding at December 31, 2009	2,719	$3.45
Granted	763	3.36
Granted in the Exchange Program	1,131	3.82
Vested	(1,201)	3.74
Forfeitures and cancellations	(693)	3.28
Outstanding at December 31, 2010	2,719	$3.49

The total grant date fair value of the RSUs that vested during the years ended December 31, 2010 and 2009 was $4.5 million and $1.1 million, respectively. There were no RSUs that vested in fiscal year 2008. Of the 2,719,000 RSUs outstanding as of December 31, 2010, approximately 2,312,000 units are expected to vest after considering the applicable forfeiture rate.

During the years ended December 31, 2010 and 2009, the Company repurchased 443,829 and 93,882 shares of stock, respectively, for an aggregate value of $1.2 million and $0.3 million, respectively, from employees upon the vesting of their RSUs that were granted under the Company's 2008 Equity Incentive Plan to satisfy such employees' minimum statutory tax withholding requirement. There were no RSUs that vested in fiscal year 2008, as such there were no RSU repurchases for minimum statutory tax withholding in that year. The Company will continue to repurchase shares of stock from employees as their RSUs vest to satisfy the employees' minimum statutory tax withholding requirement.

The table summarizes the securities available for future issuance with respect to the Company's 2008 Equity Incentive Plan (in thousands):

	2008 Plan
Available at January 1, 2008	—
Authorized	4,000
Granted	(472)
Canceled	12
Available at December 31, 2008	3,540
Authorized	—
Granted	(3,004)
Canceled	600
Available at December 31, 2009	1,136
Authorized	9,000
Authorized for the Exchange Program	1,696
Granted	(2,050)
Granted in the Exchange Program	(1,696)
Canceled	963
Available at December 31, 2010	9,049

The 9 million authorized shares in 2010 were approved by the stockholders during the Company's 2010 Annual Meeting of Stockholders (the "2010 *Annual Meeting*") held on May 19, 2010. In the 2010 Annual Meeting, the stockholders also approved the 1.7 million shares reserved for the Exchange Program, which the Company completed in August 2010.

The Company's 1999 Plan expired in October 2009, hence, no securities under this plan are available for future issuance. During May 2008, in connection with the Stockholders' approval of the 2008 Equity Incentive Plan, the Company committed to the stockholders that the Company will no longer issue any securities from the non-stockholder approved plans from acquisitions, such as the CMD, SCL and TWN Plans, hence, no securities are available for future issuance under these plans.

Employee Stock Purchase Plan

In October 1999, the Company adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan") and reserved 500,000 shares of common stock for issuance under the Purchase Plan. The Purchase Plan authorizes the granting of stock purchase rights to eligible employees during two-year offering periods with exercise dates every six months. Shares are purchased using employee payroll deductions at purchase prices equal to 85% of the lesser of the fair market value of our common stock at either the first day of each offering period or the date of purchase. In June 2007, the Company's Board of Directors approved amendments to the Purchase Plan primarily to extend coverage of the plan to eligible employees of its participating subsidiaries including the adoption of a Sub-Plan for employees in the United Kingdom. Additionally, the offering periods were amended to begin on February 16 and August 16 of each year from February 1 and August 1 previously. On December 13, 2006, the Company's Board of Directors approved amendments to the Purchase Plan, which included the following changes: (i) provide that participants may effect only one decrease and no increases in payroll contribution percentages during an offering period, (ii) provide that if the Registrant is dissolved or liquidated, the Compensation Committee of the Board has discretion to either designate a new date on which to conduct a purchase prior to such time or terminate all offerings and refund contributions to participants without conducting

a purchase, (iii) provide that in the event of certain specified change in control transactions, the Compensation Committee of the Board will designate a final purchase date for all offerings in lieu of keeping the ESPP in place after the closing of such a transaction and (iv) provide that the purchase date of an offering period is delayed if the Purchase Plan must be submitted for stockholder approval with respect to shares that are to be made available for purchase in that offering period, provided that if as a result a purchase date would occur more than twenty-seven months after commencement of the offering period to which it relates, then such offering period will terminate without the purchase of shares and participants in such offering period will be refunded their contributions. In May 2008, the Purchase Plan was amended by the Company's stockholders to extend the term of the Purchase Plan to August 15, 2018. In 2010, 2009 and 2008, 1,233,976, 887,045 and 808,308 shares of common stock, respectively, were sold under the Purchase Plan at average prices of $2.11, $2.71 and $3.77, per share, respectively. As at December 31, 2010, a total of approximately 1.1 million shares were reserved for future issuance. The number of shares reserved for issuance under the Purchase Plan is increased automatically on January 1 of each year by an amount equal to 1% of our total outstanding common shares as of the immediately preceding December 31.

NOTE 6—SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one reportable operating segment, semiconductors and IP solutions for the secure storage, distribution and presentation of high-definition content. FASB ASC No. 280-10-50, "*Disclosures on Segment Reporting*," establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. FASB ASC No. 280-10-50 also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company's Chief Executive Officer, who is considered to be our chief operating decision maker, reviews financial information presented on one operating segment basis for purposes of making operating decisions and assessing financial performance. The Company had only one operating segment in each of the years ended December 31, 2010, 2009 and 2008 and it operates in only one reportable operating segment, semiconductor and IP solutions for high-definition content.

Revenue

Revenue by geographic area based on bill to location was as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Japan	$ 57,217	$ 40,842	$ 65,824
Taiwan	43,042	38,036	54,434
North America	40,405	31,008	45,479
Korea	18,515	4,788	11,858
Europe	15,516	18,189	32,960
China	15,229	12,718	36,923
Others	1,423	5,008	26,937
	$191,347	$150,589	$274,415

Revenue by product line was as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Consumer Electronics	$131,362	$102,391	$167,599
Personal Computers	8,562	8,905	40,141
Storage products	12,917	11,372	25,461
Licensing	38,506	27,921	41,214
	$191,347	$150,589	$274,415

Revenue by product line, including licensing was as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Consumer Electronics	$167,839	$129,178	$199,591
Personal Computers	8,659	8,957	44,311
Storage products	14,849	12,454	30,513
	$191,347	$150,589	$274,415

In 2010, three customers generated 17.0%, 11.3% and 11.0% of the Company's total revenue, and at December 31, 2010, two customers represented 25.7% and 17.2% of net accounts receivable. In 2009, two customers generated 11.9% and 10.3% of the Company's total revenue, and at December 31, 2009, one customer represented 10.0% of net accounts receivable. In 2008, four customers generated 14.6%, 11.8%, 11.5% and 10.5% of the Company's total revenue. The Company's top five customers, including distributors, generated 58.3%, 44.2% and 55.1% of the Company's revenue in 2010, 2009 and 2008, respectively.

Property and Equipment

At December 31, 2010, approximately $5.6 million or 49.4% of the Company's consolidated net property and equipment are located in the US, approximately $3.0 million or 26.1% are located in China and approximately $2.0 million or 17.8% are located in Taiwan.

NOTE 7—LEGAL PROCEEDINGS

On December 7, 2001, the Company and certain of its officers and directors were named as defendants, along with the underwriters of the Company's initial public offering, in a securities class action lawsuit. The lawsuit alleges that the defendants participated in a scheme to inflate the price of the Company's stock in its initial public offering and in the aftermarket through a series of misstatements and omissions associated with the offering. The lawsuit is one of several hundred similar cases pending in the Southern District of New York that have been consolidated by the court. In February 2003, the District Court issued an order denying a motion to dismiss by all defendants on common issues of law. In July 2003, the Company, along with over 300 other issuers named as defendants, agreed to a settlement of this litigation with plaintiffs. While the parties' request for court approval of the settlement was pending, in December 2006 the United States Court of Appeals for the Second Circuit reversed the District Court's determination that six focus cases could be certified as class actions. In April 2007, the Second Circuit denied plaintiffs' petition for rehearing, but acknowledged that the District Court might certify a more limited class. At a June 26, 2007 status conference, the Court terminated the proposed

settlement as stipulated among the parties. Plaintiffs filed an amended complaint on August 14, 2007. On September 27, 2007, plaintiffs filed a motion for class certification in the six focus cases, which was withdrawn on October 10, 2008. On November 13, 2007 defendants in the six focus cases filed a motion to dismiss the complaint for failure to state a claim, which the district court denied in March 2008. Plaintiffs, the issuer defendants (including the Company), the underwriter defendants, and the insurance carriers for the defendants, have engaged in mediation and settlement negotiations. The parties have reached a settlement agreement, which was submitted to the District Court for preliminary approval on April 2, 2009. As part of this settlement, the Company's insurance carrier has agreed to assume the Company's entire payment obligation under the terms of the settlement. On June 10, 2009, the District Court granted preliminary approval of the proposed settlement agreement. After a September 10, 2009 hearing, the District Court gave final approval to the settlement on October 5, 2009. Several objectors to the settlement have filed notices of appeal to the United States Court of Appeal for the Second Circuit from the District Court's order granting final approval of the settlement. Although the District Court has granted final approval of the settlement agreement, there can be no guarantee that it will not be reversed on appeal. The Company believes that it has meritorious defenses to these claims. If the settlement is not implemented and the litigation continues against the Company, the Company would continue to defend against this action vigorously. In light of the uncertainty of the appellate process, and any subsequent proceedings in the trial court in the event the settlement is reversed on appeal, the Company is unable to determine the likelihood of an unfavorable outcome against them and is unable to reasonably estimate a range of loss, if any.

On July 31, 2007, the Company received a demand on behalf of alleged shareholder Vanessa Simmonds that its board of directors prosecute a claim against the underwriters of its initial public offering, in addition to certain unidentified officers, directors and principal stockholders as identified in the Company's IPO prospectus, for violations of sections 16(a) and 16(b) of the Securities Exchange Act of 1934. In October 2007, a lawsuit was filed in the United States District Court for the Western District of Washington by Ms. Simmonds against certain of the underwriters of the Company's initial public offering. The plaintiff alleges that the underwriters engaged in short-swing trades and seeks disgorgement of profits in amounts to be proven at trial from the underwriters. On February 25, 2008, Ms. Simmonds filed an amended complaint. The suit names the Company as a nominal defendant, contains no claims against the Company and seeks no relief from it. This lawsuit is one of more than fifty similar actions filed in the same court. On July 25, 2008, the underwriter defendants in the various actions filed a joint motion to dismiss the complaints for failure to state a claim. In addition, certain issuer defendants in the various actions filed a joint motion to dismiss the complaints for failure to state a claim. The parties entered into a stipulation, entered as an order by the court that the Company is not required to answer or otherwise respond to the amended complaint. Accordingly, the Company did not join the motion to dismiss filed by certain issuers. On March 12, 2009, the court dismissed the complaint in this lawsuit with prejudice. On April 10, 2009, the plaintiff filed a notice of appeal of the District Court's order, and thereafter the underwriter defendants' filed a cross appeal to a portion of the District Court's order that dismissed thirty (30) of the cases without prejudice following the moving issuers' motion to dismiss. On May 22, 2009, an order was issued granting the parties' joint motion to consolidate the 54 appeals and 30 cross-appeals. Oral argument in the Ninth Circuit was heard on October 5, 2010, and the Court issued its written opinion on December 2, 2010. The Ninth Circuit affirmed the District Court's decision that the demand letters that plaintiff submitted to the thirty moving issues were inadequate and directed the District Court to dismiss those actions with prejudice. The Ninth Circuit further directed the District Court to consider in the first instance whether the demand letters submitted to the other 24 issues (including the Company) were sufficiently similar as also to require dismissal with prejudice. The Ninth Circuit reversed the District Court's decision in favor of the underwriter defendants on statute of limitations grounds. On December 16, 2010, plaintiff and the underwriter defendants separately petitioned for a rehearing and a rehearing en banc, which petitions were denied on January 18, 2011. Although we believe that the Ninth Circuit's decision would be dispositive of plaintiff's claim if the matter were returned to the trial court, due to the

complexities and uncertainty surrounding the possible proceedings in the Supreme Court and the possible proceedings in the trial court, the Company is unable to determine either the likelihood of an outcome in favor of the plaintiff, or whether any ultimate recovery of short-swing profits might result in a net recovery in our favor in light of the expenses of any future proceedings.

On June 9, 2010, the Company was named in a lawsuit, captioned as "Red.com, Inc. dba Red Digital Camera v. Silicon Image, Inc.," and filed in the Superior Court of California, Orange County by the plaintiff, Red.com. The plaintiff alleges breach of contract, fraud and negligent misrepresentation. The lawsuit is based on an allegation that the Company breached a licensing agreement with the plaintiff. The fraud and negligent misrepresentation claims are based on certain alleged misrepresentations made in connection with the licensing agreement. At this time, the case is still in the very early stages of the litigation. The plaintiff filed an amended complaint on September 30, 2010. The Company filed a demurrer, motion to strike and request for judicial notice on November 4, 2010 and the Court has denied all three at the hearing held on January 24, 2011. The court has referred the matter to Early Neutral Evaluation to be completed by March 28, 2011 and the next Case Management Conference with the court is scheduled for March 28, 2011. The Company was served with the initial set of discovery requests by the plaintiff on January 27, 2011 and the trial date is scheduled for August 29, 2011.

The Company has been engaged in active negotiations with the plaintiff to reach a settlement and have received the proposed draft of the Settlement Agreement from Red.com on February 9, 2011. However, if a settlement is not reached, the Company will continue to defend vigorously against the lawsuit. The Company has also provided timely notice of the lawsuit to its Executive and Officers (E&O) insurance carrier, which has agreed to cover the claim, subject to a full and complete reservation of rights. The Company has also noticed the circumstance to its Directors and Officers (D&O) insurance carrier, which has also been accepted under similar reservation of rights. Due to the complexities and uncertainty surrounding the nature of the claims, the Company is unable to determine the likelihood of an unfavorable outcome against them and is unable to reasonably estimate a range of loss, if any, at this time.

In addition, the Company has been named as a defendant in a number of judicial and administrative proceedings incidental to its business and may be named again from time to time.

The Company intends to defend the above matters vigorously and although adverse decisions or settlements may occur in one or more of such cases, the final resolution of these matters, individually or in the aggregate, is not expected to have a material adverse effect on the Company's results of operations, financial position or cash flows.

NOTE 8—RESTRUCTURING CHARGES

For the years ended December 31, 2010 and 2009, the Company recorded restructuring expense of approximately $3.3 million and $22.9 million, respectively. The restructuring expense recorded for the year ended December 31, 2010 was primarily related to (i) $2.0 million cost for the termination of the services of a certain R&D engineering services firm, (ii) $1.0 million cost relating to operating lease commitments on exited facilities and (iii) $0.3 million impairment of certain fixed assets.

The $22.9 million restructuring expense recognized in 2009 was primarily related to the severance cost and termination benefits associated with the Company's restructuring activities in 2009, particularly the closure of the Company's two R&D sites in Germany. The Company decided to restructure its research and development operations in Germany in 2009 because of the Company's desire to focus on discrete semiconductor products and related intellectual property. There was no outstanding liability relating to severance cost and termination benefits as of December 31, 2010.

In 2008, the Company announced restructuring plans to improve the effectiveness and efficiency of its operating model as part of its program to pursue continuous improvement. The restructuring expense for the year ended December 31, 2008 amounted to $5.9 million which consisted primarily of $4.6 million related to employee severance and benefit arrangements due to the termination of 57 employees, a charge of $1.1 million relating to retirement of certain assets and a charge of $0.2 million relating to operating lease termination costs.

The table below presents the restructuring activities for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	Employee Severance and Benefits	Operating Lease and Other Agreements Cancellation	Fixed Assets and Other Assets Impaired	Others	Total
Accrued restructuring balance as of January 1, 2008	$ —	$ —	$ —	$ —	$ —
Additional accruals/adjustments	4,606	189	1,063	—	5,858
Cash payments	(1,340)	—	—		(1,340)
Noncash charges and adjustments	(14)	11	(1,063)	—	(1,066)
Foreign currency changes	—	—	—	—	—
Accrued restructuring balance as of December 31, 2008	3,252	200	—	—	3,452
Additional accruals/adjustments	21,632	225	649	401	22,907
Cash payments	(6,950)	(164)	—		(7,114)
Noncash charges and adjustments	—	—	(649)	(401)	(1,050)
Foreign currency changes	(882)	—	—		(882)
Accrued restructuring balance as of December 31, 2009	17,052	261	—	—	17,313
Additional accruals/adjustments	126	2,831	302		3,259
Cash payments	(16,138)	(1,243)	—	—	(17,381)
Noncash charges and adjustments	—	—	(302)		(302)
Foreign currency changes	(1,040)	—	—	—	(1,040)
Accrued restructuring balance as of December 31, 2010	$ —	$ 1,849	$ —	$ —	$ 1,849

The $1.8 million outstanding restructuring liability as of December 31, 2010 consists primarily of $1.5 million related to the termination of an R&D engineering services agreement and $0.3 million associated with the termination of certain operating lease agreements for exited facilities. The $1.5 million liability relating to the R&D Engineering Services agreement will be fully paid during the first three quarters of fiscal year 2011 while $0.1 million and $0.2 million of the restructuring liability relating to operating lease obligations on exited facilities will be substantially paid in July 2011 and November 2012, respectively.

NOTE 9—FAIR VALUE MEASUREMENTS

The Company records its financial instruments that are accounted for under FASB ASC No. 320-10-25, *Recognition of Investments in Debt and Equity Securities,* and derivative contracts under FASB ASC No. 815, *Derivatives and Hedging*, at fair value. The determination of fair value is based upon the fair value framework established by FASB ASC No. 820-10-35, *Fair Value Measurements and Disclosures—Subsequent Measurement* ("ASC 820-10-35"). ASC 820-10-35 provides that a fair value measurement assumes that the

transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The carrying value of the Company's financial instruments including cash and cash equivalents and short-term investments, approximates fair market value due to the relatively short period of time to maturity. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

The Company's cash equivalents and short term investments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Level 1 assets consist of money market fund securities and U.S. government and agency securities. These instruments are generally classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets.

The Company classifies items in Level 2 of the fair value hierarchy if the financial asset or liability is valued using observable inputs. The Company uses observable inputs including quoted prices in active markets for similar assets or liabilities. The Company's Level 2 financial assets include corporate and municipal securities. These investments are priced using observable inputs and valuation models, which vary by asset class. The fair values of all of the Company's investments in corporate and municipal securities are determined through the assistance of a third party pricing service. For the short-term investments in the Company's portfolio, multiple pricing sources are generally available. The pricing service uses inputs from multiple industry standard data providers or other third party sources and various methodologies, such as weighting and models, to determine the appropriate price at the measurement date.

The table below sets forth the Company's cash equivalents and short-term investments as of December 31, 2010, which are measured at fair value on a recurring basis by level within the fair value hierarchy. As required by ASC 820-10-35, these are classified based on the lowest level of input that is significant to the fair value measurement.

	Fair value measurements using		Assets at fair value
	Level 1	Level 2	
Cash equivalents:			
Money market funds	$ 5,407	$ —	$ 5,407
Municipal securities	—	451	451
Total cash equivalents	5,407	451	5,858
Short-term investments:			
United States government agencies	19,480	—	19,480
Municipal securities	—	79,472	79,472
Corporate securities	—	61,586	61,586
Total short-term investments	19,480	141,058	160,538
Total assets at fair value	$24,887	$141,509	$166,396

The cash equivalents in the above table exclude $24.1 million in cash held by the Company or in its accounts or with investment fund managers as of December 31, 2010. During the year ended December 31, 2010, the Company held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

The following table sets forth the Company's cash equivalents and short-term investments as of December 31, 2009, which were measured at fair value on a recurring basis by level within the fair value hierarchy. As required by ASC 820-10-35, these were classified based on the lowest level of input that was significant to the fair value measurement.

	Fair value measurements using		Assets at fair value
	Level 1	Level 2	
Cash equivalents:			
Commercial paper	$ 7,500	$ —	$ 7,500
Money market funds	20	—	20
Total cash equivalents	7,520	—	7,520
Short-term investments:			
United States government agencies	3,382	—	3,382
Money market funds	300	—	300
Municipal securities	—	106,165	106,165
Corporate securities	—	11,019	11,019
Total short-term investments	3,682	117,184	120,866
Total assets at fair value	$11,202	$117,184	$128,386

The cash equivalents in the above table excluded $22.2 million in cash held by the Company or in its accounts or with investment fund managers as of December 31, 2009. During the twelve months ended December 31, 2009, the Company held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

As of December 31, 2010 and 2009, the Company did not hold financial assets and liabilities which were recorded at fair value in the Level 3 category. There were no transfers between Level 1 and Level 2 fair value hierarchies during the years ended December 31, 2010 and 2009.

NOTE 10—DERIVATIVE INSTRUMENTS

The Company accounts for derivative instruments in accordance with the provisions of FASB ASC No. 815-20-25, *Derivatives and Hedging—Hedging Recognition.* The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company's derivatives are designated as cash flow hedges. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain (loss) is reported immediately in other income (expense) on the Company's consolidated statement of operations.

Silicon Image is a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company has operations in the United States, Europe and Asia, however, a majority of its revenue, costs of revenue, expense and capital purchasing activities are being transacted in U.S. Dollars. As a corporation with international as well as domestic operations, the Company is exposed to changes in foreign exchange rates. These exposures may change over time and could have a material adverse impact on the Company's financial results. Periodically, the Company uses foreign currency forward contracts to hedge

certain forecasted foreign currency transactions relating to operating expenses. The Company does not enter into derivatives for speculative or trading purposes. The Company uses derivative instruments primarily to manage exposures to foreign currency fluctuations on forecasted cash flows and balances primarily denominated in Euro. The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. These derivatives are designated as cash flow hedges and have maturities of less than one year.

The derivatives expose the Company to credit and non performance risks to the extent that the counterparties may be unable to meet the terms of the agreement. The Company seeks to mitigate such risks by limiting the counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counterparties.

The amount of gain (loss) recognized in other comprehensive income ("OCI") on effective cash flow hedges as of December 31, 2010 and 2009, the amount of gain (loss) reclassified from accumulated OCI to operating expenses for the years ended December 31, 2010 and 2009, and the amount of gain (loss) recognized in income on ineffective cash flow hedges for the years ended December 31, 2010 and 2009 were insignificant.

As of December 31, 2010 and 2009, the outstanding foreign currency forward contracts had a total notional value of approximately $2.9 million and $0.5 million, respectively.

NOTE 11—IMPAIRMENT OF INTANGIBLE ASSETS

In February 2007, the Company entered into an agreement with Sunplus Technology Co., Ltd. ("Sunplus") to license certain technology (the "Sunplus IP") from Sunplus for $40.0 million. The purpose of this licensing agreement was to obtain advanced technology for development of future products. The agreement provided for the Company to pay an aggregate of $40.0 million to Sunplus. Through December 31, 2010, the Company had paid Sunplus a total of $40.0 million, representing the full consideration for the licensed technology and related deliverables and support.

As required by FASB ASC No. 360-10-35, *Subsequent Measurement of Property, Plant and Equipment,* paragraphs 15-49, *Impairment or Disposal of Long-Lived Assets,* the Company made an impairment evaluation of its long-lived assets and determined that its investment in Sunplus IP was impaired as of December 31, 2009. The impairment charge for intangible assets subject to amortization, for which impairment indicators exist, consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. In 2009, the Company determined that, in light of certain changes to its product strategy going forward, the intellectual property licensed from Sunplus no longer aligned with the Company's product roadmap and therefore would not be used. The reason for acquiring the Sunplus IP was to provide the Company with advanced technology for the development of large scale integrated circuits, which included comprehensive digital television system functionality. Given the Company's current product strategy, which is to continue to focus on discrete semiconductor products and related intellectual property, the Sunplus IP was determined to no longer align with the Company's product roadmap. The change in the Company's product strategy was due to market place and related competitive dynamics. In connection with the decision to discontinue the use of the Sunplus IP, the Company wrote-off the unamortized balance of the investment in Sunplus IP of $28.3 million and recognized a pre-tax impairment charge of $28.3 million in the 2009 consolidated statement of operations under operating expense, "Impairment of Intangible Assets".

NOTE 12—IMPAIRMENT OF GOODWILL

The Company periodically reviews the carrying value of intangible assets not subject to amortization, including goodwill, to determine if any impairment exists. FASB ASC No. 350-20-35, *Subsequent Measurement of Goodwill,* requires that goodwill be assessed annually for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company determines the fair value of the reporting unit using generally accepted valuation methodology which considers market capitalization and market premiums. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company has one reportable operating segment and the goodwill impairment testing was done at the reporting unit level. In 2009, the Company assessed goodwill for impairment since it observed there were indicators of impairment. The notable indicators were a sustained and significant decline in the Company's stock price, depressed market conditions and declining industry trends. The Company's stock price was in a period of sustained decline in 2009 and the business climate had deteriorated substantially in 2009. Based on the results of the first step of the goodwill analysis, it was determined that the Company's net book value exceeded its estimated fair value. As a result, the Company performed the second step of the impairment test to determine the implied fair value of goodwill. Under step two, the difference between the estimated fair value of the Company and the sum of the fair value of the identified net assets results in the residual value of goodwill. Specifically, the Company allocated the estimated fair value of the Company as determined in the first step of the goodwill analysis to the recognized and unrecognized net assets, including allocations to intangible assets. Based on the analysis performed under step two, there was no remaining implied value attributable to goodwill and accordingly, the Company wrote off the entire goodwill balance and recognized goodwill impairment charges of approximately $19.2 million in the 2009 consolidated statement of operations under operating expense, "Impairment of Goodwill."

NOTE 13—SUBSEQUENT EVENTS

In February 2011, the Company finalized a business acquisition which is intended to strengthen the Company's position within its DTV and Home Theater markets, as well as its applications for use in the mobile space. The Company paid cash consideration of approximately $1.9 million and assumed net liabilities of approximately $1.6 million. In addition, the Company may also be required to pay approximately $1.7 million in 2012 if certain performance conditions are achieved.

As discussed in Note 4, on January 6, 2011, the Company entered into a seven-year lease agreement (the "Lease") with Christensen Holdings, L.P., a California limited partnership. Pursuant to the Lease, the Company is leasing an office building in Sunnyvale, California consisting of approximately 128,154 square feet, together with the non-exclusive right to use parking facilities and other amenities. This new office building will house the Company's new corporate headquarters, which the Company expects to begin occupying in June 2011, just prior to the expiration of the lease agreement for the Company's current headquarters in July 2011. The total commitment under the Lease agreement is approximately $10.1 million which will be paid from fiscal year 2011 through fiscal year 2017.

NOTE 14—UNAUDITED SELECTED QUARTERLY FINANCIAL DATA

The following table sets forth the Company's consolidated statements of operations data for the eight quarters ended December 31, 2010. This unaudited quarterly information has been prepared on the same basis as the Company's audited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of this data.

Year Ended December 31, 2010 (in thousands, except per share data)

	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenue:				
Product	$26,293	$38,364	$46,117	$42,067
Licensing	8,016	6,186	14,387	9,917
Total revenue	34,309	44,550	60,504	51,984
Cost of revenue:				
Cost of product revenue(1)	14,822	19,489	22,587	20,582
Cost of licensing revenue	23	13	67	166
Total cost of revenues	14,845	19,502	22,654	20,748
Gross margin	19,464	25,048	37,850	31,236
Operating expenses:				
Research and development(2)	13,137	13,659	13,583	14,934
Selling, general and administrative(3)	12,030	11,141	11,691	11,848
Restructuring expense	585	268	99	2,307
Amortization of intangible assets	37	38	37	37
Total operating expenses	25,789	25,106	25,410	29,126
Income (loss) from operations	(6,325)	(58)	12,440	2,110
Interest income and other, net	604	630	556	1,834
Income (loss) before provision for income taxes	(5,721)	572	12,996	3,944
Income tax expense (benefit)	1,521	(1,203)	3,531	(240)
Net income (loss)	$ (7,242)	$ 1,775	$ 9,465	$ 4,184
Net income (loss) per share—basic and diluted	$ (0.10)	$ 0.02	$ 0.12	$ 0.05
Weighted average shares—basic	76,013	76,718	77,210	77,873
Weighted average shares—diluted	76,013	77,511	78,124	80,512
(1) Includes stock-based compensation expense	$ 184	$ 145	$ 127	$ 102
(2) Includes stock-based compensation expense	$ 645	$ 725	$ 687	$ 574
(3) Includes stock-based compensation expense	$ 1,331	$ 1,115	$ 936	$ 770

Year Ended December 31, 2009(in thousands, except per share data)

	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenue:				
Product	$ 34,595	$ 29,436	$ 30,716	$ 27,921
Licensing	5,917	7,900	6,440	7,664
Total revenue	40,512	37,336	37,156	35,585
Cost of revenue:				
Cost of product revenue(1)	18,219	17,264	16,801	16,290
Cost of licensing revenue	196	274	156	586
Total cost of revenues	18,415	17,538	16,957	16,876
Gross margin	22,097	19,798	20,199	18,709
Operating expenses:				
Research and development(2)	17,734	17,619	17,807	15,069
Selling, general and administrative(3)	13,715	12,678	17,222	11,385
Impairment of goodwill	19,210	—	—	—
Amortization of intangible assets	1,473	1,473	1,473	59
Restructuring expense	759	7,098	348	14,702
Impairment of intangible assets	—	—	—	28,296
Total operating expenses	52,891	38,868	36,850	69,511
Loss from operations	(30,794)	(19,070)	(16,651)	(50,802)
Interest income and other, net	939	598	696	772
Loss before provision for income taxes	(29,855)	(18,472)	(15,955)	(50,030)
Income tax expense (benefit)	3,474	(5,143)	(444)	16,910
Net loss	$(33,329)	$(13,329)	$(15,511)	$(66,940)
Net income (loss) per share—basic and diluted	$ (0.45)	$ (0.18)	$ (0.21)	$ (0.89)
Weighted average shares—basic and diluted	74,421	74,806	75,053	75,355
(1) Includes stock-based compensation expense	$ 199	$ 244	$ 363	$ 180
(2) Includes stock-based compensation expense	$ 1,374	$ 1,617	$ 2,374	$ 887
(3) Includes stock-based compensation expense	$ 1,992	$ 2,352	$ 4,911	$ 1,608

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Silicon Image, Inc.

We have audited the accompanying consolidated balance sheets of Silicon Image, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. 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 the standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of Silicon Image, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
February 16, 2011

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.

SILICON IMAGE, INC.

Dated: February 16, 2011

By: /s/ CAMILLO MARTINO

Camillo Martino
Chief Executive Officer
(Principal Executive Officer)

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

Signature	Title	Date
/s/ CAMILLO MARTINO **Camillo Martino**	Chief Executive Officer and Director (Principal Executive Officer)	February 16, 2011
/s/ NOLAND GRANBERRY **Noland Granberry**	Chief Financial Officer (Principal Financial Officer)	February 16, 2011
/s/ WILLIAM GEORGE **William George**	Director	February 16, 2011
/s/ PETER HANELT **Peter Hanelt**	Director	February 16, 2011
/s/ JOHN HODGE **John Hodge**	Director	February 16, 2011
/s/ MASOOD JABBAR **Masood Jabbar**	Director	February 16, 2011
/s/ WILLIAM RADUCHEL **William Raduchel**	Director	February 16, 2011

INDEX TO EXHIBITS

3.01	Second Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference from Exhibit 3.03 of the Registrant's Registration Statement on Form S-1 (File No. 333-83665), as amended, declared effective by the Securities and Exchange Commission on October 5, 1999 (the "Form S-1")).
3.02	Restated Bylaws of the Registrant (Incorporated by reference from Exhibit 3.01 of the Form 8-K filed by the Registrant on February 4, 2005).
3.03	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference from Exhibit 3.04 of the Form 10-Q filed by Registrant on August 14, 2001).
4.01	Form of Specimen Certificate for Registrant's common stock (Incorporated by reference from Exhibit 4.01 of the Form S-1).
10.01*	Form of Indemnity Agreement entered into between the Registrant and certain of its directors and officers. (Incorporated by reference from Exhibit 10.01 of the Form 10-K filed by the Registrant on March 15, 2004).
10.02*	1995 Equity Incentive Plan, as amended through July 20, 1999 and related forms of stock option agreements and stock option exercise agreements (Incorporated by reference from Exhibit 10.02 of the Form S-1).
10.03*	1999 Equity Incentive Plan, as amended (including Sub-Plan for UK employees) and related forms of notice of grant of stock options, stock option agreement, stock option exercise notice and joint election (for UK employees) (Incorporated by reference from Exhibit 10.03 of the Form 10-K filed by the Registrant on March 16, 2006).
10.04*	1999 Employee Stock Purchase Plan (including Sub-Plan for UK employees) and related enrollment forms, subscription agreements, notice of suspension, notice of withdrawal and joint election (for UK employees) (Incorporated by reference from Exhibit 10.03 of the Form 10-Q filed by the Registrant on August 8, 2007).
10.05†	Business Cooperation Agreement dated September 16, 1998 between Intel Corporation and the Registrant, as amended October 30, 1998 (Incorporated by reference from Exhibit 10.12 of the Form S-1).
10.06†	Patent License Agreement dated September 16, 1998 between Intel Corporation and the Registrant (Incorporated by reference from Exhibit 10.13 of the Form S-1).
10.07	Digital Visual Interface Specification Revision 1.0 Promoter's Agreement dated January 8, 1999 (Incorporated by reference from Exhibit 10.14 of the Form S-1).
10.08*	Form of Nonqualified Stock Option Agreement entered into between Registrant and its officers (Incorporated by reference from Exhibit 10.21 of the Form S-1).
10.09*	CMD Technology Inc. 1991 Stock Option Plan and related form of Incentive Stock Option Agreement (Incorporated by reference from Exhibit 4.05 of the Form S-8 filed by the Registrant on June 26, 2001).
10.10*	CMD Technology Inc. 1999 Stock Incentive Plan, as amended and related form of Stock Option Agreement (Incorporated by reference from Exhibit 10.35 of the Form 10-Q filed by the Registrant on November 14, 2001).
10.11*	Silicon Communication Lab, Inc. 1999 Stock Option Plan, as amended and related form of Stock Option Agreement (Incorporated by reference from Exhibit 10.35 of the Form 10-Q filed by the Registrant on November 14, 2001).

10.12	Lease Agreement dated December 12, 2002 between iSTAR Sunnyvale Partners, L.P. and the Registrant. (Incorporated by reference from Exhibit 10.44 of the Form 10-K filed by the Registrant on March 27, 2003)
10.13*	TransWarp Networks, Inc. 2002 Stock Option/Stock Issuance Plan (Incorporated by reference from Exhibit 4.06 of the Form S-8 filed by the Registrant on May 23, 2003).
10.14*	Director Compensation Plan (Incorporated by reference from Exhibit 10.01 of the Form 10-Q filed by the Registrant on May 10, 2005).
10.15†	Business Cooperation Agreement dated April 26, 2005 between Intel Corporation and the Registrant (Incorporated by reference from Exhibit 10.01 of the Form 10-Q filed by the Registrant on August 9, 2005).
10.16	First Amendment to Lease dated July 23, 2003 between iStar Sunnyvale Partners, L.P. and the Registrant. (Incorporated by reference from Exhibit 10.28 of the Form 10-K filed by the Registrant on March 1, 2007).
10.17	Second Amendment to Lease dated February 17, 2004 between iStar Sunnyvale Partners, L.P. and the Registrant. (Incorporated by reference from Exhibit 10.29 of the Form 10-K filed by the Registrant on March 1, 2007).
10.18	Third Amendment to Lease dated June 1, 2004 between iStar Sunnyvale Partners, L.P. and the Registrant. (Incorporated by reference from Exhibit 10.30 of the Form 10-K filed by the Registrant on March 1, 2007).
10.19	Fourth Amendment to Lease dated May 10, 2006 between iStar Sunnyvale Partners, L.P. and the Registrant. (Incorporated by reference from Exhibit 10.31 of the Form 10-K filed by the Registrant on March 1, 2007).
10.20*	Employment Offer Letter between Edward Lopez and the Registrant dated December 23, 2006. (Incorporated by reference from Exhibit 10.34 of the Form 10-K filed by the Registrant on March 1, 2007).
10.21†	Settlement and License Agreement between the Registrant and Genesis Microchip Inc. dated December 21, 2006. (Incorporated by reference from Exhibit 10.35 of the Form 10-K filed by the Registrant on March 1, 2007).
10.22***	Sale and Purchase Agreement dated January 2, 2007 by and among the Registrant, Infineon Technologies AG and sci-worx GmbH (Incorporated by reference from Exhibit 10.01 to the Form 8-K filed by the Registrant on January 8, 2007).
10.23†	Video Processor Design License Agreement with Sunplus Technology Co., Ltd. (Incorporated by reference to Exhibit 10.02 to our Quarterly Report on Form 10-Q filed May 7, 2007)
10.24*	Employment Offer Letter between Noland Granberry and the Registrant dated February 14, 2006 (incorporated by reference to Exhibit 10.04 to our Quarterly Report on Form 10-K filed May 7, 2007).
10.25*	ESPP 1999 Plan Document including UK Sub-Plan As Amended (Incorporated by reference to Exhibit 10.03 to our Quarterly Report on Form 10-Q filed August 8, 2007)
10.26*	Form of Change of Control Retention Agreement. (Incorporated by reference to Exhibit 10.01 to the Registrant's current report on Form 8-K filed on December 19, 2007).
10.27	Accelerated Stock Repurchase Agreement dated February 13, 2008 between Credit Suisse International and the Registrant. (Incorporated by reference from Exhibit 10.39 of the Form 10-K filed by the Registrant on February 27, 2008).

10.28* 1999 Equity Incentive Plan, as amended and restated December 14, 2007. (Incorporated by reference from Exhibit 10.40* of the Form 10-K filed by the Registrant on February 27, 2008).

10.29* Notice of Grant of Restricted Stock Units to named executive officers (For U.S. Participants), dated February 15, 2008. (Incorporated by reference to Exhibit 10.01 to the Registrant's current report on Form 8-K filed on February 22, 2008).

10.30* 2008 Equity Incentive Plan, approved by stockholders May 21, 2008 (incorporated by reference to Exhibit 4.07 to the Form S-8 filed with the Commission on May 23, 2008).

10.31* Amendment to the Registrant's Employee Stock Purchase Plan ("***ESPP*** "), approved by stockholders May 21, 2008 (incorporated by reference to Exhibit 4.05 to the Form S-8 filed with the Commission on May 23, 2008).

10.32 Settlement of litigation with Analogix Semiconductor, Inc., dated December 4, 2008 (Incorporated by reference to Exhibit 99.01 to the Registrant's current report on Form 8-K filed on December 5, 2008).

10.33 Lease Agreement entered into on January 6, 2011 between Christensen Holdings, L.P. and the Registrant

10.34* Employment offer letter with Camillo Martino dated December 23, 2009. (Incorporated by reference to Exhibit 10.01 to the Registrant's current report on Form 8-K filed on January 8, 2010).

21.01 Subsidiaries of the Registrant.

23.01 Consent of Deloitte & Touche LLP.

31.01 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.02 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.01** Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.02** Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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† Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

* This exhibit is a management contract or compensatory plan or arrangement.

** This exhibit is being furnished, rather than filed and shall not be deemed incorporated by reference into any filing of the Registrant, in accordance with Item 601 of Regulation S-K.

*** Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

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