



Silicon Motion Announces Third Quarter Results for the Period Ended September 30, 2006

October 26, 2006

Strong Growth Driven by Mobile Storage Products

Third Quarter 2006 Financial Summary:

- * Sales increased 39% year-over-year and 51% sequentially to NT\$1,037 million (US\$31.6 million)
- * Gross margin remained unchanged from 2Q06 at 53.5%
- * Operating margin increased to 28.0% from 24.6% in 2Q06
- * Net income increased 34% year-over-year and 55% sequentially to NT\$289 million (US\$8.8 million)
- * Diluted earnings per American Depositary Share (ADS) were NT\$9.23 (US\$0.28), up 35% from NT\$6.85 (US\$0.21) in 3Q05 and 55% from NT\$5.96 (US\$0.19) in 2Q06

Third Quarter 2006 Business Highlights:

- * Unit shipments of mobile storage products grew 104% year-over-year and 71% sequentially to 50 million units
- * The Company added full-page programming (NOP=1) support for all MLC NAND flash memory, including Samsung's 63-nanometer MLC flash memory, in the Company's Compact Flash controllers, Secure Digital controllers, MultiMediaCard controllers, xD-Picture Card controllers, and USB 2.0 flash disk controllers
- * The Company's SM321E and SM324 USB flash disk controllers qualified for the Basic tier of Microsoft's Windows Vista logo program and support Vista's ReadyBoost feature.

TAIPEI, Taiwan, Oct. 26 /PRNewswire-FirstCall/ -- Silicon Motion Technology Corporation (Nasdaq: SIMO; "the Company"), a leading fabless semiconductor company that designs, develops, and markets universally compatible, high-performance, low-power semiconductor solutions for the multimedia consumer electronics market, today announced its third quarter 2006 financial results. Under accounting principles generally accepted in the United States of America (US GAAP), diluted earnings per ADS were NT\$9.23 (US\$0.28) in the third quarter of 2006 (3Q06), an increase of 35% from NT\$6.85 (US\$0.21) in the same period of the previous year (3Q05) and an increase of 55% from NT\$5.96 (US\$0.19) in the second quarter of 2006 (2Q06). Net income for 3Q06 was NT\$289 million (US\$8.8 million), an increase of 34% from NT\$215 million in 3Q05 and an increase of 55% from NT\$187 million in 2Q06.

US GAAP net income for 3Q06 reflected NT\$26 million (US\$0.79 million) of stock-based compensation expenses as a result of the Company's adoption of SFAS No 123(R), effective January 1, 2006. Excluding stock-based compensation, the Company's non-GAAP net income for 3Q06 was NT\$315 million (US\$9.6 million). Non-GAAP earnings per ADS were NT\$9.97 (US\$0.30).

Commenting on the results, Silicon Motion's President and CEO, Wallace Kou, said:

"We are pleased with our progress in the third quarter and our results exceeded our expectations for a number of reasons. Samsung and Hynix increased the output of their 63-nanometer and 90-nanometer MLC flash memory respectively in the third quarter, which improved the cost competitiveness of many of our customers. As a result, we saw fairly strong demand for our controllers that are used in flash memory cards and in USB flash disk drives.

"In the flash memory card segment, our decision earlier this year to pursue bundled card opportunities started to bear fruit in the second

quarter, and the results were even more noticeable in the third quarter. As mobile phone manufacturers began to roll out function-rich mobile phones, we saw strong demand for our controllers that are used in the micro-SD cards that are bundled with these phones. We also saw our customers ramping up their micro-SD card production for the retail market.

"In the third quarter, we also benefited from the successful ramp-up and market acceptance of the controllers that we introduced a few quarters ago, including our SM222 Compact Flash controller, SM324 USB flash disk controller, and high-performance SM266 SD controller. We also benefited from our on-going effort to add support for newer flash memory into our existing controllers.

"We are excited about the growth prospects for the markets that we serve and we plan to roll out several new controllers over the next few quarters to address additional opportunities in the flash memory market."

Third Quarter 2006 Financial Review(1)

Sales

Net sales in the third quarter totaled NT\$1,037 million (US\$31.6 million), an increase of 39% from 3Q05 and an increase of 51% from 2Q06. Overall unit shipments increased 103% from 3Q05 and 71% from 2Q06. The blended average selling price (ASP) per unit fell 12% from 2Q06, primarily due to a change in product mix.

By product, net sales from mobile storage products accounted for 92% of total net sales, which was up from 85% of total net sales in the second quarter of 2006. Net sales from multimedia SoCs represented 8% of total net sales, which was down from 14% in 2Q06. Net sales from other products in the second quarter accounted for less than 1% of net sales.

As % of Net Sales	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Mobile Storage Products	92%	86%	80%	87%	84%	72%	85%	92%
Multimedia SoCs	7%	13%	19%	13%	16%	27%	14%	8%
Others	1%	1%	1%	0%	0%	1%	1%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Net sales from mobile storage products, which include flash memory card controllers and USB 2.0 flash disk controllers, increased 46% from 3Q05 and 62% from 2Q06 to NT\$950 million (US\$29.0 million). Unit shipments increased 104% from 3Q05 and 71% from 2Q06 to 50 million units. The ASP per unit in 3Q06 declined by 6% from 2Q06.

Net sales from multimedia SoC products, which include multimedia display processors and portable audio SoCs, declined 14% from 3Q05 and 15% from 2Q06 to NT\$81 million (US\$2.5 million). Unit shipments of multimedia SoC products decreased 3% from 3Q05 and increased 21% from 2Q06 to approximately 395,000 units. The ASP per unit for multimedia SoC products declined 30% from 2Q06 because portable audio SoCs, which have lower selling prices compared to multimedia display processors, constituted a greater proportion of the total multimedia SoC product sales in the third quarter.

Unit Shipment (thousand units)	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Mobile Storage Products	14,549	10,912	14,120	24,265	30,146	20,306	28,976	49,563
Multimedia SoCs	111	163	337	407	947	496	326	395
Others	-	17	59	3	7	21	11	23
Total	14,660	11,092	14,516	24,675	31,100	20,823	29,313	49,981

Expenses

The cost of sales in 3Q06 totaled NT\$482 million (US\$14.7 million), representing increases of 35% from 3Q05 and 51% from 2Q06. The year-over-year increase was driven primarily by increases in total wafer costs and assembly and test costs, as a result of a 103% increase in unit volume from 3Q05. The sequential increase was driven by increases in total wafer costs and assembly and test costs as a result of a 71% increase in unit volume from 2Q06. The gross margin for the quarter was 53.5%, up from 52.3% in 3Q05 and unchanged from 2Q06. The non-GAAP gross margin was 53.5%.

Total operating expenses in 3Q06, which include sales and marketing expenses, general and administrative (G&A) expenses, and research and development (R&D) expenses, were NT\$264 million (US\$8.1 million), an increase of 44% from 3Q05 and an increase of 33% from 2Q06. Total

operating expenses, excluding stock-based compensation expense, increased 31% year over year and increased 32% sequentially.

Total operating expenses represented 25.5% of net sales, compared to 24.5% and 28.9% of net sales in 3Q05 and 2Q06, respectively. The Company's operating margin increased from 27.8% in 3Q05 and 24.6% in 2Q06 to 28.0% in 3Q06. The non-GAAP operating margin was 30.5%, up from 27.4% in 2Q06.

Sales and marketing expenses in 3Q06 increased by 31% from 3Q05 and 13% from 2Q06 and represented 4.7% of net sales. The year-over-year increase was driven primarily by higher salary and benefits, stock-based compensation expenses, professional fees, and travel and miscellaneous expenses and was offset by lower commissions. The sequential increase was driven mainly by higher salary and benefits, stock-based compensation expenses, professional fees, and travel expenses and was offset by lower commissions.

General and administrative expenses in 3Q06 increased 18% year-over-year and 24% sequentially, and represented 5.5% of net sales. The year-over-year increase was primarily due to higher salary and benefits and stock-based compensation expenses and was offset by lower professional fees. The sequential increase was primarily due to higher salary and benefits and professional fees and was offset by lower stock-based compensation expenses.

Research and development expenses in 3Q06 increased 65% year-over-year and 45% sequentially and represented 15.2% of net sales. The year-over-year increase was driven by higher salary and benefits, stock-based compensation expenses, as well as higher project, depreciation, travel, and rental expenses, and was offset by lower royalty fees, professional fees, and miscellaneous expenses. The sequential increase was primarily driven by higher salary and benefits and stock-based compensation expenses, as well as higher project and rental expenses.

The company-wide headcount increased 5% from 318 at the end of 2Q06 to 334 at the end of 3Q06. A majority of the headcount increase took place in sales, marketing, and field engineering support.

Earnings

Net income totaled NT\$289 million (US\$8.8 million) in 3Q06, an increase of 34% from NT\$215 million in 3Q05 and an increase of 55% from NT\$187 million in 2Q06. Non-GAAP net income was NT\$315 million (US\$9.6 million). The net margin was 27.9%, down from 28.8% in 3Q05 and up from 27.2% in 2Q06. The non-GAAP net margin was 30.4%. Diluted earnings per ADS were NT\$9.23 (US\$0.28), up 35% from NT\$6.85 (US\$0.21) in 3Q05 and 55% from NT\$5.96 (US\$0.19) in 2Q06. Non-GAAP diluted earnings per ADS were NT\$9.97 (US\$0.30).

Balance Sheet

At the end of 3Q06, the Company had NT\$1,782 million (US\$53.8 million) in cash and cash equivalents and NT\$1,334 million (US\$40.3 million) in short-term investments. Accounts receivable (A/R) increased from NT\$674 million at the end of 2Q06 to NT\$807 million (US\$24.4 million) at the end of 3Q06. However, the average A/R days decreased from 77 days to 65 days. Inventory increased from NT\$282 million at the end of 2Q06 to NT\$318 million (US\$9.6 million) at the end of 3Q06. However, the average inventory days decreased from 77 days to 57 days, mainly as a result of higher business volume in 3Q06. Total assets at the end of 3Q06 were NT\$5,010 million (US\$151.4 million), up from NT\$4,380 million at the end of 2Q06.

Current liabilities increased from NT\$533 million at the end of 2Q06 to NT\$777 million (US\$23.5 million) at the end of 3Q06, primarily due to increases in accounts payable and accrued expenses. There were no material changes in the Company's long-term liabilities.

There were 123.753 million ordinary shares outstanding at the end of 3Q06, which was equivalent to 30.938 million units of ADS.

Business Outlook:

The Company currently expects sales in the fourth quarter of 2006 to be between US\$33 and US\$34 million, which represent a sequential increase of 4%-7% from US\$31.6 million in the third quarter. The Company estimates that its gross margin in 4Q06 will likely be between 52% and 53% and its operating margin will be approximately flat from 3Q06.

Webcast of Conference Call:

The Company's management team will conduct a conference call at 10:00 am Eastern Time on October 27. A webcast of the conference call will be accessible on the Company's web site at <http://www.siliconmotion.com>.

Discussion of Non-GAAP Financial Measures

In addition to disclosing financial results calculated in accordance with U.S. generally accepted accounting principles, the Company's earnings release contains non-GAAP financial measures that exclude the effects of share-based compensation and the requirements of SFAS No. 123(R). The non-GAAP financial measures used by management and disclosed by the Company exclude the income statement effects of all forms of share-based compensation and the effects of 123(R) upon the number of diluted shares used in calculating non-GAAP earnings per share.

The non-GAAP financial measures disclosed by the Company should not be considered a substitute for financial measures calculated in accordance with US GAAP, and the financial results calculated in accordance with US GAAP and reconciliations to those financial statements should be carefully evaluated. The non-GAAP financial measures used by the Company may be calculated differently from and therefore may not be comparable to similarly titled measures used by other companies.

The Company believes that the presentation of non-GAAP gross margin, non-GAAP operating margin, non-GAAP net income, and non-GAAP net income per share provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations.

Non-GAAP gross margin and non-GAAP operating margin are GAAP gross margin and GAAP operating margin excluding stock-based compensation expenses that are driven by discrete events that management does not consider to be directly related to the Company's core operating performance. Similarly, Non-GAAP net income consists of net income excluding stock-based compensation expenses that are driven primarily by discrete events that management does not consider to be directly related to the Company's core operating performance. Non-GAAP net income per share is calculated by dividing non-GAAP net income by adjusted GAAP weighted average diluted shares outstanding. For this purpose, the calculation of GAAP weighted average diluted shares outstanding is adjusted to exclude the benefit of compensation costs attributable to future services and not yet

recognized in the financial statements that are treated as proceeds assumed to be used to repurchase shares under the GAAP treasury stock method.

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Listed below are the items included in net income that management excludes in computing the non-GAAP financial measures referred to in the text of this press release:

	Three Months Ended Jun. 30, 2006	Three Months Ended Sep. 30, 2006
1) Cost of sales:		
Stock-based compensation	1,032	454
2) Research and development expense:		
Stock-based compensation	6,911	14,483
3) Sales and marketing expense		
Stock-based compensation	2,621	4,254
4) General and administrative expense		
Stock-based compensation	8,469	6,711

Silicon Motion Technology Corporation
Consolidated Statements of Income
(in thousands, except percentages and per share data)
(unaudited)

	For the 3 Months Ended				Change From	
	Sep. 30, 2005 (NT\$)	Jun. 30, 2006 (NT\$)	Sep. 30, 2006 (NT\$)	Sep. 30, 2006 (US\$)	3Q05 (%)	2Q06 (%)
Net Sales	747,012	686,963	1,036,680	31,645	39%	51%
Cost of sales	356,688	319,492	482,295	14,722	35%	51%
Gross profit	390,324	367,471	554,385	16,923	42%	51%
Operating expenses						
Research & development	95,690	109,223	158,046	4,824	65%	45%
Sales & marketing	37,372	43,266	48,884	1,492	31%	13%
General & administrative	48,489	46,125	56,987	1,740	18%	24%
Amort. of intangible asset	1,126	-	-	-	-100%	-
Subtotal	182,677	198,614	263,917	8,056	44%	33%
Operating income	207,647	168,857	290,468	8,867	40%	72%
Non-operating income (expense)						
Gain on sale of investments	3,394	4,362	4,271	130	26%	-2%
Interest income (net)	11,725	14,897	17,744	542	51%	19%
Foreign exchange gain (loss)	4,710	666	(2,627)	(80)	-156%	-494%
Others	(6,356)	596	3,189	97	150%	436%
Subtotal	13,473	20,521	22,577	689	68%	10%
Income before tax	221,120	189,378	313,045	9,556	42%	65%
Income tax expense	6,021	2,591	23,740	725	294%	816%

Net income	215,099	186,787	289,305	8,831	34%	55%
Basic earnings per ADS	NT\$7.02	NT\$6.07	NT\$9.38	US\$0.29	34%	55%
Diluted earnings per ADS	NT\$6.85	NT\$5.96	NT\$9.23	US\$0.28	35%	55%
Margin Analysis:						
Gross margin	52.3%	53.5%	53.5%			
Operating margin	27.8%	24.6%	28.0%			
Net margin	28.8%	27.2%	27.9%			
Additional Data:						
Weighted avg. ADS equivalents(2)	30,653	30,783	30,832			
Diluted ADS equivalents	31,389	31,353	31,336			

Silicon Motion Technology Corporation
Reconciliations of GAAP to Non-GAAP Results
(NT\$ thousands, except per-share amount and percentages)
(unaudited)

	Three Months Ended	
	Jun. 30, 2006	Sep. 30, 2006
GAAP Cost of sales	319,492	482,295
Adjustment for share-based compensation	(1,032)	(454)
Cost of sales excluding share-based compensation	318,460	481,841
GAAP Operating Income	168,857	290,468
Adjustment for share-based compensation within:		
Cost of sales	1,032	454
Research and development	6,911	14,483
Sales and marketing	2,621	4,254
General and administrative	8,469	6,711
Operating Income excluding share-based compensation	187,890	316,370
GAAP Net Income	186,787	289,305
Adjustment for share-based compensation within:		
Cost of sales	1,032	454
Research and development	6,911	14,483
Sales and marketing	2,621	4,254
General and administrative	8,469	6,711
Net Income excluding share-based compensation	205,820	315,207
GAAP diluted earnings per ADS	5.96	9.23
Adjustment for share-based compensation	0.54	0.74
Diluted earnings per ADS excluding share-based compensation	NT\$6.50	NT\$9.97
GAAP Gross margin percentage	53.5%	53.5%
Adjustment for share-based compensation	0.1%	0.0%
Gross margin percentage excluding share-based compensation	53.6%	53.5%
GAAP Operating margin percentage	24.6%	28.0%
Adjustment for share-based compensation	2.8%	2.5%

Operating margin percentage excluding share-based compensation	27.4%	30.5%
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Silicon Motion Technology Corporation
Consolidated Statements of Income
(in thousands, except percentages, and per share data)
(unaudited)

	For the 9 Months Ended Sep. 30, 2005 (NT\$)	For the 9 Months Ended Sep. 30, 2006 (NT\$)	For the 9 Months Ended Sep. 30, 2006 (US\$) (3)	Change (%)
Net Sales	1,814,020	2,289,780	70,550	26%
Cost of sales	940,303	1,067,683	32,896	14%
Gross profit	873,717	1,222,097	37,654	40%
Operating expenses				
Research & development	258,206	349,413	10,766	35%
Sales & marketing	100,207	139,081	4,292	39%
General & administrative	95,841	147,939	4,563	54%
Amortization of intangible assets	3,376	-	-	(100%)
Subtotal	457,630	636,433	19,621	39%
Operating income	416,087	585,664	18,033	41%
Non-operating expense (income)				
Gain on sale of investments	9,122	12,590	388	38%
Interest income (net)	12,773	46,337	1,430	263%
Foreign exchange gain (loss)	4,522	(1,910)	(57)	(142%)
Others	(6,109)	4,493	136	174%
Subtotal	20,308	61,510	1,897	203%
Income before tax	436,395	647,174	19,930	48%
Income tax expense	9,128	34,403	1,055	277%
Net income	427,267	612,771	18,875	43%
Basic earnings per ADS	NT\$15.37	NT\$19.90	US\$0.62	
Diluted earnings per ADS	NT\$14.98	NT\$19.57	US\$0.61	
Margin Analysis:				
Gross margin	48.2%	53.4%		
Operating margin	22.9%	25.6%		
Net margin	23.6%	26.8%		
Additional Data:				
Weighted average ADS equivalents	27,792	30,769		
Diluted ADS equivalents	28,527	31,305		

Silicon Motion Technology Corporation
Consolidated Balance Sheet
(NT\$ thousands)
(unaudited)

Dec. 31, 2005 Sep. 30, 2006

Cash and cash equivalents	1,581,993	1,781,770
Short-term investments	1,157,955	1,333,576
Accounts receivable, net	573,498	807,236
Inventories	278,528	317,818
Refundable deposits - current	60,000	60,000
Deferred income tax assets, net	48,858	115,801
Prepaid expenses and other current assets	222,563	187,378
Total current assets	3,923,395	4,603,579
Long-term investments	15,954	25,486
Property and equipment (net)	83,734	316,999
Other assets	65,048	63,686
Total assets	NT\$4,088,131	NT\$5,009,750
Accounts payable	318,841	389,764
Income tax payable	104,744	132,418
Accrued expenses and other current liabilities	207,769	255,137
Total current liabilities	631,354	777,319
Accrued pension cost	5,365	3,608
Other long-term liabilities	1,627	1,279
Total liabilities	638,346	782,206
Shareholders' equity	3,449,785	4,227,544
Total liabilities & shareholders' equity	NT\$4,088,131	NT\$5,009,750

About Silicon Motion:

Silicon Motion Technology Corporation is a leading fabless semiconductor company that designs, develops, and markets universally compatible, high-performance, low-power semiconductor solutions for the multimedia consumer electronics market. The Company's semiconductor solutions include controllers used in mobile storage media, such as flash memory cards and USB flash drives, and multimedia systems on a chip, or SoCs, used in digital media devices such as MP3 players, PC cameras, PC notebooks and broadband multimedia phones.

Forward-Looking Statements:

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include, without limitation, statements regarding trends in the multimedia consumer electronics market and our future results of operations, financial condition and business prospects. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue," or the negative of these terms or other comparable terminology. Although such statements are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on them. These statements involve risks and uncertainties, and actual market trends or our actual results of operations, financial condition or business prospects may differ materially from those expressed or implied in these forward looking statements for a variety of reasons. Potential risks and uncertainties include, but are not limited to, our belief in the outcome of any claim or lawsuit, including our claim against one of our subcontractors for the inventory loss that we sustained during a fire at the subcontractor's factory; unpredictable volume and timing of customer orders, which are not fixed by contract but vary on a purchase order basis; the loss of one or more key customers or the significant reduction, postponement, rescheduling or cancellation of orders from these customers; general economic conditions or conditions in the semiconductor or multimedia consumer electronics markets; decreases in the overall average selling prices of our products; changes in the relative sales mix of our products; changes in our cost of finished goods; the availability, pricing, and timeliness of delivery of other components and raw materials used in our customers' products; our customers' sales outlook, purchasing patterns, and inventory adjustments based on consumer demands and general economic conditions; our ability to successfully develop, introduce, and sell new or enhanced products in a timely manner; and the timing of new product announcements or introductions by us or by our competitors. For additional discussion of these risks and uncertainties and other factors, please see the documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 20-F filed on June 30, 2006. We assume no obligation to update any forward-looking statements, which apply only as of the date of this press release.

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the income statement have been translated from New Taiwan dollars, using an average exchange rate of NT\$32.2948 to US\$1 for the third quarter of 2005, NT\$32.1506 to US\$1 for the second quarter of 2006, and NT\$32.7605 to US\$1 for the third quarter of 2006 based on the average of the noon buying rate for cable transfers of the NT dollar as certified for customs purposes by the Federal Reserve Bank of New York. Amounts from the balance sheet have been translated using the ending exchange rate for the period. The exchange rate at the end of 3Q06 was NT\$33.10 to US\$1.

(1) Note: Unless otherwise stated, all financial information used in this

press release is unaudited, consolidated, prepared in accordance with US GAAP and denominated in New Taiwan dollars. US dollar amounts are translated for convenience only. Such financial information is generated internally and has not been subjected to the same review and scrutiny, including internal auditing procedures and audit by independent auditors, to which we subject our audited consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. Any evaluation of the financial information presented in this press release should also take into account our published audited consolidated financial statements and the notes to those statements. In addition, the financial information presented is not necessarily indicative of our results for any future period.

- (2) Assumes all outstanding ordinary shares are represented by ADSs. Each ADS represents four ordinary shares.
- (3) The US dollar amounts presented in this income statement are for convenience only and represent the sum of US dollar amounts for the first, second, and third quarters, each translated from New Taiwan dollars using the respective average exchange rate for each quarter.

SOURCE Silicon Motion Technology Corporation

-0- 10/26/2006

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