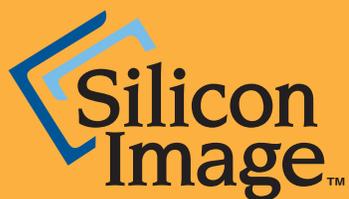


Driving Solutions for Next Generation Digital Connectivity



# 2005

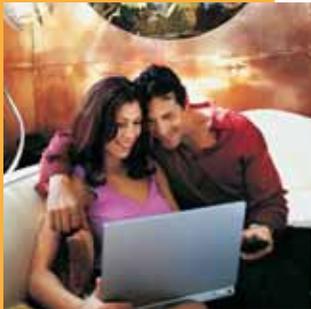
Letter to Stockholders

Silicon Image is a leader in the secure distribution, presentation and storage of high-definition content. We create and drive industry standards for digital content delivery such as DVI, HDMI and UDI, leveraging strategic partnerships with global leaders in the consumer electronics and personal computing markets.

Silicon Image offers robust, high-bandwidth semiconductors in the global PC display, consumer electronics and storage arenas based on its innovative digital interconnect technology and has become one of the leading semiconductor IP licensing vendors in the world. For more information on Silicon Image, visit [www.siliconimage.com](http://www.siliconimage.com).



# Letter to Stockholders



## Company Overview

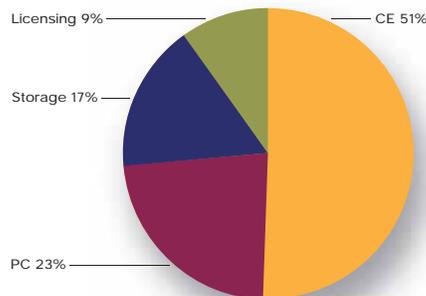
In 2005, Silicon Image delivered record annual results for revenue, operating profit, operating margin and operating cash flows. In addition, we demonstrated improved efficiency over 2004 by growing our top line revenue by 23 percent while generating net income of \$49.5 million, on revenues of \$212.4 million, resulting in a 23 percent profit margin in 2005. Furthermore, our revenue increased each quarter throughout the year.

As consumers worldwide transition to an all-digital video and audio experience, our products are considered the best in their class by our customers, the world's top-tier consumer electronics companies.

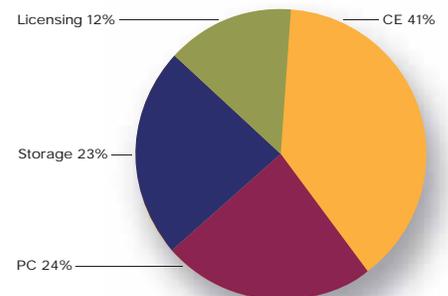
## Market Momentum

In 2005, Silicon Image's commitment to promoting open interoperable standards such as HDMI™ (High-Definition Multimedia Interface) was a major factor in HDMI's solidified position as the de facto digital interface standard for HD and the consumer electronics market. HDMI has proliferated to media PCs, video cameras, cable set-top boxes, satellite set-top boxes and A/V receivers. The number of companies supporting the HDMI standard has almost doubled from 160 adopters at the end of 2004 to 313 adopters at the end of 2005. HDMI has also expanded in China, with the opening of an HDMI testing center in Shenzhen and more than 45 adopters in mainland China. Silicon Image, along with the other HDMI founders (Hitachi, Matsushita, Philips, Sony, Thomson and Toshiba), remains committed to the future development and innovation of the standard to ensure that every revision takes the consumer digital experience to new levels of excellence.

In conjunction with Intel Corporation, Apple Computer, Samsung Electronics, LG Electronics and National Semiconductor, Silicon Image also introduced the UDI (Unified Display Interface) standard to the PC market. The UDI standard is a replacement for the widely adopted DVI (Digital Visual Interface) standard originally launched in 1998 to bring high-quality digital video to the PC platform. UDI is targeted to become the new display interface for desktop PCs, workstations, notebook PCs and PC monitors, replacing the VGA standard and maintaining full backward compatibility with DVI as well as full interoperability with HDMI. The DVI, HDMI and UDI standards rely on Silicon Image's patented TMDS™ (Transition Minimized Differential Signaling) technology that has now shipped on over 100 million devices in the PC and CE markets. We anticipate the installed base of devices with these features to roughly double to over 200 million devices in 2006.



2005 Revenue by Market  
Total: \$212.4M



2004 Revenue by Market  
Total: \$173.2M

# Silicon Image Establishes Brands & Market-leading Products



## Financials

Silicon Image experienced another great financial year in 2005, and we are pleased with our performance.

We achieved record revenue of \$212.4 million, up \$39.2 million, or 23 percent, from 2004. We recorded net income of \$49.5 million, or \$0.59 per diluted share, as compared to a net loss of \$0.3 million, or \$0.0 per diluted share in 2004. Pre-tax income in 2005 included \$8.5 million of stock compensation benefit, compared to a stock compensation expense of \$32.8 million in 2004. Additionally, during the year we demonstrated strong asset management, generating \$55.6 million in operating cash flows and growing our cash and short-term investments from \$93.5 million to \$151.6 million as of December 31, 2005.

## Product Momentum

Silicon Image has just begun to impact the world of digital device connectivity, presentation and storage. We believe the ongoing opportunity for innovation provides long-term growth for our technology advancements and products on a worldwide basis. We introduced three new HDMI products in 2005 designed to extend our presence in both the CE and PC application environments. Both LG and Samsung selected us as their preferred supplier for HDMI products in 2005. Silicon Image shipped our HDMI and DVI products to virtually every major original equipment manufacturer (OEM) in the CE and PC markets.

Our overall CE business grew over 40 percent while our PC business grew over 21 percent year-over-year. Looking ahead, we expect both of these markets to be favorable for our products.

In the storage market, we have maintained our focus on SATA technology and continue to be one of the preferred solutions for PC motherboard and CE products in need of robust high-performance host bus adaptors and chips. We have also focused on enabling eSATA (external SATA), specifically for CE applications, to create a high-performance external connection for our SteelVine™ Storage Architecture. SteelVine, our unique storage architecture for consumer electronics applications, is steadily building momentum. We announced a distribution agreement with LaCie and demonstrated 10 of 20 design wins with several Taiwanese storage solution providers at CES in January 2006. High bandwidth storage connections will be critical as consumers access high-quality digital media stored on their PCs and DVRs and distribute that content throughout their homes and mobile environments. We are focused on making SteelVine a major driver for content consolidation since it provides a simple and reliable way to scale and access commercial and personal digital content. We did face the decline of both our PATA and Fiber Channel products, but they represent areas of discontinued investment for the company.

## The Future

Our vision of driving the architecture and semiconductor implementation for the secure distribution, presentation and storage of high-definition content in the consumer environment has positioned Silicon Image for continued growth.



Standards & Brands  
to Live By

### Branding

We have streamlined our product solutions under three brands: *VastLane HDMI Product Line* for our HDMI products enabling the secure distribution of high-performance digital video and audio connections in PC and CE devices; *PinnaClear TV Processor Line* for our new family of highly integrated video processors; and *SteelVine Storage Product Line* for our storage products aimed at enabling simple, reliable, scalable storage in consumer devices.

It is our goal to make these brands synonymous with the highest quality HD experience across a broad range of consumer devices.

### Testing

In 2005, we re-branded the PanelLink Cinema Partners program under the name Simplay Labs, LLC. The Simplay HD Testing Program provides compatibility testing for HD consumer electronics devices. Companies such as Samsung, LG, Sony, Hitachi, Pace, Scientific Atlanta, Tweeter, Monster and others have joined the Simplay HD program. By offering an industry-wide testing program to ensure DVI, HDMI and UDI product interoperability, we believe we can provide consumers with a consistent "plug and play" user experience and maximize their access to premium HD content.

### New Markets

We believe that the penetration of new markets in China and India represent important growth opportunities for our products. We will be growing our presence in these geographies to better serve our expanding customer base.

### HDMI Advancements

We expect HDMI will become available on a much broader set of platforms including game consoles, digital camcorders and digital cameras as well as on personal media players. Silicon Image is working to bring new capabilities to the HDMI standard that include: **higher speed** to support the demands of future HD display devices; **deep color** to support 30-bit, 36-bit and 48-bit color depths for stunning rendering of over one billion colors in unprecedented detail; **greater PC/CE convergence** for easier integration into low voltage, AC-coupled PC graphics controllers; **mini connector** providing a smaller form-factor connector for portable devices such as HD camcorders and still cameras demanding seamless HDTV connectivity; **lip sync** for accurate and automatic audio and video synchronization in devices; **additional support** for new compressed digital audio formats such as Dolby TrueHD and DTS-HD (Digital Theater System).

These capabilities represent significant advancements in innovation and quality that will enable us to increase our product presence in the high end of the market. Silicon Image believes that the mainstream success of HDMI relies on our ability to continuously innovate new features both in the standard and in our products.

### IP Licensing

Finally, licensing continues to be a significant part of our overall strategy to proliferate our technology and core implementations into the market while generating license fees and royalties into the future.

We are entering 2006 with a talented management team and an experienced board of directors. The board and executive management team at Silicon Image are well aligned behind a strategy of furthering our product successes in the secure distribution, presentation and storage of high-definition content in the consumer environment. We are proud of the financial performance delivered in 2005 and thank our employees for their dedication and hard work as well as our shareholders for their participation in our stock.



Steve Tirado  
Chief Executive Officer



## Selected Financial Data

(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Balance Sheet</b>			
Cash and short-term investments	\$ 151,562	\$ 93,520	\$ 37,254
Accounts receivable and inventories, net	47,213	33,343	23,066
Other assets	34,246	28,045	27,422
Total assets	<u>\$ 233,021</u>	<u>\$ 154,908</u>	<u>\$ 87,742</u>
Total debt	\$ 230	\$ 489	\$ 1,732
Other liabilities	56,245	32,340	23,617
Stockholders' equity	176,546	122,079	62,393
Total liabilities and equity	<u>\$ 233,021</u>	<u>\$ 154,908</u>	<u>\$ 87,742</u>
<b>Income Statement</b>			
Revenue	\$ 212,399	\$ 173,159	\$ 103,525
Gross margin	129,294	104,545	56,333
% of revenue	60.9%	60.4%	54.4%
Operating expenses	\$ 77,722	\$ 105,506	\$ 74,052
Interest income and other, net	4,707	1,644	4,909
Income taxes	6,730	1,007	-
Net income (loss)	<u>\$ 49,549</u>	<u>\$ (324)</u>	<u>\$ (12,810)</u>

## Corporate Directory

### Board of Directors

William George  
Peter Hanelt  
John Hodge  
David Hodges  
Masood Jabbar  
William Raduchel  
Steve Tirado

### Corporate Officers

Steve Tirado  
President and Chief Executive Officer  
  
Robert Freeman  
Chief Financial Officer  
  
J. Duane Northcutt  
Chief Technology Officer  
  
Patrick Reutens  
Chief Legal Officer  
  
John Shin  
Vice President, Engineering  
  
Rob Valiton  
Vice President, Worldwide Sales  
  
Dale Zimmerman  
Vice President, Worldwide Marketing

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investor@siliconimage.com

### Transfer Agent

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South Hackensack, New Jersey 07606-1915  
Domestic Stockholder Inquires: (800) 522-6645  
International Stockholder Inquires: (201) 329-8660  
www.mellon-investor.com

### Stock Listing

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

### Outside Counsel

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Mountain View, California 94041

### Independent Registered Public Accounting Firm

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San Jose, California 95113

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This letter contains forward-looking statements within the meaning of federal securities regulations. These forward-looking statements include statements related to growth of our target markets, growth in demand of our products, adoption of industry standards, market acceptance of new standards and products, plans regarding product development and product introductions, increased market acceptance of HDMI products, penetration of new geographic markets, and achievement of financial results and targets. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. In particular, growth of our target markets and demand for our products in those markets could differ from current expectations, rates of adoption of industry standards and products we are promoting may differ from current expectations, product development plans may differ from current expectations, our new product introductions or penetration into new geographic markets may not be timely or successful, and competitive pressures may affect our revenue and pricing levels. In addition, see "Factors Affecting Future Results" in the most recent Quarterly Report on Form 10-Q and "Risk Factors" in the most recent Annual Report on Form 10-K filed by Silicon Image with the Securities and Exchange Commission. Silicon Image assumes no obligation to update this forward-looking information.