MICRON TECHNOLOGY INC
Form 10-K
November 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended August 31, 2006

OR

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

For the transition period from to

Commission file number 1-10658

Micron Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**75-1618004**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
8000 S. Federal Way, Boise, Idaho	**83716-9632**
(Address of principal executive offices)	(Zip Code)
Registrant s telephone number, including area code	**(208) 368-4000**

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.10 per share	New York Stock Exchange

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

None

(Title of Class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer x	Accelerated Filer o	Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of such stock on March 2, 2006, as reported by the New York Stock Exchange, was approximately $6.5 billion. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant s common stock as of November 1, 2006, was 754,409,424.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for registrant s 2006 Annual Meeting of Shareholders to be held on December 5, 2006, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. ***Business***

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements such as those made in Products regarding the Company s expectation regarding sales of DDR and DDR2 products in 2007, continued growth in the NAND Flash and CMOS image sensor markets, significant growth in the sales for NAND Flash memory and CMOS image sensors in future periods and the introduction of new products in 2007; and in Manufacturing regarding the Company s expectation to transition smaller line-width process technologies in 2007. The Company s actual results could differ materially from the Company s historical results and those discussed in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those identified in Item 1A. Risk Factors. All period references are to the Company s fiscal periods unless otherwise indicated.

Corporate Information

Micron Technology, Inc., and its subsidiaries (hereinafter referred to collectively as the Company), a Delaware corporation, was incorporated in 1978. The Company s executive offices are located at 8000 South Federal Way, Boise, Idaho 83716-9632 and its telephone number is (208) 368-4000. Information about the Company is available on the internet at www.micron.com. Copies of the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to these reports, are available through the Company s website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. Also available on the Company s website are its: Corporate Governance Guidelines, Governance Committee Charter, Compensation Committee Charter, Audit Committee Charter and Code of Business Conduct and Ethics. Any amendments or waivers of the Company s Code of Business Conduct and Ethics will also be posted on the Company s website at www.micron.com within four business days of the amendment or waiver. Copies of these documents are available to shareholders upon request. Information contained or referenced on the Company s website is not incorporated by reference and does not form a part of this Annual Report on Form 10-K. In February 2006, the Company s Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by the Company of the NYSE s Corporate Governance Listing Standards.

Overview

The Company is an industry leading, global manufacturer and marketer of semiconductor devices, principally DRAM and NAND Flash memory and CMOS image sensors. The Company s products are offered in a wide variety of package and configuration options, architectures and performance characteristics tailored to meet application and customer needs. Individual devices take advantage of the Company s advanced silicon processing technology and manufacturing expertise. The Company aims to continually introduce new generations of products that offer lower costs per unit and improved performance characteristics. The Company operates in two segments, Memory and Imaging.

Memory: The Memory segment s primary products are DRAM and NAND Flash, which are key components used in a broad array of electronic applications, including personal computers, workstations, network servers, mobile phones, flash memory cards, USB storage devices, MP3 players and other consumer electronics products. The Company sells primarily to original equipment manufacturers, distributors and retailers located around the world.

In 2006, the Company took several steps towards establishing a significant presence in the NAND Flash market. In January 2006, the Company partnered with Intel Corporation (Intel) to form a NAND Flash manufacturing joint venture, IM Flash Technologies, LLC (IMFT), which is a consolidated subsidiary of the Company. IMFT initiated an accelerated build-out and production ramp at two 300mm wafer fabrication facilities that are expected to greatly increase the Company s production of NAND Flash in 2007. Furthering its efforts to increase its share of the NAND market, in June 2006, the Company acquired Lexar Media, Inc. (Lexar), a designer, developer, manufacturer and marketer of Flash memory products, in a stock-for-stock merger. The acquisition of Lexar broadened the Company s NAND product offering, enhanced the Company s retail presence and strengthened its portfolio of intellectual property.

Imaging: The Imaging segment s primary products are CMOS image sensors, which are key components used in a broad array of electronic applications, including mobile phones, digital still cameras, webcams and other consumer, security and automotive applications. The Company s primary customers are camera module integrators located around the world. During 2006, the Company introduced several new leading-edge Imaging products and significantly increased its Imaging production, enabling it to become a market leader for CMOS image sensors.

Products

Memory: The Company s Memory segment has two primary product types: DRAM and NAND Flash. Sales of Memory products were 86%, 94% and 98% of the Company s total net sales in 2006, 2005 and 2004, respectively.

Dynamic Random Access Memory (DRAM): DRAM products are high-density, low-cost-per-bit, random access memory devices that provide high-speed data storage and retrieval. DRAM products were 76%, 87% and 92% of the Company s total net sales in 2006, 2005 and 2004, respectively. The Company offers DRAM products with a variety of performance, pricing and other characteristics. In recent years, the Company has significantly increased its production and sales of specialty memory products such as pseudo-static RAM, Mobile DRAM and Reduced Latency DRAM. Specialty memory products are generally targeted for networking, server and mobile applications that require specific performance characteristics such as low power and low latency. The transition to specialty memory products has reduced the Company s concentration on standardized, high-volume products sold for use as main memory in computers such as Double Data Rate Synchronous DRAM (DDR) and DDR2.

DDR and DDR2: DDR and DDR2 are standardized, high-density, high-volume, DRAM products that are sold primarily for use as main system memory in computers. DDR and DDR2 products offer high speed and high bandwidth at a relatively low cost compared to other semiconductor memory products. DDR products were 26%, 44% and 57% of the Company s total net sales in 2006, 2005 and 2004, respectively. DDR2 products were 25% and 14% the Company s total net sales in 2006 and 2005, respectively. The Company expects that DDR and DDR2 products will continue to decrease as a percentage of the Company s total net sales in 2007 due to significant increases in sales of the Company s other products.

In response to changes in the DRAM market, the Company has broadened its DDR and DDR2 product offerings in recent years. The Company offers DDR products in 128 megabit (Mb), 256 Mb, 512 Mb and 1 gigabit (Gb) densities. The Company also offers 256 Mb, 512 Mb, 1 Gb and 2 Gb DDR2 products. The Company expects that these densities will be necessary to meet future customer demands for a broad array of products. The Company also offers its DDR and DDR2 products in multiple configurations, speeds and package types. In September 2006, the Company began sampling a 1 Gb DDR3 device.

Synchronous DRAM (SDRAM): In 2006 and 2005, SDRAM was primarily used in networking devices, servers, consumer electronics, communications equipment and computer peripherals as well as memory upgrades to legacy computers. Sales of SDRAM products were 16%, 20% and 31% of the Company s total net sales in 2006, 2005 and 2004, respectively. SDRAM sales have declined as personal computer manufacturers have transitioned to DDR and DDR2 products. The decline has been partially offset by increased usage of SDRAM products in other applications. The Company offers 64 Mb, 128 Mb, 256 Mb and 512 Mb SDRAM products.

Pseudo-static RAM (PSRAM): PSRAM products, marketed by the Company under the proprietary brand name CellularRAM , are DRAM products with an SRAM-like interface. PSRAM combines the minimal power consumption of SRAM with a much lower cost-per-bit to provide an economical alternative to SRAM. PSRAM products are used primarily in cellular phone applications. The Company offers PSRAM products in 16 Mb, 32 Mb, 64 Mb and 128 Mb

densities. The Company is the market leader in sales of PSRAM products. Sales of PSRAM products were 8% and 7% of the Company s total net sales in 2006 and 2005, respectively.

Mobile DRAM: Mobile DRAM products are specialty DRAM memory devices designed for applications that demand minimal power consumption, such as personal digital assistants (PDAs), smart phones, GPS devices, digital still cameras and other handheld electronic devices. The Company sells SDRAM and DDR mobile memory products in 64 Mb, 128 Mb, 256 Mb and 512 Mb densities. The Company s mobile DRAM products feature its proprietary Endur-IC technology, which the Company believes provides distinct advantages to its customers in terms of low power, high quality and high reliability.

Reduced Latency DRAM (RLDRAM): RLDRAM products are low-latency DRAM memory devices with high clock rates targeted at network applications. The Company offers RLDRAM in 256 Mb and 288 Mb densities and expects to begin shipping 576 Mb densities in 2007.

NAND Flash Memory: Flash memory products are electrically re-writeable, non-volatile semiconductor devices that retain memory content when power is turned off. The Company s Flash efforts are concentrated on NAND Flash (NAND) devices which use semiconductor technology similar to DRAM. NAND is ideal for mass-storage devices due to its faster erase and write times, higher density, and lower cost per bit than NOR Flash, which is the primary competing Flash architecture. The market for NAND products has grown rapidly and the Company expects it to continue to grow due to demand for removable and embedded storage devices. Removable storage devices such as USB and Flash memory cards are used with applications such as personal computers, digital still cameras, MP3 players and mobile phones. Embedded NAND-based storage devices are also utilized in mobile phones and other personal and consumer applications.

NAND and DRAM share common manufacturing processes, enabling the Company to leverage its product and process technologies and manufacturing infrastructure. The Company s NAND designs feature a small cell structure that allows for higher densities for demanding applications. In 2006, the Company offered NAND products in 1 Gb, 2 Gb, 4 Gb and 8 Gb densities and plans to introduce 16 Gb densities in 2007. In 2006, the Company s products were manufactured primarily using 72nm and 90nm line-width process technology and began sampling products manufactured using 50nm line-width process technology. In addition, in 2006, the Company began sampling Multi-Level Cell (MLC) NAND products, which double the bit density compared to single level cell products. NAND sales were 6% of the Company s total net sales in 2006. The Company expects sales of NAND to increase significantly in 2007 and 2008 as it ramps production from two 300mm facilities dedicated to NAND production and recognizes sales by its Lexar subsidiary.

As a result of its acquisition of Lexar, the Company began selling in the fourth quarter of 2006 high-performance digital media products and other flash-based storage products through retail and original equipment manufacturing (OEM) channels. The Company s digital media products include a variety of Flash memory cards with a range of speeds, capacities and value-added features. The Company s digital media products also include its JumpDrive products, which are high-speed, portable USB flash drives for consumer applications that serve a variety of uses, including floppy disk replacement, digital media accessories and a variety of connectivity products that link media products to PCs and other electronic host devices. The Company also licenses its patented controller technology to other companies.

The Company offers Flash memory cards in all major media formats currently used by digital cameras and other electronic host devices, including: CompactFlash, Memory Stick, Secure Digital Card and the xD Picture Card. Many of CompactFlash, Memory Stick and Memory Stick PRO products sold by the Company incorporate its patented controller technology. Other products, including Secure Digital Card Flash memory cards and some JumpDrive products, incorporate third party controllers. The Company also resells Flash memory products that are purchased from suppliers. The Company offers Flash memory cards in a variety of speeds and capacities. The Company also offers more advanced features in some Flash media card products that provide additional performance advantages, such as Write Acceleration, or WA technology, the ActiveMemory System and LockTight CompactFlash. The Company sells products under its Lexar brand and also manufactures products that are sold under other brand names. The Company has a multi-year agreement with Eastman Kodak to sell digital media products under the Kodak brand name.

Imaging: Complementary Metal-Oxide Semiconductor (CMOS) image sensors are the primary product of the Company s Imaging segment. CMOS image sensors are semiconductor devices that capture and process images into pictures or video for a variety of consumer and industrial applications. The Company s CMOS image sensors are used in products such as cellular phone cameras, digital still cameras, pill cameras for medical use, and in automotive and other emerging applications. The Company offers image sensors in a range of pixel resolutions from its VGA (video graphics array) products to its higher resolution 3.1-megapixel products. The Company has begun sampling a

5-megapixel sensor designed for use in digital still cameras and camera phones that it expects to begin shipping in commercial volumes in 2007. In 2006, the Company introduced an 8-megapixel sensor featuring a leading-edge pixel size of 1.75 square microns. Image sensors are sold either as individual components or combined with integrated circuitry to create complete camera system-on-a-chip (SOC) solutions.

The Company s CMOS image sensors incorporating its DigitalClarity technology offered many advantages over other CMOS image sensors and charge-coupled device (CCD) sensors in 2006, which enabled the Company to become the leader in CMOS image sensor market share. The Company s DigitalClarity technology features active pixels enabling better sensor performance that produces higher-quality images at faster frame rates. The Company s low-leakage DRAM processes are particularly well-suited for the manufacture of CMOS image sensors. The Company s CMOS image sensors consume substantially less power than CCD devices, a critical advantage in battery-dependent portable device applications where most

image sensors are used. By combining all camera functions on a single chip, from the capture of photons to the output of digital bits, CMOS image sensors reduce the part-count of a digital camera system, which in turn increases reliability, eases miniaturization, and enables on-chip programming of frame size, windowing, exposure and other camera parameters. The Company s CMOS image sensors are also capable of producing high-quality images in low-light conditions. In 2006, the Company s CMOS image sensors active-pixel design architecture enabled the Company to achieve CMOS imager performance that was comparable to high-end CCD sensors and better than that of its competitor s CMOS image sensors.

Sales of Imaging products were 14%, 6% and 2% of the Company s total net sales in 2006, 2005 and 2004, respectively. The Company expects its sales of CMOS image sensors to continue to grow in 2007 due to strong demand and increases in the allocation of manufacturing capacity. The overall market for image sensors is expected to increase significantly over the next several years due to the growth forecasted for applications such as phone cameras and digital still cameras. Additionally, CMOS image sensors are expected to capture an increasing percentage of the overall image sensor market.

Manufacturing

The Company s manufacturing facilities are located in the United States, Italy, Japan, Puerto Rico and Singapore. The Company s manufacturing facilities generally operate 24 hours per day, 7 days per week. Semiconductor manufacturing is extremely capital intensive, requiring large investments in sophisticated facilities and equipment. Most semiconductor equipment must be replaced every three to five years with increasingly advanced equipment.

The Company s process for manufacturing semiconductor products is complex, involving a number of precise steps, including wafer fabrication, assembly and test. Efficient production of semiconductor products requires utilization of advanced semiconductor manufacturing techniques and effective deployment of these techniques across multiple facilities. The primary determinants of manufacturing cost are die size, number of mask layers, number of fabrication steps and number of good die produced on each wafer. Other factors that contribute to manufacturing costs are wafer size, cost and sophistication of manufacturing equipment, equipment utilization, process complexity, cost of raw materials, labor productivity, package type and cleanliness of the manufacturing environment. The Company is continuously enhancing production processes, reducing die sizes and transitioning to higher density products. In 2006, the Company manufactured most of its DRAM products using its 95 nanometer (nm) and 110nm line-width process technology and began transferring production to 78nm line-width process technology. The Company expects to continue to transfer more of its DRAM production to 78nm and lower line-width process technology in 2007. In 2006, the Company manufactured most of its NAND Flash memory products using its 72nm and 90nm line-width process technology. The Company expects to begin transferring its NAND production to 50nm line-width process technology in 2007.

Wafer fabrication occurs in a highly controlled, clean environment to minimize dust and other yield- and quality-limiting contaminants. Despite stringent manufacturing controls, dust particles, equipment errors, minute impurities in materials, defects in photomasks and circuit design marginalities or defects can lead to wafers being scrapped and individual circuits being nonfunctional. Success of the Company s manufacturing operations depends largely on minimizing defects and thereby maximizing yield of high-quality circuits. In this regard, the Company employs rigorous quality controls throughout the manufacturing, screening and testing processes. The Company is able to recover many nonstandard devices by testing and grading them to their highest level of functionality.

After fabrication, silicon wafers are separated into individual die. The Company sells semiconductor products in both packaged and unpackaged (i.e. bare die) forms. For packaged products, functional die are sorted, connected to external leads and encapsulated in plastic packages. The Company assembles products in a variety of packages, including TSOP (thin small outline package), TQFP (thin quad flat package) and FBGA (fine pitch ball grid array). Bare die products address customer requirements for smaller form factors and higher memory densities and provide superior flexibility. Bare die products are used in packaging technologies such as systems-in-a-package (SIPs) and multi-chip packages (MCPs), which reduce the board area required.

The Company tests its products at various stages in the manufacturing process, performs high temperature burn-in on finished products and conducts numerous quality control inspections throughout the entire production flow. In addition, the Company uses its proprietary AMBYX line of intelligent test and burn-in systems to perform simultaneous circuit tests of DRAM die during the burn-in process, capturing quality and reliability data and reducing testing time and cost.

The Company assembles a significant portion of its memory products into memory modules. Memory modules consist of an array of memory components attached to printed circuit boards (PCBs) that insert directly into computer systems or other electronic devices. The Company s Lexar subsidiary contracts with an independent foundry and assembly and testing organizations to manufacture flash media products such as memory cards and USB devices.

In 2006, the Company significantly increased its 300mm wafer production. In 2007, the Company plans to continue increasing its 300mm wafer manufacturing capacity as its IMFT subsidiary ramps NAND Flash production at two 300mm facilities and the Company s consolidated TECH joint venture converts its DRAM production to 300mm wafers.

In recent years the Company has produced an increasingly broad portfolio of products, which enhances the Company s ability to allocate resources to its most profitable products but increases the complexity of the manufacturing process. Although new product lines such as NAND Flash, CMOS image sensors and specialty memory can be manufactured using processes that are very similar to the processes for the Company s predominant DRAM products, frequent conversions to new products and the allocation of manufacturing capacity to more complex, smaller-volume parts can affect the Company s cost efficiency. The Company s ability to competitively manufacture many of these products on existing 200mm lines extends the useful life of this equipment.

IM Flash Technologies, LLC (IMFT): IMFT, which began operations on January 6, 2006, is a joint venture between the Company and Intel. IMFT manufactures NAND Flash memory products pursuant to NAND Flash designs developed by the Company and Intel and licensed to the Company. The parties share the output of IMFT generally in proportion to their investment in IMFT. The Company owned a 51% interest in IMFT at August 31, 2006. IMFT s financial results are included in the consolidated financial statements of the Company. (See Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Joint Ventures IM Flash Technologies, LLC.)

TECH Semiconductor Singapore Pte. Ltd. (TECH): TECH is a memory manufacturing joint venture in Singapore among Micron Technology, Inc., the Singapore Economic Development Board, Canon Inc. and Hewlett-Packard Company. The Company owned an approximate 43% interest in TECH at August 31, 2006. TECH s semiconductor manufacturing facilities use the Company s product and process technology. Subject to specific terms and conditions, the Company has agreed to purchase all of the products manufactured by TECH. TECH supplied approximately 25%, 25% and 30% of the total megabits of memory produced by the Company in 2006, 2005 and 2004, respectively. TECH s financial results were included in the consolidated financial statements of the Company beginning in the third quarter of 2006. (See Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Joint Ventures TECH Semiconductor Singapore Pte. Ltd.)

MP Mask Technology Center, LLC (MP Mask): In the third quarter of 2006, the Company formed a joint venture, MP Mask, with Photronics, Inc. (Photronics) to produce photomasks for leading-edge and advanced next generation semiconductors. The Company contributed its then existing reticle manufacturing operation to the venture and sold a 49.99% interest in MP Mask to Photronics. The Company and Photronics also entered into supply arrangements wherein the Company is expected to purchase a substantial majority of the reticles produced by MP Mask. The financial results of MP Mask are included in the consolidated financial results of the Company.

Availability of Raw Materials

The Company s production processes require raw materials that meet exacting standards, including several that are customized for, or unique to, the Company. The Company generally has multiple sources of supply; however, only a limited number of suppliers are capable of delivering certain raw materials that meet the Company s standards. Various factors could reduce the availability of raw materials such as silicon wafers, photomasks, chemicals, gases, lead frames, molding compound and other materials. In addition, any transportation problems could delay the Company s receipt of raw materials. Although raw materials shortages or transportation problems have not interrupted the Company s operations in the past, shortages may occur from time to time in the future. Also, lead times for the supply of raw materials have been extended in the past. If the Company s supply of raw materials is interrupted, or lead times are extended, results of operations could be adversely affected.

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Marketing and Customers

The Company s products are sold into computing and consumer, networking and telecommunications, and imaging markets. Approximately 70% of the Company s net sales for 2006 were to the computing market, including desktop PCs, notebooks, servers and workstations. Sales to Hewlett-Packard Company exceeded 10% of the Company s net sales in 2006. Sales to both Hewlett-Packard Company and Dell Computer Corporation exceeded 10% of the Company s net sales in 2005 and 2004, and aggregated 23% and 27% of the Company s net sales in 2005 and 2004, respectively.

The Company markets its semiconductor products primarily through its own direct sales force. The Company maintains inventory at locations in close proximity to certain key customers to facilitate rapid delivery of product shipments. The Company s products are also offered through independent sales representatives and distributors. Lexar sells NAND Flash memory through retail and OEM channels and Crucial Technology offers its products through the Company s web-based customer direct sales division. The Company s products are offered under the Micron, Lexar, SpecTek and Crucial brand names, and under other private labels. The Company maintains sales offices in all of its primary markets around the world. Independent sales representatives obtain orders subject to final acceptance by the Company and are compensated on a commission basis. The Company makes shipments against these orders directly to the customer. Distributors carry the Company s products in inventory and typically sell a variety of other semiconductor products, including competitors products.

The Company offers products designed to meet the diverse needs of computing, server, automotive, networking, security, commercial/industrial, consumer electronics, medical and mobile applications. Many of the Company s customers require a thorough review or qualification of semiconductor products, which may take several months. As the Company further diversifies its product lines and reduces the die sizes of existing products, more products become subject to qualification which may delay volume introduction of specific devices by the Company.

Backlog

Volatile industry conditions make customers reluctant to enter into long-term, fixed-price contracts. Accordingly, new order volumes for the Company s semiconductor products fluctuate significantly. Orders are typically accepted with acknowledgment that the terms may be adjusted to reflect market conditions at the date of shipment. Customers can change delivery schedules or cancel orders without significant penalty. For these reasons, the Company does not believe that its order backlog as of any particular date is a reliable indicator of actual sales for any succeeding period.

Product Warranty

Because the design and manufacturing process for semiconductor products is highly complex, it is possible that the Company may produce products that do not comply with customer specifications, contain defects or are otherwise incompatible with end uses. In accordance with industry practice, the Company generally provides a limited warranty that its products are in compliance with Company specifications existing at the time of delivery. Under the Company s general terms and conditions of sale, liability for certain failures of product during a stated warranty period is usually limited to repair or replacement of defective items or return of, or a credit with respect to, amounts paid for such items. Under certain circumstances the Company may provide more extensive limited warranty coverage and general legal principles may impose more extensive liability than that provided under the Company s general terms and conditions.

Competition

The Company faces intense competition in the semiconductor memory markets from a number of companies, including Elpida Memory, Inc.; Hynix Semiconductor Inc.; Qimonda AG ADS; Samsung Electronics Co., Ltd; SanDisk Corporation; Toshiba Corporation and emerging companies in Taiwan and China. Some of the Company s competitors are large corporations or conglomerates that may have greater resources to withstand downturns in the semiconductor markets in which the Company competes, invest in technology and capitalize on growth opportunities. The Company s competitors seek to increase silicon capacity, improve yields, reduce die size and minimize mask levels in their product designs. These factors have significantly increased worldwide supply and put downward pressure on prices.

The Company faces competition in the image sensor market from a number of suppliers of CMOS image sensors including MagnaChip Semiconductor Ltd.; OmniVision Technologies, Inc.; Samsung Electronics Co., Ltd; Sony Corporation; STMicroelectronics NV; Toshiba Corporation and from a number of suppliers of CCD image sensors including Matsushita Electric Industrial Co., Ltd.; Sharp Corporation and Sony Corporation. In recent periods, a number of new companies have entered the CMOS image sensor market. Competitors include many large domestic and international companies that may have greater presence in key markets, better access to certain customer bases, greater name recognition and more established strategic and financial relationships than the Company.

Research and Development

To compete in the semiconductor memory industry, the Company must continue to develop technologically advanced products and processes. The Company believes that expansion of its semiconductor product offerings is necessary to meet expected market demand for specific memory and imaging solutions. The Company has several product design centers around the world, the largest located at its corporate headquarters in Boise, Idaho. In addition, the Company develops leading edge photolithography mask technology at its MP Mask joint venture facility in Boise.

Research and development (R&D) expenses vary primarily with the number of development wafers processed, the cost of advanced equipment dedicated to new product and process development, and personnel costs. Because of the lead times necessary to manufacture its products, the Company typically begins to process wafers before completion of performance and reliability testing. The Company deems development of a product complete once the product has been thoroughly reviewed and tested for performance and reliability. R&D expenses can vary significantly depending on the timing of product qualification. The Company and Intel share R&D process and design costs for NAND Flash equally. Product development costs are recorded as R&D expense.

The Company s process technology R&D efforts are focused primarily on development of successively smaller line-width process technologies which are designed to facilitate the Company s transition to next generation memory products and CMOS image sensors. Additional process technology R&D efforts focus on specialty memory products (including PSRAM, mobile SDRAM and reduced latency DRAM) and new manufacturing materials. Product design and development efforts are concentrated on the Company s 1 Gb and 2 Gb DDR, DDR2 and DDR3 products as well as high density and mobile NAND Flash memory (including multi-level cell technology), CMOS image sensors and specialty memory products. The Company s R&D expenses were $656 million, $604 million and $755 million in 2006, 2005 and 2004, respectively.

Geographic Information

Sales to customers outside the United States totaled $3.6 billion for 2006 and included $1.0 billion in sales to China, $719 million in sales to Europe, $494 million in sales to Japan and $1.1 billion in sales to the rest of the Asia Pacific region, excluding China and Japan. International sales totaled $3.2 billion for 2005 and $2.6 billion for 2004. As of August 31, 2006, the Company had net property, plant and equipment of $4.4 billion in the United States, $867 million in Singapore, $269 million in Japan, $318 million in Italy and $12 million in other countries.

Patents and Licenses

In recent years, the Company has been recognized as a leader in volume and quality of patents issued. As of August 31, 2006, the Company owned approximately 14,500 U.S. patents and 1,500 foreign patents. In addition, the Company has numerous U.S. and foreign patent applications pending. The Company s patents have terms expiring through 2025.

The Company has a number of patent and intellectual property license agreements. Some of these license agreements require the Company to make one time or periodic payments. The Company may need to obtain additional patent licenses or renew existing license agreements in the future. The Company is unable to predict whether these license agreements can be obtained or renewed on acceptable terms.

Employees

As of August 31, 2006, the Company had approximately 23,500 employees, including approximately 14,100 in the United States, 5,500 in Singapore, 2,000 in Italy, 1,400 in Japan and 300 in the United Kingdom. The Company s employees include 2,400 employees in its TECH joint venture that are located in Singapore and 800 employees in its IMFT joint venture that are located in the United States. The Company added approximately 300 employees from its acquisition of Lexar Media, Inc. in the fourth quarter of 2006. The Company s employees in Italy are represented by labor organizations that have entered into national and local labor contracts with the Company. The Company s employment levels can vary depending on market conditions and the level of the Company s production, research and product and process development. Many of the Company s employees are highly skilled, and the Company s continued success depends in part upon its ability to attract and retain such employees. The loss of key Company personnel could have a material adverse effect on the Company s business, results of operations or financial condition.

Environmental Compliance

Government regulations impose various environmental controls on raw materials and discharges, emissions and solid wastes from the Company s manufacturing processes. In 2006, the Company s wafer fabrication facilities continued to conform to the requirements of ISO 14001 certification. To continue certification, the Company met annual requirements in environmental policy, compliance, planning, management, structure and responsibility, training, communication, document control, operational control, emergency preparedness and response, record keeping and management review. While the Company has not experienced any materially adverse effects on its operations from environmental regulations, changes in the regulations could necessitate additional capital expenditures, modification of operations or other compliance actions.

Directors and Executive Officers of the Registrant

Officers of the Company are appointed annually by the Board of Directors. Directors of the Company are elected annually by the shareholders of the Company. Any directors appointed by the Board of Directors to fill vacancies on the Board serve until the next election by the shareholders. All officers and directors serve until their successors are duly chosen or elected and qualified, except in the case of earlier death, resignation or removal.

As of August 31, 2006, the following executive officers and directors of the Company were subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended.

Name	Age	Position
Mark W. Adams	42	Vice President of Digital Media Products
Steven R. Appleton	46	Chairman, Chief Executive Officer and President
Kipp A. Bedard	47	Vice President of Investor Relations
Jan du Preez	49	Vice President of Memory Marketing
D. Mark Durcan	45	Chief Operating Officer
Robert J. Gove	53	Vice President of Imaging Group
Jay L. Hawkins	46	Vice President of Operations
Roderic W. Lewis	51	Vice President of Legal Affairs, General Counsel and Corporate Secretary
Michael W. Sadler	49	Vice President of Worldwide Sales
Brian J. Shields	45	Vice President of Worldwide Wafer Fabrication
Brian M. Shirley	37	Vice President Memory
Wilbur G. Stover, Jr.	53	Vice President of Finance and Chief Financial Officer
Teruaki Aoki	65	Director
James W. Bagley	67	Director
Mercedes Johnson	52	Director
Robert A. Lothrop	80	Director
Lawrence N. Mondry	46	Director
Gordon C. Smith	77	Director
Robert E. Switz	60	Director

William P. Weber	66	Director

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Mark W. Adams joined the Company in June 2006. From January 2006 until he joined the Company, Mr. Adams was the Chief Operating Officer of Lexar Media, Inc. Mr. Adams served as the Vice President of Sales and Marketing for Creative Labs, Inc. from December 2002 to January 2006. From March 2000 to September 2002, Mr. Adams was the Chief Executive Officer of Coresma, Inc. Mr. Adams holds a BA in Economics from Boston College and an MBA from Harvard Business School.

Steven R. Appleton joined the Company in February 1983 and has served in various capacities with the Company and its subsidiaries. Mr. Appleton first became an officer of the Company in August 1989 and has served in various officer positions with the Company since that time. From April 1991 until July 1992 and since May 1994, Mr. Appleton has served on the Company s Board of Directors. Since September 1994, Mr. Appleton has served as the Chief Executive Officer, President and Chairman of the Board of Directors of the Company. Mr. Appleton is a member of the Board of Directors of National Semiconductor Corporation. Mr. Appleton holds a BA in Business Management from Boise State University.

Kipp A. Bedard joined the Company in November 1983 and has served in various capacities with the Company and its subsidiaries. Mr. Bedard first became an officer of the Company in April 1990 and has served in various officer positions since that time. Since January 1994, Mr. Bedard has served as Vice President of Investor Relations for the Company. Mr. Bedard holds a BBA in Accounting from Boise State University.

Jan du Preez joined the Company in June 2002 as an officer and has served in various officer positions since that time. Mr. du Preez served as the President of Infineon Technologies North America Corporation from August 2000 until he joined the Company in June 2002. From October 1996 through July 2000, Mr. du Preez served as the Vice President of Memory Products Group for Infineon Technologies North America Corporation (formerly Siemens Semiconductors). Mr. du Preez holds Bachelors Degrees in Public Administration and Business Economics from the University of Pretoria and a Masters Degree in Commerce from Rand University.

D. Mark Durcan joined the Company in June 1984 and has served in various technical positions with the Company and its subsidiaries since that time. Mr. Durcan was appointed Chief Operating Officer in February 2006. Mr. Durcan has been an officer of the Company since 1996. Mr. Durcan holds a BS and MChE in Chemical Engineering from Rice University.

Robert J. Gove joined the Company in March 1999 as Senior Director of Engineering and has served in various positions with the Company. In March 2002, he was appointed Vice President of Imaging. Prior to joining the Company, Dr. Gove served as Vice President, Engineering, of Equator Technologies, Inc. Dr. Gove holds a BS in Electrical Engineering from the University of Washington and an MS in Electrical Engineering and Ph.D. in Electrical Engineering from Southern Methodist University.

Jay L. Hawkins joined the Company in March 1984 and has served in various manufacturing positions for the Company and its subsidiaries. Mr. Hawkins served as Vice President, Manufacturing Administration from February 1996 through June 1997, at which time he became Vice President of Operations. Mr. Hawkins holds a BBA in Marketing from Boise State University.

Roderic W. Lewis joined the Company in August 1991 and has served in various capacities with the Company and its subsidiaries. Mr. Lewis has served as Vice President of Legal Affairs, General Counsel and Corporate Secretary since July 1996. Mr. Lewis holds a BA in Economics and Asian Studies from Brigham Young University and a JD from

Columbia University School of Law.

Michael W. Sadler joined the Company in September 1992 as a Regional Sales Manager and has held various sales and marketing positions since that time. Mr. Sadler became an officer of the Company in July 1997 and has served as Vice President of Worldwide Sales since November 2001. Mr. Sadler holds a BS in Information Systems and an MBA from the University of Santa Clara.

Brian J. Shields joined the Company in November 1996 and has served in various operational positions with the Company. Mr. Shields first became an officer of the Company in March 2003.

Brian M. Shirley joined the Company in August 1992 and has served in various technical positions with the Company. Mr. Shirley became an officer of the Company in February 2006. Mr. Shirley holds a BS in Electrical Engineering from Stanford University.

Wilbur G. Stover, Jr. joined the Company in June 1989 and has served in various financial positions with the Company and its subsidiaries. Since September 1994, Mr. Stover has served as the Company s Vice President of Finance and Chief Financial Officer. Mr. Stover holds a BA in Business Administration from Washington State University.

Teruaki Aoki is President of Sony University and Managing Director of Sony Foundation for Education. Dr. Aoki has been associated with Sony since 1970 and has held various executive positions, including Senior Executive Vice President and Executive Officer of Sony Corporation as well as President and Chief Operating Officer of Sony Electronics, a U.S. subsidiary. Dr. Aoki holds a Ph.D. in Material Sciences from Northwestern University as well as a BS in Applied Physics from the University of Tokyo. He was elected as an IEEE Fellow in 2003 and serves as Advisory Board Member of Kellogg School of Management of Northwestern University.

James W. Bagley became the Executive Chairman of Lam Research Corporation (Lam), a supplier of semiconductor manufacturing equipment, in June 2005. From August 1997 through June 2005, Mr. Bagley served as the Chairman and Chief Executive Officer of Lam. Mr. Bagley is a member of the Board of Directors of Teradyne, Inc. He has served on the Company s Board of Directors since June 1996. Mr. Bagley holds a MS and BS in Electrical Engineering from Mississippi State University. Mr. Bagley serves as the presiding director of executive sessions of the Company s Board of Directors.

Mercedes Johnson has served as the Senior Vice President and Chief Financial Officer of Avago Technologies Limited, a semiconductor company, since December 2005. Prior to that, she served as the Senior Vice President, Finance, of Lam from June 2004 to January 2005 and as Lam s Chief Financial Officer from May 1997 to May 2004. Before joining Lam, Ms. Johnson spent 10 years with Applied Materials, Inc., where she served in various senior financial management positions, including vice president and worldwide operations controller. Ms. Johnson holds a degree in accounting from the University of Buenos Aires and currently serves on the Board of Directors for Intersil Corporation. Ms. Johnson is the Chairman of the Board s Audit Committee.

Robert A. Lothrop served as Senior Vice President of J.R. Simplot Company, an agribusiness company, from January 1986 until his retirement in January 1991. From August 1986 until July 1992 and since May 1994, Mr. Lothrop has served on the Board of Directors of the Company. Mr. Lothrop holds a BS in Engineering from the University of Idaho.

Lawrence N. Mondry served as the Chief Executive Officer of CompUSA Inc. from November 2003 to May 2006. Mr. Mondry joined CompUSA in 1990 as Senior Vice President and General Merchandise Manager. He was promoted to Executive Vice President-Merchandising in 1993, and President and Chief Operating Officer of CompUSA Stores in 2000. Mr. Mondry currently serves on the Board of Directors for Golfsmith, Inc. Mr. Mondry is the Chairman of the Board s Compensation Committee.

Gordon C. Smith has served as the Chairman and Chief Executive Officer of SFG LLC, a holding company for agriculture operations and other investments, since January 2005. Mr. Smith has also served as Chairman and Chief Executive Officer of G.C. Smith LLC since May 2000. From July 1980 to March 1994, Mr. Smith served in various management positions with J.R. Simplot Company, including four years as President and Chief Executive Officer, and seven years as Chief Financial Officer. From February 1982 until February 1984 and since September 1990, he has served on the Company s Board of Directors. Mr. Smith holds a BS in Accounting from Idaho State University.

Robert E. Switz is currently President and CEO of ADC Telecommunications, Inc., a supplier of network infrastructure products and services. Mr. Switz has been with ADC since 1994 and prior to his current position, served ADC as Executive Vice President and Chief Financial Officer. Mr. Switz holds an MBA from the University of Bridgeport as well as a degree in marketing/economics from Quinnipiac University. Mr. Switz also serves as a director on the board of Broadcom Corporation. Mr. Switz is the Chairman of the Board s Governance Committee.

William P. Weber served in various capacities with Texas Instruments Incorporated, a semiconductor manufacturing company, and its subsidiaries from 1962 until April 1998. From December 1986 until December 1993, he served as the President of Texas Instruments worldwide semiconductor operations and from December 1993 until his retirement in April 1998, he served as Vice Chairman of Texas Instruments Incorporated. He has served on the Company s Board of Directors since July 1998. Mr. Weber holds a BS in Engineering from Lamar University and a MS in Engineering from Southern Methodist University.

There is no family relationship between any director or executive officer of the Company.

Item 1A. ***Risk Factors***

In addition to the factors discussed elsewhere in this Form 10-K, the following are important factors which could cause actual results or events to differ materially from those contained in any forward- looking statements made by or on behalf of the Company.

We have experienced dramatic declines in average selling prices for our semiconductor memory products which have adversely affected our business.

Per megabit average selling prices for our semiconductor memory products decreased 34% in 2006 as compared to 2005. In recent years, we have also experienced annual decreases in per megabit average selling prices for our memory products including: 24% in 2005, 17% in 2003, 53% in 2002 and 60% in 2001. At times, average selling prices for our memory products have been below our costs. If average selling prices for our memory products decrease faster than we can decrease per megabit costs, our business, results of operations or financial condition could be materially adversely affected.

Increased worldwide semiconductor memory production or lack of demand for semiconductor memory could lead to further declines in average selling prices.

The transitions to smaller line-width process technologies and 300mm wafers in the industry have resulted in significant increases in the worldwide supply of semiconductor memory and will likely lead to future increases. Increases in worldwide supply of semiconductor memory also result from semiconductor memory fab capacity expansions, either by way of new facilities, increased capacity utilization or reallocation of other semiconductor production to semiconductor memory production. We and several of our competitors have announced plans to increase production through construction of new facilities or expansion of existing facilities. Increases in worldwide supply of semiconductor memory, if not accompanied with commensurate increases in demand, would lead to further declines in average selling prices for our products and would materially adversely affect our business, results of operations or financial condition.

We may be unable to reduce our per megabit manufacturing costs at the same rate as we have in the past.

Historically, our gross margin has benefited from decreases in per unit manufacturing costs achieved through improvements in our manufacturing processes, including reducing the die size of our existing products. In future periods, we may be unable to reduce our per unit manufacturing costs or reduce these costs at historical rates due to strategic product diversification decisions affecting product mix, the ever increasing complexity of manufacturing processes, changes in process technologies or products which inherently may require relatively larger die sizes. Per unit manufacturing costs may also be affected by the relatively smaller production quantities and shorter product lifecycles of Imaging and certain specialty memory products.

Our formation of IMFT and the resulting plans to significantly increase our NAND Flash memory production has numerous risks.

On January 6, 2006, we initiated operations of the IMFT joint venture with Intel and as a result we plan to significantly increase our NAND Flash production in future periods. The IMFT agreement and our NAND Flash strategy in general require substantial investment in capital expenditures for equipment and new facilities. It also requires significant investments in research and development as well as investments to grow and develop new operations at multiple sites. These investments involve numerous risks. We are required to devote a significant portion of our existing semiconductor manufacturing capacity to the production of NAND Flash instead of the Company s other products. In conjunction with the IMFT agreement, we entered into a contract with Apple Corporation to provide NAND Flash products for an extended period of time at contractually determined prices. We currently have a relatively small share of the world-wide market for NAND Flash.

Our NAND Flash investments and commitments involve numerous risks, and may include the following:

- increasing our exposure to changes in average selling prices for NAND Flash;
- difficulties in establishing new production operations at multiple locations;

- increasing capital expenditures to increase production capacity and modify existing processes to produce NAND Flash;

- increasing debt to finance future investments;

- diverting management s attention from DRAM and CMOS Image sensor operations;
- managing larger operations and facilities and employees in separate geographic areas; and
- hiring and retaining key employees.

Our NAND Flash strategy may not be successful and could materially adversely affect our business, results of operations or financial condition.

The future success of our Imaging business will be dependent on continued market acceptance of our products and the development, introduction and marketing of new Imaging products.

Our Imaging business has grown rapidly in the recent periods. Sales of Imaging products increased substantially and represented 14% of our net sales in 2006. Our imaging products have higher gross margins than the recent overall gross margins from our memory products. As we continue to expand our imaging business, there can be no assurance that we will be able to maintain these growth rates or gross margins. The continued success of our Imaging products will depend on a number of factors, including:

- development of products that maintain a technological advantage over the products of our competitors;
- accurate prediction of market requirements and evolving standards, including pixel resolution, output interface standards, power requirements, optical lens size, input standards and other requirements;
- timely completion and introduction of new Imaging products that satisfy customer requirements;
- timely achievement of design wins with prospective customers, as manufacturers may be reluctant to change their source of components due to the significant costs, time, effort and risk associated with qualifying a new supplier; and
- efficient, cost-effective manufacturing as we transition to new products and higher volumes.

We may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

Our cash flows from operations depend primarily on the volume of semiconductor memory and CMOS image sensors sold, average selling prices and per unit manufacturing costs. To develop new product and process technologies, support future growth, achieve operating efficiencies and maintain product quality, we must make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. Cash and investments of IMFT and TECH are generally not available to finance our other operations. In addition to cash provided by operations, we have from time to time utilized external sources of financing. Depending on general market and economic conditions or other factors, we may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

The semiconductor industry is highly competitive.

We face intense competition in the semiconductor memory market from a number of companies, including Elpida Memory, Inc.; Hynix Semiconductor Inc.; Qimonda AG ADS; Samsung Electronics Co., Ltd.; SanDisk Corporation; Toshiba Corporation and from emerging companies in Taiwan and China, who have announced plans to significantly expand the scale of their operations. Some of our competitors are large corporations or conglomerates that may have greater resources to withstand downturns in the semiconductor markets in which we compete, invest in technology and capitalize on growth opportunities. Our competitors seek to increase silicon capacity, improve yields, reduce die size and minimize mask levels in their product designs. These factors have significantly increased worldwide supply and put downward pressure on prices.:7.2pt; padding-top:0pt; padding-right:7.2pt; padding-bottom:0pt" valign=bottom width=18.2>

Paid-in

Treasury Stock

During the

Shares

Amount

Capital

Shares

Amount

Development Stage

Balances, August 7, 1997 (inception)		-		$		-		$	
		-		$		-		$	
Common stock issued for services and costs advanced, valued at $.0001 per share		2,000,000							

						200
						-
						-
						-
						-
Common stock issued for services,						
valued at $.15 per share						200,000
						20
						29,980
						-
						-
						-
Net loss for the period						
						(61,404)

Balances, December 31, 1997						
	2,200,000					
	220					
	29,980					
	-					
	-					
	(61,404)					
Sale of common stock ($.4156 per share)						
	204,500					
	20					

	84,965
	-
	-
	-
Net loss	
	(95,211)
Balances, December 31, 1998	
	2,404,500
	240

								114,945	
								-	
								-	
								(156,615)	
Sale of common stock ($.7622 per share)								1,098,505	
								110	
								837,160	
								-	
								-	
								-	
Services contributed by the									
president of the Company								-	
								-	

								60,000
								-
								-
								-
Common stock issued for services,								
valued at $.81 per share								333,333
								33
								269,967
								-
								-
								-
Net loss								
								(785,366)

Balances, December 31, 1999

3,836,338

383

1,282,072

-

-

(941,981)

Sale of common stock ($1.25 per share)

25,000

3

31,247

									-
									-
									-
Common stock issued for services,									
valued at $.11 per share									
									1,466,667
									147
									157,353
									-
									-
									-
Common stock issued for services,									
valued at $.5312 per share									
									623,367
									62

	331,071
	-
	-
	-
Purchase of treasury stock	
	-
	-
	-
	500
	(1,500)
	-
Net loss	
	(897,368)

Balances, December 31, 2000

5,951,372

595

1,801,743

500

(1,500)

(1,839,349)

Common stock issued for services,

valued at $.12 per share

6,959,708

696

858,080

								-
								-
								-
Sale of common stock ($.017 per share)								
								1,087,976
								109
								17,891
								-
								-
								-
Common stock issued in acquisition								
of subsidiaries, valued at $.50 per share								
								900,000
								90
								449,910

							-
							-
							-
Net loss							
							(1,878,498)
Balances, December 31, 2001							
	14,899,056						
							1,490
							3,127,624

									500
									(1,500)
									(3,717,847)
Sale of common stock ($.012 per share)									
									10,746,826
									1,074
									122,878
									-
									-
									-
Common stock issued for services,									
valued at $.03 per share									
									32,928,174
									3,293
									1,123,851
									-

	-	
	-	
Net loss		(1,857,167)

RESTATED FROM THIS POINT FORWARD

Balances, December 31, 2002	2,928,704	293	4,379,917	500	(1,500)	(5,575,014)
Common stock issued for services,	850,000	85	16,915	-	-	-
valued at $.001 per share						
Common stock issued as repayment of	1,150,000	115	22,885	-	-	-
related party debt						
valued at $.001 per share						
Net loss						(126,307)
Balances, December 31, 2003	4,928,704	493	4,419,717	500	(1,500)	(5,701,321)
Common stock issued for services,	625,000	63	1,188	-	-	-
valued at $.0001 per share						
Net loss						(105,037)
Balances, December 31, 2004	5,553,704	555	4,420,905	500	(1,500)	(5,806,358)
Common stock issued for services,	625,000	63	1,188	-	-	-
valued at $.0001 per share						
Common stock issued as	1,500,000	150	9,650	-	-	-

repayment of debt, valued at $.003 per share						
Common stock retired	(2,475,819)	(248)	247	-	-	-
Additional shares due to stock split	5			-	-	-
Net loss						(55,512)
Balances, December 31, 2005	5,202,890	520	4,431,990	500	(1,500)	(5,861,870)
Common stock issued as repayment of debt, valued at $.02 per share	2,850,000	285	56,715	-	-	-
Common stock issued as repayment of debt, valued at $.019 per share	37,633,098	3,764	720,522	-	-	-
Beneficial conversion feature	-	-	20,725,892	-	-	-
Common stock issued in acquisition of eNotes Systems, Inc., valued at $.0001	20,000,000	2,000	(2,000)	-	-	-
Common stock issued for services, valued at $.30 per share	1,020,000	102	299,904	-	-	-
Common stock issued for services, valued at $.33 per share	2,000,000	200	659,800	-	-	-
Net loss						(22,122,026)
Balances, September 30, 2006	68,705,988	$ 6,871	$ 26,892,823	500	$ (1,500)	$ (27,983,896)

The accompanying notes are an integral part of these financial statements.

VERIDIGM, INC.
(FORMERLY ENOTES SYSTEMS, INC.)
(FORMERLY TOTALMED, INC. AND SUBSIDIARIES)
(A Development Stage Company)
Statements of Cash Flows

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Aug. 7, 1997 (Inception) to September 30, 2006
Cash flows from operating activities:			
Net loss	$ (22,122,026)	$ (44,185)	$ (27,983,896)
Adjustments to reconcile net loss to net			
cash used in operating activities			
Depreciation	23	--	210,449
Amortization	--	--	4,118
Common stock issued for services	960,006	1,250	3,814,259
Common stock issued in acquisition of subsidiaries	--	--	450,000
Beneficial conversion feature	20,725,892	--	20,725,892
Common stock issued to an officer in payment of debt	--	--	23,000
Notes issued for payment of expenses	--	--	47,530
Note issued for deposit	(108,368)	--	(108,368)
Write-down of lost inventory	--	--	204,338
Write off uncollectible accounts	--	--	10,840

Loss on disposition of assets	--	--	11,449
Changes in assets and liabilities			
Increase in accounts receivable	--	--	(10,840)
(Increase) decrease in inventory	--	--	(204,338)
(Increase) decrease in prepaid expenses	(27,587)	--	(27,587)
Increase in accounts payable	21,100	33,690	512,703
Net cash used in operating activities	(550,960)	(9,245)	(2,320,451)
Cash flows from investing activities:			
Payments on notes receivable	--	--	(1,200)
Repayments on notes receivable	--	1,200	1,200
Organization costs	--	--	(368)
Purchases of property and equipment	(1,105)	--	(221,730)
Acquisition of patent rights	--	--	(5,000)
Net cash provided by (used in) investing activities	(1,105)	1,200	(227,098)
Cash flows from financing activities:			
Proceeds from short-term debt	5,075	6,900	333,224
Repayment of short-term debt	--	--	(63,348)
Increase in amounts due to an officer/stockholder	591,235	--	1,227,978
Purchase of treasury stock	--	--	(1,500)
Proceeds from sale of common stock	--	--	1,095,457
Net cash provided by financing activities	596,310	6,900	2,591,811
Net increase (decrease) in cash	44,245	(1,145)	44,262
Cash at beginning of period	17	1,192	--
Cash at end of period	$ 44,262	$ 47	$ 44,262

Supplemental Cash Flow

Information:		
Taxes paid	--	--
Interest paid	--	--
Short-term debt converted to common stock	144,543	9,800
Officer loans converted to common stock	636,743	--
Accrued interest on loans converted to common stock	(35,799)	--

The accompanying notes are an integral part of these financial statements.

VERIDIGM, INC.

(FORMERLY ENOTES SYSTEMS, INC.)

(FORMERLY TOTALMED, INC. AND SUBSIDIARIES)

(A Development Stage Company)

Form 10-QSB

Quarter Ended September 30, 2006

Notes to Financial Statements

Note 1 Condensed Consolidated Financial Statements

Basis of Presentation

The accompanying interim unaudited consolidated financial statements include the accounts of Veridigm, Inc. (formerly eNotes Systems, Inc. and TotalMed, Inc.) which is hereafter referred to as (the "Company"). These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations for these interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company's report on Form 10-KSB for the year ended December 31, 2005.

Merger Transaction

The Company entered into a Stock Purchase Agreement on April 28, 2006 to acquire all of the issued and outstanding shares of eNotes Systems, Inc. a Florida corporation, from its selling shareholders in exchange for 20,000,000 shares of restricted common stock of the Company. Subsequent to the merger, the Company changed its name to eNotes

Systems, Inc. The management of the Company resigned from their positions and the management of Veridigm, Inc. was appointed as the new management of the Company.

Description of Business

The financial statements presented are those of Veridigm, Inc., a development stage company (the Company). The Company was incorporated under the laws of the State of Delaware on August 7, 1997. The Company is in the business of providing information technology services to healthcare professionals. The Company has not commenced its business plan and is seeking to raise capital.

The Company has limited operations and in accordance with Statement of Financial Accounting Standards No. 7 (SFAS #7), the Company is considered a development stage company.

VERIDIGM, INC.

(FORMERLY ENOTES SYSTEMS, INC.)

(FORMERLY TOTALMED, INC. AND SUBSIDIARIES)

(A Development Stage Company)

Form 10-QSB

Quarter Ended September 30, 2006

Notes to Financial Statements

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Loss Per Common Share

Loss per common share is computed by dividing the net loss by the weighted average shares outstanding during the period. The 2005 weighted average shares outstanding were restated to reflect the reverse stock split see the Common Stock footnote.

Deposits

During the nine months ended September 30, 2006, the Company advanced $118,750 to TotalMed Systems, Inc. (TSI) for software development, payment of which was made directly by a stockholder to whom a promissory note was issued see Due to Officer/Stockholder footnote. Services were not consummated by TSI and a Release and Settlement Agreement was entered into, whereby the Company was to receive a refund of $108,368 by August 31, 2006. The Company has not received such refund to date and has commenced a lawsuit against TSI, demanding TSI to return the deposit of $108,368. Management anticipates that the Company will be successful in recovering the

refund together with interest in full.

Property and equipment and depreciation

Property and equipment are stated at cost. Depreciation for both financial reporting and income tax purposes is computed using combinations of the straight line and accelerated methods over the estimated lives of the respective assets. During the nine months ended September 30, 2006, the Company purchased computer equipment totaling $1,105. Computer equipment is depreciated over 5 years. Maintenance and repairs are charged to expense when incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is credited or charged to income.

Depreciation expense of $23 was charged to operations for the nine months ended

September 30, 2006.

VERIDIGM, INC.

(FORMERLY ENOTES SYSTEMS, INC.)

(FORMERLY TOTALMED, INC. AND SUBSIDIARIES)

(A Development Stage Company)

Form 10-QSB

Quarter Ended September 30, 2006

Notes to Financial Statements

Notes Payable

The Company received an additional $5,075 proceeds for a note during the nine months ended September 30, 2006.

Due to Stockholder

A stockholder advanced expenses and a deposit on behalf of the Company and issued promissory notes in the amounts of $12,000 and $118,750 as of June 30, 2006. The stockholder provided additional loans to the Company totaling $460,485 during the three months ended September 30, 2006. The notes bear interest at a rate of 10% and are payable in one year from the date of issuance. Interest expense on the notes payable was $8,178 for the nine months ended

September 30, 2006.

Common Stock

During the nine months ended September 30, 2006, notes payable to former officers of the Company totaling $745,487 plus accrued interest of $35,799 were converted to 40,483,098 shares of common stock, valued at $.019 per share. The Company issued 3,020,000 shares of restricted common stock to officers in return for covenants in their employment agreements and other consideration, 1,020,000 shares of which were valued at $.30 per share and

2,000,000 shares which were valued at $.33 per share.

In May 2005 two former directors of the company returned 49,516,387 shares of stock to the company. On May 11, 2005 there was a reverse stock split of the common stock of the Company on the basis of one share for each 20 shares outstanding with shareholders of record as of March 1, 2005. The number of common shares outstanding as a result of the reverse stock split was 5,202,890. The December 31, 2005 Common Stock and Additional Paid in Capital balances were restated to reflect the reverse stock split.

Note 2 Debt to Stock Conversion

In association with the merger transaction entered into with Veridigm, Inc., the Company converted loans payable including accrued interest that were due to the founding officers of the Company to 37,633,098 shares of common stock that were issued to the former management of the Company (TotalMed, Inc.) as well as to the new management of the Company and their designees, during the three months ended June 30, 2006. A beneficial conversion feature existed at the various dates of conversion, as the fair market value of the shares exceeded the conversion rate of $.019 as defined by Emerging Issues Task Force No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF 98-5") and No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"). The excess of the fair market value over the conversion rate applied to the number of common shares issued resulted in a charge to interest expense, and increase to net loss of $20,725,892, with the same amount allocated to additional paid-in capital, thereby having no effect on total stockholders equity.

VERIDIGM, INC.

(FORMERLY ENOTES SYSTEMS, INC.)

(FORMERLY TOTALMED, INC. AND SUBSIDIARIES)

(A Development Stage Company)

Form 10-QSB

Quarter Ended September 30, 2006

Notes to Financial Statements

Note 3 Development and Joint Venture Agreement

On August 22, 2006, the Company entered into an agreement with Jump Communications, Inc. (Jump) whereby certain services and products would be designed, developed and provided by Jump for the joint venture that was established pursuant to the agreement. Jump has the exclusive rights in perpetuity to certain intellectual property relating to video compression and telephony network switch management that enables the delivery between distant end points of full motion video and data using a variety of delivery media and transmission formats (collectively the Jump System). These technologies are currently marketed by Jump as the Jump System . The Company is required to make quarterly payment to Jump to ensure the exclusive right to use the Jump System technology, and Jump shall share in the profits of the joint venture. The Company shall make the payment each quarter for two years, at which time, if the joint venture has achieved certain targeted annualized revenues, the payment obligation shall cease; provided; however, if revenues do not meet or shall fall below such threshold as determined each quarter, the payments shall continue or resume, as the case may be. Ownership of intellectual property in the products and services developed for the Company and the joint venture by Jump shall be solely and exclusively owned by Jump.

A joint venture fee of $250,000 was charged to operations for the nine months ended September 30, 2006.

Note 4 Subsequent Events

On November 6, 2006, the Company changed its name from eNotes Systems, Inc. to Veridigm, Inc. The Company has applied for a new trading symbol and will be trading under its existing symbol until the new symbol has been assigned. On November 12, 2006, Fred Greenberg of Jump Communications was added to the Company s Board of Directors.

Item 2. Management's Discussion and Analysis

This Quarterly Report on Form 10-QSB, including the information incorporated by reference herein, includes "forward looking statement" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Act") and Section 21E of the Securities Act of 1934, as amended ("Act of 34"). All of the statements contained in this Quarterly Report on Form 10-QSB, other than statements of historical fact, should be considered forward looking statements, including, but not limited to, those concerning the Company's strategies, objectives and plans for expansion of its operation, products and services and growth in demand for its products and services. There can be no assurances that these expectations will prove to have been correct. Certain important factors that could cause actual results to differ materially from the Company's expectations (the "Risk Factors") are disclosed in this Quarterly report on Form 10-QSB. All subsequent written and oral forward looking statements by or attributable to the Company or persons acting on behalf are expressly qualified in their entirety by such Risk Factors. Investors are cautioned not to place undue reliance on these forward looking statements which speak only as of the date hereof and are not intended to give any assurance as to future results. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or reflect the occurrence of unanticipated events.

Veridigm, Inc. was formerly known as eNotes Systems, Inc., and prior to that as TotalMed, Inc., and prior to that as Fonecash, Inc. (the "Company"). The Company was incorporated under the laws of the State of Delaware on August 7, 1997. On May 11, 2005, the Company changed its name from FoneCash, Inc. to TotalMed, Inc., and on April 28, 2006, signed a Stock Purchase Agreement to acquire all of the issued and outstanding shares of eNotes Systems, Inc. in exchange for 20,000,000 restricted shares of the Company s common stock, and thereafter changed its name to eNotes Systems, Inc. The transaction was effective June 15, 2006, and the Company is now under new management. On November 6, 2006, the Company changed its name from eNotes Systems, Inc. to Veridigm, Inc.

The Company currently is in the process of developing its telemedicine business together with exploring alternatives to augment its telemedicine business with complementary medical software. Telemedicine is primarily concerned with the transmission of still images, video, and other forms of medical data between rural and urban areas. With the development of its telemedicine business, the Company anticipates being able to deliver care to individuals who are some distances away from the specialty care they need. The Company anticipates implementing its business operations both domestically and internationally.

The Company incurred operating losses of $27,983,896 from inception to September 30, 2006. The Company expects its accumulated deficit to grow in the near term as expenses are incurred in developing its business.

General

TotalMed, Inc. f/k/a Fonecash, Inc was incorporated under the laws of the State of Delaware on August 7, 1997. During the fourth quarter of December 2002, the Company began to wind down its operations. This occurred because of management s inability to raise sufficient funds to finance the continued development of the Company s business plan. Until that point, the Company had been engaged in the payment processing of transactions for banks and their merchants through its terminals and proprietary system.

Effective June 15, 2006, eNotes Systems, Inc. merged into the Company, and the Company s name was changed to eNotes Systems, Inc., and subsequently to Veridigm, Inc. The Company is in the process of seeking to develop its telemedicine business which it intends to utilize with medical software which will be integrated with the telemedicine technology.

The Company entered into a Joint Venture and Development Agreement with Jump Communications, Inc. on September 7, 2006, under which it is utilizing Jump Communication s two way audio/video/data transmission technology and private network in its telemedicine application.

Jeff Flammang became the Company s Chief Executive Officer effective June 1, 2006, and Christopher L. Cella became its Executive Vice President effective August 25, 2006. Mr. Flammang has now assumed the additional role of President and has been named to its Board of Directors.

The Company incurred an operating loss of $22,122,026 during the nine month period ended September 30, 2006 compared to a loss of $44,185 during the same period in 2005. This increase in the Company s operating loss of $22,077,841 was attributable to an increase in general and administrative expense, interest expense related to a beneficial conversion feature, and other expenses associated with the implementation of its business plan. The Company spent a total of $432,256 on research and development from inception to September 30, 2006. The Company expects its accumulated deficit to grow in the near term, but is optimistic that revenues will be generated in the next fiscal year.

The Company's Operations to Date

The Company was developing a system of processing credit cards for an under served community of low volume merchants and in-home salespersons consisting of a fixed wire or wireless terminal and a system of computers, utilizing established communications networks, both wired and wireless, for processing the data from credit and debit cards. The Company ceased this operation during the fourth quarter of 2002.

The Company operated under the name Fonecash, Inc. from inception until May 11, 2005, when it changed its name to TotalMed, Inc. Effective June 15, 2006, with the acquisition of eNotes Systems, Inc., the Company changed its name to eNotes Systems, Inc. The Company has never been involved with any bankruptcy, receivership or similar proceeding.

The Company, in conformity with its business plan, entered into a Joint Venture and Development Agreement with Jump Communications, Inc., on September 7, 2006. The Agreement provides the joint venture with the Jump two way audio/video/data transmission technology and its private transmission network. The Company is utilizing the technology to implement its telemedicine business. The Company will be offering a comprehensive medical cart, with varying peripheral medical equipment, as a component of its telemedicine application.

Results of Operation

General and administrative expenses during the three month period ending September 30, 2006 were $321,996 as compared to $5,100 for the same period in 2005. This amount increased because the Company is building its business, including adding employees and acquiring equipment, and otherwise building its infrastructure. .

Balance Sheet Data

The Company's combined cash and cash equivalents totaled $ 44,262 on September 30, 2006 and $17 on December 31, 2005.

Property and equipment was valued at $ 1,082 on September 30, 2006 and there was no property and equipment on December 31, 2005.

Off Balance-Sheet Arrangements

The Company has no off-balance sheet arrangements as defined in Item 303(c) of the SEC's Regulation S-B.

Item 3. Controls and Procedures

As of the end of the end of the quarter end March 31, 2006, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s principal executive officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the principal executive officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company s periodic SEC filings. As such no changes were made in controls and procedures, and only minor changes have been made in the quarter ended September 30, 2006, for the betterment of the controls and procedures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company was served in the past with a summons and complaint alleging prior management s failure to pay the monthly payments on a line of credit with Fleet National Bank. Fleet seeks $107,645 plus interest and attorneys fees, and the Company intends vigorously to defend against the action.

On April 8, 2002 the Securities and Exchange Commission filed a complaint alleging that a registration statement and amendments, filed with the Commission by the Company in December 2001, January 2002 and March 2002, and signed by the former president of the Company, Daniel E. Charboneau, contained material misrepresentations and omissions. On January 6, 2004, a United States District Judge from the District of Columbia entered a default judgment against the Company restraining the Company from further violations of Section 17(a) of the Securities Act of 1933, Sections 10(b) and 13a-13 of the Securities Exchange Act of 1934 and Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder. As part of this order the Court also ordered penalties and interest in the amount of $110,977.

The Company intends to work with the Securities and Exchange Commission in an effort to reach an amicable resolution of this matter.

Item 1A. Risk Factors

Future Results

The Company s future results will depend in large part on accurately evaluating and implementing the product identification/development/procurement, and the sales and marketing programs into which we enter and their related costs. Additionally, our future results will depend upon our ability to evaluate new products and markets.

We expect our proposed business to grow as we expand into regions that we believe fit our feasibility criteria. If we are not able to expand our operations in an efficient manner, our expenses could grow disproportionately to revenues

or our revenues could decline or grow more slowly than expected. We expect that we will need to hire and train new employees, and coordinate our technical, accounting, finance, marketing, and sales staffs. These new personnel will require a significant period of time and expense to integrate and may strain our resources.

We will need additional capital in the future, which may not be available to us at all or on favorable terms; the raising of additional capital would likely dilute ownership in the Company. We may need to raise additional funds sooner to fund more rapid expansion, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary products, businesses, or technologies. If additional funds were raised through the issuance of equity or equity-linked securities, the relative ownership percentage of our stockholders would be reduced.

Furthermore, we may not be able to obtain additional financing when needed or on favorable terms. If additional financing is not available on favorable terms or at all, this may adversely affect our ability to develop or enhance our services, take advantage of business opportunities or respond to competitive pressures.

We forecast our future expense levels based on our operating plans and our estimates of future revenues. If our revenues grow at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to achieve or sustain profitability. We may incur losses in the immediate future as we build our infrastructure, increase our sales and marketing efforts, and continue identification/development/procurement of products. Even if we do achieve profitability, we may not sustain or increase profitability on a quarterly or annual basis.

If we do not generate sufficient cash resources from our business to fund operations, our growth could be limited unless we are able to obtain additional capital through equity or debt financings. Our inability to grow as planned may reduce our chances of achieving profitability.

It is impossible to predict accurately the results to an investor from an investment in the Company since no one can predict with any certainty whether, and to what extent, the Company will be successful.

There are material risks and uncertainties, which may adversely affect our business. If any of these risks or uncertainties actually occurs, our business, financial condition or results of operations may be adversely affected. You should consider our prospects in light of the risks, expenses, and difficulties those companies in their earlier stage of development encounter. Our success depends upon our ability to address those risks successfully, which includes, among other things:

Risks Concerning our Products

IF WE DISCOVER PRODUCT DEFECTS, WE MAY HAVE PRODUCT-RELATED LIABILITIES THAT MAY CAUSE US TO LOSE REVENUES OR DELAY MARKET ACCEPTANCE OF OUR PRODUCTS.

Our products will be complex and may contain defects. Despite our continuing tests, users may find defects in our products that could cause additional development costs or result in delays in (or loss of) our market acceptance. Our products will be sold into markets that are extremely demanding of robust reliable, fully functioning products. Therefore, delivery of products with production defects or reliability, quality, or compatibility problems could significantly delay or hinder market acceptance of such products, which could damage our credibility with our customers and adversely affect our ability to retain our existing customers and to attract new customers. Moreover, such errors, defects, or functional limitations could cause problems, interruptions, delays or a cessation of sales to our customers. Alleviating such problems may require significant expenditures of capital and resources by us. Despite testing by us, our resellers or our customers may find errors after commencement of commercial production, resulting in additional development costs, loss of, or delays in market acceptance, diversion of technical and other resources from our other development efforts, product repair or replacement costs, claims or the loss of credibility with our current or prospective customers.

WE MAY HAVE NO PATENT RIGHTS TO OUR PRODUCTS.

We cannot assure that our products will not infringe upon the patent or other proprietary rights of others. In the event we infringe upon the rights of a third party, the third party may include us in any litigation, which may be expensive regardless of whether we ultimately prevail.

MARKET ACCEPTANCE OF OUR PRODUCTS IS UNCERTAIN.

Based on our market research, we believe that there is great market demand for our anticipated products and services. There is no assurance; however, that the markets will develop as we anticipate.

WE CANNOT ASSURE MARKET ACCEPTANCE.

If our products do not achieve significant market acceptance and usage, our business, results of operations and financial condition could be materially and adversely affected. If the markets for our products fail to develop, develop more slowly than we expect, or become saturated with products of other competitors, or if our products do not achieve market acceptance, our business, results of operations and financial condition could suffer.

Risks Related to Our Business

You should consider our prospects in light of the risks, expenses, and difficulties those companies in their earlier stage of development encounter. Our success depends upon our ability to address those risks successfully, which include, among other things, whether we will be successful in implementing our sales and marketing strategy.

OUR COMPANY IS IN ITS INFANCY.

We are presently negotiating to acquire our product base. The results of these negotiations and our internal development could materially affect our operations.

WE WILL NEED TO MANAGE OUR GROWTH.

We hope and expect to grow rapidly, both in the rate of our sales and operations and the number and complexity of our products, product distribution channels, and product development activities. Several members of our key management team only recently joined us, and integration of those persons into a cohesive management unit may be problematic. Our growth, coupled with the rapid evolution of our markets, has placed, and is likely to continue to place, significant strains on our administrative, operational, technical, and financial resources and increase demands on our internal management systems, procedures, and controls. If we are unable to manage future growth effectively, our business, results of operations and financial condition could be materially adversely affected.

ACQUISITIONS, WHICH ARE INHERENTLY RISKY, ARE PART OF OUR GROWTH STRATEGY.

As part of our growth strategy, we may make acquisitions of, or significant investments in, businesses that offer complementary products, services, and technologies. Any future acquisition or investment may result in the use of significant amounts of cash, issuances of equity securities that could dilute current equity positions, incurrence of debt and amortization of expenses related to goodwill and other intangible assets. In addition, acquisitions involve numerous risks, including: the difficulties in the integration and assimilation of the operations; technologies; products; and personnel of an acquired business; the diversion of management s attention from other business concerns; the availability of favorable acquisition financing for future acquisitions; the potential loss of key employees from either

our pre-existing businesses or any acquired business; and the assumption of liabilities of any acquired company. Our inability to integrate successfully any acquired company could adversely affect our business.

SELLING OUR SERVICES WILL INVOLVE A SOPHISTICATED SALES EFFORT, WHICH NARROWS THE TALENT POOL TO REPLACE OUR SALES STAFF, AND IF WE ARE UNABLE TO RETAIN OR REPLACE QUALIFIED SALES STAFF, OUR REVENUES MAY DECREASE.

Our solutions require a sophisticated sales effort targeted at senior management of our prospective customers. New hires in our sales department will require extensive training and a long period of employment to achieve full productivity. There is no assurance that new sales representatives will ultimately become productive. If we were to lose qualified and productive sales personnel, our revenues could be adversely impacted.

OUR BUSINESS MAY SUBJECT US TO RISKS RELATED TO NATIONWIDE OR INTERNATIONAL OPERATIONS.

If we offer our products and services on a national and international basis, as we intend, distribution could be subject to a variety of associated risks, any of which could seriously harm our business, financial condition, and results of operations. These risks include:

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greater difficulty in collecting accounts receivable;

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satisfying import or export licensing and product certification requirements;

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taxes, tariffs, duties, price controls or other restrictions on out-of-state companies, foreign currencies or trade barriers imposed by states or foreign countries;

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potential adverse tax consequences, including restrictions on repatriation of earnings;

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fluctuations in currency exchange rates;

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seasonal reductions in business activity in some parts of the country or the world;

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unexpected changes in local, state, federal or international regulatory requirements;

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burdens of complying with a wide variety of state and foreign laws;

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difficulties and costs of staffing and managing national and foreign operations;

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different regulatory and political climates and/or political instability;

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the impact of economic recessions in and outside of the United States; and

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limited ability to enforce agreements, intellectual property, and other rights in foreign territories.

HEALTHCARE PROVIDERS ARE HIGHLY REGULATED. IF WE FAIL PROPERLY TO IMPLEMENT REGULATORY REQUIREMENTS IN AN EFFECTIVE AND TIMELY MANNER, WE WILL LOSE CUSTOMERS, OUR REPUTATION WILL BE DAMAGED, AND OUR REVENUES WILL DECREASE.

Monitoring and ensuring our services are compliant with changes in provisions of the Health Insurance Portability and Accountability Act (HIPAA) and other regulatory requirements increase the levels of staff expertise we must maintain and will require modifications to our internal operations and software underlying our services. Modifications can typically be completed within a timely basis. However, if we do not maintain an appropriate level of regulatory compliance or we incorrectly implement a required regulatory change, we may experience negative publicity, the loss of customers, and the slowing down of sales cycles, all of which would decrease our revenues.

COMPETITION IN THE HEALTHCARE INFORMATION SYSTEMS INDUSTRY IS INTENSE AND THE TECHNOLOGY IS CHANGING RAPIDLY AND IF WE ARE UNABLE TO COMPETE WE WILL LOSE SIGNIFICANT CUSTOMERS OR BE UNABLE TO ATTRACT CUSTOMERS AND OUR REVENUES COULD DECREASE.

Many companies are engaged in research and development activities relating to what will be our range of products. The market for healthcare information systems is intensely competitive, rapidly changing, and undergoing consolidation. We may be unable to compete successfully against our competitors, which may result in price reductions, reduced margins and the inability to achieve market acceptance for our products. Our competitors in the field will include Polymed, AMD Telemedicine, Tandberg, Vitel Net, and PhoneDoctorRx. Additional competitors are Aspyra, Inc. (APY), Cerner Corporation (CERN), Compumed Inc. (CMPD.OB), Eclipsys Corporation (ECLP), Emdeon Corporation (HLTH), etrials Worldwide, Inc. (ETWC), Health Systems Solutions Inc. (HSSO.OB), Medefile International, Inc. (MDFI.OB), and Transax International Ltd. (TNSX.OB), among others. Many of these competitors have substantially greater financial, marketing, sales, distribution, and technical resources than we and have more experience in research and development, sales, service, and marketing. We anticipate increased competition in the future as new companies enter the market in response to recent HIPAA regulations. If we are unable to compete, we will lose significant customers or be unable to attract customers and our revenues could decrease.

IF OUR CUSTOMERS LOSE CONFIDENCE IN THE SECURITY OF DATA ON THE INTERNET, THEY WILL BE LESS INCLINED TO PURCHASE OUR PRODUCTS AND OUR REVENUES COULD DECREASE.

Maintaining the security of computers and computer networks is an issue of critical importance for our prospective customers. Our customers will be especially sensitive to the security of their data because HIPAA requires our customers to maintain the confidentiality of various patient data. Attempts by experienced computer programmers, or hackers to penetrate customer networks security or the security of websites to misappropriate confidential information are currently an industry-wide phenomenon that affects computers and networks across all platforms. Our customers may be exposed to claims by federal healthcare regulators if they use our Internet based services and we do not protect sensitive patient data from penetration by hackers. As we develop new products, our development and improvement efforts will include the creation of features designed to optimize security in our products. Despite these efforts, actual or perceived security vulnerabilities in our products (or the internet in general) could lead some customers to seek to reduce or delay future purchases or to purchase competitive products, which are not internet based applications. Customers may also increase their expenditures in protecting their computer networks from attack, which could delay adoption of new technologies. Any of these actions by customers would decrease our revenues.

WE NEED TO EXPAND OUR MANAGEMENT SYSTEMS AND HIRE AND RETAIN KEY PERSONNEL TO SUPPORT OUR PRODUCTS.

The identification/development/procurement and marketing of our products will place a significant strain on our limited personnel, management, and other resources. Our ability to manage any future growth effectively will require us to successfully attract, train, motivate, retain, and manage employees, particularly key engineering and managerial personnel, to effectively integrate new employees into our operations and to continue to improve our operational, financial and management systems. Our failure to manage growth and changes in our business effectively and to attract and retain key personnel could limit our growth and the success of our products and business. Further, we are

highly dependent on the continued service of and our ability to attract and retain qualified technical, marketing, sales, and managerial personnel. The competition for

such personnel is intense. The loss of any key person or the failure to recruit additional key technical and sales personnel in a timely manner would have a material adverse effect on our business and operating results. We currently we do not maintain key person life insurance policies on any of our employees.

WE MAY HAVE DIFFICULTY COLLECTING OUR RECEIVABLES AND THAT MAY RESULT IN THE UNANTICIPATED NEED FOR EXTERNAL FINANCING IN ORDER TO CONTINUE OUR OPERATIONS.

We currently do not offer account terms to our prospective customers, however, we may experience problems as our business grows and if we extend credit to our customers. The collection of our accounts receivable will be affected by several factors, including our credit granting policies, our customers ability to pay, and industry and economic conditions. Adverse changes in any of these factors, many of which we cannot control, could create delays in collecting or an inability to collect our receivables. If we are not able to collect our receivables within the time anticipated, we would need to seek external financing in order to continue our operations as planned.

NO ASSURANCE THAT SALES WILL DEVELOP AS WE ANTICIPATE.

Based on our market research, we believe that there is great market demand for the products that we shall offer. However, we have received no sales of these products to date, and have not developed or acquired these products. There is no assurance that sales will develop as we anticipate.

OUR INSURANCE MAY NOT COVER ALL FUTURE LIABILITIES.

We intend to carry commercial, general liability, and comprehensive insurance on our operations, including fire, liability, extended coverage, other casualty insurance and key man insurance. There may be risks that are uninsurable on terms that we believe to be economic. In addition, losses may exceed amounts on the policies.

WE MAY BE SUBJECT TO RISKS ASSOCIATED WITH GLOBAL OPERATIONS.

We intend to also concentrate on developing international sales. As a result, we could derive substantial portions of our revenues from customers outside the United States. International operations are subject to a number of risks, including costs of localizing products and services for international markets, dependence on independent resellers, multiple and conflicting regulations regarding communications, restrictions on use of data and internet access, longer payment cycles, unexpected changes in regulatory environments, import and export restrictions and tariffs, difficulties in staffing and managing international operations, greater difficulty or delay in accounts receivable collection, potentially adverse tax consequences, the burden of complying with a variety of laws outside the United States, the impact of possible recession prone environments and economies outside the United States and political and economic instability. Furthermore, we expect that our export sales would be denominated predominately in United States dollars. Therefore, an increase in the value of the United States dollar relative to other currencies could make our products and services more expensive and potentially less competitive in international markets.

OUR STOCK PRICE MAY BE VOLATILE.

In recent years the stock market in general and the market for shares of companies such as ours in particular, have experienced extreme price fluctuations. In many cases, these fluctuations have been unrelated to the operating performance of the affected companies. The trading price of our Common Stock, may be subject to extreme fluctuations in response to both business-related issues (such as quarterly variations in operating results, or announcements of our new products or those of our competitors) and stock market-related influences (such as changes in analysts estimates, the presence or absence of short-selling of our Common Stock and events affecting other companies

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that the market deems to be comparable to us). We are currently traded and quoted on the OTCBB, and our stock price is subject to significant fluctuations.

OUR QUARTERLY RESULTS COULD FLUCTUATE.

Our quarterly operating results in the future may vary significantly, depending on factors such as revenue from our sales of our products, the timing of our new product and service announcements and launches, market acceptance of new and enhanced versions of our products, if any, changes in our operating expenses, failure to effectively manage our inventory levels, changes in our business strategy, and general economic factors. We have limited or no control over many of these factors. Our quarterly revenues will also be difficult to forecast because the markets for our products and services are evolving and our revenues in any period could be significantly affected by new product announcements and product launches by our competitors, as well as by alternative technologies. Variations in timing of sales may cause significant fluctuations in future operating results. In addition, because a significant portion of our business may be derived from orders placed by a limited number of large customers, the timing of such orders can also cause significant fluctuations in our operating results. Anticipated orders from customers may fail to materialize. Delivery schedules may be deferred or cancelled for a number of reasons, including changes in specific customer or international economic conditions. The adverse impact of a shortfall in our revenues may be magnified by our inability to adjust spending to compensate for such shortfall. As a result of these factors and other factors, it is likely that in some future period our operating results will be below the expectations of securities analysts or investors, which would likely result in a significant reduction in the market price of our stock. Period-to-period comparisons of our results of operations will not necessarily be meaningful for the foreseeable future.

INVESTORS SHOULD CONSIDER THE IMPACT OF PENNY STOCK REGULATIONS.

So long as the price of our shares is below $5.00, which it likely will be for the foreseeable future, the sale of our shares will be regulated by certain penny stock rules adopted by the Securities and Exchange Commission. Penny stocks are generally equity securities with a price of less than $5.00 (other than securities registered on certain national exchanges or listed on the NASDAQ system). These stocks and ours in particularly are subject to significant variations in volume and stock price.

LIMITATIONS OF THE OTCBB CAN HINDER COMPLETION OF TRADES.

Trades and quotations on the OTCBB involve a manual process that may delay order processing. Price fluctuations during a delay can result in the failure of a limit order to execute or cause execution of a market order at a price significantly different from the price prevailing when an order was entered. Consequently, one may be unable to trade in our common stock at optimum prices. Investors should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

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control of the market for the security by a few broker-dealers that are often related to the promoter or issuer;

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manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;

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boiler room practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;

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excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

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dumping of securities after prices have been manipulated to a high level, resulting in investor losses.

Our management is aware of the abuses that have occurred historically in the penny stock market.

The market s recognition that a large amount of stock might enter the market suddenly can depress market prices.

WE CANNOT ASSURE THE PAYMENT OF DIVIDENDS.

We have never paid dividends. There can be no assurance that sufficient funds will be available to pay dividends. We have no intention of paying dividends at this time because we do not have sufficient funds to pay dividends; however, this is subject to reconsideration by the Company s Board of Directors. We intend to use profits, if any, to expand operations, and to continue developing operations, instead of using such funds for dividend purposes, in the foreseeable future.

WE DEPEND ON MANAGEMENT AND OTHER KEY PERSONNEL.

We depend on the efforts and abilities of our officers, directors and certain key employees. If we lose the services of one or more of those persons, that loss could have a materially adverse effect on our operations. Our continued success will be dependent upon our ability to hire, train and continue to retain qualified personnel to serve on our staff.

THE BOARD OF DIRECTORS AND MANAGEMENT S LIABILITY TO THE COMPANY AND ITS SHAREHOLDERS FOR MONETARY DAMAGES IS LIMITED.

The Board of Directors and Officer s liability to the Company and its shareholders for errors in judgment and for other acts or omissions is limited by the Articles of Incorporation of the Company. In addition, the Articles of Incorporation of the Company provide for indemnification of the Directors and Officers of the Company by the Company for certain liabilities. Consequently, shareholders will have limited rights of action against the Officers and Directors of the Company.

IF WE DO NOT SUCCEED IN ADDRESSING THESE RISKS, OUR BUSINESS LIKELY WILL BE MATERIALLY AND ADVERSELY AFFECTED.

We forecast our future expense levels based on our operating plans and our estimates of future revenues. If our revenues grow at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to achieve or sustain profitability.

NOTE: IN ADDITION TO THE ABOVE STATED RISKS, BUSINESSES ARE OFTEN SUBJECT TO RISKS NOT FORESEEN OR FULLY ANTICIPARED BY MANAGEMENT. OTHER POSSIBLE RISKS SHOULD BE CONSIDERED.

Item 2. Changes in Securities

In the prior quarter, three promissory notes in the principal amounts of $312,700, $324,043, and $108,744, were converted into common stock in four issuances, the latter three of which, in the amounts of 1,587,500 shares, 4,208,464 shares and 31,837,134 shares occurred during this quarter. These notes have now been fully converted. Further, 20,000,000 shares of restricted common stock was issued in connection with the merger of eNotes Systems, Inc. into the Company.

In the current quarter, there have been 2 million shares of restricted stock issued, one million to Mr. Flammang and one million to Mr. Cella, both in exchange for covenants in their respective employment agreements.

Items 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits.

(a) Exhibits.

*Exhibit 31 Certification required by Rule 13a-14(a) or Rule 15d-14(a),

*Exhibit 32 Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

*Attached

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned who is duly authorized to sign as an officer and as the principal officer of the Company.

eNotes Systems, Inc.

By: /s/ Jeffrey Flammang

Jeffrey Flammang/President and CEO

Date: November 15, 2006