TOYOTA MOTOR CORP/
Form 6-K
May 31, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 under

the Securities Exchange Act of 1934

For the month of May, 2016

Commission File Number 001-14948

Toyota Motor Corporation

(Translation of Registrant s Name Into English)

1, Toyota-cho, Toyota City,

Aichi Prefecture 471-8571,

Japan

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F ___X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ________

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ________

Material Contained in this Report:

I. English excerpt translation of a Report on Number of Listed Shares, as filed by the registrant with the Tokyo Stock Exchange on May 20, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Toyota Motor Corporation

By: /s/ Yasushi Kyoda
Name: Yasushi Kyoda
Title: General Manager of

Accounting Division

Date: May 31, 2016

46,904 (507) 46,397 Sales and marketing 28,295 28,295 (759) 27,536 General and administrative 18,292 18,292 (1,874) 16,418 Other (Note 5 and Note 12) 7,375 7,375 7,375

Total operating expenses 100,866 100,866 (3,140) 97,726

Income (loss) from operations 26,239 26,239 3,174 29,413

Interest income 2,179 2,179 2,179 Dividend income 882 882 882 Other income (expense), net (937) 93 (844) 16 (828) Interest expense (110) (110) 110 Impairment of equity investments (509) (509) (509)

Income (loss) before provision for (benefit from) income taxes, pro rata share of loss from equity investments and minority interest 27,744 93 27,837 3,300 31,137 Provision for income taxes 3,906 3,906 3,906 Minority interest (91) (91) 1 (90)

Income (loss) before pro rata share of loss from equity investments 23,929 93 24,022 3,299 27,321 Pro rata share of loss from equity investments (665) (665) (665)

Net income (loss) $23,929 (572)23,357 $3,299 $26,656

Net income (loss) per share basic

$
0.25

$
(0.01
)
$
0.24

$
0.04

$
0.28

Shares used in per share calculation basic

95,756

95,756

95,756

Net income (loss) per share diluted

$
0.24

$

$
0.24

$
0.03

$
0.27

Shares used in per share calculation diluted

99,143

99,143

182

99,325

As previously reported

Adjustments(1)

As Adjusted

Adjustments(2)

As Adjusted and Restated

Compensation Charges By Funtional Area: Cost of revenues $ $ $ $304 $304 Research and Development $ $ $ $1,229 $1,229 Sales and Marketing $ $ $ $312 $312 General and Administrative $ $ $ $319 $319

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	Year ended December 31, 2005				
	As previously reported	Adjustments(1)	As Adjusted	Adjustments(2)	As Adjusted and Restated
Net revenues:					
Product revenues unrelated parties	$ 157,499	$	$ 157,499	$	$ 157,499
Product revenues related parties	236,597		236,597		236,597
License revenues unrelated parties	35,226		35,226		35,226
License revenues related parties	1,577		1,577		1,577
Total net revenues	430,899		430,899		430,899
Cost of revenues:					
Cost of revenues unrelated parties	135,188		135,188	(272)	134,916
Cost of revenues related parties	217,940		217,940	(439)	217,501
Total cost of revenues	353,128		353,128	(711)	352,417
Gross profit	77,771		77,771	711	78,482
Operating expenses:					
Research and development	49,030		49,030	(284)	48,746
Sales and marketing	28,620		28,620	(76)	28,544
General and administrative	23,926		23,926	(1,546)	22,380
Other (Note 5 and Note 12)	2,945		2,945		2,945
Total operating expenses	104,521		104,521	(1,906)	102,615
Income (loss) from operations	(26,750)		(26,750)	2,617	(24,133)
Interest income	1,092		1,092		1,092
Dividend income	1,645		1,645		1,645
Other income (expense), net	(948)	481	(467)		(467)
Interest expense	(265)		(265)	24	(241)
Gain on sale of equity investments					
Impairment of equity investments	(2,240)	1,635	(605)		(605)
Income (loss) before provision for (benefit from) income taxes, pro rata share of loss from equity investments and minority interest	(27,466)	2,116	(25,350)	2,641	(22,709)
Provision for income taxes	2,449		2,449		2,449
Minority interest	(77)		(77)		(77)
Income (loss) before pro rata share of loss from equity investments	(29,838)	2,116	(27,722)	2,641	(25,081)
Pro rata share of loss from equity investments		(1,543)	(1,543)		(1,543)
Net income (loss)	$ (29,838)	$ 573	$ (29,265)	$ 2,641	$ (26,624)
Net income (loss) per share basic	$ (0.29)	$ 0.01	$ (0.29)	$ 0.03	$ (0.26)
Shares used in per share calculation basic	101,369		101,369		101,369
Net income (loss) per share diluted	$ (0.29)	$ 0.01	$ (0.29)	$ 0.03	$ (0.26)
Shares used in per share calculation diluted	101,369		101,369		101,369

	Year ended December 31, 2005				
	As previously reported	Adjustments(1)	As Adjusted	Adjustments(2)	As Adjusted and Restated
Compensation Charges By Funtional Area:					
Cost of revenue	$	$	$	$ 186	$ 186
Research and Development	$	$	$	$ 360	$ 360
Sales and Marketing	$	$	$	$ 88	$ 88
General and Administrative	$	$	$	$ 49	$ 49

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SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Year Ended December 31, 2004				
	As previously reported	Adjustments(1)	As Adjusted	Adjustments(2)	As Adjusted and Restated
Cash flows from operating activities:					
Net income (loss)	$ 23,929	$ (572)	$ 23,357	$ 3,299	$ 26,656
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization	7,445		7,445		7,445
Purchased in process research and development	5,896		5,896		5,896
Provision (credits) for doubtful accounts receivable	825		825		825
Provision for sales returns	1,347		1,347		1,347
Provision for excess and obsolete inventories, write-down of inventories and adverse purchase commitments	35,883		35,883	441	36,324
Stock-based compensation expense				2,164	2,164
Pro rata share of loss from equity investment	93	572	665		665
Impairment loss on equity investment	509		509		509
Impairment loss on operating lease	1,479		1,479		1,479
(Gain) loss on disposal of equipment	(33)		(33)		(33)
Tax benefit from employee stock stock plans	428		428		428
Minority interest	(91)		(91)	1	(90)
Changes in operating assets and liabilities:					
Trade accounts receivable-unrelated parties	(7,113)		(7,113)		(7,113)
Trade accounts receivable-related parties	8,080		8,080		8,080
Inventories	(133,622)		(133,622)	138	(133,484)
Other current and non-current assets	(3,045)		(3,045)		(3,045)
Trade accounts payable-unrelated parties	12,422		12,422		12,422
Trade accounts payable-related parties	25,354		25,354		25,354
Accrued expenses and other liabilities	7,464		7,464	(6,043)	1,421
Deferred revenue	(1,242)		(1,242)		(1,242)
Net cash provided by (cash used) in operating activities	(13,992)		(13,992)		(13,992)
Cash flows from investing activities:					
Acquisitions, net of cash	(18,443)		(18,443)		(18,443)
Investments in equity securities	(43,839)		(43,839)		(43,839)
Purchase of property and equipment	(8,042)		(8,042)		(8,042)
Proceeds from sale of equipment	33		33		33
Purchases of available-for-sale investments	(47,590)		(47,590)		(47,590)
Sales and maturities of available-for-sale and equity investments	91,869		91,869		91,869
Net cash provided by (used in) investing activities	(26,012)		(26,012)		(26,012)
Cash flows from financing activities:					
Debt repayments	(393)		(393)		(393)
Issuance of shares of common stock	5,545		5,545		5,545
Repurchase of common stock	(14,853)		(14,853)		(14,853)
Minority interest: capital contribution in cash	820		820		820
Net cash provided by (used in) financing activities	(8,881)		(8,881)		(8,881)

	Year Ended December 31, 2004		
Net increase (decrease) in cash and cash equivalents	(48,885)	(48,885)	(48,885)
Cash and cash equivalents at beginning of period	84,250	84,250	84,250
Cash and cash equivalents at end of period	$ 35,365	$ 35,365	$ 35,365
Supplemental disclosure of cash flow information:			
Cash received for interest	$ 2,146	$ 2,146	$ 2,146
Cash paid for interest	$ 82	$ 82	$ 82
Net cash paid for (received from) income taxes	$ 2,798	$ 2,798	$ 2,798
Common stock issued in connection with acquisitions	$ 22,074	$ 22,074	$ 22,074

During the year ended December 31, 2004, we issued approximately 3.0 million shares of common stock in connection with the acquisition of G-Plus.

	Year Ended December 31, 2005				
	As previously reported	Adjustments(1)	As Adjusted	Adjustments(2)	As Adjusted and Restated
Cash flows from operating activities:					
Net income (loss)	$ (29,838)	$ 573	$ (29,265)	$ 2,641	$ (26,624)
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization	9,955		9,955		9,955
Purchased in process research and development	1,661		1,661		1,661
Provision (credits) for doubtful accounts receivable	(424)		(424)		(424)
Provision for sales returns	2,051		2,051		2,051
Provision for excess and obsolete inventories, write-down of inventories and adverse purchase commitments	37,304		37,304	(809)	36,495
Stock-based compensation expense				567	567
Pro rata share of loss from equity investment	481	1,062	1,543		1,543
Impairment loss on equity investment	2,240	(1,635)	605		605
(Gain) loss on disposal of equipment	74		74		74
Minority interest	(77)		(77)		(77)
Changes in operating assets and liabilities:					
Trade accounts receivable-unrelated parties	2,101		2,101		2,101
Trade accounts receivable-related parties	(22,480)		(22,480)		(22,480)
Inventories	4,906		4,906	116	5,022
Other current and non-current assets	4,037		4,037		4,037
Trade accounts payable-unrelated parties	(6,729)		(6,729)		(6,729)
Trade accounts payable-related parties	(14,015)		(14,015)		(14,015)
Accrued expenses and other liabilities	(9,847)		(9,847)	(2,515)	(12,362)
Deferred revenue	2,105		2,105		2,105
Net cash provided by (cash used) in operating activities	(16,495)		(16,495)		(16,495)
Cash flows from investing activities:					
Acquisitions, net of cash	(7,406)		(7,406)		(7,406)
Investments in equity securities	(333)		(333)		(333)
Purchase of property and equipment	(6,443)		(6,443)		(6,443)
Proceeds from sale of equipment	4		4		4
Purchases of available-for-sale investments	(22,026)		(22,026)		(22,026)
Sales and maturities of available-for-sale and equity investments	89,003		89,003		89,003
Net cash provided by (used in) investing activities	52,799		52,799		52,799
Cash flows from financing activities:					
Debt repayments	(439)		(439)		(439)
Borrowing against line of credit	3,000		3,000		3,000
Repayments on line of credit	(575)		(575)		(575)
Issuance of shares of common stock	3,727		3,727		3,727
Net cash provided by (used in) financing activities	5,713		5,713		5,713
Net increase (decrease) in cash and cash equivalents	42,017		42,017		42,017
Cash and cash equivalents at beginning of period	35,365		35,365		35,365
Cash and cash equivalents at end of period	$ 77,382		$ 77,382		$ 77,382
Supplemental disclosure of cash flow information:					
Cash received for interest	$ 1,571		$ 1,571		$ 1,571
Cash paid for interest	$ 122		$ 122		$ 122
Net cash paid for (received from) income taxes	$ 2,623		$ 2,623		$ 2,623
Common stock issued in connection with acquisitions	$ 14,722		$ 14,722		$ 14,722

During the year ended December 31, 2005, we issued approximately 4.4 million shares of common stock in connection with the acquisition of Actrans Inc.

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The impact of the restatement on the SFAS No. 123 proforma disclosures is as follows (in thousands, except per share data)

	Year Ended December 31, 2004				
	As previously reported	Adjustments(1)	As Adjusted	Adjustments(2)	As Adjusted and Restated
Net income	$ 23,929	$ (572)	$ 23,357	$ 3,299	$ 26,656
Add: stock-based employee compensation expense included in reported net income (as adjusted and restated), net of related tax effects				2,302	2,302
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(9,036)		(9,036)	(748)	(9,784)
Pro forma net income	$ 14,893	$ (572)	$ 14,321	$ 4,853	$ 19,174
Basic loss per share					
As reported:	$ 0.25		$ 0.24		$ 0.28
Pro forma:	$ 0.16		$ 0.14		$ 0.20
Diluted net loss per share					
As reported:	$ 0.24		$ 0.24		$ 0.27
Pro forma:	$ 0.15		$ 0.14		$ 0.19

	Year Ended December 31, 2005				
	As previously reported	Adjustments(1)	As Adjusted	Adjustments(2)	As Adjusted and Restated
Net loss	$ (29,838)	$ 573	$ (29,265)	$ 2,641	$ (26,624)
Add: stock-based employee compensation expense included in reported net income (as adjusted and restated), net of related tax effects				683	683
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(8,612)		(8,612)	(616)	(9,228)
Pro forma net loss	$ (38,450)	$ 573	$ (37,877)	$ 2,708	$ (35,169)
Basic loss per share					
As reported:	$ (0.29)		$ (0.29)		$ (0.26)
Pro forma:	$ (0.38)		$ (0.37)		$ (0.35)
Diluted net loss per share					
As reported:	$ (0.29)		$ (0.29)		$ (0.26)
Pro forma:	$ (0.38)		$ (0.37)		$ (0.35)

(1) The adjusted consolidated income statement for 2004 and 2005 reflects the change in accounting methodology from the cost method to the equity method of accounting for our investment in ACET.

(2) The restated consolidated income statement for 2004 and 2005 reflects additional stock-based compensation recorded in connection with this restatement to correct prior year stock option-related accounting errors as described above and to reflect the impact of other adjustments that were previously considered to be immaterial.

SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Available-for-Sale Investments:

The fair value of available-for-sale investments, including restricted available-for-sale investments, as of December 31, 2006 were as follows (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Corporate bonds and notes	$ 28,279	$	$ (9)	$ 28,270
Government bonds and notes	51,422		(6)	51,416
Foreign listed equity securities	6,482	31,181		37,663
Total bonds, notes and equity securities	$ 86,183	$ 31,181	$ (15)	$ 117,349
Less amounts classified as cash equivalents				(32,960)
Total short and long-term available-for-sale investments				$ 84,389
Contractual maturity dates for investments in bonds and notes:				
Less than one year				71,795
One to five years				7,891
				$ 79,686

The unrealized gains and losses as of December 31, 2006 are recorded in accumulated other comprehensive income, net of tax.

Market values were determined for each individual security in our investment portfolio. The declines in value of the bonds and notes primarily relate to changes in the interest rates and are considered temporary in nature. With respect to our foreign listed equity securities, our policy is to review our equity holdings on a regular basis to evaluate whether or not such securities have experienced an other than temporary decline in fair value. Our policy includes, but is not limited to, reviewing each company's cash position, earnings and revenue outlook, stock price performance over the past six months, liquidity, management and ownership. If we believe that an other-than-temporary decline in value exists, it is our policy to write down these investments to the market value and record the related write-down in our consolidated statement of operations.

The fair value of available-for-sale investments as of December 31, 2005 were as follows (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value

Corporate bonds and notes	$ 67	$	$	$ 67
Government bonds and notes	5,632		(1)	5,631
Foreign listed equity securities	7,283	31,774		39,057
Total bonds, notes and equity securities	$ 12,982	$ 31,774	$ (1)	$ 44,755
Less amounts classified as cash equivalents				(4,690)
Total short and long-term available-for-sale investments				$ 40,065

Contractual maturity dates of our available-for-sale investments for debt and marketable securities are due in one year or less. All of these securities are classified as current as they are expected to be realized in cash, sold or consumed during the normal operating cycle of our business. At December 31, 2005 the balance of these investments was $1.0 million. The unrealized gain as of December 31, 2005 is recorded in accumulated other comprehensive income, net of tax.

4. Balance Sheet Detail (in thousands):

Trade accounts receivable comprise:

	December 31, 2005	December 31, 2006
Trade accounts receivable	$ 79,571	$ 66,513
Allowance for sales returns	(1,577)	(1,458)
Allowance for doubtful accounts	(758)	(112)
	$ 77,236	$ 64,943

Inventories, net, comprise:

	December 31, 2005 (as restated)	December 31, 2006
Raw materials	$ 65,779	$ 53,683
Work in process	6,491	3,307
Finished goods	29,450	10,951
Finished goods inventories held at logistics center	6,998	5,942
	$ 108,718	$ 73,883

Other current assets comprise:

	Year Ended December 31, 2005 (as restated)	Year Ended December 31, 2006
Refundable income tax	$ 5,776	$ 19
Other current assets	7,333	9,055
	$ 13,109	$ 9,074

Property and Equipment comprise:

	December 31, 2005	December 31, 2006	Estimated Useful Lives
Land	$ 959	$ 959	
Building	2,786	3,503	Forty years
Equipment	17,430	18,643	Four years
Computer and design hardware	14,205	15,856	Three years
Software(1)	15,724	16,592	Three years
Vehicles	47	47	Five years
Furniture and fixtures	1,973	2,050	Seven years
Leasehold improvements	8,037	8,218	(2)
	61,161	65,868	
Less accumulated depreciation	(42,463)	(46,617)	
	18,698	19,251	
Construction in progress	717	262	
	$ 19,415	$ 19,513	

(1) Includes capitalized leases of $1,965 and $2,452 at 2005 and 2006

(2) Seven years or remaining lease term, whichever is less

Depreciation expense was $6.6 million, $6.1 million and $6.5 million including depreciation on capitalized leases of $457,000, $498,000 and $1.8 million for 2004, 2005 and 2006, respectively.

Accrued liabilities comprise:

	December 31, 2005 (as restated)	December 31, 2006
Accrued compensation and related items	$ 10,197	$ 9,774
Accrued adverse purchase commitments	1,752	119
Accrued commission	2,762	2,004
Accrued income taxes	1,319	5,644
Accrued warranty	803	298
Other accrued liabilities	4,748	6,276
	$ 21,581	$ 24,115

Our technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by our proprietary technology. The terms of these guarantees approximate the terms of the technology license agreements, which typically range from five to ten years. Our current license agreements expire from 2008 through 2014. The maximum possible amount of future payments we could be required to make, if such indemnifications were required on all of these agreements, is $46.0 million. We have not recorded any liabilities as of December 31, 2006 related to these indemnities as no such claims have been made or asserted.

Accrued warranty:

	Year Ended December 31,	
	2005	2006
Beginning balance	$ 3,826	$ 803
Provisions for warranty	2,270	2,133
Change in estimate of prior period accrual	(1,342)	
Consumption of reserves	(3,951)	(2,638)
Ending balance	$ 803	$ 298

Our products are generally subject to warranty and we provide for the estimated future costs of repair, replacement or customer accommodation upon shipment of the product in the accompanying statements of operations. Our warranty accrual is estimated based on historical claims compared to historical revenues and assumes that we have to replace products subject to a claim. For new products, we use our historical percentage for the appropriate class of product. The change in the estimate of prior period accrual for the year ended December 31, 2005 related to rescreening work related to two specific customers. The work was completed during the year ended December 31, 2005 and, consequently, we revised our estimate and decreased provisions for warranty by $1.3 million.

5. Commitments

We lease our corporate facilities under non-cancelable operating leases that expire in 2007 through 2026. We believe we have adequate leased facilities to support our operations for at least the next twelve months. The leases require escalating monthly payments over their terms and, therefore, periodic rent expense is being recognized on a straight-line basis. Under the terms of the leases, we are responsible for maintenance costs, including real property taxes, utilities and other costs. Rent expense was $5.0 million, $4.2 million and $3.7 million in 2004, 2005 and 2006, respectively. Capital leases are recorded in property, plant and equipment.

Future minimum lease payments at December 31, 2006 are as follows (in thousands):

	Capital Lease	Operating Lease
2007	$ 1,221	$ 3,562
2008	899	3,434
2009	576	3,359
2010		959
2011		56
Thereafter		270
	$ 2,696	$ 11,640
Less: Imputed interest	(244)	
Present value of minimum lease payments	$ 2,452	

6. Contingencies:

In January and February 2005, multiple putative shareholder class action complaints were filed against SST and certain directors and officers alleging insider trading and manipulation of stock prices, in the United States District Court for the Northern District of California, following our announcement of anticipated financial results for the fourth quarter of 2004. On March 24, 2005, the putative class actions were consolidated under the caption *In re Silicon Storage Technology, Inc., Securities Litigation*, Case No. C 05 00295 PJH (N.D. Cal.). On May 3, 2005, the Honorable Phyllis J. Hamilton appointed the "Louisiana Funds Group," consisting of the Louisiana School Employees' Retirement System and the Louisiana District Attorneys' Retirement System, to serve as lead plaintiff and the law firms of Pomeranz Haudek Block Grossman & Gross LLP and Berman DeValerio Pease Tabacco Burt & Pucillo to serve as lead counsel and liaison counsel, respectively, for the class. Lead plaintiff filed a Consolidated Amended Class Action Complaint on July 15, 2005, which the Court dismissed with leave to amend on March 10, 2006. Plaintiff filed a second amended complaint on May 1, 2006, again seeking unspecified damages for alleged violations of federal securities laws during the period from April 21, 2004 to December 20, 2004. We responded with a motion to dismiss on June 19, 2006. On March 9, 2007, the Court issued an Order granting our motion to dismiss, *with prejudice*, and on March 12, 2007 entered a judgment that plaintiffs take nothing and the action be dismissed on the merits. Lead plaintiff filed a notice of appeal but did not follow through and by stipulation, the suit was dismissed.

In January and February 2005, following the filing of the putative class actions, multiple shareholder derivative complaints were filed in California Superior Court for the County of Santa Clara, purportedly on behalf of SST against certain of our directors and officers. The factual allegations of these complaints were substantially identical to those contained in the putative shareholder class actions filed in federal court. The derivative complaints asserted claims for, among other things, breach of fiduciary duty and violations of the California Corporations Code. These derivative actions were consolidated under the caption *In Re Silicon Storage Technology, Inc. Derivative Litigation,* Lead Case No. 1:05CV034387 (Cal. Super. Ct., Santa Clara Co.). On April 28, 2005, the derivative action was stayed by court order. On October 19, 2007, following the dismissal with prejudice of the putative class actions, the court lifted this stay. On December 6, 2007, plaintiffs filed a consolidated amended complaint reiterating some of the previous claims and asserting claims substantially identical to those contained in the *Chuzhoy v. Yeh* (Cal. Super. Ct., Santa Clara Co.) and *In re Silicon Storage*

Technology, Inc., Derivative Litigation (N.D. Cal., San Jose Div.) putative derivative actions. We intend to continue to take all appropriate actions in response to this lawsuit. The impact related to the outcome of this matter is undeterminable at this time.

On July 13, 2006, a shareholder derivative complaint was filed in the United States District Court for the Northern District of California by Mike Brien under the caption *Brien v. Yeh, et al*., Case No. C06-04310 JF (N.D. Cal.). On July 18, 2006, a shareholder derivative complaint was filed in the United States District Court for the Northern District of California by Behrad Bazargani under the caption *Bazargani v. Yeh, et al*., Case No. C06-04388 HRL (N.D. Cal.). Both complaints were brought purportedly on behalf of SST against certain of our current directors and certain of our current and former officers and allege among other things, that the named officers: (a) breached their fiduciary duties as they colluded with each other to backdate stock options, (b) violated Rule 10b-5 of the Securities Exchange Act of 1934 through their alleged actions, and (c) were unjustly enriched by their receipt and retention of such stock options. The *Brien* and *Bazargani* cases were consolidated into one case: *In re Silicon Storage Technology, Inc. Derivative Litigation*, Case No. C06-04310 JF and a consolidated amended shareholder derivative complaint was filed on October 30, 2006. On April 13, 2007, the court granted the parties' stipulation staying this action until after we publicly announce the results of the investigation into our historical stock option grant practices, at which time plaintiff shall have 21 days to file a second amended consolidated complaint. On April 27, 2007 the court granted the parties stipulation staying this action until we publicly announce the results of the investigation into our historical stock option practices, at which time plaintiffs shall have twenty-one days to file a second amended consolidated complaint. On October 31, 2006, a similar shareholder derivative complaint was filed in the Superior Court of the State of California for the County of Santa Clara by Alex Chuzhoy under the caption *Chuzhoy v. Yeh, et al.,* Case No. 1-06-CV-074026. This complaint was brought purportedly on behalf of SST against certain of our current directors and certain of our current and former officers and alleges among other things, that the named officers and directors breached their fiduciary duties as they colluded with each other to backdate stock options and were allegedly unjustly enriched by their actions. The *Chuzhoy* complaint also alleges that certain of our officers and directors violated section 25402 of the California Corporations Code by selling shares of our common stock while in possession of material non-public adverse information. On April 13, 2007, the court granted the parties' stipulation staying this action until after we publicly announce the results of the investigation into our historical stock option grant practices, at which time plaintiff shall have twenty-one days to file an amended complaint. We intend to take all appropriate action in responding to all of the complaints.

On or about July 13, 2007, a patent infringement suit was brought by OPTi Inc. in the United States District Court for the Eastern District of Texas alleging infringement of two United State patents related to a "Compact ISA-bus Interface". The plaintiff seeks a permanent injunction, and damages for alleged past infringement, as well as any other relief the court may grant that is just and proper. At this time, discovery has not yet commenced, and we intend to vigorously defend the suit.

From time to time, we are also involved in other legal actions arising in the ordinary course of business. There can be no assurance that the shareholder class action complaints, the shareholder derivative complaints or other third party assertions will be resolved without costly litigation, in a manner that is not adverse to our financial position, results of operations or cash flows or without requiring payments in the future which may adversely impact gross margins. No estimate can be made of the possible loss or possible range of loss associated with the resolution of these contingencies. As a result, no losses have been accrued in our financial statements as of December 31, 2006.

SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Lines of Credit

On August 11, 2006, we entered into a 1-year loan and security agreement with Cathay Bank, a U.S. bank, for a $40.0 million revolving line of credit all of which was available to us as of December 31, 2006. The loan agreement was amended in August 2007 to mature in October 2007 as well as waive covenants, which we were in violation of, requiring us to file timely SEC documents Form 10-K for December 31, 2006 as well as Forms 10-Q for the quarters ending March 31, 2007, June 30, 2007 and September 30, 2007. We did not renew this line after its expirations. The line of credit was intended to be used for working capital but there are no restrictions in the agreement as to how the funds may be used. The interest rate for the line of credit is 1% below the prime rate reported from time to time by the Wall Street Journal, Western Edition (8.25% at December 31, 2006). The line of credit is collateralized by substantially all of our assets other than intellectual property. The agreement contains certain financial covenants, including the levels of qualifying accounts receivable and inventories, which could limit the availability of funds under the agreement. As of December 31, 2006, a standby letter of credit in the amount of $8.0 million has been issued against the line as collateral for a line of credit with Bank of America in China. We were not in compliance with certain covenants requiring the timely filing of U.S. GAAP financial statements as of December 31, 2006.

On September 15, 2006, SST China Limited, a wholly-owned subsidiary of SST, entered into a 10-month facility agreement with Bank of America, N.A. Shanghai Branch, a U.S. bank, for RMB 60.8 million revolving line of credit, or approximately $8 million US dollars. This line expired and was replaced on August 07, 2007, when SST China Limited entered into a one year facility agreement with Bank of America, N.A. Shanghai Branch for RMB 58.40 million revolving line of credit. The line of credit will be used for working capital but there are no restrictions in the agreement as to how the funds may be used. The interest rate for the line of credit is 90% of People's Bank of China's base rate (6.21% at September 30, 2007). This facility line is guaranteed by the parent company, Silicon Storage Technology, Inc. SST is required to meet certain financial covenants, including have a ratio of the funded debt to EBITA less than 2.0. If not, SST has to deposit with Bank of America cash collateral at all times in an amount equal to the outstanding principal balance. As of September 30, 2007, SST China Limited has drawn RMB 32 million at the interest rate of 5.427%. We were in compliance with all terms of this facility agreement at September 31, 2007.

8. Investments in Equity-method Affiliate

In September 2006, we invested an additional $15.9 million in our affiliate ACET, that increased our ownership share of ACET's outstanding capital stock from 9.4% to 46.9% and required us to change from the cost method of accounting to the equity method of accounting for this investment. Under the equity method of accounting, we are required to record our 46.9% interest in ACET's reported net income or loss each reporting period as well as restate the prior period financial results to reflect the equity method of accounting from the date of the initial investment. The impact of the adjustment of the cost of changing to equity method accounting is disclosed in Note 2. As of December 31, 2006, the carrying value of our investment in ACET was $14.9 million. The difference between our carrying value and our percentage of ACET's net assets is $2.0 million, a majority of which relates to intangibles recorded as part of the September 2006 investment, which is being amortized to the income statement in "pro rata share of loss in equity investments" over the estimated useful life of the intangible assets. In the third quarter ended September 30, 2007, we made an additional cash investment, among other investing enterprises, of $10.3 million in ACET's common stock. Our total investment represents 38.5% of the outstanding equity of ACET at September 30, 2007.

ACET prepares their financial statements in accordance with Generally Accepted Accounting Principals in the Republic of China (ROC). Condensed financial data for ACET for the years ended December 31, 2006, 2005 and 2004 are summarized below (in thousands).

		Under US GAAP
Financial data for 2006		
Current assets	$	17,984
Other assets		24,837
Total Assets	$	42,821
Current liabilities	$	5,841
Other liabilities		8,599
Shareholders' equity		28,381
Total liabilities and shareholders' equity	$	42,821
Net revenues	$	539
Gross loss	$	(7,134)
Operating income (loss)	$	(11,209)
Net income (loss)	$	(10,871)
Financial data for 2005		
Current assets	$	8,869
Other assets		25,740
Total Assets	$	34,609
Current liabilities	$	4,750
Other liabilities		9,027
Shareholders' equity		20,832
Total liabilities and shareholders' equity	$	34,609
Net revenues	$	208
Gross loss	$	(7,890)
Operating income (loss)	$	(10,693)
Net income (loss)	$	(11,140)
Financial data for 2004		
Net revenues	$	604
Gross loss	$	(6,367)
Operating income (loss)	$	(7,899)
Net income (loss)	$	(8,120)

9. Goodwill and Intangible Assets:

Our goodwill and intangible assets include $16.5 million of amortizing intangible assets from acquisitions made in 2004 and 2005 and $1.7 million of purchased intellectual property. Certain of our acquisitions also gave rise to $29.2 million of aggregate goodwill. The goodwill is not being amortized

but is tested for impairment annually, as well as when an event or circumstance occurs indicating a possible impairment in value.

As of December 31, 2006, our intangible assets consisted of the following (in thousands):

	Cost	Accumulated Amortization	Net
Existing technology	$ 11,791	$ 5,413	$ 6,378
Intellectual property	1,693		1,693
Trade name	1,198	552	646
Customer relationships	1,857	1,027	830
Backlog	811	811	
Non-Compete Agreements	810	417	393
	$ 18,160	$ 8,220	$ 9,940

As of December 31, 2005, our intangible assets consisted of the following (in thousands):

	Cost	Accumulated Amortization	Net
Existing technology	$ 11,791	$ 2,830	$ 8,961
Trade name	1,198	313	885
Customer relationships	1,857	528	1,329
Backlog	811	806	5
Non-Compete Agreements	810	174	636
	$ 16,467	$ 4,651	$ 11,816

All intangible assets are being amortized on a straight-line basis over their estimated useful lives. Existing technologies have been assigned useful lives of between four and five years, with a weighted average life of approximately 4.6 years. Non-compete agreements have been assigned useful lives between two and four years, with a weighted average of 3.6 years. Intellectual property has been assigned an estimated life between three and five years and will begin amortization in 2007. Trade names and backlogs have been assigned useful lives of five years and one year, respectively. Customer relationships have been assigned useful lives between three and five years with a weighted average of 4.0 years. Amortization expense was $796,000, $3.9 million and $3.6 million in 2004, 2005 and 2006, respectively.

Estimated future intangible asset amortization expense for the next five years is as follows (in thousands):

Fiscal Year	Amortization of Intangible Assets
2007	$ 3,734
2008	3,617
2009	2,155
2010	368
2011 and after	66
	$ 9,940

Goodwill by segment is allocated as follows (in thousands);

	Year Ended December 31,	
	2005	2006
Memory	$ 2,266	$ 2,266
Non-Memory	16,150	15,726
Licensing Technology	11,221	11,221
	$ 29,637	$ 29,213

For the year ended December 31, 2006, the adjustment to goodwill was a $424,000 decrease due to the realization of previously reserved net operating losses acquired in the G-Plus acquisition.

10. Stock-based Compensation:

Employee Stock Purchase Plan

Our 1995 Employee Stock Purchase Plan, or the Purchase Plan, as amended, has 6.0 million shares reserved for issuance. Through July 31, 2005, the Purchase Plan provided for eligible employees to purchase shares of common stock at a price equal to 85% of the fair market value of our common stock on the date of the purchase, or, if lower, 85% of the fair market value of our common stock six months after the grant date, by withholding up to 10 percent of their annual base earnings. Since July 31, 2005, the Purchase Plan provides for eligible employees to purchase shares of common stock at a price equal to 90% of the fair value of our common stock six months after the option date by withholding up to 10% of their annual base earnings. At December 31, 2006, 641,000 shares were available for purchase under the Purchase Plan. Shares issued under the Purchase Plan for the twelve months ended December 31, 2005 and 2006 were 769,000 and 485,000, respectively.

Equity Incentive Plan

Our 1995 Equity Incentive Plan, or the Equity Incentive Plan, as amended, has 31.8 million shares of common stock reserved for issuance upon the exercise of stock options to our employees, directors, consultants and affiliates. Under the Equity Incentive Plan, the Board of Directors has the authority to determine to whom options will be granted, the number of shares under option, the option term and the exercise price. The options generally are exercisable beginning one year from date of grant and generally thereafter over periods ranging from four to five years from the date of grant. The term of any options issued may not exceed ten years from the date of grant.

Directors' Stock Option Plan

Each of our non-employee directors receives stock option grants under our 1995 Non-Employee Directors' Stock Option Plan, or the Directors' Plan. In April 2005, the Board of Directors amended the Directors' Plan. Pursuant to the Directors' Plan, upon each non-employee director's initial election or appointment to the Board, such new non-employee director receives an initial stock option grant for 45,000 shares of common stock. Each initial stock option grant vests as to 25% of the shares subject to the grant on the anniversary of the grant date. Previously, each such initial stock option was fully vested and exercisable upon grant. In addition, each non-employee director will receive a fully vested annual stock option grant for 12,000 shares of common stock. Previously, each non-employee director received a fully vested annual stock option grant for 18,000 shares of common stock. The options expire ten years after the date of grant. As of December 31, 2006, the Directors' Plan had 169,000 shares available for grant.

Compensation expense is recognized as follows: we amortize stock-based compensation on the graded vesting method over the vesting periods of the stock options, generally four years. The graded vesting method provides for vesting of portions of the overall awards at interim dates and results in accelerated vesting as compared to the straight-line method.

The Purchase Plan provides for eligible employees to purchase shares of common stock at a price equal to 90% of the fair value of our common stock on the last day of each six-month offering period. The compensation is the difference between the fair value and purchase price on the date of purchase.

The amount of recognized compensation expense is adjusted based upon an estimated forfeiture rate which is derived from historical data.

The following table shows total stock-based compensation expense included in the Condensed Consolidated Statement of Operations (in thousands):

	Year Ended December 31,		
	2004	**2005**	**2006**
	As Restated	**As Restated**	
Cost of goods sold	$ 492	$ 186	$ 516
Research and development	1,289	360	3,753
Sales and marketing	312	88	1,214
General and administrative	259	49	2,372
Effect on pre-tax income	2,302	683	7,855
Tax effect of stock-based compensation expense			
Effect on net income	$ 2,302	$ 683	$ 7,855

Stock-based compensation of $122,000, $6,000 and $164,000 was capitalized in inventory as of December 31, 2004, 2005 and 2006, respectively. Stock-based compensation amounts charged against income in 2004 and 2005 were based on the provisions of APB No. 25, and reflect the restatement discussed in Note 2. The 2006 amounts reflect the application of SFAS No. 123(R). SFAS No. 123(R) also requires that the tax benefit from the exercise of options be reflected in the statement of cash flows as a cash inflow from financing activities. Prior to the adoption of SFAS No. 123(R), these tax benefits were reflected as a cash inflow from operations. Because we elected to adopt the "modified prospective application" transition method, the prior year statements of cash flows have not been restated to reflect the tax benefit of options, if any. The tax benefit from the exercise of options was $0 for year ended December 31, 2006.

Stock Option Plans

Pursuant to our Equity Incentive Plan and Directors' Plan, stock options are granted with an exercise price equal to the market price of our common stock at the date of grant. Substantially all of the options granted to employees are exercisable pursuant to a four-year vesting schedule with a maximum contractual term of ten years. The fair value of these options is estimated using the Black-Scholes option pricing model which incorporates the assumptions noted in the table below. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury bond rate in effect at the time of grant. We do not pay dividends and do not expect to do so in the future. Expected volatilities are based on the historical performance of our common stock. The expected term of the options granted during 2006 is 6.0 years calculated using the simplified method allowed under Staff Accounting Bulletin No. 107 *Share-Based Payment*, or SAB No. 107.

We use historical volatility as we believe it is more reflective of market conditions and a better indicator of volatility. We use the simplified calculation of expected life described in the SAB No. 107. If we determined that another method used to estimate expected volatility was 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 share-based awards could change significantly. Higher volatility and longer expected lives result in an increase to share-based compensation determined at the date of grant.

The fair values of grants in the stated period were computed using the following assumptions for our stock option plans:

	Year Ended December 31, 2006
Risk-free interest rate	4.3% - 5.2%
Dividend yield	0.0%
Expected volatility	77.0% - 82.6%
Expected life	6.0 years

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The following is a summary of all option activity for the three years ended December 31, 2006 (options in thousands):

	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value as of December 31, 2006
Outstanding at December 31, 2003	6,111	10,147	$ 7.79	6.48	
Granted	(2,395)	2,395	$ 8.15		
Exercised		(1,067)	$ 2.33		
Forfeited	254	(254)	$ 7.13		
Expired	190	(190)	$ 16.72		
Outstanding at December 31, 2004	4,160	11,031	$ 8.23	7.49	
Granted	(2,469)	2,469	$ 4.24		
Exercised		(342)	$ 2.10		
Forfeited.	1,171	(1,171)	$ 9.91		
Expired	300	(300)	$ 10.84		
Outstanding at December 31, 2005	3,162	11,687	$ 7.33	6.33	
Granted	(2,158)	2,158	$ 4.16		
Exercised		(317)	$ 2.59		
Forfeited	667	(667)	$ 6.01		
Expired	765	(765)	$ 11.82		
Outstanding at December 31, 2006	2,436	12,096	$ 6.68	6.04	$ 7,463
Vested and Expected to Vest at December 31, 2006		11,809	$ 6.73	5.94	$ 7,384
Options Exercisable at December 31, 2006		7,543	$ 7.59	4.39	$ 6,282

Range of Exercise Prices	Options Outstanding: Number Outstanding	Options Outstanding: Weighted-Average Remaining Life	Options Outstanding: Weighted-Average Exercise Price	Options Exercisable: Number Outstanding	Options Exercisable: Weighted-Average Exercise Price
\$0.44 - \$2.00	1,318	1.19	\$ 1.15	1,318	\$ 1.15
\$2.08 - \$3.60	1,451	6.78	\$ 2.99	723	\$ 2.63
\$3.65 - \$4.38	1,183	7.47	\$ 3.88	614	\$ 3.74
\$4.41 - \$4.46	1,175	7.56	\$ 4.43	504	\$ 4.45
\$4.51 - \$4.90	1,391	8.36	\$ 4.75	301	\$ 4.67
\$4.96 - \$6.48	1,456	7.11	\$ 5.72	618	\$ 5.49
\$6.66 - \$8.63	1,290	6.74	\$ 7.74	854	\$ 7.89
\$8.75 - \$11.00	1,227	5.32	\$ 9.67	1,104	\$ 9.68
\$11.17 - \$21.04	1,275	4.36	\$ 15.70	1,176	\$ 15.90
\$22.04 - \$29.44	330	3.47	\$ 25.25	331	\$ 25.25
\$0.44 - \$29.44	12,096	6.04	\$ 6.68	7,543	\$ 7.59

	Year Ended December 31, 2006
Weighted average grant date fair value of options granted	\$ 3.02
Total fair value of shares vested	\$ 8,033,209
Total intrinsic value of options exercised	\$ 586,824
Total cash received from employees as a result of employee stock option excercises and employee stock plan purchases	\$ 2,743,653

We settle stock option exercises with newly issued common shares. We do not have any equity instruments outstanding other than the options described above as of December 31, 2006.

Total unrecognized compensation expense from stock options was \$10.4 million including estimated forfeitures, which is expected to be recognized over a weighted-average period of 1.61 years.

Pro Forma Information under SFAS 123 for the period prior to 2006

For years ended December 31, 2005 and 2004, we applied the intrinsic value method of accounting for stock options prescribed by APB No. 25. The impact on our net income (loss) that would have been reported if compensation expense had been recognized based on the estimate of the fair value of each option granted in accordance with the provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* as amended by SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*, is disclosed in Note 2.

SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes multiple options pricing model. We used the following assumptions for the years ended December 31, 2004 and 2005, respectively.

	Year Ended December 31,	
	2004	2005
Risk-free interest rate	2.7 - 3.9%	3.7 - 4.2%
Expected term of option	5 Years	5 Years
Expected volatility	94%	84%
Expected dividend yield	0%	0%

Pro forma compensation expense recognized under SFAS No. 123 does not consider potential forfeitures.

11. Shareholders' Equity:

Authorized Capital Shares:

Our authorized capital shares consist of 250.0 million shares of common stock and 7.0 million shares of preferred stock. Of the preferred stock, 450,000 shares have been designated as series A junior participating preferred stock. All of our capital shares have no par value.

Share Purchase Rights Plan:

We have a Share Purchase Rights Plan, adopted in May 1999 and subsequently amended, in which preferred stock rights were distributed as a rights dividend at a rate of one right for each share of common stock held as of the close of business on May 27, 1999. Preferred stock rights will also be issued with any new issuance of common shares. Each right entitles the registered holder under certain circumstances to purchase from us one three-hundredth (one-third of one one-hundredth) of a share of series A junior participating preferred stock. Until the occurrence of certain events the preferred stock rights will be transferable with and only with our common stock. The effect will be to discourage acquisitions of more than 15 percent of our common stock without negotiations with our Board of Directors. The rights expire May 3, 2009.

12. Net Income (Loss) Per Share

A reconciliation of the numerator and the denominator of basic and diluted net loss per share are as follows (in thousands except for per share data):

	Year ended December 31,		
	2004	2005	2006
	(As adjusted and restated)	(As adjusted and restated)	
Numerator basic			
Net income (loss)	$ 26,656	$ (26,624)	$ (20,777)
Denominator basic			
Weighted average common stock outstanding	95,756	101,369	103,355
Basic net income (loss) per share	$ 0.28	$ (0.26)	$ (0.20)
Denominator diluted			
Weighted average common stock outstanding	95,756	101,369	103,355
Dilutive potential of common stock equivalents:			
Options	3,387		
	99,325	101,369	103,355
Diluted net income (loss) per share	$ 0.27	$ (0.26)	$ (0.20)

Stock options to purchase approximately 5.4 million shares of common stock with a weighted average price of $13.03 were excluded from the computation of diluted net income per share for 2004 because the exercise price of the options exceeded the average fair market value of the stock for 2004. Stock options to purchase 12.1 million and 11.7 million shares of common stock with weighted average prices of $6.68 and $7.33, respectively, were outstanding at December 31, 2005 and 2006 but were not included in the computation of diluted net loss per share because we incurred net losses in both years.

13. Other Operating Expenses:

Other operating expenses comprised (in thousands):

	Year Ended December 31,		
	2004	2005	2006
Operating lease impairment	$ 1,479	$	$
In-process research and development	5,896	1,695	
Atmel Settlement		1,250	
	$ 7,375	$ 2,945	$

Operating lease impairment. During the second quarter of 2004, we recorded a period charge to other operating expense of $1.5 million relating to an operating lease for an abandoned building. This charge represents the estimated difference between the total discounted future sublease income and

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our discounted lease commitments relating to this building. At December 31, 2005, our remaining liability was $4,000. At December 31, 2006, there was no remaining liability.

In-process research and development. A portion of the purchase price of each acquisition was allocated to in-process research and development and immediately expensed. For 2004, our acquisitions of G-Plus and Emosyn resulted in expensing in-process research and development of $3.9 million and $2.0 million, respectively. For 2005, the amount of in-process research and development expensed for the Actrans Systems Inc and minority interest of Emosyn acquisitions was $1.5 million and $190,000, respectively.

Atmel Settlement. In 2005, we paid Atmel $1.25 million in settlement fees for the '903 patent lawsuit.

14. Impairment of Equity Investments:

During the fourth quarter of 2006, we reviewed the carrying value of our equity investment in Grace Semiconductor Manufacturing Corporation, or GSMC, for impairment. During this review, we became aware of certain pending equity transactions at a price per share expected to be below our then carrying value. We considered this impairment to be other than temporary and, accordingly, recorded an impairment charge related to GSMC of approximately $40.6 million. We owned 9.8% of the equity of Grace at December 31, 2006.

In the first quarter of 2006, we determined our investment in Nanotech Corporation, or Nanotech, a privately held Cayman Island company, had become impaired as Nanotech defaulted on loan payments to certain of its business partners and is now in the process of discontinuing operations. We could not conclude that the value of our investment would be recovered. Consequently, we wrote off our investment of $3.3 million along with a loan of $225,000.

During 2005 and 2004 we recorded impairment charges on our equity investments of $605,000 and $509,000, respectively. During the fourth quarter of 2005, we wrote down our investment in Advanced Chip Engineering Technology, or ACET, as they intended on issuing an additional round of equity financing at a lower per share price than our existing carrying value. We could not conclude that the price of ACET stock would rise in the foreseeable future. Consequently, we recorded an impairment charge of $605,000 on our existing investment. During 2004, we recognized a $509,000 loss from the impairment of our investment in Insyde because its stock price had declined below the acquisition cost for more than six months. The impairment was considered to be "other-than-temporary" in nature, thus the investment value was permanently written down to fair value.

15. Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax, are as follows (in thousands):

	For the Year Ended December 31,	
	2005	2006
	(As adjusted and restated)	
Net loss	$ (26,624)	$ (20,777)
Other comprehensive income:		
Change in unrealized gains (losses) on investments, net of tax	15,259	(608)
Change in cumulative translation adjustment	(21)	109
Total comprehensive income	$ (11,386)	$ (21,276)

The components of accumulated other comprehensive income are as follows (in thousands):

	Balances as of	
	December 31, 2005	December 31, 2006
Components of accumulated other comprehensive income as restated and adjusted		
Net unrealized gains on investments, net of tax	$ 31,774	$ 31,166
Cumulative translation adjustment	6	115
	$ 31,780	$ 31,281

16. Income Taxes:

The provision for income taxes reflected in the Statements of Operations for the years ended December 31, 2004, 2005 and 2006 are as follows (in thousands):

	Year ended December 31,		
	2004	2005	2006
	As restated and adjusted		
Income (loss) before income taxes:			
US	$ 40,559	$ 12,327	$ 22,054
Foreign	(9,422)	(35,036)	(32,438)
	31,137	(22,709)	(10,384)

	Year ended December 31, 2004	2005	2006
	As restated and adjusted		
Current:			
Federal	$ 736	$ 6	$ 3,858
State	2	7	83
Foreign	3,168	2,024	2,829
	$ 3,906	$ 2,037	$ 6,770
Deferred:			
Federal		412	424
State			
		412	424
	$ 3,906	$ 2,449	$ 7,194

Our effective tax rate (benefit)/provision differs from the statutory federal income tax rate as shown in the following schedule:

	Year ended December 31, 2004	2005	2006
	As restated and adjusted		
United States statutory rate	35.0%	(35.0)%	(35.0)%
State taxes, net of federal benefit		0.3	1.1
Foreign taxes, net	11.6	49.9	135.4
Research and development credit	(3.6)	(10.8)	(15.0)
Tax exempt interest	(2.3)	(0.8)	(1.9)
Change in estimated tax contingency	(1.3)	3.3	20.9
Change in valuation allowance	(29.4)	2.9	(72.5)
Write offs	4.4		
SFAS No. 123(R) Expense			22.2
Equity method adjustment			10.0
Other	(1.9)	1.0	4.1
	12.5%	10.8%	69.3%

As of December 31, 2005 and 2006 our deferred tax assets and liabilities consisted of (in thousands):

	December 31,	
	2005	2006
	As Restated	
Allowance for excess and obsolete inventory	$ 131	$ 196
Allowance for sales returns	29	89
Allowance for doubtful accounts	34	1
Stock option expenses	7,864	6,355
Other	2,080	2,027
Capitalized research and development	1,108	932
Net operating loss carry-forwards	9,492	7,032
Depreciation	853	2,079
Tax credits	27,626	15,493
Employment tax accrual	1,224	823
Total deferred tax asset	50,441	35,027
Valuation allowance	(49,871)	(34,670)
Acquired intangibles	(570)	(357)
	$	$

During 2005 and 2006, we maintained a full valuation allowance on our net deferred tax assets. The valuation allowance was determined in accordance with the provisions of Statement of Financial Accounting Standards No. 109, or SFAS No. 109, *Accounting for Income Taxes*, which requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction by jurisdiction basis. Expected future U.S. losses represented sufficient negative evidence under SFAS No. 109 and accordingly, a full valuation allowance was recorded against U.S. deferred tax assets. We intend to maintain a full valuation allowance on the U.S. deferred tax assets until sufficient positive evidence exists to support reversal of the valuation allowance.

In 2006, as a result of the adoption of SFAS No. 123(R), we chose to reverse both the gross deferred income tax assets and the offsetting valuation allowance pertaining to net operating loss or tax attributes that represent excess tax benefits from stock-based awards. In prior years, such excess tax benefits, with an offsetting valuation allowance, were recorded in the Company's consolidated balance sheet. As the excess tax benefits were realized, the valuation allowance was released and additional paid-in capital was increased. SFAS No. 123(R) prohibits recognition of a deferred tax asset for excess tax benefits due to stock-based compensation deductions that have not yet been realized through a reduction in income taxes payable. Accordingly, in 2006, we reversed the deferred tax asset and the offsetting valuation allowance relating to excess tax benefits for stock-based compensation deductions. Such unrecognized deferred tax benefits totaled $2.8 million as of December 31, 2006 and will be accounted for as a credit to additional paid-in capital, if and when realized through a reduction in income taxes payable.

The valuation allowance as of December 31, 2006 included deferred tax assets acquired in the Acquisition of G-Plus and Actrans. Future reversals of this valuation allowance will be recorded first as reductions to the basis of goodwill, follow by reductions of any remaining acquired intangible assets. Thereafter, any remaining valuation allowance reduction will be recorded as income tax benefit during the period in which the valuation allowance is reversed. In December 2007, the FASB issued Statement of Financial Standards No. 141 (revised 2007), *Business Combinations*, or SFAS No. 141(R). In part, SFAS No. 141(R) provides that any valuation allowance reversed after adoption will be recorded as an income tax benefit. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. We will adopt this standard beginning January 1, 2009. At this time we can not estimate the impact on the financial statements.

At December 31, 2006, we had $9.2 million of federal net operating loss carry forward and had state net operating loss carry forward of $12.2 million. The federal net operating loss expires between 2020 to 2027. The state net operating loss expires between 2006 to 2017. The net operating loss is subject to limitations due to ownership changes. At December 31, 2006, we had available research and development credit carry forwards for federal and state income tax purposes of $6.2 million and $10.0 million, respectively. The federal carry forwards expire between 2007 and 2027. The state carry forwards has no expiration dates.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004, or the Act. Among other provisions, the Act includes a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad. We did not repatriate foreign earnings under the Act. It is not anticipated that the other provisions of the Act will have a material impact on our effective tax rate.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, or FIN No. 48. FIN No. 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 requires that we recognize in the financial statements the benefit of a tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition provisions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006, and we will adopt FIN No. 48 at the beginning of fiscal 2007. We expect an adjustment to retained earnings representing a decrease of approximately $3.2 million.

17. Segment Reporting:

One of our key objectives is the further development of our non-memory business. Our objective is to transform SST from a pure play in flash memory to become a multi-product line semiconductor company and a leading licensor of embedded flash technology. As a consequence, the operating results that our chief operating decision maker reviews to make decisions about resource allocations and to assess performance have changed. Effective January 1, 2006, we have re-evaluated our operating segments to bring them in line with these changes and how management reviews and evaluates the operating performance of the company and accordingly, the new segments include Memory Products, Non-Memory Products and Technology Licensing.

Our Memory Product segment, which is comprised of NOR flash memory products, includes the Multi-Purpose Flash or MPF family, the Multi-Purpose Flash Plus or MPF+ family, the Concurrent

SuperFlash or CSF family, the Firmware Hub or FWH family, the Serial Flash family, the ComboMemory family, the Many-Time Programmable or MTP family, and the Small Sector Flash or SSF family.

Our Non-Memory Products segment is comprised of all other semiconductor products including flash microcontrollers, smartcard ICs and modules, radio frequency ICs and modules, NAND controllers and NAND-controller based modules.

Technology Licensing includes both license fees and royalties generated from the licensing of our SuperFlash technology to semiconductor manufacturers for use in embedded flash applications.

We do not allocate operating expenses, interest and other income/expense, interest expense, impairment of equity investments or provision for or benefit from income taxes to any of these segments for internal reporting purposes, as we do not believe that allocating these expenses are beneficial in evaluating segment performance. Additionally, we do not allocate assets to segments for internal reporting purposes as we do not manage our segments by such metrics.

The following table shows our product revenues and gross profit (loss) for each segment (in thousands):

	Year Ended December 31, 2004		Year Ended December 31, 2005		Year Ended December 31, 2006	
	Revenues	(as restated) Gross Profit	Revenues	(as restated) Gross Profit	Revenues	Gross Profit
Memory	$ 374,553	$ 77,110	$ 331,719	$ 26,277	$ 350,156	$ 64,156
Non-Memory	30,178	5,562	62,377	15,370	65,285	17,642
Technology Licensing	44,467	44,467	36,835	36,835	37,068	37,068
	$ 449,198	$ 127,139	$ 430,899	$ 78,482	$ 452,509	$ 118,866

Our net revenues are all denominated in U.S. dollars and are summarized as follows (in thousands):

	Year ended December 31, (Amount in thousands)		
	2004	2005	2006
United States	$ 32,833	$ 21,261	$ 24,173
Europe	28,863	32,008	32,381
Japan	35,233	26,455	40,752
Korea	36,715	32,702	30,734
Taiwan	125,491	74,753	97,552
China (including Hong Kong)	148,100	208,658	193,674
Other Asian Countries	41,963	35,062	33,243
	$ 449,198	$ 430,899	$ 452,509

Foreign revenue is based on the country to which the product is shipped by us or our logistics center. The locations and net book value of our property and equipment as follows:

	December 31, 2005	December 31, 2006
United States	$ 14,692	$ 13,777
China	3,111	2,525
Taiwan	1,273	2,814
Other	339	397
	$ 19,415	$ 19,513

18. Equity Investments and Related Party Reporting:

Equity investments comprise (in thousands):

	December 31, 2006 Equity Investments at Cost	December 31, 2006 Available for Sale Investments at Fair Market Value
Advanced Chip Engineering Technology Inc	$ 15,090	$
Apacer Technology, Inc.	4,357	
Grace Semiconductor Mfg. Corporation	42,550	
Insyde Software Corporation(1)	448	538
King Yuan Electronics Company, Limited		3,519
EoNex	3,000	
Powertech Technology, Incorporated		26,311
Professional Computer Technology Limited(2)	768	7,295
Silicon Technology Co., Ltd	939	
Other	856	
	$ 68,008	$ 37,663

	December 31, 2005	
	Equity Investments at Cost	Available for Sale Investments at Fair Market Value
Advanced Chip Engineering Technology Inc	$ 1,772	$
Apacer Technology, Inc.	4,357	
Grace Semiconductor Mfg. Corporation	83,150	
Insyde Software Corporation(1)	448	543
King Yuan Electronics Company, Limited		4,296
Nanotech	3,316	
Powertech Technology, Incorporated	445	26,537
Professional Computer Technology Limited(2)	807	7,681
Silicon Technology Co., Ltd	939	
Other	878	
	$ 96,112	$ 39,057

	December 31, 2005		
	Equity Investments at Cost	Available for Sale Investments at Fair Market Value	Total Equity Investment
Advanced Chip Engineering Technology Inc	$ 1,772	$	$ 1,772
Apacer Technology, Inc.	4,357		4,357
Grace Semiconductor Mfg. Corporation	83,150		83,150
Insyde Software Corporation(1)	448	543	991
King Yuan Electronics Company, Limited		4,296	4,296
Nanotech	3,316		3,316
Powertech Technology, Incorporated	445	26,537	26,982
Professional Computer Technology Limited(2)	807	7,681	8,488
Silicon Technology Co., Ltd	939		939
Other	878		878
	$ 96,112	$ 39,057	$ 135,169

(1) Includes $133,000 in convertible bonds for 2005 and 2006.

(2) Includes $1.7 million in convertible bonds for 2005 and 2006.

SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table is a summary of our related party revenues and purchases (in thousands):

	Revenues		
	For the years ended December 31,		
	2004	2005	2006
Silicon Technology Co., Ltd	$ 7,943	$ 3,711	$ 1,279
Apacer Technology, Inc. & related entities	2,359	2,180	3,087
Silicon Professional Technology Ltd	214,195	230,706	245,332
Grace Semiconductor Manufacturing Corp	156	1,577	1,480
	$ 224,653	$ 238,174	$ 251,178

	Purchases		
	For the years ended December 31,		
	2004	2005	2006
Apacer Technology, Inc. & related entities	$ 707	$	$
Grace Semiconductor Manufacturing Corp	59,278	45,373	69,153
King Yuan Electronics Company, Limited	38,248	34,882	30,550
Advanced Chip Engineering Technology Inc.			84
Powertech Technology, Incorporated	14,718	15,111	16,159
	$ 112,951	$ 95,366	$ 115,946

The following table is a summary of our related party accounts receivable and accounts payable and accruals (in thousands):

	Trade Accounts Receivable		Accounts Payable and Accruals	
	December 31,		December 31,	
	2005	2006	2005	2006
Silicon Technology Co., Ltd	$ 370	$ 136	$	$
Apacer Technology, Inc. & related entities	237	570		
Advanced Chip Engineering Technology Inc				84
Professional Computer Technology Limited			123	59
Silicon Professional Technology Ltd	53,785	44,750	846	686
Grace Semiconductor Manufacturing Corp	1,466	105	4,949	17,955
King Yuan Electronics Company, Limited			10,004	10,421
Powertech Technology, Incorporated			5,945	7,305
	$ 55,858	$ 45,561	$ 21,867	$ 36,510

In 1996, we acquired a 14% interest in Silicon Technology Co., Ltd., or Silicon Technology, a privately held Japanese company, for $939,000 in cash. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of Silicon Technology's board of directors. We acquired the interest in Silicon Technology in order to provide a presence for our products in Japan. We now have our own office in Japan, although Silicon Technology continues to sell our products. At December 31, 2006, our investment, which is carried at cost, represented 8.7% of the outstanding equity of Silicon Technology. Our sales to Silicon Technology were made at prevailing market prices and the payment terms are consistent with the payment terms extended to our other customers. We are not obligated to provide Silicon Technology with any additional financing.

In 2000, we acquired a 10% interest in Apacer Technology Inc, or Apacer, a memory module manufacturer and vendor of SST, for $9.9 million in cash. Apacer, a privately held Taiwanese company and a related entity of Acer. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of Apacer's board of directors. In 2001, we invested an additional $2.1 million in Apacer. In August 2002, we made an additional investment of $181,000. Our total investment was written down to $4.4 million during 2002. At December 31, 2006, our investment represented 9.5% of the outstanding equity of Apacer. Our sales to the related Apacer entities were made at prevailing market prices and the payment terms are consistent with the payment terms extended to our other customers. We do not have a long-term contract with Apacer to supply us with products. If Apacer were to terminate its relationship with us, we believe that we would be able to procure the necessary products from other manufacturing subcontractors. We are not obligated to provide Apacer with any additional financing. We account for Apacer with the cost method of accounting.

In 2000, we acquired a 15% interest in Professional Computer Technology Limited, or PCT, a Taiwanese company, for $1.5 million in cash. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of PCT's board of directors. PCT is one of our top three stocking representatives. In May 2002, we made an additional investment of $179,000 in PCT. During 2003, PCT completed an initial public offering on the Taiwan Stock Exchange and we sold a portion of our holdings. Under Taiwan security regulations, a certain number of shares must be held in a central custody and are restricted from sale for a period of time. The shares available for sale within one year are carried at the quoted market price and included in long-term available-for-sale investments in the balance sheet as of December 31, 2006. Shares required to be held in custody for greater than a one year period are carried at cost and included in equity investments. In February 2004, we purchased $1.7 million of PCT's European convertible bonds. As of December 31, 2006, the value of the stock and convertible bond investment recorded as long-term available-for-sale is valued at $7.3 million and the restricted portion of the investment carried at cost is recorded at $769,000. At December 31, 2006 our investment represented 11.2% of the outstanding equity and 13.2% of the European convertible bonds of PCT. We account for PCT with the cost method of accounting.

PCT and its subsidiary, Silicon Professional Alliance Corporation, or SPAC, earn commissions for point-of-sales transactions to its customers. Commissions to PCT and SPAC are paid at the same rate as all of our other stocking representatives in Asia. In 2004, 2005 and 2006 we paid sales commissions of $579,000, $315,000, and $364,000, respectively, to PCT and SPAC. Shipments, by us or our logistics center, to PCT and SPAC for reshipment accounted for 31.3%, 38.9% and 42.6% of our product shipments in 2004, 2005 and 2006. In addition, PCT and SPAC solicited sales, for which they earned a commission, for 3.3%, 2.0% and 2.0% of our shipments to end users in 2004, 2005 and 2006, respectively.

PCT has established a separate company and wholly-owned subsidiary, Silicon Professional Technology, Ltd., or SPT, to provide forecasting, planning, warehousing, delivery, billing, collection and other logistic functions for us in Taiwan. SPT now services substantially all of our end customers based in Taiwan, China and other Southeast Asia countries. Products shipped to SPT are accounted for as our inventory held at our logistics center, and revenue is recognized when the products have been delivered and are considered as a sale to our end customers by SPT. We pay SPT a fee based on a percentage of revenue for each product sold through SPT to our end customers. For the years ended December 31, 2006, 2005 and 2004, we incurred $3.7 million, $3.5 million and $3.2 million of fees, respectively, related to SPT. The fee paid to SPT covers the cost of warehousing and insuring inventory and accounts receivable, personnel costs required to maintain logistics and information technology functions and the costs to perform billing and collection of accounts receivable. SPT receives extended payment terms and is obligated to pay us whether or not they have collected the accounts receivable.

We do not have any long-term contracts with SPT, PCT or SPAC, and SPT, PCT or SPAC may cease providing services to us at any time. If SPT, PCT or SPAC were to terminate their relationship with us we would experience a delay in reestablishing warehousing, logistics and distribution functions which would harm our business. We are not obligated to provide SPT, PCT or SPAC with any additional financing.

In 2000, we acquired a 1% interest for $4.6 million in cash in King Yuan Electronics Company, Limited, or KYE, a Taiwanese company. KYE is a manufacturing subcontractor and vendor of SST and the investment was made in KYE in order to strengthen our relationship with KYE. During 2001, KYE completed an initial public offering on the Taiwan Stock Exchange. Accordingly, the investment has been included in long-term available-for-sale investments in the balance sheet as of December 31, 2006. The investment was written down to $1.3 million during 2001 and is valued at $3.5 million as of December 31, 2006 based on the quoted market price. At December 31, 2006, our investment represented 0.4% of the outstanding equity of KYE. Our purchases from KYE are made pursuant to purchase orders at prevailing market prices. We account for KYE with the cost method of accounting. We do not have a long-term contract with KYE to supply us with services. If KYE were to terminate its relationship with us, we believe that we would be able to procure the necessary services from other production subcontractors. We are not obligated to provide KYE with any additional financing.

In 2000, we acquired a 3% interest in Powertech Technology, Incorporated, or PTI, a Taiwanese company, which is a production subcontractor, for $2.5 million in cash. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of PTI's board of directors. The investment was made in PTI in order to strengthen our relationship with PTI. In August 2004, we invested $723,000 in cash in PTI shares available-for-sale. During the first quarter of 2006, we sold four million common shares of PTI for a net gain of $12.2 million. As of December 31, 2006, the value of the investment recorded as long-term available-for-sale is valued at $26.3 million with no portion of the investment restricted. The shares available for sale within one year are carried at the quoted market price and included in long-term available-for-sale investments in the balance sheet as of December 31, 2005 and 2006. At December 31, 2005, our investment represented 1.3% of the outstanding equity of PTI. Our purchases from and sales to PTI are made at prevailing market prices. We do not have a long-term contract with PTI to supply us with services. If PTI were to terminate its relationship with us, we believe that we would be able to procure the necessary services from other production subcontractors. We are not obligated to provide PTI with any additional financing. We account for PTI with the cost method of accounting.

We have invested $83.2 million in GSMC, a Cayman Islands company. GSMC has a wholly owned subsidiary, Shanghai Grace Semiconductor Manufacturing Corporation, or Grace, which is a wafer foundry company with operations in China. Grace began to manufacture our products in late 2003. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of GSMC's board of directors. This investment is carried at cost and is accounted for using the cost method of accounting. We do not have a long-term contract with Grace to supply us with products. During the fourth quarter of 2006, we determined that our investment in GSMC had become impaired as GSMC engaged in equity transactions at a lower price per share than our existing carrying value. As a result, we recorded an impairment charge of $40.6 million on our existing investment. At December 31, 2006, we owned 9.8% of the outstanding stock of GSMC.

In 2002, we acquired a 6% interest in Insyde Software Corporation, or Insyde, a Taiwanese company, for $964,000 in cash. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of Insyde's board of directors. During 2003, Insyde completed an initial public offering on the Taiwan Stock Exchange. Under Taiwan security regulations, a certain number of shares must be held in a central custody and are restricted from sale for a period of time. The shares available for sale within one year are carried at the quoted market price and included in long-term available-for-sale investments in the balance sheet as of December 31, 2005 and 2006. Shares required to be held in custody for greater than a one year period are carried at cost and included in equity investments. In January 2004, we invested an additional $133,000 in cash in Insyde's convertible bonds. The stock investment was written down by $509,000 during 2004. At December 31, 2006, our investment represented 6.1% of the outstanding equity and 6.3% of the convertible bonds of Insyde.

In June 2004, we acquired a 9% interest for $4.0 million in cash in Advanced Chip Engineering Technology, or ACET, a manufacturing subcontractor and vendor of SST. ACET is a privately held Taiwanese company and a related entity of KYE. Chen Tsai, our Senior Vice President of Worldwide Backend Operations, is also a member of ACET's board of directors. During 2005, ACET raised an additional round of equity financing at a lower per share cost than our current basis and as a consequence we recorded a $2.2 million impairment charge related to our investment in ACET.. Refer to Note 14 of the Consolidated Financial Statements. In September 2006, we invested an additional $15.9 million in ACET that increased our ownership share of ACET's outstanding capital stock from 9.4% to 46.9% and required us to change from the cost method of accounting to the equity method of accounting for this investment. Under the equity method of accounting, we are required to record our 46.9% interest in ACET's reported net income or loss each reporting period as well as restate the prior period financial results to reflect the equity method of accounting from the date of the initial investment. The December 31, 2006, 2005 and 2004 year to date results include amounts recorded in "pro rata share of loss from equity investments" on our condensed consolidated statement of operations. Under this accounting treatment, we would have recorded a charge of $665,000 for our share of the losses of ACET for the year ended December 31, 2004, $1.5 million for the year ended December 31, 2005 and $3.0 million for the year ended December 31, 2006. In the third quarter ended September 30, 2007, we made an additional cash investment, among other investing enterprises, of $10.3 million in ACET's common stock. Our total investment represents 38.5% of the outstanding equity of ACET at September 30, 2007.

In November 2004, we acquired a 30% interest in Nanotech Corporation, or Nanotech, a privately held Cayman Island company, for $3.8 million cash. Nanotech, a development stage company, has a wholly owned subsidiary which is in the process of establishing foundry operations in China. Bing Yeh, our President, CEO and Chairman of our Board of Directors, is also a member of Nanotech's board of directors. Tsuyoshi Taira, a member of our Board of Directors, also invested in this round of financing. During the first quarter of 2006, we determined that our investment in Nanotech, Inc. had become impaired as Nanotech defaulted on its loan payments to certain of its business partners and began preparations to liquidate itself. As a result, we wrote our $3.8 million investment down to zero as well as an outstanding loan for $225,000.

In May 2006, we acquired a 2% interest in EoNex Technologies, Inc., or EoNex, a privately held Korean company, for $3.0 million cash. EoNex designs and manufactures wireless modem ICs and related software for various consumer devices. At December 31, 2006, our investment in EoNex remained at $3.0 million. We account for EoNex with the cost method of accounting.

19. Acquisitions

Actrans Systems Inc. On April 11, 2005, we acquired substantially all of the outstanding capital stock of Actrans Systems Inc., or Actrans, a privately held fabless semiconductor company incorporated and existing under the laws of the Republic of China that designs flash memory and EEPROM. On May 31, 2005, we acquired the remaining outstanding shares of Actrans. The transaction was accounted for under the purchase method of accounting and the net assets and results of operations of Actrans were included in the consolidated financial statements from the date of the acquisition. We have incorporate Actrans' split-gate NAND flash technology into our portfolio of licensable intellectual property. Actrans engineers have been merged into our memory products development team both in Taiwan and the United States.

The aggregate purchase price was $19.9 million, including $4.9 million of cash, common stock valued at $14.7 million and costs related to the acquisition of $218,000. The fair value of the 4,358,255 shares of our common stock issued to Actrans was determined based on the average closing price of our common stock over a trading period from two days before to two days after the close. Below is a summary of the total purchase price (in thousands):

Cash	$	4,917
Common Stock		14,722
Direct acqusition costs		218
Total purchase price	$	19,857

The total purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed as follows (in thousands):

Fair value of tangible net assets acquired	$	3,557
Exisiting technology		3,370
In-process research and development		1,520
Non-compete agreements		810
Goodwill		14,449
Customer relationships and backlog		920
Trade accounts payable, accrued expenses and other liabilities		(4,769)
	$	19,857

We value the existing technology and in-process research and development, or IPR&D, utilizing a discounted cash flow model which uses forecasts of future revenues and expenses related to the intangible assets. We utilized a discount rate of 16% for existing technology, 35% for in-process research and development and 17% for the non-compete agreements. The existing technology is amortized to cost of revenues over its estimated lives of four to six years. The non-compete agreements are amortized to operating expenses over their contract periods of two to four years. As of December 31, 2005, existing technology and non-compete agreements are all included in intangible assets.

In-process research and development of $1.5 million was expensed and included in other operating expenses as of the date of the acquisition in 2005.

Emosyn LLC. On September 10, 2004, we consummated the acquisition of an 83.6% ownership of privately held Emosyn LLC, or Emosyn, for an aggregate cash purchase price of approximately $16.0 million including costs related to the acquisition. Emosyn is a fabless semiconductor manufacturer specializing in the design and marketing of smartcard ICs for subscriber identification module, or SIM, card applications. We believe that the acquisition will help Emosyn leverage our foundry relationships and manufacturing operation infrastructure in order to meet the rising demand for Emosyn's smartcard products. The acquisition also provides us the opportunity to establish SuperFlash technology as the technology-of-choice in the strategically important smartcard products. The acquisition was accounted for under the purchase method of accounting, and accordingly, the net assets and results of operations of the acquired business were included in the consolidated financial statements from the date of acquisition.

The total purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed as follows (in thousands):

Fair value of tangible net assets acquired	$	9,252
Existing technology		6,029
In-process research and development		1,988
Trade name		1,093
Customer relationships		549
Backlog		712
Trade accounts payable, accrued expenses and other liabilities		(3,621)
	$	16,002

We valued the existing technology and IPR&D utilizing a discounted cash flow model that uses forecasts of future revenues and expenses related to the intangible asset. We utilized a discount rate of 30% for existing technology, trade name and customer relationships, 50% for in-process research and development and 18% for backlog, respectively. The existing technology is amortized to cost of revenues over their estimated lives of five years. The trade name, customer relationships and backlog are amortized to operating expense over their estimated lives of one to five years. As of December 31, 2005, existing technology, trade name, customer relationships and backlog are all included in intangible assets.

In-process research and development of $2.0 million was expensed and included in other operating expenses as of the date of the acquisition.

On April 15, 2005, we acquired the remaining 16.4% outstanding minority interest held in Emosyn for cash of $3.1 million. The transaction was accounted for as a purchase in the second quarter of 2005.

The total purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed as follows (in thousands):

Fair value of tangible net assets acquired	$	2,122
Existing technology		578
In-process research and development		190
Trade name		105
Customer relationships		.53
Backlog		68
Total purchase price	$	3,116

In-process research and development acquired of $190,000 was expensed and included in other operating expenses as of the date of the acquisition of the minority interest in 2005.

G-Plus, Inc. On November 5, 2004, we purchased substantially all the assets of G-Plus Inc., or G-Plus, a privately held company located in Santa Monica, California. The acquisition was accounted for under the purchase method of accounting, and accordingly, the net assets and results of G-Plus' operations have been included in the consolidated financial statements since that date. G-Plus is a semiconductor manufacturer specializing in the design and marketing of radio frequency ICs and monolithic microwave ICs for a wide range of wireless and multimedia applications. The acquisition provides us the opportunity to make SuperFlash the embedded memory of choice for wireless applications. We also believe that the acquisition will help G-Plus leverage our foundry relationships and manufacturing operation infrastructure in order to meet the rising demand for G-Plus wireless products.

The aggregate purchase price was $26.9 million, including $4.6 million of cash, common stock valued at $22.1 million and costs related to the acquisition of $200,000. The fair value of the 3,030,082 shares of our common stock issued to the former stockholders of G-Plus was determined based on the average closing price of our common stock over a two-day trading period prior to the closing date. Below is a summary of the total purchase price (in thousands):

Cash	$	4,600
Common stock		22,074
Acquisition direct costs		194
Total purchase price	$	26,868

The total purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed as follows (in thousands):

Fair value of tangible net assets acquired	$	5,983
Existing technology		1,814
In-process research and development		3,908
Customer relationships		355
Backlog		11
Goodwill		15,600
Trade accounts payable, accrued expenses and other liabilities		(803)
Total purchase price	$	26,868

We valued the existing technology and in-process research and development utilizing a discounted cash flow model which uses forecasts of future revenues and expenses related to the intangible asset. We utilized a discount rate of 28% for existing technology and customer relationships, 30-35% for in-process research and development projects, and 26% for backlog, respectively. The existing technology is amortized to cost of revenues over its estimated life of four years. The customer relationships and backlog are amortized to cost of revenues over their estimated lives of one to three years. As of December 31, 2005, existing technology, customer relationships and backlog are all included in intangible assets.

The following unaudited pro forma financial information presents the combined results of operations of Actrans, Emosyn and G-Plus as if the acquisitions had occurred as of the beginning of 2005 and 2004. The pro forma consolidated financial information does not necessarily reflect the results of operations that would have occurred had the combined companies constituted a single entity during such periods, and is not necessarily indicative of results which may be obtained in the future.

	(unaudited) (as restated and adjusted)			
	2004		2005	
Revenue	$	473,295	$	431,498
Net income (loss)	$	16,081	$	(27,509)
Net income (loss) per share basic	$	0.17	$	(0.27)
Net income (loss) per share diluted	$	0.17	$	(0.27)

20. Employee Benefit Plans:

Profit Sharing Plan:

We have a Profit Sharing Plan under which employees may collectively earn up to 10% of our operating profit, provided that both: (1) net earnings before interest income (expense) and income tax expense (benefit) and (2) operating profit are greater than 5% of sales. For purposes of the Profit Sharing Plan, "operating profit" is defined as net revenues less cost of revenues and less operating expenses, adding back expense from equity-based compensation plans. The sum paid to any particular employee as profit sharing is a function of the employee's length of service, performance and salary.

We plan to pay profit sharing sums, when available, to employees twice a year. Profit sharing expenses of $1.1 million, zero, and $3.7 million were recorded in 2006, 2005, and 2004 respectively.

401(k) Plan:

We have adopted the SST 401(k) Tax Sheltered Savings Plan and Trust, or the 401(k) Plan, as amended, which is intended to qualify under Section 401 of the Internal Revenue Code of 1986. The 401(k) Plan covers essentially all of our U.S. employees. Each eligible employee may elect to contribute to the 401(k) Plan, through payroll deductions, up to 15% of their compensation, subject to certain limitations. At our discretion, we may make additional contributions on behalf of employees. Employer contributions vest over four years. All employee contributions are 100% vested. During 2006, 2005, and 2004 we matched employees' contributions for a total of $970,000, $493,000 and $379,000 respectively.

21. Subsequent Events:

In the third quarter ended September 30, 2007, we made an additional cash investment, among other investing enterprises, of $10.3 million in ACET's common stock. Our total investment now represents 38.5% of the outstanding equity of ACET at September 30, 2007.

In the third quarter ended September 30, 2007, we determined our investment in GSMC had suffered an other-than-temporary decrease in value based on an equity offering that was substantially lower than our carrying value. As a result, we recorded a charge for the quarter ended September 30, 2007 of $19.4 million.

SCHEDULE II

SILICON STORAGE TECHNOLOGY, INC.
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Write-off of Accounts /Other	Balance at End of Period
Year ended December 31, 2004				
Allowance for doubtful accounts	$ 1,118	$ 825	$ (754)	$ 1,189
Allowance for sales returns	$ 1,301	$ 1,347	$ (639)	$ 2,009
Allowance for excess and obsolete inventories and adverse purchase commitments **As Restated**	$ 11,754	$ 36,324	$ (7,596)	$ 40,482
Valuation allowance on deferred tax assets	$ 41,114	$	$ (13,923)	$ 27,191
Year ended December 31, 2005				
Allowance for doubtful accounts	$ 1,189	$ (424)	$ (7)	$ 758
Allowance for sales returns	$ 2,009	$ 2,051	$ (2,483)	$ 1,577
Allowance for excess and obsolete inventories and adverse purchase commitments **As Restated**	$ 40,482	$ 36,495	$ (25,225)	$ 51,752
Valuation allowance on deferred tax assets	$ 27,191	$ 12,327	$	$ 39,518
Year ended December 31, 2006				
Allowance for doubtful accounts	$ 758	$ (708)	$ 62	$ 112
Allowance for sales returns	$ 1,577	$ 579	$ (698)	$ 1,458
Allowance for excess and obsolete inventories and adverse purchase commitments	$ 51,752	$ 15,155	$ (39,061)	$ 27,846
Valuation allowance on deferred tax assets	$ 39,518	$	$ (3,467)	$ 36,051

The financial statement schedule has been restated for errors related to stock-based compensation and for errors previously deemed immaterial as discussed in Note 2 to the Financial Statements

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