Silicon Motion Technology CORP
Form 20-F
April 30, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2014

OR

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

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report: N/A

For the transition period from to

Commission file number: 000-51380

Silicon Motion Technology Corporation

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

8F-1, No. 36, Taiyuan St.,

Jhubei City, Hsinchu County 302

Taiwan

Tel: +886 3 552 6888

Fax: + 886 3 560 0336

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary shares, par value US$0.01 per share*	Nasdaq Global Select Market
American Depositary Shares, each representing four ordinary shares	

*** Not for trading, but only in connection with the listing on the Nasdaq Global Select Market of American Depositary Shares, or ADSs, each representing four ordinary shares.**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities registered or to be registered pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 135,622,076 ordinary shares as of December 31, 2014, US$0.01 par value per share.

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

If this report is an annual or transition report, 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 x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes ¨ No x

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CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT

Unless otherwise indicated, references in this annual report to:

ADRs are to the American depositary receipts that evidence our ADSs;

ADSs are to our American depositary shares, each of which represents four of our ordinary shares;

CAGR are to compound annual growth rate;

China or PRC are to the People s Republic of China excluding the special administrative regions of Hong Kong and Macau;

Korea are to the Republic of Korea, or South Korea;

Korea Won are to the legal currency of South Korea;

Nasdaq are to the Nasdaq Stock Market;

NT dollar, NT dollars or NT$ are to New Taiwan dollars, the legal currency of Taiwan;

ROC or Taiwan are to Taiwan, the Republic of China, the official name of Taiwan;

shares or ordinary shares are to our ordinary shares, with par value US$0.01 per share;

U.S. GAAP are to generally accepted accounting principles in the United States;

U.S. dollar, U.S. dollars or US$ are to United States dollars, the legal currency of the United States; and

we, us, our company, our, SMTC and Silicon Motion are to Silicon Motion Technology Corporatio predecessor entities and subsidiaries including but not limited to (i) Silicon Motion, Inc., incorporated in Taiwan, or SMI Taiwan, and formerly known as Feiya Technology Corporation, (ii) Silicon Motion, Inc., a California, USA, corporation, or SMI USA, and (iii) FCI Inc., incorporated in Korea, or FCI.

Silicon Motion, the Silicon Motion logo, FCI, the FCI logo, airRF, basicRF, ezRF, ezSYS, powerRF, twinRF, zipRF, zipSYS, VirtualZero, SSDLifeGuard, SSDLifeSaver, TurboMLC, FerriSSD, Ferri-eMMC, and NANDXtend are our trademarks or registered trademarks. We may also refer to trademarks of other corporations and organizations in this document.

Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with U.S. GAAP.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These forward-looking statements include statements regarding our financial position; our expectations concerning future operations, margins, profitability, liquidity and capital resources; our business strategy and other plans and objectives for future operations; and all other statements that are not historical facts. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, thinks, estimates, seeks, predicts, p
expressions. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties include those listed under Risk Factors and elsewhere in this annual report. Those factors, among others, could cause our actual results and performance to differ materially from the results and performance projected in, or implied by, the forward-looking statements. They include:

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 consumer electronics market;

decreases in the overall average selling prices of our products;

changes in the relative sales mix of our products;

the payment, or non-payment, of cash dividends in the future at the discretion of our board of directors;

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 financial health, sales outlook, purchasing patterns and inventory adjustments based on consumer demand, market adoption of new technologies and general economic conditions;

our ability to successfully develop, introduce and sell innovative, new or enhanced products in a timely manner; and

- the timing of new product announcements or introductions by us or by our competitors.

One or more of these factors could materially and adversely affect our operating results and financial condition in future periods. We cannot assure you that we will attain any meaningful estimates or maintain profitability or that the assumptions on which they are based are reliable.

Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this annual report. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement. As you read and consider this annual report, you should carefully understand that the forward-looking statements are not guarantees of performance or results.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

You should read the following information with our consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report.

The selected consolidated statements of income and cash flow data for the years ended December 31, 2012, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013 and 2014 are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. The selected consolidated statements of income and cash flow data for the years ended December 31, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010, 2011 and 2012 are derived from our audited consolidated financial statements which are not included in this annual report. These consolidated financial statements are prepared in accordance with U.S. GAAP.

Effective January 1, 2012, we changed the reporting currency of our consolidated financial statements from the NT dollar to the U.S. dollar because of a change in the functional currency of our largest subsidiary, SMI Taiwan. The business profile of SMI Taiwan had changed because the primary factors affecting our business are now international in nature and the majority of our cash flows are now U.S. dollar denominated. We believe that this change provides greater alignment of our reporting currency with our most significant functional currency and underlying financial performance. Unless otherwise specified, all financial information included in this Form 20-F has been stated in U.S. dollars.

	Year Ended December 31,				
	2010	2011	2012	2013	2014
	US$	US$	US$	US$	US$
	(in thousands, except for per share data)				
Consolidated Statements of Income Data:					
Net sales	132,793	223,845	281,370	225,308	289,323
Cost of sales	70,605	115,806	149,650	118,698	139,625
Gross profit	62,188	108,039	131,720	106,610	149,698

Operating expenses (income):					
Research and development	33,772	40,501	50,975	46,460	60,949
Sales and marketing	11,936	14,537	15,919	13,597	16,324
General and administrative	9,652	11,323	12,156	11,250	13,355
Amortization of intangible assets	2,081	694			
Gain from settlement of litigation [1]	(1,273)				
Total operating expenses	56,168	67,055	79,050	71,307	90,628
Operating income	6,020	40,984	52,670	35,303	59,070
Total non-operating income (loss)	(11,777)	6,232	1,664	1,845	1,498
Income (Loss) before income taxes	(5,757)	47,216	54,334	37,148	60,568
Income tax expense (benefit)	(519)	5,747	7,116	9,772	16,101
Net income (loss)	(5,238)	41,469	47,218	27,376	44,467

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	Year Ended December 31,				
	2010	2011	2012	2013	2014
	US$	US$	US$	US$	US$
	(in thousands, except for per share data)				
Weighted average shares outstanding:					
Basic	116,159	123,082	129,259	132,259	134,604
Diluted	116,159	129,370	134,504	134,567	136,787
Earnings (Loss) per share:					
Basic	(0.05)	0.34	0.37	0.21	0.33
Diluted	(0.05)	0.32	0.35	0.20	0.33
Earnings (Loss) per ADS (2):					
Basic	(0.18)	1.35	1.46	0.83	1.32
Diluted	(0.18)	1.28	1.40	0.81	1.30

(1) Gain from favorable settlements of litigation with Advanced Semiconductor Engineering Inc. in 2010.
(2) Each ADS represents four ordinary shares.

	As of December 31,				
	2010	2011	2012	2013	2014
	US$	US$	US$	US$	US$
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	53,889	88,763	154,734	161,720	194,211
Other current assets	63,211	90,817	103,678	84,819	96,229
Working capital	89,333	136,856	202,015	205,872	233,986
Long-term investments	185	178	178	133	133
Property and equipment, net	25,507	24,728	23,386	30,195	35,537
Goodwill and intangible assets, net	35,996	35,458	35,472	35,474	35,467
Other non-current assets	8,716	7,382	4,298	4,422	5,345
Total assets	187,504	247,326	321,746	316,763	366,922
Total liabilities	30,143	45,826	59,480	46,066	62,822
Total shareholders equity	157,361	201,500	262,266	270,697	304,100
Consolidated Cash Flow Data:					
Net cash provided by (used in) operating activities	(11,987)	54,261	69,236	49,128	68,725
Net cash provided by (used in) investing activities	(9,894)	(13,947)	(4,749)	(12,815)	(15,413)
Net cash provided by (used in) financing activities		2,294	224	(29,493)	(19,710)
Depreciation and amortization	4,775	5,580	5,881	6,429	6,917
Capital expenditures	(4,339)	(4,916)	(4,280)	(12,772)	(11,596)

Risk Factors

Because our operating results for any period could be adversely affected by a number of factors and may therefore fluctuate significantly, our annual and quarterly operating results are difficult to predict.

Our operating results have fluctuated in the past and could do so in the future. Fluctuations in our operating results may be due to a number of factors, including, but not limited to, those listed below and those identified throughout this Risk Factors section:

- competitive pressures and other factors such as the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products;

- changes in demand for electronic devices into which our semiconductor solutions are directly or indirectly incorporated;

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our customers sales outlook, purchasing patterns and inventory adjustments based on market demand, adoption of new technologies and general economic conditions;

the loss of one or more key customers or the significant reduction, timing or cancellation of orders from these customers;

seasonality or cyclical fluctuations in our markets;

our ability to develop or acquire, introduce, market and transition to volume production new or enhanced products and technologies in a cost-effective and timely manner;

changes in supply and availability of flash memory components used in our customer s products;

changes in our product mix or customer mix and their effect on our gross margin;

changes in foreign currency exchange rates;

the availability and pricing of third party semiconductor foundry services;

unpredictable volume and timing of customer orders, which are not fixed by contract but vary on an order-to-order basis;

deferrals or reductions of customer orders in anticipation of new products or product enhancements from us or our competitors or other providers of ICs;

our ability to timely and accurately predict market requirements and evolving industry trends and to identify and capitalize upon opportunities in new markets; and

the overall cyclicality of, and changing economic and market conditions in, the semiconductor industry.

These and other factors make it difficult for us to assess our future performance. Our sales and operating results are difficult to predict and have in the past, and will likely in the future, fluctuate from period to period. We could fail to achieve the operating targets that we have announced, such as revenue growth, gross margin, and operating expense. In addition, our operating results in the future may be below the expectations of securities analysts or investors, which would likely cause the market price of our ADSs to decline. Any variations in our period-to-period performance may also cause the market price of our ADSs to fluctuate. Accordingly, you should not rely on the results of any prior periods as a reliable indicator of our future operating performance.

Our operating results and stock price may be adversely affected by worldwide economic uncertainties including political and social instability and industry-specific conditions in the markets we operate.

Disruptions or uncertainties in the economy, including any political and social instability may lead consumers and business to postpone spending. This in turn may cause our customers to cancel, decrease or delay their existing and future orders with us. Furthermore, we operate primarily in the semiconductor industry, which is cyclical in nature and subject to evolving industry standards. In the past, the semiconductor industry has experienced significant downturns characterized by decreases in product demand, excess customer inventories and accelerated erosion of prices. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to deliver products to our customers. Economic volatility can cause extreme difficulties for our customers and vendors in accurately forecasting and planning future business activities. This unpredictability could cause our customers to reduce spending on our products and services, which would delay and lengthen sales cycles. Furthermore, during challenging economic times our customers and vendors may face challenges in gaining timely access to sufficient credit, which could impact their ability to make timely payments to us. The accurate forecasting and planning for our operations heavily rely on these worldwide economic and industry-specific conditions, and the volatility and uncertainties associated with these factors may adversely affect our results of operation in a material manner.

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Since we have limited visibility as to the sales volume by our customers of devices using our products, our ability to accurately forecast future demand for and sales of our products is limited.

The majority of our products are integrated into devices that are sold directly or indirectly into consumer electronics markets which are difficult for us and our customers to accurately forecast as consumer electronics demand is subject to significant seasonality and fluctuations. Also, as significant portion of our quarterly sales are from orders received and fulfilled in that quarter, our visibility as to expected orders from our customers in subsequent periods and for any extended period of time is limited. Additionally, we depend upon our customers procurement forecasts in order to forecast demand for our products, and our customers procurement forecast may be subject to change. Our failure to accurately forecast demand for our products may result in lost sales or excess inventory and associated reserves or write-downs for our operations. Any of the aforementioned factors could affect sales of our products and thereby harm our business, financial condition and operating results.

If demand for our products declines in the major end-markets that we serve, our sales, net revenue and earnings will decrease.

Demand for our products is affected by a number of factors, including the general demand for the products in the end-markets that we serve and price attractiveness of the devices incorporating our products that our customers and vendors offer to end-markets. A significant amount of our sales revenue is derived from customers who use our microcontrollers in removable and embedded solid state storage solutions used in consumer electronics, such as smartphones, tablets, digital cameras, and notebook and desktop PCs. Any significant decrease in the demand for these devices in the end-market may decrease the demand for our semiconductor solutions and may result in a significant decrease in our revenues and earnings. Consumer electronic devices that use our components rapidly change as product capabilities are upgraded or new classes of products are introduced, and these changes may result in a significant reduction in demand for our products. We cannot give any assurance that there will not be any downturn in the future or that any future downturn will not affect our results of operations. Any significant decrease in demand for end-user applications of semiconductors will negatively affect our sales, net revenue and earnings.

We may make acquisitions that are dilutive to existing shareholders, resulting in unanticipated one-time charges or that may otherwise adversely affect our results of operations, and which may result in difficulties in assimilating and integrating the operations, personnel, technologies, products and information systems of acquired companies or businesses.

We continually evaluate and explore strategic opportunities as they arise, including business combinations and capital investments. If we issue equity securities in connection with an acquisition, the issuance may be dilutive to our existing shareholders. Alternatively, acquisitions made entirely or partially for cash would reduce our cash reserves.

Mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Even when an acquired company has already developed and marketed products, there can be no assurance that such products will be successful after our acquisition, will not cannibalize sales of our existing products, that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues.

In April 2007 we completed the acquisition of FCI, a privately-held Korea-based fabless IC company focused on mobile TV and wireless communications RF applications, in November 2007 we acquired select parts of the Centronix mobile TV business of Korea Information Engineering Services Co., Ltd. (Centronix) and in October 2011 we acquired select assets of BTL Systems, Inc. (hereafter BTL) The products from our FCI, Centronix and BTL acquisitions are for the mobile communications market. In the fourth quarter of 2009, we

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determined that goodwill and certain long-lived assets relating to these products were impaired and recorded an impairment charge of US$37.4 million. See *We are exposed to potential impairment charges on intangible assets relating to recent acquisitions and on investments if business conditions deteriorate* below. Risks arising from these or other future acquisitions could include among other things:

- our ability to accurately assess the business and prospects of an acquisition or the anticipated benefits of an acquisition;
- delays in or failure to complete the development and application of the acquired technologies or products;
- timing of the rollout and adoption of new applications and technology standards;
- our ability to successfully integrate acquired technologies, operations and personnel;
- failure to achieve projected results of an acquisition or inability to realize the anticipated benefits of an acquisition;
- disruption of our ongoing business;
- diversion of management and employees attention from other business activities;
- risks associated with entering into a geographic region or business market in which we have little or no prior experience and specifically managing personnel in these regions;
- difficulties in establishing and maintaining uniform standards, controls, policies and procedures;
- deficiencies in the internal control of any acquired company resulting in a material weakness in our overall internal control;
- our ability to recover costs of the acquisition or investment;
- amortization expenses and large and immediate write-offs;
- impairment charges related to goodwill or other assets;

- negative impact on our relationships with customers, vendors, suppliers or contractors;
- inability to retain key employees of an acquired business; and
- potentially dilutive issuance of equity securities.

In addition, future acquisitions could result in the incurrence of debt or contingent liabilities, adverse tax consequences, deferred compensation charges, dilution to future earnings, and large fees for professional advisor services, any of which could negatively impact our financial conditions or results of operations and could cause our stock price to decline. We may be unable to identify suitable acquisition candidates or investment opportunities or consummate any such transactions on terms and conditions that are acceptable to us, if at all.

We depend on a small number of customers for a significant portion of our revenues and a loss of some of these customers would result in the loss of a significant portion of our revenues.

We derived a substantial portion of our revenue from sales to a relatively small number of customers. As a result, the loss of any significant customer could materially and adversely affect our financial condition and results of operations. Sales to our five largest customers represented approximately 61%, 65% and 64% of our net revenue in 2012, 2013 and 2014, respectively. Sales to one customer in 2012 and two customers in 2013 and 2014 accounted for 10% or more of our net revenue, represented 35%, 46% and 47% of our net revenue in 2012, 2013 and 2014, respectively. In 2012, the significant customer was Samsung and in 2013 and 2014, Samsung and SK Hynix. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period.

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We expect that we will continue to depend on a relatively limited number of customers for a substantial portion of our net sales and our ability to maintain good relationships with these customers will be important to the ongoing success of our business. We cannot assure you that the revenue generated from these customers, individually or in the aggregate, will reach or exceed historical levels in any future period. Our failure to meet the demands of these customers could lead to a cancellation or reduction of business from these customers. In addition, loss, cancellation or reduction of business from, significant changes in scheduled deliveries to, or decreases in the prices of products sold to any of these customers could significantly reduce our revenues and adversely affect our financial condition and operating results. Moreover, any difficulty in collecting outstanding amounts due from our customers particularly customers who place large orders, would harm our financial performance. In addition, if our relationships with our largest customers are disrupted for any reason, it could have a significant impact on our business.

If the semiconductor industry suffers a shortage of flash memory, which is a key component in many of our customers end products, our revenues could be adversely affected.

During many periods in past years, some of our customers have indicated that they were unable to acquire enough NAND flash memory to meet all of the anticipated demand for their products. Several manufacturers of flash memory have increased or are planning to increase manufacturing capacity for flash memory. However, we cannot assure you that there will continue to be enough additional capacity to satisfy worldwide demand for flash memory. Because flash memory is a key component in many of the products manufactured by our customers, if any shortage in the supply of flash memory occurs and is not remedied, our customers may not be able to purchase enough flash memory to manufacture their products and may therefore purchase fewer controllers from us than they would have otherwise purchased. Our ability to increase revenues and grow our profits could be materially and adversely affected as a result of any shortage or decrease in the supply of flash memory.

We operate in a rapidly changing industry, and our failure to anticipate and respond quickly to changing industry trends relating to technology, standards, and consumer demand could adversely affect our growth and profitability.

We operate in an intensely competitive industry that experiences rapid technological developments, changes in industry standards, changes in customer requirements, and frequent new product introductions and improvements. If we are unable to respond quickly and successfully to these developments, we may lose our competitive position, and our products or technologies may become uncompetitive. To compete successfully, we must maintain a successful R&D effort, develop new products and production processes, and improve our existing products and processes at the same pace or ahead of our competitors. Many types of events could have a variety of negative effects on our overall competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, lowering our operating profitability and requiring us to recognize impairments on our assets. We may not be able to develop and market new products successfully, new markets at which our products target may not grow as expected, the products we invest in and develop may not be well received by customers, and products developed and new technologies offered by others may affect demand for our products.

Currently, a significant majority of our sales are controllers used in NAND flash memory storage devices. If new technologies for storing digital media are developed that compete with flash memory technology or render it obsolete and if we are not able to shift our product offerings accordingly, demand for our products would likely decline and our business would be materially and adversely affected.

In addition, we may not have sufficient management resources to manage, R&D capabilities to address, and financial resources to fund all of the required research to develop future innovations and meet changing industry standards. Moreover, even if we have adequate management resources, R&D capabilities, and financial resources, our future innovations may be outpaced by competing innovations. As a result, we may lose customers and significant sales, and our business and operating results may be materially and adversely affected.

We may be unsuccessful in developing and selling new products or in penetrating new markets required to maintain our competitiveness or expand our business.

We expect that a high percentage of our future sales will come from sales of new products. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions and products with short life cycles. The markets for some of these products are extremely competitive and may entail technologies that are new, immature and/or unpredictable to us. These markets and our endeavors to meet the markets may not develop into profitable opportunities and we have in the past invested substantial resources in emerging technologies that did not achieve the market acceptance and generate returns that we had expected. Recently, we have made significant investments in eMMC and Solid State Drive (SSD) controller technologies and LTE transceiver technology. Failure to grow our eMMC, SSD, LTE and other products or to recoup on our investments in these and other technologies could materially adversely affect our results of operations and future business outlook. As a result, it is difficult to anticipate our future revenue streams from, or provide assurances on the success and the sustainability of, our new products.

The average selling prices of our mobile storage products have historically decreased rapidly and will likely do so in the future, which could harm our revenue and profitability.

The products we develop and sell, especially those for mobile flash memory storage solutions, are used for high volume applications and many of them are subject to rapid declines in average selling prices. Our average selling prices have historically decreased significantly, and we believe that it is possible they may also fall in the future. We may experience period-to-period fluctuations in future operating results if our average selling prices decline. We may be forced to reduce the average unit price of our products in response to new product introductions by our competitors, competitive pricing pressures and other factors. The consumer electronics market is extremely cost sensitive, which may result in rapidly declining average selling prices of electronic devices and components, such as those made by us, used in devices and create downward pressure on our average selling prices and operating results. To maintain acceptable operating results, we will need to develop and introduce new products and product enhancements on a timely basis and continue to reduce our costs. We have also introduced products for the embedded storage market that typically experiences lesser degree of price declines. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes or reducing corresponding production costs, or if we fail to gain more successes with embedded products or if we fail to develop and introduce new products and enhancements on a timely basis, our sales and operating results will be materially and adversely affected.

If we are unable to accurately predict our future sales and to appropriately budget for our expenses, our results of operations could suffer.

The rapidly changing nature of the global economy and the markets in which we sell our products limits our ability to accurately forecast quarterly and annual sales. Because many of our expenses are fixed in the short term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales, or expand our R&D and other operating infrastructure in a timely manner to capture anticipated business opportunities. If we expand our business operations and demand for our products does not increase as we may have projected, our operating results could be affected by our higher operating expense levels. Conversely, if we maintain or reduce our business operations and related expenses in accordance with our projections and demand for our products increases more than expected, our operating results could be affected by lost business opportunity, less competitive economies of scale, and damaged relationships with our customers.

A failure to accurately forecast customer demand may result in excess or insufficient inventory, which may increase our operating costs and harm our business.

To ensure the availability of our products for our customers, in some cases we cause our manufacturers to begin manufacturing our products based on forecasts provided by these customers in advance of receiving

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purchase orders. However, these forecasts do not represent binding purchase commitments, and we do not recognize revenue from these products until they are shipped to the customer. As a result, we incur inventory and manufacturing costs in advance of anticipated revenue. Because demand for our products may not materialize, manufacturing based on forecasts subjects us to risks of high inventory carrying costs and increased obsolescence and may increase our costs. If we overestimate customer demand for our products or if purchase orders are cancelled or shipments delayed, we may end up with excess inventory that we cannot sell, which could have a material and adverse effect on our financial results. Conversely, if we underestimate demand, we may not have sufficient product inventory and may lose market share and damage customer relationships, which could also harm our business.

The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could impair our ability to grow our business.

We rely heavily on the services of our key employees, including Wallace C. Kou, our President and Chief Executive Officer. In addition, our engineers and other key technical personnel are a significant asset and are the source of our technological and product innovations. We believe our future success will depend upon our ability to retain these key employees and our ability to attract and retain other skilled managerial, engineering, technical and sales and marketing personnel. The competition for such personnel, particularly technical personnel, is intense in our industry. We may not be successful in attracting and retaining sufficient numbers of technical personnel to support our anticipated growth. These technical personnel are required to design and develop integrated circuits, including firmware, and to introduce product enhancements for use in future applications. Despite the incentives we provide, our current employees may not continue to work for us, and if additional personnel were required for our operations, we may not be able to obtain the services of additional personnel necessary for our growth. In addition, we do not maintain key person life insurance for any of our senior management or other key employees. The loss of any of our key employees or our inability to attract or retain qualified personnel, including engineers, could delay the development and introduction of, and have an adverse effect on our ability to sell, our products as well as have an adverse effect on our overall growth.

In addition, if any other members of our senior management or any of our other key personnel join a competitor or form a competing company, we may not be able to replace them easily and we may lose customers, business partners, key professionals and staff members. Substantially all of our senior executives and key personnel have entered into confidentiality and non-disclosure agreements. In the event of a dispute between any of our senior executives or key personnel and our operating companies in Taiwan, China or Korea, we cannot assure you the extent, if any, to which these provisions may be enforceable in Taiwan, China, or Korea due to constant evolving nature of the Taiwanese, Chinese, or Korean legal systems.

We may not be able to deliver our products on a timely basis if our relationships with our suppliers, our semiconductor foundries or our assembly and test subcontractors are disrupted or terminated.

We do not own or operate semiconductor fabrication facilities. Instead, we rely on third parties to manufacture our semiconductors. Two outside foundries, Taiwan Semiconductor Manufacturing Company (TSMC) and Semiconductor Manufacturing International Corporation (SMIC), with fabs in Taiwan, Singapore, and China currently manufacture the majority of our semiconductors. As a result, we face several significant risks, including higher wafer prices, availability of wafers and other raw materials, lack of manufacturing capacity, quality assurance, manufacturing yields and production costs, limited control over delivery schedules and product quality, increased exposure to potential misappropriation of our intellectual property, labor shortages or strikes and actions taken by third party contractors that breach our agreements.

The ability of each foundry to provide us with semiconductors is limited by its available capacity and access to wafers. We do not have long-term agreements with any of these foundries and we place orders on a purchase order basis. We place our orders based on our customers purchase orders and sales forecasts. However, the foundries can allocate capacity to the production of the products of their other customers and reduce deliveries to us on short notice or increase the price they charge us. It is possible that other foundry customers that are larger and better financed than we are, or have long-term agreements with these foundries, may induce these foundries to reallocate capacity to them. Any reallocation could impair our ability to secure manufacturing capacity that we need for our products. In addition, interruptions to the wafer manufacturing processes caused by a natural disaster or human error could result in partial or complete disruption in supply until we are able to shift manufacturing to another fabrication facility. It may not be possible to obtain sufficient capacity or comparable production costs at another foundry. Migrating our design methodology to a new third-party foundry could involve increased costs, resources and development time comparable to a new product development effort. Any reduction in the supply of semiconductors for our products could significantly delay our ability to ship our products and potentially have negative effects on our relationships with existing customers and our results of operations. In addition, if our subcontractors terminate their relationships with us, we would be required to qualify new subcontractors, which could take as long as six months, resulting in unforeseen operating problems, and our operating results may be materially and adversely affected.

If the foundries that provide us with the products for our operations do not achieve satisfactory yield or quality, or if the assembly and testing services fail us in the quality of their output, then our revenue, operating results and customer relationships will be affected.

The manufacture of semiconductors is a highly complex process. Minor deviations in the manufacturing process can cause substantial decreases in yield. In some situations, such deviations may cause production to be suspended. The foundries that manufacture our semiconductors have from time to time experienced lower than anticipated manufacturing yields, including yields for our semiconductors, typically during the production of new products or architectures or during the installation and start-up and ramp-up of new process technologies or equipment. If the foundries that manufacture our semiconductors do not achieve planned yields, our product costs could increase and product availability would decrease.

After the wafer fabrication processes, our wafers are shipped to our assembly and testing subcontractors. We have a system to maximize consistent product quality, reliability and yield that involves our quality assurance team working closely with subcontractors in the various phases of the assembly and testing processes. Our supplier quality management includes procedures such as processes to pre-qualify our manufacturing suppliers and subcontractors. However, despite our efforts to strengthen supplier quality management, if our foundries fail to deliver fabricated silicon wafers of satisfactory quality in the volume and at the price we require, or if our assembly and testing subcontractors fail to efficiently and accurately assemble and test our products, we will be unable to meet our customers demand for our products or to sell those products at an acceptable profit margin, which would have a material and adverse effect on our sales and margins and damage our customer relationships.

Failure to protect our proprietary technologies or maintain the right to certain technologies may negatively affect our ability to compete.

We believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, business partners and other third parties, and have implemented procedures to control access to and distribution of our documentation and other proprietary information. Despite these efforts, we cannot assure you that these measures will provide meaningful protection of our intellectual property rights. Further, these agreements do not prevent others from independently developing technologies that are equivalent to or superior to our technology. In addition, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary technology. Monitoring unauthorized use of our technology is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries such as Taiwan, Korea, and China where the laws may not protect our proprietary rights as fully as do the laws of the United States. In addition, if the foundries that manufacture our semiconductors lose control of our intellectual property, it could be more difficult for us to take remedial measures because our foundries are located in countries that do not have the same protection for intellectual property that is provided in the United States. Also, some of our contracts, including license agreements, are subject to termination upon certain types of change-of-control transactions.

As of March 31, 2015, we had 593 patents and 740 patent applications pending in five countries. We cannot be certain that patents will be issued as a result of our pending applications nor can we be certain that any issued patents would protect or benefit us or give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable or provide only limited protection for our technologies. We also cannot be certain that others will not design around our patented technology, independently develop our unpatented proprietary technology or develop effective competing technologies on their own.

Failure to successfully defend against intellectual property lawsuits brought against us may adversely affect our business.

Companies in and related to the semiconductor industry often aggressively protect and pursue their intellectual property rights. From time to time, we have received, and may continue to receive, notices that claim we have infringed upon, misappropriated or misused other parties proprietary rights. Moreover, in the past we have been engaged in litigation with parties that claim that we infringed their patents or misappropriated or misused their trade secrets. In addition, we or our customers may be sued by other parties that claim that our products have infringed their patents or misappropriated or misused their trade secrets, or that may seek to invalidate one or more of our patents. An adverse determination in any of these types of disputes could prevent us from manufacturing or selling some of our products, increase our costs of revenue and expose us to significant liability. Any of these claims may materially and adversely affect our business, financial condition and results of operations. For example, in a patent or trade secret action, a court could issue a preliminary or permanent injunction that would require us or our customer(s) to withdraw or recall certain products from the market or redesign certain products offered for sales or under development. We may also be liable for damages for past infringement and royalties for future use of certain technologies. See Legal Proceedings, below.

In addition, any litigation to defend ourselves against claims that we have infringed the intellectual property rights of others, could, regardless of the ultimate outcome, materially and adversely affect our operating results by requiring us to incur significant legal expenses and diverting the resources of the company and the attention of our management team.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than we have, we cannot be certain that our products will compete favorably in the marketplace.

We face competition from a large number of competitors in each of our target markets. Our competitors in our mobile storage market include Alcor Micro, ASolid, Marvell, and Phison. In the mobile communications market, the companies with whom we compete include Raontech and Fujitsu. We also face competition from our customers internal products and expect to face increased competition in the future from our current and potential competitors. In addition, some of our customers have developed products and technologies that could replace their need for our products or otherwise reduce their demand for our products.

Some of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we have. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sales of their products than we can. Our current and potential competitors may develop and introduce new products that will be priced lower, provide superior performance or achieve greater market acceptance than our products. In addition, in the event of a manufacturing capacity shortage, these competitors may be able to obtain capacity when we are unable to do so.

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The consumer electronics market, which is the principal end market for our products, has historically been subject to intense price competition. In many cases, low-cost, high-volume semiconductor component producers have entered markets and driven down profit margins. If a low-cost, high-volume producer should develop products that compete with our products, our sales and profit margins would suffer.

Our products must meet exacting specifications and undetected defects and failures may occur, which may cause customers to return or stop buying our products and may expose us to product liability risk and risks of indemnification against defects in our products.

Our products are complex and may contain undetected hardware or software defects or failures, especially when first introduced or when new versions are released. These errors could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from product development efforts and materially affect our customer relations and business reputation. If we deliver products with errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Defects could also lead to liability for defective products as a result of lawsuits against us or against our customers. We have agreed to indemnify some of our customers in some circumstances against liability from defects in our products. A successful warranty or product liability claim could require us to make significant payments.

Our intellectual property indemnification practices may adversely impact our business.

We may be required to indemnify our customers and our third-party intellectual property providers for certain costs and damages of intellectual property infringement in circumstances where our products are a factor in creating infringement exposure. In the contracts under which we sell semiconductor products, we may have agreed to indemnify our customers against losses arising out of claims of unauthorized use of intellectual property. In some of our licensing agreements, we have agreed to indemnify the licensee against losses arising out of or related to our conduct or services. We cannot assure you that claims for indemnification will not be made or that these claims would not have a material and adverse effect on our business, operating results or financial condition.

We are exposed to potential impairment charges on intangible assets relating to recent acquisitions and on investments if business conditions deteriorate.

We are required to perform testing for impairment losses relating to long-lived assets used in operations when indicators of impairment, such as reductions in demand or significant economic slowdowns in our business, are present. Through our acquisitions of FCI and other assets, we acquired core technology, customer relationships, goodwill and other intangible assets. The carry value of goodwill relating to these acquisitions must be assessed for impairment at least on an annual basis. In November 2009, we recorded US$6.6 million of impairment charges relating to our long-lived assets and determined that our goodwill balance was impaired, and wrote down the goodwill balance by US$30.8 million. As of December 31, 2014, we had goodwill associated with our acquisitions of US$35.5 million. Although we recorded an impairment on goodwill and other long-lived assets in 2009, we cannot be certain that these assets will not be subject to further write-downs in future periods and may record further impairment charges if sales of our LTE transceivers and mobile TV SoCs do not grow as expected.

We have not made any passive investments in private companies since February 2007. If the companies in which we have invested in are unable to execute their plans and succeed in their respective markets, we may not benefit from such investments, and we could potentially lose the amounts we invested. We evaluate our investments on a regular basis to determine if impairments have occurred and have recorded impairment charges in past years. These and future impairment charges could have a material and adverse impact on our operating results. In 2012, 2013 and 2014, there were no impairments recorded.

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Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business, results of operations and the market price of our ADSs.

We are subject to reporting obligations under securities laws of the United States. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include in its annual report management s assessment of the effectiveness of the company s internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company s internal controls over financial reporting.

Our management and independent registered public accounting firm have concluded that our internal controls as of December 31, 2014 are effective. However, we cannot assure you that in the future we or our independent registered public accounting firm will not identify material weakness during the audit process or for other reasons. In addition, 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. As a result, if we fail to maintain effective internal controls over financial reporting or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, investors could lose confidence in the reliability of our financial statements, which in turn could harm our business and results of operations, negatively impact the market price of our ADSs and harm our reputation.

Laws and regulations to which we are subject, as well as customer requirements in the area of environmental protection and social responsibility, could impose substantial costs on us and may adversely affect our business.

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products. In addition, we are also subject to various industry requirements restricting the presence of certain substances in electronic products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions.

Recently there has been increased focus on environmental protection and social responsibility initiatives. We may be required or choose to implement various standards or processes due to the adoption of rules or regulations that result from these initiatives, such as the recently adopted United States rules on the disclosure of the use of conflict minerals. Our customers may also require us to implement environmental or social responsibility procedures or standards before they will continue to do business with us or order new products from us. Our adoption of these procedures or standards could be costly, and our failure to adopt these standards or procedures could result in the loss of business, fines or other costs.

Our stock price has been, and may continue to be, volatile, which could result in investors losing all or part of their investments.

Since we completed our initial public offering in June 2005, the market price of our ADSs has been and likely will continue to be highly volatile and could be subject to wide fluctuations in response to numerous factors, including the following:

actual or anticipated variations in our quarterly operating results or those of our competitors, customers, or NAND flash vendors;

actual or anticipated changes in NAND flash supply-demand dynamics;

actual or anticipated changes in our market share or the market share of our competitors;

the commencement or results of litigation;

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- announcements by us, our competitors, our customers, or their other suppliers of new products or technological innovations;
- changes in financial estimates or recommendations by securities analysts;
- the payment or non-payment of cash dividends at the discretion of our board of directors;
- the announcement and implementation of share repurchase programs;
- announcements by us or our competitors of significant acquisitions, divestitures or partnerships; and
- actual or anticipated changes in the global economic or industry outlook.

Many of these factors are beyond our control and may negatively impact the market price of our ADSs, regardless of our performance. In addition, the stock market in general, and the market for technology and semiconductor companies in particular, have been highly volatile. Our ADSs may not trade at the same price levels as that of other semiconductor and technology companies, and shares of semiconductor and technology companies, in general, may not sustain their current market prices. These fluctuations as well as general economic, political, and market conditions may have an adverse effect on the market price of our ADSs.

There can be no assurance that we will continue to declare cash dividends on a quarterly basis, if at all or in any particular amounts.

Our Board of Directors declared payment of our first quarterly dividend on our common stock in January 2013 and the first dividend payment was made on March 4, 2013. Our Board of Directors has subsequently declared and paid dividends in each successive quarter, including in 2014. The continuation of declaring quarterly dividends or if at all, depends on, among other things, that the dividend payment is in the best interests of our shareholders, our results of operations, capital availability and future capital requirements, financial condition, statutory requirements, and other factors that the board of directors may deem relevant. The decision of any declaration of dividend payment, the amount and the frequency of such, if at all, is the discretion of our Board of Directors. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends, if at all or in any particular amounts. A reduction in or elimination of our dividend payments could have a negative effect on our share price.

If we are characterized as a passive foreign investment company, U.S. Holders may experience adverse tax consequences.

Based on the present and projected composition of our income and valuation of our assets, we believe we are not currently classified as a passive foreign investment company (PFIC) for U.S. federal income tax purposes. We will generally be classified as a PFIC for any taxable year in which either (a) at least 75% of our gross income is passive income or (b) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. If we are characterized as a PFIC, U.S. Holders may experience adverse tax consequences. See ITEM 10. ADDITIONAL INFORMATION -Taxation-United States Federal Income Taxation.

We are subject to risks associated with international operations which may harm our business.

We conduct our business worldwide. We are headquartered in Taiwan and have most of our operations outside of the United States. We undertake our design and development activities primarily in Korea and Taiwan. Our integrated circuits are manufactured, assembled, tested and packaged by third-parties located primarily in China, Korea, and Taiwan. We generated 93%, 90% and 91% of our revenue in 2012, 2013 and 2014, respectively, from sales to customers outside the United States. International operations are subject to many other inherent risks, including but not limited to*:*

- international economic and political conditions, such as political tensions between countries in which we do business (please also refer to Risk Factors relating to Taiwan and Korea);

- unexpected changes in, or impositions of, legislative or regulatory requirements;

- complying with a variety of foreign laws;

- differing legal standards with respect to protection of intellectual property and employment practices;

- cultural differences in the conduct of business;

- inadequate local infrastructure that could result in business disruptions;

- exporting or importing issues related to export or import restrictions, tariffs, quotas and other trade barriers and restrictions;

- financial risks such as longer payment cycles and difficulty in collecting accounts receivable;

- adverse taxes rules, regulations and penalties; and

- Other factors beyond our control such as nature disasters, terrorism, civil unrest, war and diseases such as severe acute respiratory syndrome, the Avian influenza, and the Swine influenza.

Although our reporting currency is the U.S. dollar, and the majority of our sales and cost of sales are denominated in the U.S. dollar, the majority of our operating expenses are denominated in the NT dollar, and to a lesser extent Korean won, Chinese renminbi, and U.S. dollar. The functional currency of our Korean operations is the Korean Won. As a result, appreciation or depreciation of other currencies in relation to the U.S. dollar could result in material transaction and translation gains or losses that could adversely affect, or cause fluctuations in, our results of operations. We do not currently engage in currency hedging activities.

Parts of the world, including Taiwan, Japan, China and the United States are susceptible to earthquakes. In 1999, 2008, and 2011 Taiwan, China, and Japan respectively, experienced severe earthquakes that caused significant property damage and loss of life. Although the 1999, 2008 and 2011 earthquakes did not have a material impact on our business, a major earthquake and consequent disruptive events could severely disrupt the normal operations of our business and have a material and adverse effect on our financial condition and operating results.

We face substantial political risks associated with doing business in Taiwan because of the tense political relationship between Taiwan and the People s Republic of China.

While we also, through our acquisition of FCI, maintain substantive operations in Korea, our principal executive offices and a majority of our employees and a significant portion of our research and development and operations are based in Taiwan. In addition, most of our foundries and assembly and testing suppliers such as TSMC, SMIC, Advanced Semiconductor Engineering Group (ASE), Siliconware Precision Industries Co., Ltd. (SPIL), Taiwan IC Packing Corp. (TICP), King Yuan Electronics Corp. (KYEC), and Youngtek Electronics Corp. (YTEC) are located in either Taiwan or China. Accordingly, our business and results of operations and the market price of our ADSs may be affected by changes in Taiwan or China governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan that are outside of our control. Taiwan has a unique international political status. China does not recognize the sovereignty of Taiwan. Although there have been significant economic and cultural ties between Taiwan and China in recent years, the political relations have often been strained. The government of China has indicated that it may use military force to gain control over Taiwan, particularly under what it considers as highly provocative circumstances, such as a declaration of independence by Taiwan or the refusal by Taiwan to accept China s One China policy. On March 14, 2005, the National People s Congress of China passed what is widely referred to as the anti-secession law, a law authorizing the Chinese military to attack Taiwan in order to block moves by Taiwan toward formalizing independence.

Past and recent developments in relations between Taiwan and China have on occasion depressed the market prices of the securities of Taiwanese companies or companies with significant business activities in Taiwan. We cannot assure you any contentious situations between Taiwan and China will always resolve in maintaining the current status quo or remain peaceful. Relations between Taiwan and China and other factors affecting military, political or economic conditions in Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our ADSs.

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We face substantial political risk associated from doing business in South Korea because of tensions in the political relationship between South Korea and North Korea.

Relations between South Korea and North Korea have been tense over most of South Korea s history. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and ballistic missile capabilities and uncertainty regarding North Korea s actions and possible responses from the international community. More recent concerns over North Korea s nuclear and ballistic missile testing programs, hostile and threatened actions by North Korea against South Korea, North Korea s leadership succession, and relations between the United States and North Korea, have created a global security issue that may adversely affect South Korean business and economic conditions. South Korea was not a signatory of the armistice agreement that ended the Korean War, and since no peace treaty was signed between South Korea and North Korea, the two countries are technically still at war. We cannot assure you as to whether or when this situation will be resolved or change abruptly as a result of current or future events, including, without limitation, the effects, if any, of (i) the transition of the Supreme Leader to Kim Jong Un that began after the passing of Kim Jong Il in 2011, (ii) recent increases to previously imposed UN sanctions on North Korea, (iii) the effects of the denial of access to South Koreans who manage jointly run factories in the North Korean city of Kaesong and (iv) the general increase in overtures and rhetoric by the North Korean government with respect to its nuclear capabilities and willingness to use such weapons as they see fit. We cannot give any assurance that the level of instability and tension in the Korean peninsula will not escalate in the future, or that the political regime in North Korea may not suddenly collapse. An adverse change in economic or political conditions in South Korea or North Korea or in South Korea s relations with North Korea could have a material adverse effect on our South Korean subsidiary and our company.

Our business depends on the support of the Taiwanese and South Korean governments, and a decrease in this support may increase our tax liabilities and decrease our net income.

The Taiwanese and South Korean governments have been supportive of technology companies such as ours. In particular, we, like many Taiwanese technology companies, have benefited from tax incentives provided by the Taiwanese government. For example, under the Statute for Upgrading Industries of Taiwan, we were granted tax credits by the Taiwan Ministry of Finance for qualifying research and development costs and in qualifying employee training expenses. In addition, Taiwan law offers preferential tax treatments to industries that are encouraged by the government. In 2010, Statute for Industries Innovation was passed to replace the Statute for Upgrading Industries in tax incentives. However, we are still eligible to use certain previously granted exemptions. See Operating and Financial Review and Prospects Principal Factors Affecting Our Results of Operations Provision for income taxes and Note 12 to our consolidated financial statements for a more detailed description of our ability to enjoy these preferential tax treatments. If any of our tax credits or our ability to take advantage of these preferential tax treatments are curtailed or eliminated, our net income may decrease materially.

The South Korean government provides a variety of tax incentives designed to promote designated industries such as the technology industry. We, like many Korean technology companies, have benefited from certain tax incentives, including tax credits for applicable research and development expenses and tax credit for investments made to improve business productivity. If these and other tax incentives are curtailed or eliminated, our net income may decrease materially.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

Silicon Motion Technology Corporation (Silicon Motion) is a corporation which was incorporated in the Cayman Islands in January 2005 and acquired Silicon Motion, Inc., a Taiwan corporation (SMI Taiwan) in April 2005. Originally SMI Taiwan was known as Feiya Technology Corporation (Feiya), a Taiwan

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corporation which was incorporated in April 1997 but had changed its name to SMI Taiwan after acquiring in August 2002 Silicon Motion, Inc., a California corporation (SMI USA), which was incorporated in November 1995. Feiya was originally a flash memory products company and SMI USA a graphics processor company. In April 2007, we acquired FCI Inc. (FCI), a leading designer of RF ICs for mobile TV and wireless communications based in Korea. In 2011, we established Silicon Motion BV in the Netherlands with the purpose of expanding our business activities in Europe, as well as to provide supervisory, financing, legal support, accounting services and shareholding for our businesses in other parts of the world.

Our principal executive offices are located at 8F-1, No. 36, Taiyuan St., Jhubei City, Hsinchu County 302, Taiwan. The address of our United States subsidiary, Silicon Motion, Inc. is 1591 McCarthy Blvd., Milpitas, CA 95035. Our ADSs have been listed and traded on Nasdaq since June 2005.

Subsidiaries of the Company

Below is a list of subsidiaries of the Company. All subsidiaries are wholly owned.

Name of Entity	**Jurisdiction of Incorporation**
FCI Inc.	Korea
Silicon Motion BV	The Netherlands
Silicon Motion K.K.	Japan
Silicon Motion Korea Ltd.	Korea
Silicon Motion Technology (HK) Limited	Hong Kong
Silicon Motion, Inc.	California
Silicon Motion, Inc.	Taiwan
Silicon Motion, Inc. (Beijing)	China
Silicon Motion, Inc. (Shanghai)	China
Silicon Motion, Inc. (Shenzhen)	China

Overview

We are a fabless semiconductor company that designs, develops and markets high performance, low-power semiconductor solutions to original equipment manufacturers (OEMs) and other customers in the mobile storage and mobile communications markets. Our products are widely used in smartphones, tablets, notebooks, desktop PCs and industrial and commercial applications.

For the mobile storage market, our key products are microcontrollers used in solid state storage devices such as SSDs, eMMCs and other embedded flash applications, as well as removable storage products. More NAND flash products, especially next generation flash, whether produced by Samsung, SanDisk, Toshiba, Micron, Intel or SK Hynix are supported by Silicon Motion controllers than any other company. We are the leading merchant supplier of controllers for eMMC embedded memory used in smartphones and tablets and are increasingly focused on client SSDs controllers for PCs and other applications.

For the mobile communications market, our key products are mobile communication transceivers and mobile TV SoCs. We are a dedicated provider of 4G LTE transceivers for Samsung s smartphones and tablets.

We market our mobile storage products under the SMI brand and mobile communications products under the FCI brand and sell our semiconductor solutions to leading OEMs and module makers worldwide. Our customers include industry leaders such as Micron, Samsung, SK Hynix, Sony, and Transcend. We sell our products through our direct sales force and distributors.

Industry Background

We operate in the semiconductor industry and primarily focus on designing, developing and marketing: (i) controllers for managing NAND flash used in embedded storage applications such as eMMC embedded

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memory and SSDs and removable storage applications such as flash memory cards and USB flash drives, and (ii) specialty RF ICs used in smartphones and tablets such as LTE transceivers and mobile TV SoCs.

NAND Flash Controllers

NAND flash is a type of non-volatile digital data storage technology that does not require power to retain data and has become the primary semiconductor technology for mass digital data storage. The benefits of NAND flash includes high data storage capacity at low cost per bit, fast data read and write access time, low operating power requirements, and is shock resistant. NAND flash is widely used for embedded and removable data storage in mobile consumer electronic devices such as smartphones, tablets, digital cameras, and notebook PCs and more recently is also being used in commercial-grade, industrial-grade, and enterprise-grade equipment. The NAND flash market is large and has grown rapidly, and the leading suppliers of NAND flash are Intel, Micron, Samsung, SanDisk, SK Hynix, and Toshiba.

All NAND flash storage devices require a controller and almost all storage devices use a discrete controller IC. Key functions of a flash memory controller include:

- managing the interfacing of the NAND flash in the flash memory storage product with the host device;
- ensuring data reliability in NAND flash by detecting and correcting individual bit errors in the NAND flash caused by read/write disturbance and adjacent cell interference;
- ensuring data integrity in NAND flash by mapping bad blocks and preventing bad blocks from being used for storing data;
- maximizing the life of NAND flash with wear-leveling algorithms which spread out the use of the memory array and equalize the use of all the memory cells;
- enhancing the sequential and random read and write performance of NAND flash by utilizing two-plane architecture, interleaving, or other technologies;
- preventing data loss during sudden, unexpected host device power failures with advanced power cycling solutions;
- implementing security features to protect software code, personal data and multimedia digital rights; and
- ensuring that flash memory storage solutions are compatible with host devices.

We believe that our controllers are designed to meet the specifications of the majority of NAND flash currently being produced by different flash memory manufacturers, including small and big block Single-Level Cell (SLC) and

Multi-Level Cell (MLC) NAND flash. Most of our controllers support two-bits per cell MLC, three-bits per cell MLC NAND flash, which is also known as Triple-Level Cell (TLC) NAND flash and future 3D NAND. Our controllers also support NAND flash designed and fabricated at all the primary process geometries, including the most advanced process geometries.

Mobile Device Specialty RF ICs

The RF IC industry is large and fragmented and encompasses several major markets, such as mobile connectivity, broadcast TV, and broadband data. Since major markets demand large supplies of standard solutions, these markets are intensively competitive and are dominated by large semiconductor companies with significant engineering, financial, intellectual property, and other resources. Within and outside of the traditional major markets are niche and custom solutions sub-markets. We have significant RF, analog, and mixed signal IC design expertise and experience relating to several key sub-markets:

LTE transceivers. Custom-designed LTE transceiver solutions specifically for Samsung for pairing with Samsung LTE baseband ICs; and

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Mobile TV SoCs. Tuner plus demodulator SoCs for T-DMB and ISDB-T, specifically 1-Seg, Full-Seg, and ISDB-Tmm.

Our Markets and Products

We design, develop and supply a portfolio of products that address two main markets, mobile storage and mobile communications. In the mobile storage market we provide products for both the embedded storage and the removable storage market segments. The following is a brief description of each of our markets and key products.

Mobile Storage Market

Embedded Storage Market

Embedded memory controllers. Embedded NAND flash-based storage devices, especially eMMC embedded memory, have become very common as memory solutions for smartphones, tablets, and other consumer electronics devices. We provide controllers for eMMC and its derivative multi-chip package (MCP) embedded memory, which combine NAND flash and mobile DRAM in an integrated solution. We also develop and supply controllers for other embedded memory solutions, such as those based on the USB flash drive and Secure Digital (SD) interface. In addition to providing consumer-grade embedded memory controllers to our customers, we also supply commercial-grade and industrial-grade products.

SSD controllers and solutions. SSD is a next generation storage technology designed to replace or compliment hard disk drives. SSDs are potentially faster in terms of data read and write speed, are more durable and not prone to mechanical malfunction, more power efficient, generate less heat, and are quieter and smaller in form factor. We provide SATA 6Gb/s SSD controllers for both NAND-cache SSDs and full-size client SSDs. We also provide controllers for single-chip SSDs and IDE/PATA disk-on-modules (DOMs), which are commonly used in industrial applications. In addition to controllers, we also offer Ferri single-package SSD solutions, small single-chip SSDs with either a standard SATA, PATA or eMMC interface in a BGA form factor that allows for easy integration of this embedded storage into industrial-grade or commercial-grade devices and applications.

Removable Storage Market

Flash memory card controllers. We believe we offer the broadest line of high-performance controllers for all major flash memory card formats, including Compact Flash (CF), SD and Memory Stick (MS). For SD cards, we offer controllers for (i) different physical card sizes, such as SD card s miniSD card and microSD card, (ii) different speed class, which refer to how quickly information can be read from, or written to, the card, including the significantly faster Secure Digital High Capacity (SDHC) and Secure Digital eXtended Capacity (SDXC) cards that use the Ultra High Speed (UHS) bus, (iii) different storage capacities, including the significantly higher-capacity SDHC and SDXC cards, which also have faster speed and added capabilities. Smaller form factor cards are primarily used for smartphones and larger form factor cards are more often used in digital cameras.

USB flash drive controllers. USB flash drives are NAND flash memory data storage devices integrated with a standard USB interface, commonly high speed USB 2.0 and increasingly the newer USB3.0 with significantly faster read and write speed. USB flash drives are popular in computing and consumer electronics markets for the portable storage of files. Certain application software can be booted from a USB flash drive, such as a Windows 8 system from a USB flash drive that supports Windows to Go.

Mobile Communications Market

Mobile TV SoCs. Our products include integrated mobile TV tuner plus demodulator SoCs for mobile phones and other portable devices. Our solutions are designed for many mobile TV broadcast standards, especially T-DMB for the Korean market and ISDB-T for the Japanese and South American markets.

LTE transceivers. We offer 4G LTE transceivers that are designed to specifically support Samsung LTE baseband solutions. Our high performance, low power, multi-mode diversity LTE and LTE-Advanced transceivers support GSM, GPRS, EDGE, HSPA, HSPA+, and TD-SCDMA, in addition to FDD-LTE and TD-LTE.

Our Customers

We sell our semiconductor solutions to leading OEMs and module makers, worldwide. Most of our high performance flash memory storage controllers are supplied to NAND flash manufacturers. We are a leading supplier of controllers used in eMMC embedded memory used in smartphones and tablets and a leading supplier of controllers used in flash memory cards, USB flash drives and SSDs. We provide our innovative mobile communications ICs primarily to Samsung. We supply our LTE transceivers to Samsung and mobile TV SoCs to leading global handset OEMs.

Sales to our five largest customers represented approximately 61%, 65% and 64% of our net revenue in 2012, 2013 and 2014, respectively. Sales to one customer in 2012 and two customers in 2013 and 2014 accounted for 10% or more of our net revenue, represented 35%, 46% and 47% of our net revenue in 2012, 2013 and 2014, respectively. In 2012, the significant customer was Samsung and in 2013 and 2014, Samsung and SK Hynix. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period.

The majority of our customers purchase our products through purchase orders, as opposed to entering into long-term contracts with us. The price for our products is typically agreed upon at the time a purchase order is placed.

Sales and Marketing

We market and sell our products worldwide through a combination of direct sales personnel and independent electronics distributors. Our direct sales personnel are strategically located near our major OEM and modular maker customers in Taiwan, Korea, China, the United States, and Japan. Approximately 82% of our sales in 2012, 83% of our sales in 2013, and 81% of our sales in 2014 were attributable to our direct sales force while the remainder was attributable to distributors.

To supplement our direct sales, we have independent electronics distributors and sales reps with locations throughout the world. We selected these distributors and reps based on their ability to provide effective field sales, marketing communications and technical support for our products to our customers.

Our marketing group focuses on our product strategy, product development road maps, new product introduction process, demand assessment, competitive analysis, and product marketing. We seek to work with potential and existing customers early in their design process in order to best match our products to their needs, and more broadly, to ensure that product development activities, product launches, and on-going demand and supply planning occur in a well-managed, timely basis in coordination with our research and development, operations, and sales groups, as well as our customers and distributors. We also attend industry tradeshows and technical conferences to promote our products and solutions, maintain close contact with our existing customers to assess demand, and keep current with industry trends. Our participation in industry standards associations, such as JEDEC and the SD Association for flash memory cards, helps us monitor the latest industry developments and promote our corporate profile. Our marketing group also works with our sales teams to identify new business opportunities.

We also have field application engineers, or FAEs, who provide technical support and assistance to existing and potential customers in designing, testing and qualifying systems that incorporate our products. Our FAE organization is segmented by product and market to support our customers.

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Research and Development

We devote a significant amount of resources to research and development for broadening and strengthening our portfolio of products and solutions. Our engineering team has expertise in system architecture, digital, mixed-signal and RF IC design, and software engineering. As of March 31, 2015, we had 593 patents in China, Japan, Korea, Taiwan, and the United States and 740 patents pending. We continue to actively pursue the filing of additional patent applications in China, Japan, Korea, Taiwan, and the United States.

We believe technology research and product development are essential to our growth. Our primary research and development centers are located in Hsinchu and Taipei, Taiwan, Seoul, South Korea, Shanghai and Shenzhen, China and Milpitas, California. Our facilities in Milpitas focus primarily on graphics products, our facilities in Seoul focus primarily on our specialty RF IC products, our facilities in Hsinchu and Taipei focus primarily on our NAND flash controller products, and our facilities in Shanghai and Shenzhen focus primarily on specific product requirements of our customers in China.

Our research and development expenses were approximately US$51.0 million, US$46.5 million and US$60.9 million for the years ended December 31, 2012, 2013 and 2014, respectively.

Manufacturing

We design and develop our products and electronically transfer our proprietary designs to independent foundries for the manufacturing and processing of silicon wafers. Once the wafers are manufactured, they are then shipped to third-party assembly and testing subcontractors. Individual dies on each wafer are assembled into finished chips and undergo several stages of testing before delivery to our customers. We also ship bare dies to our customers. We believe that our strategy of outsourcing wafer fabrication, packaging and testing enables us to benefit from the research and development efforts of leading manufacturers without the requirement to commit our own substantial capital investments. Our fabless business model also provides us with the flexibility to engage vendors who offer services that best complement our products and technologies.

Wafer fabrication. TSMC and SMIC are currently our primary foundries that manufacture most of our semiconductors. We use their fabs in Taiwan, Singapore, and China to fabricate our devices using mature and stable CMOS process technology, primarily with line-widths from 55 to 160 nanometers. We regularly evaluate the benefits and feasibility, on a product-by-product basis, of migrating to more cost efficient manufacturing process technologies.

Assembly and testing. Following wafer fabrication, our wafers are shipped to our assembly and test subcontractors where they are probed, singulated into individual dies, assembled into packaged chips, and undergo the process of electronic final testing. In order to minimize cost and maximize turn-around time, our products are designed to use low cost, industry standard packages and can be tested with widely available automatic testing equipment. We currently engage companies such as ASE, SPIL, TICP, KYEC, and YTEC in Taiwan and Amkor in Korea as our primary subcontractors for the assembly and testing of our products. We have dedicated teams of manufacturing engineers who maintain control over the process from the early stages of manufacturing. Our engineers work closely with our subcontractors to develop product testing and packaging programs to ensure these programs meet our product specifications, thereby maintaining our ownership of the functional and parametric performance of our semiconductors.

Quality and reliability assurance. We have designed and implemented a quality assurance system that provides the framework for continual improvement of products, processes and customer service. To ensure consistent product quality, reliability and yield, our quality assurance teams perform reliability engineering, quality control, ISO system development, document control, subcontractor quality management and customer engineering services to closely monitor the overall process from IC design to after-sale customer support. In particular, we rely on in-depth simulation studies, testing and practical application testing to validate and verify

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our products. We emphasize a strong supplier quality management practice in which our manufacturing suppliers and subcontractors are pre-qualified by our quality assurance teams. Our suppliers are required to have a quality management system, certified to ISO 9000 standard. Our operations have been ISO 9001 certified since 1999.

Competition

The semiconductor industry is characterized by intense competition. Our customers face supply shortages or oversupply, rapid technological changes, evolving industry standards and declining average selling prices.

Our competitors in our mobile storage market include Alcor Micro, ASolid, Marvell, and Phison. In the mobile communications market, the companies with whom we compete include Raontech and Fujitsu. We also face competition from some of our customers, such as Samsung.

Seasonality

See Risk Factors Because our operating results for any period could be adversely affected by a number of factors and therefore fluctuate significantly, our annual and quarterly operating results are difficult to predict in Item 3 above and Operating and Financial Review and Prospects Principal Factors Affecting Our Results of Operations in Item 5 below.

Intellectual Property

Our success and future revenue growth depends, in part, on our ability to protect our intellectual property. We rely on a portfolio of intellectual property rights, registered in the United States, Taiwan, and other countries, including patents, copyrights, trademark registrations, trade secret laws, contractual provisions, licenses, and other methods to protect our intellectual property.

As of March 31, 2015, we held 593 patents in the United States, Taiwan, and other countries and have 740 pending patent applications in the United States, Taiwan, and other countries. There can be no assurance that patents will ever be issued with respect to these pending applications. Furthermore, it is possible that any patents held by us may be invalidated, circumvented, challenged or licensed to others. In addition, there can be no assurance that such patents will provide us with competitive advantages or adequately safeguard our proprietary rights. While we continue to file new patent applications with respect to our recent developments, existing patents are granted for prescribed time periods and will expire at various times in the future. We expect to continue to file patent applications where appropriate to protect our proprietary technologies.

Companies in the semiconductor industry have frequently demonstrated a readiness to commence litigation based on allegations of patent and other intellectual property infringement. From time to time, third parties may assert infringement claims against us. We may not prevail in any such litigation or may not be able to license patents from third parties on commercially reasonable terms, if at all. Litigation, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management s time. Any such litigation could materially adversely affect us.

We intend to protect our intellectual property rights vigorously, but there can be no assurance that our efforts will be successful. In addition, the laws of other countries in which our products are sold may not protect our products and intellectual property rights to the same extent as the laws of the United States.

While our ability to effectively compete depends in large part on our ability to protect our intellectual property, we believe that our technical expertise, customer support capabilities, and ability to introduce new products in a timely and cost effective manner will be important factors in maintaining our competitive position.

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We claim copyright and trademark protection for proprietary documentation for our products and a variety of branding marks. We have registered Silicon Motion and its logo (a three-dimensional cube depiction of the letters SM), FCI, the FCI logo, airRF, basicRF, ezRF, ezSYS, powerRF, twinRF, zipRF, zipSYS, VirtualZero, SSDLife SSDLifeSaver, TurboMLC, FerriSSD, Ferri-eMMC, and NANDXtend as trademarks in the United States, Taiw and other countries.

We also attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants, and through other customary security measures.

We have entered into license agreements with third party intellectual property vendors for wafer fabrication tool libraries, semiconductor IP core, computer aided design tools, and software.

Facilities

Our corporate headquarters is located in Hsinchu, Taiwan. As of the date of this annual report, we own this 160,800 square feet facility, which houses our management and administration, operations, and research and development departments. In Taiwan, we also lease premises in Taipei, occupying approximately 54,700 square feet of floor space, which houses our sales and marketing, as well as research and development departments.

In addition to these facilities in Taiwan, in 2008 we purchased a facility in Shanghai, China with an aggregate floor space of approximately 15,900 square feet. We lease facilities in Seoul, Korea; Shenzhen, and Beijing, China; Milpitas, California; and Yokohama, Japan for research and development, sales and marketing, and administration. These facilities in aggregate consist of approximately 63,000 square feet of floor space with lease terms expiring at various dates between 2015 and 2019.

We also own commercial property in Taipei of approximately 6,200 square feet, which we purchased in October 1998 for NT$32 million. This property, which was formerly our Taipei sales office, has not been used by us since 2004, and we currently lease out as office premises. It is our intention that we will sell this property as we do not intend to use it for operating purposes.

Government Regulation

See Risk Factors We face substantial political risks associated with doing business in Taiwan because of the tense political relationship between Taiwan and the People s Republic of China, Our business depends on the support of the Taiwanese and South Korean governments, and a decrease in this support may increase our tax liabilities and decrease our net income, and We face substantial political risk associated from doing business in South Korea because of tensions in the political relationship between South Korea and North Korea in Item 3 above.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

General Information

We are a fabless semiconductor company that designs, develops and markets high performance, low-power semiconductor solutions to OEMs and other customers in the mobile storage and mobile communications markets. Our products are widely used in smartphones, tablets, digital cameras, notebooks, desktop PCs and industrial and commercial applications.

For the mobile storage market, our key products are microcontrollers used in solid state storage devices such as SSDs, eMMCs and other embedded flash applications, as well as removable storage products. More NAND flash products, especially next generation flash, whether produced by Samsung, SanDisk, Toshiba, Micron, Intel or SK Hynix are supported by Silicon Motion controllers than any other company. We are the leading merchant supplier of controllers for eMMC embedded memory used in smartphones and tablets and are increasingly focused on client SSD controllers for PCs and other applications.

For the mobile communications market, our key products are mobile communication transceivers and mobile TV SoCs. We are a dedicated provider of 4G LTE transceivers for Samsung s smartphones and tablets.

We market our mobile storage products under the SMI brand and mobile communications products under the FCI brand and sell our semiconductor solutions to leading OEMs and module makers worldwide. Our customers include industry leaders such as Micron, Samsung, SK Hynix, Sony, and Transcend. We sell our products through our direct sales force and distributors.

Our revenue growth and product mix has been constantly evolving due to continued technological advancement of solid state storage solutions using NAND flash and the introduction of new consumer electronics devices with more advanced capabilities. Historically, controllers for removable flash memory cards used in mobile phones and digital cameras provided the majority of our revenue. Recently, a growing portion of our revenue growth have come from controllers for SSDs and embedded memory, specifically eMMC embedded memory used in smartphones and tablets. In 2014, our SSD and embedded product sales accounted for over half our total sales and exceeded the sales of our card controllers and USB flash drive controllers. We believe that over the next few years, as the market for devices using SSDs and embedded memory further expands, the proportion of our revenue from these new growth products will increase. We continue to focus on adapting our business to the changing end-markets for NAND flash memory and aligning our resources accordingly. We have no assurance that our SSD and embedded memory products will grow consistently over the next few years, or at all.

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided under the caption Risk Factors included in Item 3 of this annual report.

Principal Factors Affecting Our Results of Operations

Net sales. Our net sales consist primarily of sales of our semiconductors, after deducting sales discounts and allowances for returns. The semiconductors that we sell are primarily for mobile storage and mobile communications markets. Net sales generated by these product groups for the periods indicated are as follows:

	Year Ended December 31,					
	2012		2013		2014	
	US$	%	US$	%	US$	%
	(in thousands, except percentage data)					
Net Sales						
Mobile Storage [(1)]	202,093	72	185,488	82	241,614	84

Mobile Communications [2]	67,564	24	31,022	14	40,034	14
Others [3]	11,713	4	8,798	4	7,675	2
Total	281,370	100	225,308	100	289,323	100

(1) Includes controllers for flash memory cards, USB flash drives, SSDs, and eMMCs.

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(2) Includes mobile TV IC solutions and handset transceiver ICs.
(3) Includes embedded graphics processors, demo boards, and non-recurring engineering income.

For the years ended December 31, 2012, 2013 and 2014 we derived approximately 26%, 21%, and 20% respectively, of our net sales from customers located in Taiwan and approximately 7%, 10%, and 9% respectively, of our net sales from customers located in the United States. We anticipate that a majority of our net sales will continue to come from customers located outside of the United States. The percentages of our net sales by geographic area for the periods indicated were as follows:

	Year Ended December 31,		
	2012	2013	2014
Country			
Taiwan	26%	21%	20%
Korea	49%	51%	52%
China	13%	13%	12%
United States	7%	10%	9%
Others	5%	5%	7%

Our net sales are denominated primarily in U.S. dollars. The percentages of our net sales by currency for the periods indicated are set forth in the following table:

	Year Ended December 31,		
	2012	2013	2014
Currency			
U.S. dollars	93%	97%	95%
Korean won	7%	3%	3%
Japanese yen			2%

The length of our sales cycle, from the day purchase orders are received until products are shipped to customers, is dependent on the availability of our product inventories. If we do not have sufficient inventories on hand to meet customer demands, approximately three months are generally required from the day purchase orders are received until finished goods are manufactured and shipped to customers. This cycle can take up to six months during times when capacity at independent foundries is being fully utilized. The potential delays inherent in the manufacturing process increase the risk that we may not be able to fulfill a customer s order on time. All of our sales are made by purchase orders. Because our practice, which is consistent with industry practice, allows customers to reschedule orders on relatively short notice, order backlog may not be a good indicator of our future sales.

Because many of our semiconductor solutions are designed for the multimedia consumer electronics market such as smartphones, tablets, digital cameras, and desktop and notebook PCs, we expect our business to be subject to seasonality, with increased net sales in the second half of each year, when customers place orders to meet increased demand during year-end holiday seasons, and decreased net sales in the first half of each year. However, our rapid sales growth in recent years makes assessment of the impact of seasonal factors on our business difficult.

Cost of sales. Our cost of sales consists primarily of the following costs:

cost of wafer fabrication;

assembly, testing and shipping costs of our semiconductors;

personnel and equipment costs associated with manufacturing support;

quality assurance;

- cost of raw materials; and

- write-off of inventory.

We engage independent foundries for the manufacturing and processing of our semiconductors. Our manufacturing cost is subject to the cyclical supply and demand conditions typical of the semiconductor industry. Our cost per wafer generally fluctuates with the availability of capacity at independent foundries. We believe that our cost of sales is substantially variable in nature, and will likely fluctuate as our market conditions change.

Research and development expenses. Our research and development expenses consist primarily of employee salaries and related costs, stock-based compensation expense, fees paid for the use of intellectual properties and design tools developed by third parties, development cost of software, expenses for the design, development and testing of system architecture, new product or product alternatives, costs for the construction of prototypes, occupancy costs and depreciation on research and development related equipment. We expense research and development expenditures as they are incurred. We expect research and development expenses to increase in absolute terms in future periods as our net sales increase.

Sales and marketing expenses. Our sales and marketing expenses consist primarily of employee salaries and related costs, stock-based compensation expense, commissions paid to independent distributors and costs for our advertising and promotional activities. We expect that our sales and marketing expenses will increase in absolute terms over the next several years as our net sales increase.

General and administrative expenses. Our general and administrative expenses consist primarily of employee salaries and related costs, stock-based compensation expense, insurance premiums, professional fees and allowance for doubtful accounts. We expect that general and administrative expenses will increase in absolute terms in future periods as our net sales increase.

Amortization of acquired intangible assets. Amortization of acquired intangible assets relates to intangible assets, such as core technology and customer relationships, but excluding goodwill.

Accounting for stock-based compensation. We grant both stock options and restricted stock units to our employees and members of the Board of Directors. The value of our restricted stock units is expensed over the vesting period and based on the grant date share price, less the present value of expected dividends during the vesting period, discounted at a risk-free interest rate. We estimate the fair value of stock options on the date of grant using the Black-Scholes option-pricing model and recognize stock compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period.

Non-operating income and expenses. Our non-operating income and expenses include gains or losses on the sales of investments, interest from deposited cash or short-term investments, gains or losses on foreign exchange rates, impairment of long-term investments, interest paid on loans and capital leases and other non-operating income and expenses not categorized above. We conduct an assessment on the value of our long-term investments quarterly and make corresponding write-downs as required to the value of the long-term investments.

Provision for income taxes. We must make certain estimates and judgments in determining income tax expenses for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, deductions and allowance, 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, as well as the interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We have operations in several countries and determine income taxes for each of the jurisdictions where we operate. Taiwan and Korea are our two primary countries of operations.

In Taiwan, we have received tax exemptions from the government that are valid for a number of years and for certain income streams relating to the expansion of production capacity or the development of new technologies. We also receive significant amounts of tax credits for applicable research and development expenses incurred in Korea. Because of these and other tax benefits, the effective tax rates of our Taiwan and Korea operations have been lower than statutory tax rates. See Risk Factors Our business depends on the support of the Taiwanese and South Korean governments, and a decrease in this support may increase our tax liabilities and decrease our net income for the risks relating to our ability to enjoy favorable tax policies of the Taiwanese and Korean governments.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to product returns and pricing allowances, allowances for doubtful accounts, inventories, goodwill, long-lived assets, long-term investments, income taxes, litigation and contingencies. We base our estimates and judgments on our historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Because our estimates may vary in each situation, our actual results may differ from our estimates under different assumptions and conditions.

Our management considers the following factors in reviewing our financial statements:

- the selection of critical accounting policies; and

- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 2 to our consolidated financial statements included elsewhere in this annual report.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our financial consolidated statements.

Revenue recognition. Revenue from product sales are generally recognized upon shipment to the customer provided that we have received a signed purchase order, the price has been fixed or is determinable, transfer of title has occurred in accordance with the shipping terms specified in the arrangement with the customer, collectability from the customer is considered reasonably assured, product returns are reasonably estimable and there are no remaining significant obligations or customer acceptance requirements. Revenue on development service orders is generally recognized upon completion and customer acceptance of contractually agreed milestones.

We record reserves to cover the estimated returns from our customers. Certain of our distributors have limited rights of return and price protection rights on unsold inventory. The return rights are generally limited to five percent of the monetary value of products purchased within the preceding six months, provided the distributor places a corresponding restocking order of equal or greater value. The allowance for sales returns for distributors and all customers is recorded at the time of sale based on historical returns information available, management s judgment and any known factors at the time the financial statements are prepared that would significantly affect the allowance. However, because of the inherent nature of estimates, actual returns and allowances could be significantly different from our estimates. To the extent rates of return change, our estimates for the reserves necessary to cover such returns would also change which could have a negative impact on our recorded revenue and gross margin. We reserved approximately US$0.3 million, US$1.3 million and US$1.6 million in 2012, 2013 and 2014, respectively, for estimated sales returns and discounts, representing approximately 0.1%, 0.6% and 0.5% of our gross sales for those respective periods.

Occasionally, we have reduced our product pricing due to market conditions, competitive considerations and other factors. Price protection rights are granted to certain distributors under our distribution agreements. When we reduce the price of our products, price protection allows the distributor to claim a credit against its outstanding accounts receivable balances based on the new price of the inventory it has on hand as of the date of the price reduction. A reserve for price adjustments is recorded at the time of sale based on our historical experience. The amount of our reserve for price adjustments to distributors is minimal.

Allowance for doubtful accounts. We record an allowance for doubtful accounts based on our evaluation of the collectability of our accounts receivable. Normal payment terms are provided to customers and applied upon transfer of title. On an ongoing basis, we analyze the payment history of customer accounts, including recent customer purchases. In circumstances where we are aware of a specific customer s inability to meet its financial obligations to us, we record a specific allowance against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other accounts receivable due from customers, we categorize accounts receivable and make provisions based on a percentage of each category. We determine these percentages by examining our historical collection experience and current trends in the credit quality of our customers as well as our internal credit policies. If the financial condition of our customers or economic conditions in general were to deteriorate, additional allowances may be required in the future and such additional allowances would increase our operating expenses and therefore reduce our operating income and net income.

Our allowance for trade-related doubtful accounts were approximately US$1.6 million, US$1.3 million and US$1.2 million as of December 31, 2012, 2013 and 2014, respectively, representing approximately 4.1%, 3.8% and 3.7% of our gross accounts receivables at the end of each respective periods.

Inventory valuation. We value inventories at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents the current replacement cost for raw materials, finished goods and work in process. We write down our inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. In estimating our reserves for obsolescence, we primarily evaluate estimates based on the timing of the introduction of our new products and the quantities remaining of our old products and write down the value of inventory on hand in excess of the estimated demand. We wrote down US$1.6 million, US$2.5 million and US$4.6 million in 2012, 2013 and 2014, respectively, for estimated obsolete or unmarketable inventory.

Stock-based compensation. All share-based payments, including grants of stock options and restricted stock units, are recognized in our financial statements based upon their respective grant date fair values.

Calculating the fair value of stock option awards at the date of grant requires the use of an appropriate valuation model and judgment. We use the Black-Scholes valuation formula to estimate the fair value of employee stock options. The Black-Scholes formula requires the use of input assumptions, including expected volatility, expected term, expected dividend rate and expected risk-free rate of return. Risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatilities are based on historical volatilities of our ADS prices. We estimated our options expected terms using our best estimate of the period of time from the grant date that we expect the options to remain outstanding. If we determined that another method for estimating expected volatility or expected term is more reasonable than our current methods, or if another method for calculating these input assumptions was prescribed by authoritative guidance, the fair value calculated for future stock option awards could change significantly from those used for past awards, even if the critical terms of the awards were similar. Higher volatility and expected term will result in an increase to the fair value of stock option awards at the date of grant. The expected dividend rate and expected risk-free rate of return are not as significant to the calculation of fair value. Stock option awards are expensed over the requisite service period of the individual grantees, which generally equals the vesting period.

Valuation of long-lived assets and intangible assets with finite useful life. We evaluate the recoverability of long-lived assets and intangible assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the sum of the anticipated undiscounted cash flows from such asset is separately identifiable and is less than the carrying value. If impairment occurs, a loss based on the excess of carrying value over the fair market value of the long-lived asset is recognized. Fair market value is determined by reference to quoted market prices, if available, or discounted cash flows, as appropriate. The impairment evaluations and the estimate of fair market value involve management estimates of assets useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management. This could have a material effect on our operating results and financial condition. No impairment losses were recognized in 2012, 2013 and 2014.

Impairment of long-term investments. We evaluate the recoverability of long-term investments whenever events or changes in circumstances indicate the carrying value may not be recoverable. Impairment charges are determined based on the difference between our carrying value and our proportionate ownership of the investee company s net assets at year end. No impairment losses were recognized in 2012, 2013 and 2014.

Business combinations. When we acquire businesses, we allocate the purchase price to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the synergistic benefits expected to be derived from the acquired business. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

Goodwill. We record goodwill when the consideration paid for an acquisition exceeds the fair value of net tangible and intangible assets acquired.

We measure and test goodwill on an annual basis or more frequently if we believe indicators of impairment exist. Our impairment review process compares the fair value of the reporting unit in which the goodwill resides to its carrying value. We determined that our reporting units are equivalent to our operating segments or components of an operating segment for the purposes of completing our impairment test. We utilize a two-step approach to testing goodwill for impairment. The first step tests for possible impairment by applying a fair value-based test. In computing fair value of our reporting units, we use estimates of future revenues, costs and cash flows from such units. The second step, if necessary, measures the amount of such impairment by comparing the implied fair value of goodwill to its carrying value. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess.

In 2012, 2013 and 2014, no impairment charges were recorded. The assessment was based upon a discounted cash flow analysis and analysis of our market capitalization. The estimate of cash flow was based upon, among other things, certain assumptions about expected future operating performance such as revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We based our fair value estimates on assumptions we believed to be reasonable but that are unpredictable and inherently uncertain. The long-term financial forecast represented the best estimate that we had at that time and we believed that its underlying assumptions were reasonable. However, actual performance in the near-term and longer-term could be materially different from the forecast, which could impact future estimates of fair value of our reporting units and may result in a charge to earnings in future periods due to the potential for further write-down of goodwill in connection with future impairment tests.

Accounting for income taxes. In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. We provide for a valuation allowance to the extent we believe that it is more likely than not that the deferred tax assets will not be recovered from future taxable income. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including our ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the economic environment in which we operate, and the overall future industry outlook. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an additional allowance for the deferred tax asset would be charged to income in the period the determination was made.

We utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The total amount of unrecognized tax benefits as of December 31, 2012, 2013 and 2014 was US$3.5 million, US$5.8 million and US$4.7 million, respectively. As of December 31, 2013 and 2014, US$1.4 million and US$1.7 million of interest and penalties were accrued. Fiscal years 2007 through 2014 remain subject to examination by the US Internal Revenue Service. Fiscal years 2009 through 2014 remain subject to examination by other foreign tax jurisdictions. The ultimate outcome of tax matters may differ from our estimates and assumptions. Unfavorable settlement of any particular issue would require the use of cash and could result in increased income tax expense. Favorable resolution could result in reduced income tax expense. Within the next 12 months, we do not expect that our unrecognized tax benefits would change significantly. See Note 12 to the Consolidated Financial Statements for further information regarding changes in unrecognized tax benefits during 2014.

Functional Currency. Based on an evaluation of economic facts and circumstances together with the functional currency analysis prescribed in ASC 830, on January 1, 2012, we changed the functional currency of our largest operating subsidiary, SMI Taiwan, from the NT dollar to the U.S. dollar. As a result of SMI Taiwan s functional currency change, we changed its reporting currency from the NT dollar to the U.S. dollar.

In 2005, at the time of our IPO, we determined that SMI Taiwan s functional currency was the NT dollar, and this determination was used consistently until we determined significant and permanent changes in economic facts and circumstances warranted a change in functional currency. Since the business profile and activities of SMI Taiwan had changed significantly and did not appear to be temporary, we re-evaluated the functional currency of SMI Taiwan based on recent economic facts and circumstances, including analysis prescribed in ASC 830, and determined that the U.S. dollar had become the functional currency of SMI Taiwan.

The business activities of SMI Taiwan have changed significantly since 2005. In the past, the majority of SMI Taiwan sales were to Taiwanese module maker customers; in 2012 the majority of SMI Taiwan sales were to international OEMs. We believe this trend is not temporary because a fast growing and increasingly large and

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material source of SMI Taiwan s sales are from SSD and embedded memory products, and these products are predominately sold to international OEM customers. The significance of SMI Taiwan s other products, primarily card and USB flash drive controller products, has been declining and will continue to decline due to the maturity of their markets, and a majority of these products are now sold to non-Taiwan-based customers. SMI Taiwan s cash flow, sales price, sales markets, expenses, financing and intercompany transactions are now primarily U.S. dollar-based. Economic facts and circumstances, as well as functional currency analysis support our determination that the U.S. dollar has become the functional currency of SMI Taiwan as of January 1, 2012. As from January 1, 2012, we have reported our consolidated results in U.S. dollars, and we have recasted our historical financial statements included in this Form 20-F from the NT dollar to the U.S. dollar. Items on our historical balance sheet and income statement were converted from the NT dollar to the U.S. dollars at the following rates:

	Balance Sheet (at year-end NT dollar to U.S. dollar rate)	**Income Statement (at average NT dollar to U.S. dollar rate)**
2008	32.80	31.42
2009	31.99	32.55
2010	29.13	31.56
2011	30.28	29.53

Litigation and contingencies. From time to time, we have been subject to legal proceedings and claims relating to intellectual property rights and other actions arising out of the normal course of business, as well as other matters identified in Legal Proceedings, in Item 8 of this Annual Report. Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We have been issued patents and may have additional patents in the future; however, we cannot provide assurance that any patent will be issued as a result of any applications or, if issued, that any claims allowed will be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. It may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization, develop corresponding technology independently or design around our patents. Effective copyright, trademark and trade secret protection may be unavailable or limited in foreign countries. These disputes may result in costly and time consuming litigation or the license of additional elements of our intellectual property for free.

It is possible that other companies may pursue litigation with respect to any claims such companies purport to have against us. The results of any litigation are inherently uncertain. In the event of an adverse result in any litigation with respect to intellectual property rights relevant to our products that could arise in the future, we could be required to obtain licenses to the infringed technology, pay substantial damages under applicable laws, cease the use and sale of infringing products or to expend significant resources to develop non-infringing technology. Litigation frequently involves substantial expenditures and can require significant management attention, even if we ultimately prevail.

We have been or are currently involved in various claims and legal proceedings and have incurred certain costs associated with defending litigation matters. Periodically, we review the status of each significant matter and assess the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, we accrue a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based only on the best information available at the time.

Given the uncertainties associated with litigation, if our assessments prove to be wrong, or if additional information becomes available such that we estimate that there is a possible loss or possible range of losses associated with these contingencies, then we would record the reasonably estimated liability, which could have a material and adverse effect on our operations, financial condition and cash flows.

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Results of Operations

The following table sets forth our statements of operations as a percentage of net sales for the periods indicated:

	Year Ended December 31,		
	2012	2013	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	53.2	52.7	48.3
Gross profit	46.8	47.3	51.7
Operating expenses:			
Research and development	18.1	20.6	21.1
Sales and marketing	5.7	6.0	5.6
General and administrative	4.3	5.0	4.6
Total operating expenses	28.1	31.6	31.3
Operating income	18.7	15.7	20.4
Non-operating income (expenses):			
Gain from disposal of short-term investments	0.0	0.0	0.0
Unrealized holding gain (loss) on short-term investment	(0.0)		
Interest income	0.5	0.8	0.7
Dividend income	0.0		
Interest expense	(0.0)	(0.0)	(0.0)
Foreign exchange gain (loss), net	0.1	(0.0)	(0.2)
Other income (loss), net	0.0	0.0	0.0
Total non-operating income (loss)	0.6	0.8	0.5
Income before income taxes	19.3	16.5	20.9
Income tax expense	2.5	4.3	5.6
Net income	16.8%	12.2%	15.3%

Comparison of Year Ended December 31, 2014 to Year Ended December 31, 2013

Net sales.

	Years Ended December 31					
	2013		2014			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					

Net sales						
Mobile storage	185,488	82	241,614	84	56,126	30
Mobile communications	31,022	14	40,034	14	9,012	29
Others	8,798	4	7,675	2	(1,123)	(13)
Net sales	225,308	100	289,323	100	64,015	28

Our net sales increased 28% year-over-year to approximately US$289.3 million in 2014, primarily because of increasing mobile storage and mobile communications sales.

Our mobile storage revenue increased 30% year-over-year primarily because of increasing eMMC and SSD controller sales partially offset by declining removable storage controller sales. Mobile communications revenue increased 29% because of increasing mobile TV SoC sales.

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Gross profit.

	Years Ended December 31					
	2013		2014			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Gross profit	106,610	47	149,698	52	43,088	40

Gross profit as a percentage of net sales increased to 52% in 2014 as compared to 2013 primarily because of a higher mix of higher gross margin embedded storage product sales. Our gross profit excluding obsolete and unmarketable inventory write-downs as a percentage of revenue increased from 48% in 2013 to 53% in 2014.

Research and development expenses.

	Years Ended December 31					
	2013		2014			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Salary and benefits	19,333	9	31,356	11	12,023	62
Stock-based compensation	6,351	3	6,773	2	422	7
Other research and development	20,776	9	22,820	8	2,044	10
Research and development	46,460	21	60,949	21	14,489	31

Our research and development expenses increased 31% year-over-year to approximately US$60.9 million in 2014. Salary and benefits increased 62% year-over-year to approximately US$31.4 million, primarily because of more headcount and compensation expenses in 2014. Stock-based compensation increased 7% year-over-year to approximately US$6.8 million, primarily because of more RSU cost in 2014. Other expenses increased 10% year-over-year to approximately US$22.8 million, primarily because of higher IC tape-out and other project expenses in 2014.

Sales and marketing expenses.

	Years Ended December 31					
	2013		2014			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Salary and benefits	7,411	3	9,453	3	2,042	28
Stock-based compensation	2,197	1	1,746	1	(451)	(21)
Other sales and marketing	3,989	2	5,125	2	1,136	28
Sales and marketing	13,597	6	16,324	6	2,727	20

Our sales and marketing expenses increased 20% year-over-year to approximately US$16.3 million in 2014. Salary and benefits increased 28% year-over-year to approximately US$9.5 million, primarily because of more headcount and compensation expenses in 2014. Stock-based compensation decreased 21% year-over-year to approximately US$1.7 million, primarily because of less RSU cost in 2014 expenses. Other sales and marketing expenses increased 28% year-over-year to approximately US$5.1 million primarily because of more travel expenses and testing fees in 2014.

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General and administrative expenses.

	Years Ended December 31					
	2013		2014			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Salary and benefits	6,330	3	7,933	3	1,603	25
Stock-based compensation	1,406	1	1,546	1	140	10
Other general and administrative	3,514	1	3,876	1	362	10
General and administrative	11,250	5	13,355	5	2,105	19

Our general and administrative expenses increased 19% year-over-year to approximately US$13.4 million in 2014. Salary and benefits increased 25% year-over-year to approximately US$7.9 million, primarily because of more headcount and compensation expenses in 2014. Stock-based compensation increased 10% year-over-year to approximately US$1.5 million, primarily because of more RSU cost in 2014.

Stock-based compensation.

The following table presents details of total stock-based compensation expense that is included in each functional line item in our consolidated statements of income:

	Years Ended December 31					
	2013		2014			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Cost of sales	308		282		(26)	(8)
Research and development	6,351	3	6,773	2	422	7
Sales and marketing	2,197	1	1,746	1	(451)	(21)
General and administrative	1,406	1	1,546	1	140	10
Total stock-based compensation	10,262	5	10,347	4	85	1

Total stock-based compensation increased 1% primarily because of higher RSU cost in 2014.

See Note 14 of Notes to Consolidated Financial Statements for a discussion of activity related to share-based awards.

Interest income. Our interest income increased to approximately US$2.2 million for the year ended December 31, 2014 from approximately US$1.8 million for the year ended December 31, 2013 because of higher levels of cash and cash equivalents.

Interest expense. Our interest expense increased to approximately US$114 thousand for the year ended December 31, 2014 from approximately US$110 thousand for the year ended December 31, 2013.

Foreign exchange gain (loss). For the year ended December 31, 2014, we had a foreign exchange loss of approximately US$0.6 million for the year ended December 31, 2014 compared to the foreign exchange loss of less than US$0.1 million for the year ended December 31, 2013. We do not presently engage in any hedging activities.

Income tax expense (benefit). Our income tax expense was approximately US$16.1 million for the year ended December 31, 2014 compared to an income tax expense of approximately US$9.8 million for the year ended December 31, 2013.

Net income (loss). Net income was approximately US$44.5 million for the year ended December 31, 2014 compare to a net income of approximately US$27.4 million for the year ended December 31, 2013.

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Comparison of Year Ended December 31, 2013 to Year Ended December 31, 2012

Net sales.

	Years Ended December 31					
	2012		2013			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Net sales						
Mobile storage	202,093	72	185,488	82	(16,605)	(8)
Mobile communications	67,564	24	31,022	14	(36,542)	(54)
Others	11,713	4	8,798	4	(2,915)	(25)
Net sales	281,370	100	225,308	100	(56,062)	(20)

Our net sales decreased 20% year-over-year to approximately US$225.3 million in 2013, primarily because of decreasing mobile storage and mobile communications sales.

Our mobile storage revenue decreased 8% year-over-year primarily because of decreasing card and USB flash drive controller sales, partially offset by strong eMMC and SSD controller sales. Mobile communications revenue decreased 54% because of decreasing LTE transceiver sales relating to our customer s product transition.

Gross profit.

	Years Ended December 31					
	2012		2013			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Gross profit	131,720	47	106,610	47	(25,110)	(19)

Gross profit as a percentage of net sales was unchanged at 47% in 2013 as compared to 2012. Our gross profit excluding obsolete and unmarketable inventory write-downs as a percentage of revenue increased from 47% in 2012 to 48% in 2013.

Research and development expenses.

	Years Ended December 31					
	2012		2013			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Salary and benefits	26,423	9	19,333	9	(7,090)	(27)
Stock-based compensation	7,055	3	6,351	3	(704)	(10)
Other research and development	17,497	6	20,776	9	3,279	19

Research and development	50,975	18	46,460	21	(4,515)	(9)

Our research and development expenses decreased 9% year-over-year to approximately US$46.5 million in 2013. Salary and benefits decreased 27% year-over-year to approximately US$19.3 million, primarily because of less compensation expenses in 2013. Stock-based compensation decreased 10% year-over-year to approximately US$6.4 million, primarily because of lower RSU cost in 2013. Other expenses increased 19% year-over-year to approximately US$20.8 million, primarily because of higher IC tape-out and other project expenses in 2013.

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Sales and marketing expenses.

	Years Ended December 31					
	2012		2013			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Salary and benefits	8,897	3	7,411	3	(1,486)	(17)
Stock-based compensation	2,494	1	2,197	1	(297)	(12)
Other sales and marketing	4,528	2	3,989	2	(539)	(12)
Sales and marketing	15,919	6	13,597	6	(2,322)	(15)

Our sales and marketing expenses decreased 15% year-over-year to approximately US$13.6 million in 2013. Salary and benefits decreased 17% year-over-year to approximately US$7.4 million, primarily because of less compensation expenses in 2013. Stock-based compensation decreased 12% year-over-year to approximately US$2.2 million, primarily because of lower RSU cost in 2013. Other sales and marketing expenses decreased 12% year-over-year to approximately US$4.0 million primarily because of less testing fees in 2013.

General and administrative expenses.

	Years Ended December 31					
	2012		2013			
	US$	% of net sales	US$	% of net sales	$ change	% change
	(in thousands, except percentage data)					
Salary and benefits	7,428	2	6,330	3	(1,098)	(15)
Stock-based compensation	1,878	1	1,406	1	(472)	(25)
Other general and administrative	2,850	1	3,514	1	664	23
General and administrative	12,156	4	11,250	5	(906)	(7)

Our general and administrative expenses decreased 7% year-over-year to approximately US$11.3 million in 2013. Salary and benefits decreased 15% year-over-year to approximately US$6.3 million, primarily because of less compensation expenses in 2013. Stock-based compensation decreased 25% year-over-year to approximately US$1.4 million, primarily because of lower RSU cost in 2013.

Stock-based compensation.

The following table presents details of total stock-based compensation expense that is included in each functional line item in our consolidated statements of income:

Years Ended December 31					
2012		2013			
US$	% of net sales	US$	% of net sales	$ change	% change
(in thousands, except percentage data)					

Cost of sales	375		308		(67)	(18)
Research and development	7,055	3	6,351	3	(704)	(10)
Sales and marketing	2,494	1	2,197	1	(297)	(12)
General and administrative	1,878	1	1,406	1	(472)	(25)
Total stock-based compensation	11,802	5	10,262	5	(1,540)	(13)

Total stock-based compensation decreased 13% primarily because of lower RSU cost in 2013.

See Note 14 of Notes to Consolidated Financial Statements for a discussion of activity related to share-based awards.

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Interest income. Our interest income increased to approximately US$1.8 million for the year ended December 31, 2013 from approximately US$1.4 million for the year ended December 31, 2012 because of higher levels of cash and cash equivalents.

Interest expense. Our interest expense increased to approximately US$110 thousand for the year ended December 31, 2013 from approximately US$61 thousand for the year ended December 31, 2012.

Foreign exchange gain (loss). For the year ended December 31, 2013, we had a foreign exchange loss less than US$0.1 million, compared with a foreign exchange gain of US$0.4 million for the year ended December 31, 2012. We do not presently engage in any hedging activities.

Income tax expense (benefit). Our income tax expense was approximately US$9.8 million for the year ended December 31, 2013 compared to an income tax expense of approximately US$7.1 million for the year ended December 31, 2012.

Net income (loss). Net income was approximately US$27.4 million for the year ended December 31, 2013 compare to a net income of approximately US$47.2 million for the year ended December 31, 2012.

Liquidity and Capital Resources

As of December 31, 2014, we had approximately US$194.2 million in cash and cash equivalents and approximately US$0.7 million in short-term investments. We maintain our cash balances in bank deposits and in money market instruments. We do not currently engage in any currency hedging activities. Our short-term investments consist primarily of bond funds that we trade.

We believe our existing cash balances and short-term investments, together with cash we expect to generate from operating activities, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including the level of our net sales, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, the costs to ensure access to adequate manufacturing capacity, the continuing market acceptance of our products, availability of attractive acquisition opportunities, dividend payments, and share repurchases. We could be required, or could elect, to seek additional funding through public or private equity or debt financing, and additional funds may not be available on terms acceptable to us or at all.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,		
	2012	2013	2014
	US$	US$	US$
		(in thousands)	
Consolidated Cash Flow Data:			
Net cash provided by operating activities	69,236	49,128	68,725
Net cash used in investing activities	(4,749)	(12,815)	(15,413)
Net cash provided by (used in) financing activities	224	(29,493)	(19,710)
Depreciation and amortization	5,881	6,429	6,917
Capital expenditures	(4,280)	(12,772)	(11,596)

Operating activities

Our net cash provided by operating activities was approximately US$68.7 million for the year ended December 31, 2014, compared to net cash provided by operating activities of approximately US$49.1 million and US$69.2 million during 2013 and 2012, respectively.

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For the year ended December 31, 2014, cash flow provided by operations of US$68.7 million resulted primarily from our net income of US$44.5 million and the following reasons:

- Our net income includes substantial non-cash charges, namely US$6.9 million of depreciation and amortization and US$10.3 million of stock-based compensation.

- We increased working capital by US$6.5 million due to increasing sales. Inventory increased by US$10.4 million, notes and accounts receivable decreased by US$2.4 million, notes and accounts payable decreased by US$0.4 million, income tax payable increased by US$9.5 million, and other assets net of other liabilities provided US$5.4 million of cash.

For the year ended December 31, 2013, cash flow provided by operations of US$49.1 million resulted primarily from our net income of US$27.4 million and the following reasons:

- Our net income includes substantial non-cash charges, namely US$6.4 million of depreciation and amortization and US$10.3 million of stock-based compensation.

- Our disposal of short-term investments net of purchase of short-term investments were US$14.1 million.

- We reduced working capital by US$10.3 million due to declining sales. Inventory increased by US$1.5 million, notes and accounts receivable decreased by US$5.6 million, notes and accounts payable decreased by US$12.0 million, income tax payable increased by US$3.5 million, and other assets net of other liabilities used US$5.9 million of cash.

Investing activities

Our net cash used in investing activities was approximately US$15.4 million for the year ended December 31, 2014, compared to net cash used in investing activities of approximately US$12.8 million for the year ended December 31, 2013. In 2014, we increased restricted cash by US$3.8 million, which was used as collateral for obtaining additional semiconductor fabrication capacity.

Our net cash used in investing activities was approximately US$12.8 million for the year ended December 31, 2013, compared to net cash used in investing activities of approximately US$4.7 million for the year ended December 31, 2012. In 2013, we purchased additional facilities in Hsinchu, Taiwan and design tools.

Financing activities

Our net cash used in financing activities was approximately US$19.7 million for the year ended December 31, 2014, compared to net cash used by financing activities of approximately US$29.5 million for the year ended December 31, 2013. Our cash used in financing activities in 2014 was primarily for US$20.2 million of dividend payments.

Our net cash used in financing activities was approximately US$29.5 million for the year ended December 31, 2013, compared to net cash provided by financing activities of approximately US$0.2 million for the year ended

December 31, 2012. Our cash used in financing activities in 2013 was primarily for US$10.0 million of ADS repurchases and US$19.9 million of dividend payments.

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Contractual Obligations

The following table sets forth our commitments to settle contractual obligations in cash as of December 31, 2014:

	Amount of Commitment Maturing by Year				
	Total US$	Less Than 1 Year US$	1-3 Years US$	3-5 Years US$	More Than 5 Years US$
			(in thousands)		
Operating leases	4,744	1,977	2,029	738	
Capital leases	10	4	6		
Pension	2,042	2,042	(a)	(a)	(a)
Other long term liabilities	762	478	284		
Contractual cash obligations	7,558	4,501	2,319	738	

(a) Our pension obligation after one year has not been estimated.

We decreased long-term taxes payable of US$173 thousand related to uncertain tax positions as of December 31, 2014. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing and outcome of tax audit.

Off-balance Sheet Arrangements

We currently do not have any outstanding derivative financial instruments, off-balance sheet guarantees or arrangements, interest rate swap transactions, or foreign currency forward contracts. We do not engage in any trading activities involving non-exchange traded contracts.

Recent Accounting Pronouncements

In February 2013, the FASB issued an accounting update, which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. The guidance requires an entity to measure such obligations as the sum of the amount that the reporting entity agreed to pay on the basis of its arrangement among its co-obligors plus additional amounts the reporting entity expects to pay on behalf of its co-obligors. The new guidance is effective for fiscal years beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company s results of operations, financial position or cash flows.

In March 2013, the FASB issued an accounting update that amended guidance on a parent s accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for fiscal years beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company s results of operations, financial position or cash flows.

In July 2013, the FASB issued an accounting update, which creates new guidance regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under certain circumstances, unrecognized tax benefits should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance is effective for fiscal years beginning after December 15, 2013 and early adoption is permitted. Since this guidance is a change in financial statement presentation only, its adoption did not have material impact on the Company s result of operations, financial position or cash flows.

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In April 10, 2014, the FASB issued an accounting update, which changes the criteria for reporting discontinued operations for all public and nonpublic entities. The guidance requires only disposals that represent a strategic shift that has (or will have) a major effect on the entity s results and operations would qualify as discontinued operations. The guidance also requires entities 1) to expand their disclosures about discontinued operations to include more information about assets, liabilities, income, and expenses and 2) to disclose the pre-tax income attributable to a disposal of of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2014 and early adoption is prohibited. The adoption of this guidance is not expected to have a material impact on the Company s results of operations, financial position or cash flow.

In May 2014, the FASB issued a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for fiscal years beginning after December 15, 2016 and early adoption is prohibited. The new guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The adoption of this guidance is not expected to have a material impact on the Company s results of operations, financial position or cash flows.

In June 2014, the FASB issued an accounting update, which clarifies the accounting for share-based payments. The guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. The guidance is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company s results of operations, financial position or cash flow.

In August 2014, the FASB issued new standard related to the presentation of financial statements when there may be conditions or events that raise substantial doubt about the entity s ability to continue as a going concern. This standard sets forth management s responsibility to evaluate, each reporting period, whether there is substantial doubt about our ability to continue as a going concern, and if so, to provide related footnote disclosures. The standard is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company s results of operations, financial position or cash flow.

In February 2015, the FASB issued an accounting update to amend the consolidation analysis. All legal entities are subject to reevaluation under the revised consolidation model. The amendment is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. The adoption of this amendment is not expected to have a material impact on the Company s results of operations, financial position or cash flow.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Executive Officers and Directors

Members of our board of directors are elected by our shareholders. Our board of directors consists of seven directors.

Our executive officers are appointed by, and serve at the discretion of, our board of directors. The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Name	Age	Position
James Chow	64	Chairman of the Board
Wallace C. Kou	56	President, Chief Executive Officer and Director
Steve Chen	43	Director
Tsung-Ming Chung	65	Director
Lien-Chun Liu	57	Director
Yung-Chien Wang	52	Director
Han-Ping D. Shieh	61	Director
Riyadh Lai	46	Chief Financial Officer
Nelson Duann	46	VP of Product Marketing, Mobile Storage
Gihyun Bae	56	Senior VP of Product Planning & Strategic Business Development
Sangwoo Han	46	Senior VP and General Manager, Mobile Communications
Arthur Yeh	54	VP of Sales, Mobile Storage
Robert Fan	51	VP and General Manager, SMI U.S.
John (Chun-O) Kim	54	VP of Sales, Mobile Communications
Frank Chang	49	VP of R&D, Mobile Storage
Ken Chen	53	VP of Operations
Kevin Yeh	51	VP of R&D, Algorithm & Technology
John (Jong Ryul) Lee	51	VP of R&D, Mobile Communications
Jason Chiang	47	VP of HR and Administration, and Special Assistant to CEO
Frank Shu	58	VP of R&D, SSD System Technology and VCT

Executive Officers and Directors

James Chow, Chairman of the Board of Directors

Mr. Chow has served as the Chairman of our board of directors since April 2005. Mr. Chow has been the Chairman of Concord Financial Co., Ltd. since 1993. Concord Financial Co., Ltd. is an investment holding company and was one of our significant shareholders. Mr. Chow has an MBA from Columbia University.

Wallace C. Kou, President, Chief Executive Officer, Director

Mr. Kou founded Silicon Motion in 1995 and has been our President and Chief Executive Officer since our founding. Prior to founding Silicon Motion, Mr. Kou was the Vice President and Chief Architect at the Multimedia Products Division of Western Digital Corporation, which developed graphics processors for notebook PCs and was sold to Philips Semiconductor in 1995. Before Western Digital, Mr. Kou worked for Wyse Technology. Mr. Kou has a BS in Electrical & Control Engineering from the National Chiao Tung University in Taiwan and an MS in Electrical & Computer Engineering from the University of California at Santa Barbara.

Steve Chen, Director

Mr. Chen joined our board of directors in 2012. Mr. Chen is the chairman of Mercuries Co., Ltd.. Mr. Chen has two Master of Engineering degrees from Cornell University.

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Tsung-Ming Chung, Director

Mr. Chung joined our board of directors in June 2005. Mr. Chung is the Chairman of Dynapack International Technology Corp, a leading provider of battery packs for notebook PCs and tablets. From 1985 to 2000, Mr. Chung was an audit partner at Arthur Andersen. He is also a director at Far East International Bank and Taiwan Mobile Corporation. Mr. Chung has a BA in Business Administration from the National Taiwan University and an MBA from the National Cheng-chi University in Taiwan.

Lien-Chun Liu, Director

Ms. Liu joined our board of directors in June 2005. Ms. Liu is a research fellow at the Taiwan Research Institute. She also currently serves on the board of supervisors of Concord VIII Venture Capital Co., Ltd and on the board of directors of New Tamsui Golf Course. From 2000 to 2004, she also served on the board of supervisors of China Television Corp. Ms. Liu has a BA from Wellesley College and a JD from Boston College Law School.

Yung-Chien Wang, Director

Mr. Wang joined our board of directors in June 2005. Mr. Wang has over 20 years of working experience in the human resource and legal services industries. Mr. Wang has been a consultant of Professional Trust Co., Ltd., a human resource consulting firm in Taiwan since August 1998 and is currently its Vice President. Mr. Wang has a law degree from Fu Jen Catholic University in Taiwan.

Han-Ping D. Shieh, Director

Mr. Shieh is currently a professor at National Chiao Tung University s Display Institute and Department of Photronics and a Vice Chancellor at the University System of Taiwan, the union of four leading Taiwan research universities: National Chiao Tung University, National Central University, National Tsing Hua University and National Yang-Ming University. Mr. Shieh was a Changjiang Scholar at Shanghai Jiao Tong University in 2010, Dean at National Chiao Tung University s College of Electrical & Computer Engineering from 2006 to 2010, and was a Research Staff Member at IBM Thomas J. Watson Research Center from 1988 to 1992. He is currently on the Board of Directors at Sercomm, Advanced Analog Technology, and Tianma Microelectronics and is a fellow at the Institute of Electrical and Electronics Engineers (IEEE), Optical Society of America, and Society for Information Display. Mr. Shieh received his PhD in Electrical & Computer Engineering from Carnegie Mellon University.

Riyadh Lai, Chief Financial Officer

Mr. Lai joined us in April 2007 from ING Corporate Finance, Asia, where he was the Head of the Technology Group. Previously, he was also an investment banker at Morgan Stanley and ABN AMRO and finance manager at PepsiCo in Hong Kong and New York. Mr. Lai has over a decade of financial management and M&A transaction experience. He has a BA in Economics from Georgetown University and an MBA from New York University.

Nelson Duann, VP of Product Marketing, Mobile Storage

Mr. Duann became our Vice President in charge of our mobile storage marketing in September 2010. He joined Silicon Motion in August 2007 as a product marketing director and R&D team leader. Mr. Duann has almost 15 years of experience in the semiconductor industry in product design, development and marketing. Prior to Silicon Motion, he worked for Sun Microsystems Inc., focusing on UltraSPARC micro Processor projects. He has an MS in Communications Engineering from National Chiao Tung University in Taiwan and an MS in Electrical Engineering from Stanford University.

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Gihyun Bae, Senior VP of Product Planning & Strategic Business Development

Mr. Bae has served as our Senior Vice President for Product Planning and Strategic Business Development since January 2015. Mr. Bae has 30 years of memory semiconductor experience, including 15 years in the NAND flash industry. Before joining Silicon Motion, he served as Senior Vice President at SK Hynix in charge of its Flash Solution Development division and spearheaded SK Hynix s very successful eMMC/eMCP sales growth and market share expansion. Prior to this role, Mr. Bae was Senior Vice President of SK Hynix s Flash Development division, responsible for directing the engineering of several generations of NAND flash technology. Mr. Bae was previously the President of the Korean operations of Anobit, the Israeli controller company. Mr. Bae has a BS in Electronic Material Engineering from Kyungpook National University.

Sangwoo Han, Senior VP and General Manager, Mobile Communications

Mr. Han became the General Manager of our Mobile Communications product line in July 2008. He was formerly the Chief Technology Officer at FCI, a company that we acquired in April 2007. Mr. Han joined FCI in 2003 and had been in charge of product design, development, production and marketing. In 1997, he co-founded RF Solutions Inc. in Atlanta, Georgia, which became the Anadigics Wireless LAN Center of Excellence. Mr. Han has a BS in Electrical Engineering from Carnegie-Mellon University, an MS in Electrical Engineering from the University of Pennsylvania, and a PhD in Electrical Engineering from the Georgia Institute of Technology.

Arthur Yeh, VP of Sales, Mobile Storage

Mr. Yeh has served as our Vice President in charge of our mobile storage sales since November 2004. Mr. Yeh has over 15 years of sales experience managing marketing strategies, including product promotions and sales activities for semiconductor products. Mr. Yeh previously served in management positions at VIA Technologies for 10 years and joined us in 2004. Mr. Yeh holds an MS degree in Management Business Administration from the National Chung Hsing University, Taiwan.

Robert Fan, VP and General Manager, SMI U.S.

Mr. Fan has served as our Vice President and General Manager of SMI U.S. since May 2013. He manages Silicon Motion s business operations in the U.S. and Europe and has over 20 years of sales and marketing experience. Prior to Silicon Motion, Mr. Fan served in executive management roles at Spansion, Entorian, Berkana Wireless (acquired by Qualcomm) and Resonext (acquired by RF Micro Devices). He also spent over nine years at Intel in sales, marketing and management positions. Mr. Fan holds a BS in Electrical Engineering from the University of California, Berkeley and MSEE from Santa Clara University, and completed the General Management Executive Program at McCombs School of Business, University of Texas.

John (Chun-O) Kim, VP of Sales, Mobile Communications

Mr. Kim became the Vice President of our Mobile Communications product line in July 2008. He was formerly the Vice President of Sales at FCI, a company that we acquired in April 2007. Mr. Kim joined FCI in 2006 and had previously served in management positions at Hewlett-Packard s semiconductor division (now Avago Technologies) and as a CEO of a private company. Mr. Kim has over 16 years of semiconductor sales leadership experience, including managing marketing strategies, product promotions and sales activities. He has an MS in Electrical Engineering from Ajou University in Korea.

Frank Chang, VP of R&D, Mobile Storage

Mr. Chang has served as our Vice President of research and development since 2008. Mr. Chang is head of research and development for our mobile storage products and has around 20 years of experience in the

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integrated circuit design industry. He was previously a project manager of firmware development at Holtek Semiconductors. Mr. Chang has a BS in Electrical Engineering from the National Changhua University of Education in Taiwan.

Ken Chen, VP of Operations

Mr. Chen has served as our Vice President in charge of operations since November 2003. Mr. Chen has over 20 years of manufacturing and operations experience in the semiconductor industry, managing supply chain and virtual manufacturing systems including wafer fabrication, mask tooling, as well as assembly and testing. Mr. Chen previously served in management positions at Faraday Technology and UMC, and joined us in 2003. Mr. Chen has a BS in Industrial Engineering from Chung Yuan Christian University in Taiwan and an MS in Industrial Engineering and Engineering Management from the National Tsing Hua University, Taiwan.

Kevin Yeh, VP of R&D, Algorithm & Technology

Mr. Yeh became our Vice President of research and development in August 2012. He joined Silicon Motion in September 2003 as a product marketing director and then he led the Algorithm and Technology R&D team. Mr. Yeh has more than 20 years of experience in semiconductor product design, development and marketing. Prior to Silicon Motion, Mr. Yeh worked in Taiwan Semiconductor Manufacturing Company, Neo Magic, VLSI Technology and LSI. Mr. Yeh holds a BS degree in Control Engineering from National Chiao Tung University in Taiwan and an MS degree in Electronic Engineering from Syracuse University.

John (Jong Ryul) Lee, VP of R&D, Mobile Communications

Mr. Lee became the Vice President of our Mobile Communications product line in July 2008. He was formerly the Vice President of R&D at FCI, a company that we acquired in April 2007. Mr. Lee joined FCI in 2000 and had been in charge of product design, development, production and quality systems. In 2013, he became a director of the Semiconductor & Device Society of The Institute of Electronics Engineers of Korean (IEEK). He was previously a senior engineer at the Electronics and Telecommunications Research Institute (ETRI) in Korea. Mr. Lee has a BS and an MS in Electronics Engineering from Chung Ang University in Korea.

Jason Chiang, VP of HR and Administration and Special Assistant to CEO

Mr. Chiang joined Silicon Motion in 2002 and has been serving as our Vice President of HR and Administration and Special Assistant to our CEO since 2005. Mr. Chiang has more than 18 years of finance and business administration experience. Prior to joining Silicon Motion, Mr. Chiang was a Director at Concord Venture Capital. Mr. Chiang has a BS in Economics from the National Taiwan University and an MS degree in Business Administration from Rochester University.

Frank Shu, VP of R&D, SSD System Technology and VCT

Mr. Shu has served as our Vice President of SSD System Technology since July 2012. Mr. Shu has more than 20 years of experience in the storage and PC system industry. Before joining Silicon Motion, Mr. Shu was the VP of R&D in charge of SSD testing at Allion Test Lab Inc. Mr. Shu also worked for Microsoft and played a key role in defining and developing the software storage stack for the Windows operating system. Prior to Microsoft, Mr. Shu worked for Fujitsu, Seagate and Everex. Mr. Shu has a BS in Electronic Engineering from Nanjing Aeronautical Institute in China and an MS degree in Computer Science from the Oregon Graduate Institution of Science & Technology.

There is no arrangement or understanding with major shareholders, customers, suppliers or others pursuant to which any person referred to above was selected as a director or member of senior management.

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Board Practices

Board Committees

Our board of directors has established an audit committee, a compensation committee, and a nominating and corporate governance committee.

Audit Committee. The audit committee is responsible for reviewing the financial information that will be provided to shareholders and others, reviewing the systems of internal controls that management and the board of directors have established, appointing, retaining and overseeing the performance of the independent registered public accounting firm, overseeing our accounting and financial reporting processes and the audits of our financial statements, and pre-approving audit and permissible non-audit services provided by the independent registered public accounting firm. Tsung-Ming Chung, Lien-Chun Liu, and Yung-Chien Wang are members of our audit committee. Our board of directors has determined that Mr. Chung, the Chairman of the audit committee, is the committee s Audit Committee Financial Expert as required by Nasdaq and U.S. Securities and Exchange Commission (SEC) rules.

Compensation Committee. The compensation committee s basic responsibility is to review the performance and development of management in achieving corporate goals and objectives and to assure that our senior executives are compensated effectively in a manner consistent with our strategy, competitive practice and the requirements of the appropriate regulatory bodies. Toward that end, this committee oversees, reviews and administers all of our compensation, equity and employee benefit plans and programs. Lien-Chun Liu, Steve Chen, and Yung-Chien Wang are members of our compensation committee, with Mr. Chen serving as the Chairman of the committee.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee is responsible for overseeing, reviewing and making periodic recommendations concerning our corporate governance policies, and for recommending to the full board of directors candidates for election to the board of directors. Lien-Chun Liu, Steve Chen, and Yung-Chien Wang are members of our nominating and corporate governance committee, with Ms. Liu serving as the Chairman of the committee.

Our board of directors has adopted a code of ethics, which is applicable to all of our employees. Our Code of Ethics is posted on our website at www.siliconmotion.com.

Duties of Directors

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to the best interests of our company. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to our company, our directors must ensure compliance with our memorandum and articles of association.

The functions and powers of our board of directors include, among others:

- convening shareholders meetings and reporting its work to shareholders at such meetings;
- implementing shareholders resolutions;

determining our business plans and investment proposals;

formulating our profit distribution plans and loss recovery plans;

determining our debt and finance policies and proposals for the increase or decrease in our registered capital and the issuance of debentures;

formulating our major acquisition and disposition plans, and plans for merger, division or dissolution;

proposing amendments to our amended and restated memorandum and articles of association; and

exercising any other powers conferred by the shareholders meetings or under our amended and restated memorandum and articles of association.

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Terms of Directors and Officers

Under Cayman Islands law and our articles of association, our directors hold office until a successor has been duly elected and qualified. Our articles of association provide that our directors serve for a term of three years, with one-third of the directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) subject to re-election at each annual general meeting of shareholders (chairman and managing director not subject to retirement by rotation nor to be taken into account in determining the number of directors to retire), unless the director was appointed by the board of directors, in which case such director holds office until the next annual meeting of shareholders at which time such director is eligible for re-election. One of our seven directors is currently subject to re-election at our next annual general meeting of shareholders. All of our executive officers are appointed by and serve at the discretion of our board of directors.

Limitation on Liability and Other Indemnification Matters

Cayman Islands law and our articles of association allow us to indemnify our directors, secretary and other officers acting in relation to any of our affairs against actions, costs, charges, losses, damages and expenses incurred by reason of any act done or omitted in the execution of their duties as our directors, secretary and other officers. Under our memorandum and articles of association, indemnification is not available to any matter in respect of any fraud, dishonesty, willful misconduct or bad faith which may attach to any of them.

Compensation of Directors and Executive Officers

For the year ended December 31, 2014, the aggregate compensation to our directors and senior executive officers was approximately US$3.73 million. In 2014, we granted options and restricted stock units to our executive officers as a group to acquire an aggregate of 236,500 ordinary shares. The options and restricted stock units granted to our executive officers and non-executive directors are subject to the same vesting conditions as those of our employees.

Service Contracts

We currently do not have service contracts with our directors.

Share-Based Compensation Plans and Option Grants

In April 2005, our board of directors and shareholders adopted our 2005 Incentive Plan. Our shareholders approved our Amended and Restated 2005 Incentive Plan (referred to in this report as the Plan) at our Annual General Meeting in August 2006, including an amendment to increase the authorized number of shares available for issuance under the plan from 10,000,000 shares to 25,000,000 shares. In 2009, the board of directors amended the Plan to increase the authorized shares available for issuance under the Plan to 40,000,000 shares. The Plan provides for the grant of stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights, which may be granted to our employees (including officers), directors and consultants.

Share Reserve. The aggregate number of ordinary shares that may be issued pursuant to awards granted under the Plan will not exceed 40,000,000 shares, inclusive of ordinary shares issuable upon exercise of awards previously granted under the Silicon Motion, Inc. Guidelines for Issuance and Subscription of Employee Stock Option, which options we have, subject to the consent of the respective option-holders, agreed to assume in the share exchange.

The following types of shares issued under the Plan may again become available for the grant of new awards under the Plan: restricted stock issued under the Plan that is forfeited or repurchased by us prior to it becoming fully vested;

shares withheld for taxes; shares tendered to us to pay the exercise price of an option; and shares subject to awards issued under the Plan that have expired or otherwise terminated without having been exercised in full.

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Administration. The board of directors will administer the Plan and may delegate this authority to administer the plan to a committee. Subject to the terms of the Plan, the plan administrator, which is our board of directors or its authorized committee, determines recipients, grant dates, the numbers and types of stock awards to be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to certain limitations, the plan administrator will also determine the exercise price of options granted, the purchase price for restricted stock and restricted stock units, and, if applicable, the strike price for stock appreciation rights.

Capitalization adjustments. In the event of a dividend or other distribution (whether in the form of cash, ordinary shares, other securities, or other property), recapitalization, stock split, reorganization, merger, consolidation, exchange of our ordinary shares or our other securities, or other change in our corporate structure, the board of directors may adjust the number and class of shares that may be delivered under the Plan and the number, class and price of the shares covered by each outstanding stock award.

Changes in control. In the event of a change in control of the company, all outstanding options and other awards under the 2005 Incentive Plan may be assumed, continued or substituted for by any surviving or acquiring entity. If the surviving or acquiring entity elects not to assume, continue or substitute for such awards, the vesting of such awards held by award holders whose service with us or any of our affiliates has not terminated will be accelerated and such awards will be fully vested and exercisable immediately prior to the consummation of such transaction, and the stock awards shall automatically terminate upon consummation of such transaction if not exercised prior to such event.

Amendments to Plan in 2009 and 2010. In 2009, our board of directors amended the Plan to (i) increase the authorized shares to 40,000,000 as discussed above and (ii) allow certain unilateral amendments to outstanding options and RSU grants. Shareholder approval for such amendments was not required under Cayman law and we used the home-country exemption for foreign private issuers under Nasdaq rules to effect such amendments without a shareholder vote. In 2009, the Company cancelled 1,221,875 RSUs. There were no changes to outstanding options in 2009. In 2010, the Company exchanged 4,369 thousand stock options for 3,785 thousand new stock options with a similar value.

Future amendments and termination. The board of directors may amend (subject to shareholder approval as required by applicable law), suspend or terminate the Plan at any time. The Plan terminated pursuant to its terms on April 22, 2015. The Company currently anticipates that the Board of Directors will adopt a 2015 Equity Incentive Plan in the second quarter of 2015.

Employees

The following table sets forth the number of our employees categorized by function as of the dates indicated.

	As of December 31,		
	2012	**2013**	**2014**
Management and administration	98	100	105
Operations	24	24	28
Research and development	429	468	549
Sales and marketing	137	139	142
Total	688	731	824

As of December 31, 2014, we had 824 total employees, including 544 in Taiwan, 29 in the United States, 111 in China, 134 in Korea, and 6 in Japan. 658 of our total employees are engineers.

We do not have any collective bargaining arrangements with our employees and consider our relations with our employees to be good.

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Share Ownership

Under U.S. securities law, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of securities as to which such person has no economic interest.

There were 137,608,928 of our ordinary shares outstanding as of March 31, 2015. The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2015, less otherwise indicated in the footnotes, by each of our directors and officers:

	Shares Beneficially Owned	
	Number	**%**
Executive Officers and Directors:		
James Chow [(1)]	2,407,546	1.75
Wallace C. Kou [(2)]	3,724,394	2.71
Steve Chen		
Tsung-Ming Chung [(3)]	84,280	*
Lien-Chun Liu [(4)]	184,280	*
Yung-Chien Wang [(5)]	798,674	*
Han-Ping D. Shieh [(6)]	12,000	*
Riyadh Lai [(7)]	1,645,380	1.20
Nelson Duann [(8)]	72,000	*
Gihyun Bae		
Sangwoo Han [(9)]	215,608	*
Arthur Yeh [(10)]	325,628	*
Robert Fan [(11)]	36,000	*
John (Chun-O) Kim [(12)]	96,000	*
Frank Chang [(13)]	313,040	*
Ken Chen [(14)]	474,385	*
Kevin Yeh [(15)]	222,000	*
John (Jong Ryul) Lee [(16)]	163,704	*
Jason Chiang [(17)]	610,060	*
Frank Shu [(18)]	43,000	*

* Less than one percent

(1) Represents 2,407,546 shares owned by Mr. Chow. Mr. Chow is the chairman of Concord Consulting Inc. and Concord Financial Co. Ltd. which owned 42,445 and 196,491 shares, respectively. Mr. Chow disclaims any beneficial ownership of these shares.

(2) Represents 3,169,100 shares owned by Mr. Kou, 35,094 shares owned by his spouse and 520,200 shares that Mr. Kou has the right to acquire within the next 60 days upon the exercise of RSUs or options.

(3) Represents 84,280 shares owned by Mr. Chung.

(4) Represents 184,280 shares owned by Ms. Liu.
(5) Represents 798,674 shares owned by Mr. Wang.
(6) Represents 12,000 shares owned by Mr. Shieh.
(7) Represents 663,400 shares owned by Mr. Lai, 739,880 shares owned by his spouse, 242,100 shares that Mr. Lai has the right to acquire within the next 60 days upon the exercise of options or RSUs.
(8) Represents 72,000 shares owned by Mr. Duann.
(9) Represents 215,608 shares owned by Mr. Han.
(10) Represents 325,628 shares owned by Mr. Yeh.

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(11) Represents 36,000 shares owned by Mr. Fan.
(12) Represents 96,000 shares owned by Mr. Kim.
(13) Represents 313,040 shares owned by Mr. Chang.
(14) Represents 468,660 shares owned by Mr. Chen and 5,725 shares owned by his spouse.
(15) Represents 222,000 shares owned by Mr. Yeh.
(16) Represents 163,704 shares owned by Mr. Lee.
(17) Represents 598,612 shares owned by Mr. Chiang and 11,448 shares owned by his spouse.
(18) Represents 43,000 shares owned by Mr. Shu.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

As of March 31, 2015, there were 137,608,928 of our ordinary shares outstanding. The Bank of New York Mellon, the depositary under our ADS deposit agreement, has advised us that as of March 31, 2015, we had 34,302,825 ADSs, representing 137,211,300 ordinary shares.

The following table sets forth information with respect to the beneficial ownership of more than 5% of our ordinary shares as of March 31, 2015:

Identity of person or group	Number of shares owned	Percentage Owned
Point72 Asset Management, Point 72 Capital Advisors Inc., SAC Capital Associates, Cubist Systematic Strategies, Steven A. Cohen and SAC Capital Advisors LP (1)	1,797,885	5.2

Notes:

(1) According to Amendment No. 3 to Schedule 13G filed by Point72 Asset Management, Point 72 Capital Advisors Inc., SAC Capital Associates, Cubist Systematic Strategies, Steven A. Cohen and SAC Capital Advisors LP with the SEC on January 9, 2015.

To our knowledge, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal persons, severally or jointly. We are not aware of any arrangement which may at a later date result in a change of control of our company.

No holder of our ordinary shares has preferential voting rights.

Related Party Transactions

No related party transactions occurred between January 1, 2012 and April 20, 2015.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See Item 18. Financial Statements and pages F-1 through F-32 of this annual report.

Legal Proceedings

We are subject to legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Although the outcome of such proceedings and claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse effect on our business, results of operations, financial position or cash flows. Any litigation, however, involves potential risk and potentially significant litigation costs, and therefore there can be no assurance that any litigation which is now pending or which may arise in the future would not have such a material adverse effect on our business, financial position, results of operations or cash flows.

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All American Semiconductor, Inc. (All American or AASI) was a former distributor for the Company. On April 25, 2007, All American filed for Chapter 11 bankruptcy protection. At the time of the filing, the Company had US$256 thousand of unpaid accounts receivable from All American. On April 17, 2009, SMI USA and related entities were named as defendants in an adversary proceeding filed by the AASI Creditor Liquidating Trust (CLT) in the bankruptcy case pending in the U.S. Bankruptcy Court for the Southern District of Florida. The CLT was seeking the return of allegedly avoidable transfers in the amount of US$854 thousand. The Company filed an answer and affirmative defenses. In March 2010, SMI USA settled with the CLT by paying the amount of US$220 thousand and on April 1, 2010, the Bankruptcy Court granted the motion to approve stipulations to compromise controversy. On August 23, 2010, the Court entered an order dismissing the adversary proceeding. In June 2011, Liquidating Trustee for the CLT filed the AASI Creditor Liquidating Trustee s Seventeenth Omnibus Objection to Claims but in August 2011, withdrew it with respect to SMI USA s proof of claim. According to the CLT s letter dated September 9, 2011, it is currently finalizing its claims review process and preparing for distribution to beneficiaries who are holders of allowed claims and have rights to a distribution pursuant to the Plan. In January 2012, January 2014 and December 2014, we received the first distribution of US$21 thousand, the second distribution of US$36 thousand, and the third distribution of US$12 thousand, respectively.

In 2006, FCI joined with other technology companies and invested in the Pangyo Silicon Park Construction Project Cooperative (Pangyo Cooperative) in Korea. In July 2010, FCI, TLi Inc. (TLI), OCI Materials Co., Ltd (OCI) and other companies withdrew from the Pangyo Cooperative and forfeited 10% of their total investment. FCI believes its loss was caused by bad will actions taken by TLI. In December 2011, FCI and OCI together filed a complaint against TLI at the Suwon District Court in Korea. In April 2013, the court dismissed the plaintiffs complaints. The plaintiffs have decided not to appeal the court s decision.

Policy on Dividend Distributions

Pursuant to the laws and regulations of the ROC and the Articles of Incorporation of SMI Taiwan, our subsidiary in Taiwan must make appropriations from annual earnings to a non-distributable reserve which could affect our ability to pay cash or stock dividends, if any. The Taiwan subsidiary may only distribute dividends after it has made allowances as determined under ROC GAAP at each year-end for:

a. Payment of taxes;

b. Recovery of prior years deficits, if any;

c. 10% of remaining balance after deduction for a and b as legal reserve;

d. Special reserve based on relevant laws or regulations or 10% of remaining balance for deduction from above a to c as special reserve when necessary;

e. Cash or stock bonus to employees at 0.01% of any remaining earnings after the above reserves have been appropriated, based on a resolution of the board of directors. If bonus to employees is in the form of stock, the bonus may also be appropriated to employees of subsidiaries under the board of directors approval.

Dividends

We announced and paid a total of $19.9 million and $20.2 million in dividends during 2013 and 2014, respectively. Future dividends, if any, on our outstanding ADSs and ordinary shares will be declared by and subject to the discretion of our board of directors. If our board of directors decides to distribute dividends, the form, frequency and amount of such dividends will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors our board of directors may deem relevant.

Any future dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, to the extent permitted by applicable laws and

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regulations, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depositary bank to the holders of our ADSs. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

Significant Changes.

No significant changes have occurred since the date of our audited consolidated financial statements.

ITEM 9. THE OFFER AND LISTING

Market and Share Price Information

Our ADSs, each representing four of our ordinary shares, have been listed on Nasdaq since June 30, 2005. Our ADSs trade under the symbol SIMO. The Nasdaq Global Select Market is the principal trading market for our ADSs, which are not listed on any other exchanges in or outside the United States. The high and low sales prices of our ADSs on Nasdaq since 2010 are as follows:

	Price per ADS (US$)	
	High	**Low**
Annual:		
2010	6.50	2.64
2011	21.60	4.14
2012	24.98	11.32
2013	16.19	9.90
2014	28.96	12.92
Quarterly:		
First Quarter, 2013	16.19	11.57
Second Quarter, 2013	11.85	9.90
Third Quarter, 2013	13.25	10.38
Fourth Quarter, 2013	15.48	11.71
First Quarter, 2014	18.44	12.92
Second Quarter, 2014	20.48	15.16
Third Quarter, 2014	28.96	20.30
Fourth Quarter, 2014	28.10	21.04
Monthly		
November 2014	24.40	21.04
December 2014	25.5	22.65
January 2015	28.99	23.50
February 2015	30.50	26.25
March 2015	28.75	25.25
April 2015 (through April 29)	34.12	26.50

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

The information called for by Item 10B (Memorandum and Articles of Association) is incorporated by reference to the information under the heading Description of Share Capital in our Registration Statement on Form F-1, as amended (Registration Number 333-125673) and as filed with the SEC on June 5, 2005.

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Material Contracts

We have not entered into any material contracts within the past two fiscal years other than in the ordinary course of business and other than those described in Item 4, Information on the Company or elsewhere in this annual report.

Taxation

United States Federal Income Taxation

The following discussion summarizes certain U.S. federal income tax consequences to a U.S. Holder, as defined below, who purchases our ADSs and ordinary shares. This discussion assumes that investors will hold their ADSs or ordinary shares as capital assets (generally, property held for investment). This discussion does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual circumstances, including investors subject to special taxation, such as:

- banks and financial institutions;
- brokers and dealers in securities or currencies;
- insurance companies;
- tax-exempt organizations and retirement plans;
- grantor trusts;
- S corporations;
- persons holding ADSs or ordinary shares as part of hedging, conversion, constructive sale, straddle or other integrated transactions;
- persons who acquired their ordinary shares upon the exercise of employee stock options or otherwise as compensation;
- persons who have elected the mark-to-market method of accounting;
- persons who own 10% or more of our ADSs or shares;

real estate investment trusts or regulated investment companies;

U.S. persons whose functional currency is not the U.S. dollar;

certain former citizens or long-term residents of the United States; and

Non-U.S. Holders (as defined below).

This discussion is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and U.S. Treasury regulations, rulings and judicial decisions hereunder as of the date hereof. Such authorities are subject to change, possibly on a retroactive basis, which may result in U.S. federal income tax consequences different from those discussed below.

A person considering an investment in our ADSs or ordinary shares is urged to consult its tax advisor concerning U.S. federal, state, local and non-U.S. income and other tax consequences.

A U.S. Holder is a beneficial owner of ADSs or ordinary shares that is for U.S. federal income tax purposes:

a citizen or resident individual of the United States;

a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A beneficial owner of ADSs or ordinary shares that is not a U.S. Holder is referred to herein as a Non-U.S. Holder.

If a partnership or limited liability company treated as a partnership for U.S. federal income tax purposes holds ADSs or ordinary shares, the tax treatment of a partner or member will generally depend on the status of the partner or member and the activities of the partnership or such limited liability company. A partner of a partnership or a member of such a limited liability company holding ADSs or ordinary shares is urged to consult its tax advisors regarding an investment in our ADSs or ordinary shares.

ADSs. In general, for U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Deposits and withdrawals of ordinary shares in exchange for ADSs will not be subject to U.S. federal income taxation.

Distributions on ADSs or ordinary shares. Unless the passive foreign investment company rules, as discussed below, apply, the gross amount of the distributions in respect of the ADSs or ordinary shares will be subject to tax as dividend income to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Subject to certain limitations, dividends paid to non-corporate U.S. Holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for U.S. federal income tax purposes and provided that such holder satisfies certain holding period requirements with respect to the ownership of our ADSs, or ordinary shares. Subject to the exceptions discussed below, a corporation is a qualified foreign corporation if it is:

a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; or

a foreign corporation if its stock with respect to which a dividend is paid or its ADSs backed by such stock are readily tradable on an established securities market within the United States.

The Cayman Islands does not currently have a comprehensive income tax treaty with the United States. A foreign corporation (even if it is described above) does not constitute a qualified foreign corporation if, for the taxable year in which the dividend is paid or the preceding taxable year, the foreign corporation is or was a passive foreign investment company. Although we believe that we are a qualified foreign corporation because the ADSs will be traded on an established U.S. securities market and, as discussed below, we believe that we were not a passive foreign investment company for our 2014 tax year, no assurance can be given in this regard. In addition, our status as a qualified foreign corporation may change. A U.S. Holder that exchanges its ADSs for ordinary shares may not be eligible for the reduced rate of taxation on dividends if the ordinary shares are not deemed to be readily tradable on an established securities market within the United States.

Dividends will be includable in a U.S. Holder s gross income on the date actually or constructively received by the depositary, in the case of ADSs or, in the case of ordinary shares, by such U.S. Holder. These dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

To the extent we pay dividends on the ADSs or ordinary shares in a currency other than the U.S. dollar, the U.S. dollar value of such dividends should be calculated by reference to the exchange rate prevailing on the date of actual or constructive receipt of the dividend, regardless of whether the foreign currency is converted into U.S. dollars at that time. If the foreign currency is converted into U.S. dollars on the date of actual or constructive receipt of such dividends, the tax basis of the U.S. Holder in such foreign currency will be equal to its U.S. dollar value on that date and, as a result, the U.S. Holder generally should not be required to recognize any foreign currency exchange gain or loss. Dividends paid in respect of the ADSs or ordinary shares generally will be treated as income from sources outside the United States.

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To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares, and the balance in excess of adjusted basis will be taxed as capital gain.

Sale, exchange or other disposition of ADSs or ordinary shares. Unless the passive foreign investment company rules, as discussed below, apply, upon the sale, exchange or other disposition of ADSs or ordinary shares a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or ordinary shares. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or ordinary share for more than one year. Net long-term capital gains of non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Additional tax on net investment income. An additional 3.8% federal income tax may be assessed on net investment income (including dividends, other distributions, and gain realized on the sale of ADSs or ordinary shares) earned by certain U.S. Holders. This tax does not apply to U.S. Holders who hold ADSs or ordinary shares in the ordinary course of certain trades or businesses.

Passive foreign investment company rules. In general, we will be classified as a passive foreign investment company for any taxable year in which either (a) at least 75% of our gross income is passive income or (b) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own directly or indirectly at least 25% by value of the equity shares of another corporation, we will be treated for purposes of the passive foreign investment company tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation s income.

We believe, based on our present and projected composition of our income and valuation of our assets, we were not classified as a passive foreign investment company for U.S. federal income tax purposes for our 2014 tax year, although no assurance can be given in this regard. Whether we are a passive foreign investment company for any particular taxable year is determined on an annual basis and will depend on the composition of our income and assets, including goodwill. The calculation of goodwill will be based, in part, on the then market value of our capital stock, which is subject to fluctuation. Accordingly, there can be no assurance that we will not be classified as a passive foreign investment company in the current or any future taxable year.

If we are a passive foreign investment company for any taxable year during which a U.S. Holder has an equity interest in our company, unless the U.S. Holder makes a mark-to-market election as discussed below, such U.S. Holder will be subject to special tax rules in any future taxable year regardless of whether we are classified as a passive foreign investment company in such future years with respect to (a) excess distributions and (b) gain from the disposition of stock. Excess distributions are defined generally as the excess of the amount received with respect to the equity interests in the taxable year over 125% of the average annual distributions received in the shorter of either the three previous years or a U.S. Holder s holding period before the taxable year and must be allocated ratably to each day of the U.S. Holder s holding period. The amount allocated to the current taxable year or any year before we became a passive foreign investment company will be included as ordinary income in a U.S. Holder s gross income for that year. The amount allocated to other prior taxable years will be taxed as ordinary income at the highest rate in effect for a U.S. Holder in that prior year and the tax is subject to an interest charge at the rate applicable to deficiencies in income taxes. The entire amount of any gain realized upon the sale or other disposition of the equity interests will be treated as an excess distribution made in the year of sale or other disposition and as a consequence will be treated as ordinary income and, to the extent allocated to years prior to the year of sale or disposition with respect to which we were a passive foreign investment company, will be subject to the interest charge described above.

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In certain circumstances, instead of being subject to the excess distribution rules discussed above, a U.S. Holder may make an election to include gain on the ADSs or ordinary shares of a passive foreign investment company as ordinary income under a mark-to-market method, provided that the ADSs or ordinary shares are regularly traded on a qualified exchange. Under current law, the mark-to-market election is only available for ADSs or ordinary shares that are regularly traded within the meaning of U.S. Treasury regulations on certain designated U.S. exchanges and foreign exchanges that meet trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations. The Nasdaq Stock Market is a qualified exchange. The ordinary shares may not be eligible for mark-to-market treatment under the foregoing rule even if the ADSs otherwise satisfy the applicable requirement.

If a U.S. Holder makes a mark-to-market election, the U.S. Holder will include each year as ordinary income, rather than capital gain, the excess, if any, of the fair market value of the U.S. Holder s ADSs or ordinary shares at the end of the taxable year over such U.S. Holder s adjusted basis in the ADSs (or ordinary shares, if applicable) and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of these ADSs or ordinary shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the ADSs or ordinary shares will be ordinary income or loss, except that this loss will be ordinary loss only to the extent of the previously included net mark-to-market gain.

If we are a passive foreign investment company, then under certain circumstances a U.S. Holder must file Internal Revenue Service Form 8621.

Information Reporting and Back-up Withholding. U.S. holders generally are subject to information reporting requirements with respect to dividends on, or proceeds from the disposition of, our ordinary shares. In addition, a U.S. holder may be subject, under certain circumstances, to backup withholding at a rate of up to 28% with respect to dividends paid on, or proceeds from the disposition of, our ordinary shares unless the U.S. holder provides proof of an applicable exemption or correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. A U.S. holder of our ordinary shares who provides an incorrect taxpayer identification number may be subject to penalties imposed by the IRS. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the U.S. holder s U.S. federal income tax liability, provided the required information is furnished to the IRS.

A U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of an investment in our ADSs or ordinary shares if we are or become a passive foreign investment company, including the possibility of making a market-to-market election.

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation applies to us or our operations; and

the aforesaid tax or any tax in the nature of estate duty or inheritance tax are not payable on our ordinary shares, debentures or other obligations.

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The undertaking that we have obtained is for a period of 20 years from March 1, 2005.

Documents on Display

We have previously filed with the SEC our registration statement on Form F-1 and Form F-6 under the Securities Act of 1933, as amended (the Securities Act) with respect to our ADSs.

We are subject to the periodic reporting and other informational requirements of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act). Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act.

Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at the SEC s public reference room in Washington D.C. at 100 F Street, N.E., Room 1580, Washington D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a Website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk. Our exposure to changes in interest rates is limited to interest income generated by our cash deposited with banks and short-term investments maintained in bond funds and structured notes. We do not believe that a 1% change in interest rates would have a significant impact on our operations.

Foreign currency risk. Since 2012, we consider our direct exposure to foreign exchange rate fluctuations to be minimal. Prior to 2012, we reported our financial results in NT dollars and our direct exposure to foreign exchange rate fluctuations was more significant. Gains or losses from foreign currency re-measurement are included in Non-Operating Income (Expenses) in our Consolidated Financial Statements. The impact of foreign currency transaction gain or loss included in determining net income (loss) for 2012, 2013 and 2014 was $0.4 million, nil and (0.6) million, respectively. Currently, the majority of our revenue, cost of sales, accounts receivable, and accounts payable are denominated in U.S. dollars. Increases in the value of the U.S. dollar relative to other currencies would make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the U.S. dollar relative to other currencies could result in our suppliers raising their prices in order to continue doing business with us. Fluctuations in currency exchange rates could harm our business in the future. We do not utilize foreign exchange derivatives contracts to protect against changes in foreign exchange rates.

Also refer to Risk Factors We are subject to risks associated with international operations which may harm our business.

Investment Risk. Prior to March 2007, we invested in equity instruments of privately held companies. We have minority stake equity investments in Cashido and Vastview Technology, private companies related to semiconductor and other technology industries. These investments are accounted for under the cost method because our ownership is less than 20% and we do not have the ability to exercise significant influence over the operations of these companies. As of December 31, 2014, the aggregate carrying value of these investments on our balance sheet was US$0.1 million. We monitor these investments for impairment and make appropriate reductions in carrying value when an impairment is deemed to be other than temporary. There were no impairments for the years ended on December 31, 2012, 2013 and 2014, respectively.

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As of December 31, 2014, we also had US$0.7 million of short-term investments maintained in bond funds.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Depositary Fees and Charges. For the year-ended December 31, 2014, we received from our depositary bank a reimbursement of US$0.6 million, net of withholding tax, for our continuing annual stock exchange listing fees and our other expenses incurred in connection with maintaining and promoting our ADS program. In addition, the depositary bank has agreed to reimburse us annually for a fixed number of years for our continuing annual stock exchange listing fees and our other expenses incurred in connection with maintaining and promoting our ADS program. The amount of annual reimbursements is subject to certain limits.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in this annual report on Form 20-F and filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. The evaluation was performed with the participation of our key corporate senior management, and under the supervision of our Chief Financial Officer, or CFO, Riyadh Lai, and our President and Chief Executive Officer, or CEO, Wallace Kou. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the foregoing, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective.

Management s Report on Internal Control over Financial Reporting

Our management, including our CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. 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 our assets, (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 our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) 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.

Our management assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this annual report based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Their assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on that assessment, our management concluded that as of December 31, 2014 the company s internal control over financial reporting was effective.

Deloitte & Touche, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report has issued an attestation report regarding internal control over financial reporting.

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Changes in Internal Control over Financial Reporting

During 2014, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

All internal control systems no matter how well designed and implemented have inherent limitations. Even systems determined to be effective may not prevent or detect misstatements or fraud and can only provide reasonable assurance with respect to disclosure and financial statement presentation and reporting. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changed conditions and the degree of compliance with the policies or procedures may deteriorate.

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Attestation Report Of The Independent Registered Public Accounting Firm