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Silicon Image Q2 2006 Earnings Conference Call Transcript (SIMG)

Question-and-Answer Session

Operator

Thank you. The question and answer session will be conducted electronically. [Operation Instructions].

Our first question comes from Jason Pflaum with Thomas Weisel Partners.

Alex Kim - Thomas Weisel Partners

Good afternoon, this is actually Alex Kim calling in for Jason. First I guess, I'd like to start off with a question regarding licensing and royalty revenue. It seems that there was a nice bond from Q1 there, what are your expectations going forward as far as growth, looking into the second half and beyond?

Robert Freeman

Well what we've seen over the last couple of quarters is increasing royalties both from HDMI and prior development licensing arrangements that we've done that now are starting to ship products. And in addition we think that you know, on the other side the development contracts that are either currently under way or in place but deferred we will see a function of our percentage completion accounting that we were applying to the development projects. We have a big way to address your question it's probably going to be about the same as this quarter roughly.

Okay, perfect, as far as 1.3 you said you started shipping revenues this quarter, any sense of expectations or is a percent of revenue exiting this current accounting year and -- or rather how can we think about the ramp up revenue expectations from 1.3?

Steve Tirado

You know, that's a great question but you know, what's going to happen, I will be able to report more on design win activity than actual revenue impact, we are getting revenue impact obviously as I said starting in ?Q2. I expect this to be much more significant in '07 but we do have some early adopters you know, for -- so I don't have any good data for you right now but, I think next quarter maybe we can give you come color on that.

And just a final question on gross margins, I know that gross margins tick down on non pro forma here I think I have heard correctly that expectation were 56% to 58% going forward but any sense

of do you expect gross margins to mark a bottom in Q3 or is it going to be roughly in line mind going forward to 56% to 58%?

Robert Freeman

Well, some of the cost initiatives that we spoke about before were essentially were trying to take back the manufacturing of some of the products that we have contracted out to people. Probably, we wont show much improvement before the end of the year.

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