NETLIST INC
Form 424B1
November 30, 2006

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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-136735

6,250,000 Shares
Common Stock

Netlist, Inc. is selling 6,250,000 shares of our common stock. The selling stockholders named in this prospectus, including members of our management, have granted the underwriters a 30-day option to purchase up to an additional 937,500 shares to cover over-allotments, if any. Except as described in "Use of Proceeds," we will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

This is an initial public offering of our common stock. The initial public offering price is $7.00 per share. We have been approved for quotation of our common stock on the Nasdaq Global Market under the symbol "NLST."

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

	Per Share		Total
Public offering price	$7.00	$	43,750,000
Underwriting discount	$0.49	$	3,062,500
Proceeds, before expenses, to us	$6.51	$	40,687,500

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Thomas Weisel Partners LLC

Needham & Company, LLC

WR Hambrecht + Co

The date of this prospectus is November 29, 2006

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

In this prospectus "our company," "we," "us" and "our" refer to Netlist, Inc. and its subsidiaries.

All trademarks, service marks or trade names appearing in this prospectus are the property of their respective owners.

Effective January 1, 2003, we changed our fiscal year from a calendar year to a 52/53-week fiscal year ending on the Saturday closest to December 31. Each of the first three quarters of our fiscal year end on the last Saturday in each of March, June and September. As a result, each fiscal quarter consists of 13 weeks during a 52-week fiscal year. During a 53-week fiscal year, one quarter will have 14 weeks and three quarters will consist of 13 weeks.

Market data and industry statistics used throughout this prospectus are based on independent industry publications and other publicly available information. We have not independently verified this information.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information concerning our company, the common stock being sold in this offering and our consolidated financial statements appearing in this prospectus. Read this entire prospectus carefully, especially the risks described under "Risk Factors," before you invest in our common stock.

Netlist, Inc.

We design and manufacture high performance memory subsystems. We sell our subsystems to original equipment manufacturers, or OEMs, in the server, high performance computing and communications markets. Within these markets, we target applications in which memory plays a key role in enabling overall system performance. Our memory subsystems are incorporated into multiple platforms at International Business Machines Corporation, or IBM, Dell Inc., Gateway, Inc., Lenovo Group Limited, or Lenovo, and Hewlett-Packard Company.

Electronic systems of all types are continually evolving to keep pace with user demands for higher performance, as measured by speed, functionality or smaller physical size. In order to meet these performance expectations, OEM designers rely on increasing amounts of memory to take advantage of the latest advances in processor technology and operating system functionality. Dynamic random access memory, or DRAM, represents the most common type of memory used across these electronic systems today. In memory-intensive applications, OEMs often seek memory solutions which integrate multiple DRAM integrated circuits, or ICs, into a subsystem that delivers high memory density in a small physical size and shape, or form factor. These memory subsystems are available in both standard and application-specific configurations. Standard memory modules have proven generally inadequate to meet the demanding customer requirements in our target markets. Our memory subsystems are primarily designed and manufactured to specifically address the high performance needs of our customers' systems more completely than is possible using standard memory modules.

We collaborate with our OEM customers in the earliest stages of their new product design cycles. This collaboration provides us with unique insight into the OEM's system architecture and performance requirements and expands our systems expertise. In addition, we have developed a portfolio of proprietary technologies and design techniques to meet OEM needs, including efficient non-stacked, side-by-side IC placement, or planar, designs, alternative packaging techniques and custom semiconductor logic. As a result of our systems expertise and proprietary technologies, we are able to design application-specific memory subsystems with optimal combinations of high memory density, small form factor, high signal integrity, effective heat dissipation and low cost per bit. We also offer our OEM customers flexible order fulfillment and rapid turnaround times once we begin volume production of a specific product.

Designing memory subsystems that meet the requirements of high performance electronic systems has become increasingly difficult. One approach to meeting these requirements is to add more memory ICs to a memory module, which requires more space, complicates board and system design and exacerbates signal integrity and heat dissipation issues. A second approach is to use next-generation memory ICs that offer greater memory density, but the high cost and low availability of these ICs discourages their immediate adoption in high performance systems. A third approach is to stack prior generation memory ICs, yet this technique can still constitute a significant portion of the cost of materials for a memory module. These industry standard approaches generally do not by themselves meet the requirements of high performance electronic systems. We leverage our proprietary technology and our extensive systems expertise to bridge this gap between industry standard approaches and the requirements of complex OEM systems.

Our memory subsystems offer differentiated features and performance characteristics. For example, our innovative printed circuit board, or PCB, designs enhance signal integrity, allowing our customers to design and market products that operate at the highest commercially available speeds. Another technique we utilize is to embed passive devices within the PCB, thereby freeing valuable board space to reduce form factors and improve signal integrity. Our solutions also address system-level thermal issues encountered at high operating speeds through such innovations as planar designs and proprietary heat dissipation technologies.

Our objective is to be the leading provider of high performance memory subsystems. Key elements of our strategy include:

Further Sales Penetration of Existing Customers. We have established deep relationships, and qualified our products, with leading OEMs. Our current OEM customers have a large and diverse portfolio of system platforms that require high performance memory subsystems. We believe we have an attractive opportunity to provide them with memory solutions for a greater number of their existing and future platforms.

Establish Relationships with New Customers. We will continue to dedicate significant sales and marketing resources to establish new relationships with industry-leading OEMs for whom memory subsystem performance is a key determinant of overall system performance.

Target New Applications and Product Opportunities. We currently rely on the server market for most of our revenues. We intend to develop additional memory solutions, using both volatile (DRAM) memory, which does not retain data after system power is shut off, and non-volatile (flash) memory, which does, based on our core technology capabilities. In particular, we intend to develop flash memory solutions to penetrate the communications, industrial and embedded systems markets.

Continue to Invest in the Development of Proprietary Technology. We intend to actively expand our intellectual property portfolio and engineering capabilities by investing in research and development. One targeted area of technology development is the design of custom logic ICs that can be used in memory modules to provide value-added features.

Establish International Operations and Manufacturing Capabilities. We plan to establish a manufacturing facility in China during the first half of 2007. We believe that this will allow us to better support leading OEMs with design and manufacturing sites in China, lower our production costs and provide access to new pools of engineering talent.

We were incorporated in Delaware in June 2000 and commenced operations in September 2000. Our principal executive offices are located at 475 Goddard, Irvine, California 92618, and our telephone number is (949) 435-0025. Our web site is www.netlistinc.com. The information on our web site is not incorporated by reference into this prospectus.

The Offering

Common stock offered	6,250,000 shares
Common stock to be outstanding after this offering	19,544,197 shares
Over-allotment option	The selling stockholders have granted the underwriters a 30-day option to purchase up to 937,500 additional shares of common stock to cover over-allotments, if any. The selling stockholders include members of our management. Except as described in "Use of Proceeds", we will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.
Use of proceeds	Our net proceeds from this offering will be approximately $39.1 million. We intend to use these net proceeds for general corporate purposes, including to: fund our future working capital requirements; reduce our outstanding debt; establish a manufacturing operation in China; increase our research and development activities and our sales and marketing resources; and acquire complementary businesses, products or technologies. See "Use of Proceeds."
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Nasdaq Global Market symbol	NLST

The common stock to be outstanding after this offering is based on 11,244,197 shares of common stock outstanding as of September 30, 2006, plus the following number of shares of common stock issuable upon the conversion of our outstanding convertible securities effective immediately prior to the completion of this offering:

- 1,000,000 shares issuable upon the conversion of all of our outstanding convertible preferred stock; and

- 1,050,000 shares issuable upon the conversion of $1.75 million in aggregate principal amount of our outstanding convertible promissory notes.

The common stock to be outstanding after this offering excludes the following number of shares of common stock, each described as of September 30, 2006:

- 397,500 shares of common stock issuable upon the exercise of outstanding warrants with a weighted-average exercise price of $1.35 per share;
- 3,244,500 shares of common stock issuable upon the exercise of outstanding options with a weighted-average exercise price of $3.11 per share; and
- 382,166 shares of common stock available for future issuance under our Amended and Restated 2000 Equity Incentive Plan.

Unless otherwise indicated, all information in this prospectus assumes: an initial public offering price of $7.00 per share; no exercise of the underwriters' over-allotment option; and the filing of a restated certificate of incorporation and adoption of restated bylaws prior to the completion of this offering.

Summary Consolidated Financial Data

The summary consolidated financial data set forth below should be read in conjunction with the information presented in this prospectus under "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and with our audited and unaudited consolidated financial statements and the related notes included elsewhere in this prospectus.

The summary consolidated financial data set forth below are derived from our consolidated financial statements. The consolidated statement of operations data for the years ended December 27, 2003, January 1, 2005 and December 31, 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 2001 and 2002 are derived from our audited consolidated financial statements not included in this prospectus. The consolidated statement of operations data for the nine month periods ended October 1, 2005 and September 30, 2006, and the consolidated balance sheet data as of September 30, 2006, are derived from our unaudited consolidated financial statements included elsewhere in this prospectus.

Our historical results are not necessarily indicative of results for any future period. The "Pro Forma" column of the consolidated balance sheet data reflects the automatic conversion immediately prior to the completion of this offering of $1.75 million of convertible notes and $2.0 million of convertible preferred stock into common stock. The "Pro Forma as Adjusted" column of the consolidated balance sheet data adjusts the pro forma amounts to reflect the sale of 6,250,000 shares of common stock offered by us at an initial public offering price of $7.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	Year Ended					Nine Months Ended	
	December 31, 2001	**December 31, 2002**	**December 27, 2003**	**January 1, 2005**	**December 31, 2005**	**October 1, 2005**	**September 30, 2006**
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Net sales	$ 2,660	$ 13,994	$ 100,375	$ 143,659	$ 79,856	$ 56,552	$ 109,439
Cost of sales(1)	3,035	12,147	86,107	133,503	73,892	52,482	93,971
Gross profit (loss)	(375)	1,847	14,268	10,156	5,964	4,070	15,468
Research and development(1)	220	491	11,759	3,770	2,961	2,493	2,388
Selling, general and administrative(1)	842	1,652	15,218	6,314	5,062	3,694	6,494
Operating income (loss)	(1,437)	(296)	(12,709)	72	(2,059)	(2,117)	6,586
Net income (loss)	$ (959)	$ (632)	$ (15,905)	$ (974)	$ (2,347)	$ (2,043)	$ 3,094
Net income (loss) per common share:							
Basic	$ (0.11)	$ (0.07)	$ (1.62)	$ (0.09)	$ (0.22)	$ (0.17)	$ 0.28
Diluted	$ (0.11)	$ (0.07)	$ (1.62)	$ (0.09)	$ (0.22)	$ (0.17)	$ 0.21
Weighted-average shares outstanding:							
Basic	8,840	9,200	9,831	10,671	10,673	10,672	11,072
Diluted	8,840	9,200	9,831	10,671	10,673	10,672	15,248

(1) Amounts include stock-based compensation expense as follows:

	Year Ended	Nine Months Ended

	Year Ended					Nine Months Ended	
	December 31, 2001	December 31, 2002	December 27, 2003	January 1, 2005	December 31, 2005	October 1, 2005	September 30, 2006
Cost of sales	$	$	$ 69	$ 29	$ 56	$ 23	$ 60
Research and development		371	9,733	80	(52)	(37)	71
Selling, general and administrative	87	424	10,872	141	(65)	(41)	316

	September 30, 2006		
	Actual	Pro Forma	Pro Forma as Adjusted
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 1,001	$ 1,001	$ 38,281
Total assets	42,581	42,581	79,861
Total debt(1)	16,352	14,602	12,769
Stockholders' equity	6,812	8,562	47,675

(1) Amounts include revolving line of credit balance as of September 30, 2006 of $11,171,000.

Effective January 1, 2003, the Company changed its fiscal year from a calendar year to a 52/53-week fiscal year ending on the Saturday closest to December 31. The 2003, 2004 and 2005 fiscal years ended on December 27, 2003, January 1, 2005 and December 31, 2005, respectively, and consisted of 52 weeks.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. These risks are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations, operating results, cash flows and financial condition. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and related notes.

Risks Related to Our Business and Industry

We have a limited operating history, and we expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

Our limited operating history makes it difficult to predict our future performance. Our operating results have varied significantly in the past and will continue to fluctuate from quarter-to-quarter or year-to-year in the future due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these quarterly and annual fluctuations include the following factors, as well as other factors described elsewhere in this prospectus:

- the loss of, or a significant reduction in sales to, a key customer;
- the cyclical nature of the industry in which we operate;
- a reduction in the demand for our high performance memory subsystems or the systems into which they are incorporated;
- our ability to develop new or enhanced products that achieve market acceptance in a timely manner;
- the timing of introductions of competing products or technologies;
- our ability to adequately support future growth;
- our ability to procure an adequate supply of key components;
- changes in the prices of our products or in the cost of the materials that we use to build our products;
- our failure to maintain the qualification of our products with our current customers or to qualify future products with our current or prospective customers;
- our establishment and ongoing operation of a new manufacturing facility in China;
- the loss of any of our key personnel;
- delays in fulfilling orders for our products or a failure to fulfill orders;
- disputes regarding intellectual property rights;

litigation involving our products;

our customers' failure to pay us on a timely basis; and

changes in accounting principles or policies.

Due to the various factors mentioned above, and others, the results of any prior quarterly or annual periods should not be relied upon as an indication of our future operating performance.

Our three largest customers comprised approximately 68% and 79% of our net sales for fiscal 2005 and the first nine months of fiscal 2006, respectively, and the loss of, or a significant reduction in sales to, any one of these customers could materially harm our business.

Sales to Dell, IBM and Lenovo represented 35%, 20% and 13%, respectively, of our net sales in fiscal 2005, and 36%, 41% and 2%, respectively, of our net sales in the first nine months of fiscal 2006. We expect that sales to Dell and IBM will continue to represent a significant percentage of our net sales for at least the next 12 months. We do not have long-term agreements with these three customers, or with any other customer. Any one of these three customers could decide at any time to discontinue, decrease or delay their purchase of our products. In addition, the prices that these three customers pay for our products are subject to negotiation and could change at any time. The loss of either Dell or IBM as a customer, or a significant reduction in sales to either of them, would significantly reduce our net sales and adversely affect our operating results.

Our ability to maintain or increase our net sales to our key customers depends on a variety of factors, many of which are beyond our control. These factors include the customers' continued sales of servers and other computing systems that incorporate our memory subsystems and the customers' continued use of our products in their systems.

Because of these and other factors, we cannot assure you that net sales to these customers will continue or that the amount of such net sales will reach or exceed historical levels in any future period. Because these customers account for a substantial portion of our net sales, the failure of any one of these customers to pay on a timely basis would negatively impact our cash flow.

A limited number of relatively large potential customers dominate the markets for our products.

Our target markets are characterized by a limited number of large companies. Consolidation in one or more of our target markets may further increase this industry concentration. As a result, we anticipate that sales of our products will continue to be concentrated among a limited number of large customers in the foreseeable future. We believe that our financial results will depend in significant part on our success in establishing and maintaining relationships with, and effecting substantial sales to, these potential customers. Even if we establish these relationships, our financial results will be largely dependent on these customers' sales and business results.

The markets in which we compete are cyclical in nature, and any future downturn could adversely affect our business.

The markets in which we compete and in which our customers operate have been cyclical and are characterized by wide fluctuations in product supply and demand. These markets have experienced significant downturns, often connected with, or in anticipation of, maturing product cycles, reductions in technology spending and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and the erosion of average selling prices. As a result, our sales will likely decline during these periods. In addition, if we are unable to control our expenses adequately in response to reduced net sales, our results of operations would be negatively impacted.

We are subject to risks relating to product concentration and lack of market diversification.

In fiscal 2005 and the first nine months of fiscal 2006, we generated 51% and 83%, respectively, of our net sales from sales of our high performance memory subsystems for use in the server market. We expect these memory subsystems to continue to account for most of our net sales in the near term. Continued market acceptance of these products for use in servers is critical to our success. If the demand for servers deteriorates or if the demand for our products to be incorporated in servers declines, our operating results would be adversely affected, and we would be forced to diversify our product portfolio and our target markets. We may not be able to achieve this diversification, and our inability to do so may adversely affect our business.

We have historically incurred losses and may continue to incur losses.

We have incurred net losses each year since the inception of our business. Our cumulative net losses were $21.4 million and $18.3 million as of December 31, 2005 and September 30, 2006, respectively. We may not be able to attain profitability on a quarterly or annual basis in the future.

We use a small number of DRAM IC suppliers and are subject to risks of disruption in the supply of DRAM ICs.

Our ability to fill customer orders is dependent on a sufficient supply of DRAM ICs, which are an essential component of our memory subsystems. There is a relatively small number of suppliers of DRAM ICs, and we purchase from only a subset of these suppliers. We have no long-term DRAM supply contracts. Our dependence on a small number of these suppliers and our lack of any guaranteed sources of DRAM supply expose us to several risks, including the inability to obtain an adequate supply of DRAM ICs, price increases, delivery delays and poor quality.

From time to time, shortages in DRAM ICs have required some suppliers to limit the supply of their DRAM ICs. As a result, we may be unable to obtain the DRAM ICs necessary to fill customers' orders for our products in a timely manner. If we are unable to obtain a sufficient supply of DRAM ICs to meet our customers' requirements, these customers may reduce future orders for our products or not purchase our products at all, which would cause our net sales to decline and harm our operating results. In addition, our reputation could be harmed, we may not be able to replace any lost business with new customers, and we may lose market share to our competitors.

Our customers qualify the DRAM ICs of our suppliers for use in their systems. If one of our suppliers should experience quality control problems, it may be disqualified by one or more of our customers. This would disrupt our supplies of DRAM ICs and reduce the number of suppliers available to us, and may require that we qualify a new supplier.

The price of DRAM ICs is volatile, and excess inventory of DRAM ICs, other components, and finished products could adversely affect our gross margin.

The prices of our products are adjusted periodically based largely on the market price of DRAM ICs, which constituted more than 82% and 74% of the total cost of our memory subsystems sold during fiscal 2005 and the first nine months of fiscal 2006, respectively. Once our prices with a customer are negotiated, we are generally unable to revise pricing with that customer until our next regularly scheduled price adjustment. Consequently, we are exposed to the risks associated with the volatility of the price of DRAM ICs during that period. If the market price for DRAM ICs increases, we generally cannot pass this price increase on to our customers for products purchased under an existing purchase order. As a result, our cost of sales could increase and our gross margins could decline. Alternatively, if there is a decline in the price of DRAM ICs, we will need to reduce our selling prices for subsequent purchase orders, which may result in a decline in our expected net sales.

Customer demand for our products, and thus DRAM ICs, can be difficult to estimate because we do not have long-term commitments from our customers, and our customers may cancel or defer purchase orders for any reason. If we overestimate customer demand, we will have excess inventory of DRAM ICs. If there is a subsequent decline in the price of DRAM ICs, the value of our inventory will fall. As a result, we may need to write-down the value of our DRAM IC inventory, which may result in a significant decrease in our gross margin and financial condition. If we underestimate customer demand, we will not have sufficient inventory of DRAM ICs to manufacture our products. This will lead to delays in the delivery of our products, which could cause order cancellations, the loss of customers and a decrease in our net sales.

If the supply of other component materials used to manufacture our products is interrupted, or if our inventory becomes obsolete, our results of operations and financial condition could be adversely affected.

We use consumables and other components, including PCBs, to manufacture our memory subsystems. We sometimes procure PCBs and other components from single or limited sources to take advantage of volume pricing discounts. Material shortages or transportation problems could interrupt the manufacture of our products from time to time in the future. These delays in manufacturing could adversely affect our results of operations.

Frequent technology changes and the introduction of next-generation products also may result in the obsolescence of other items of inventory, such as our custom-built PCBs, which could reduce our gross margin and adversely affect our operating performance and financial condition. We may not be able to sell some products developed for one customer to another customer because our products are often designed to address specific customer requirements, and if we are able to sell these products our margin on such products may be reduced.

We may lose our competitive position if we are unable to timely and cost-effectively develop new or enhanced products that meet our customers' requirements and achieve market acceptance.

Our industry is characterized by intense competition, rapid technological change, evolving industry standards and rapid product obsolescence. Evolving industry standards and technological change or new, competitive technologies could render our existing products obsolete. Accordingly, our ability to compete in the future will depend in a large part on our ability to identify and develop new or enhanced products on a timely and cost-effective basis, and to respond to changing customer requirements. In order to develop and introduce new or enhanced products, we need to:

- identify and adjust to the changing requirements of our current and potential customers;
- identify and adapt to emerging technological trends and evolving industry standards in our markets;
- design and introduce cost-effective, innovative and performance-enhancing features that differentiate our products from those of our competitors;
- develop relationships with potential suppliers of components required for these new or enhanced products;
- qualify these products for use in our customers' products; and
- develop and maintain effective marketing strategies.

Our product development efforts are costly and inherently risky. It is difficult to foresee changes or developments in technology or anticipate the adoption of new standards. Moreover, once these things are identified, if at all, we will need to hire the appropriate technical personnel, develop the product and identify and eliminate design flaws. As a result, we may not be able to successfully develop new or enhanced products, or we may experience delays in the development and introduction of new or enhanced products. Delays in product development and introduction could result in the loss of, or delays in generating, net sales and the loss of market share, as well as damage to our reputation. Even if we develop new or enhanced products, they may not meet our customers' requirements or gain market acceptance. Accordingly, we cannot assure you that our future product development efforts will result in the development of new or enhanced products or that such products will achieve market acceptance.

Our customers require that our products undergo a lengthy and expensive qualification process without any assurance of net sales.

Our prospective customers generally make a significant commitment of resources to test and evaluate our memory subsystems prior to purchasing our products and integrating them into their systems. This extensive qualification process involves rigorous reliability testing and evaluation of our products, which may continue for six months or longer and is often subject to delays. Qualification by a prospective customer does not ensure any sales to that prospective customer. Even after successful qualification and sales of our products to a customer, changes in our products, our manufacturing facilities, our production processes or our component suppliers may require a new qualification process, which may result in additional delays.

The qualification process is generally both product-specific and platform-specific, and as a result, our existing customers sometimes require us to requalify our products, or to qualify our new products, for use in new platforms or applications. For example, as our OEM customers transition from prior generation double data rate, or DDR, to current generation DDR2 DRAM architectures, we must design and qualify new products for use by those customers. In the past, this process of design and qualification has taken up to six months to complete, during which time our net sales to those customers declined significantly. After our products are qualified, it can take several months before the customer begins production and we begin to generate net sales. We must devote substantial resources, including design, engineering, sales, marketing and management efforts, to qualify our products with prospective customers in anticipation of sales. If we delay or do not succeed in qualifying a product with a prospective customer, we will not be able to sell that product to that prospect, which would harm our operating results and business.

We may not be able to maintain our competitive position because of the intense competition in our target markets.

We participate in highly competitive markets, and we expect competition to intensify. Many of our competitors have longer operating histories, significantly greater resources and name recognition, a larger base of customers and longer-standing relationships with customers and suppliers than we have. As a result, some of these competitors are able to devote greater resources to the development, promotion and sale of products and are better positioned than we are to influence customer acceptance of their products over our products. These competitors also may be able to respond better to new or emerging technologies or standards and may be able to deliver products with comparable or superior performance at a lower price. For these reasons, we may not be able to compete successfully against these competitors.

In addition to the competitors described above, some of our OEM customers have their own internal design groups that may develop solutions that compete with ours. These design groups have some advantages over us, including direct access to their respective companies' technical information and technology roadmaps. Our OEM customers also have substantially greater resources, financial or otherwise, than we do, and may have lower cost structures than ours. As a result, they may be able to design and manufacture competitive products more efficiently or inexpensively. If any of these OEM customers are successful in competing against us, our sales could decline, our margins could be negatively impacted and we could lose market share, any or all of which could harm our business and results of operations.

We expect our competitors to continue to improve the performance of their current products, reduce their prices and introduce new or enhanced technologies that may offer greater performance and improved pricing. If we are unable to match or exceed the improvements made by our competitors, our market position would deteriorate and our net sales would decline. In addition, our competitors may develop future generations and enhancements of their products that may render our technologies obsolete or uncompetitive.

We also expect to face competition from new and emerging companies that may enter our existing or future markets. These potential competitors may have similar or alternative products which may be less costly or provide additional features.

The establishment and ongoing operation of our planned manufacturing facility in China could expose us to new and significant risks.

We are planning to establish a new manufacturing facility in China. To prepare this facility for operation, we will need to purchase new equipment, replicate our current manufacturing processes and hire additional technical personnel. The difficulties normally associated with this complicated process will be compounded by language and cultural differences, as well as the geographic distance from our current facility. Our management has limited experience in creating or overseeing foreign operations, and this new facility may divert substantial amounts of their time. Further, this new facility may be subject to factory audits by our customers. We may not be able to begin operations at this new facility on a timely basis, or at all. Even if this facility becomes operational and is qualified by our customers, we cannot assure you that we will be able to maintain control over product quality, delivery schedules, manufacturing yields and costs as we increase our output. We will also have to manage a local workforce that may subject us to uncertainties or regulatory policies. Any difficulties in operating this new facility could cause product delivery delays and harm our operating results.

We currently anticipate that our new manufacturing facility in China will become operational in the first half of fiscal 2007. Although we are currently planning to establish a manufacturing facility in China, we have not completed our analysis and planning, and the establishment of this new manufacturing facility will require approval by our board of directors. Once this facility is established and becomes operational, some of our net sales will be denominated in Chinese Renminbi, or Yuan. The Chinese government controls the procedures by which Yuan is converted into other currencies, and conversion of Yuan generally requires government consent. As a result, Yuan may not be freely convertible into other currencies at all times. If the Chinese government institutes changes in currency conversion procedures, or imposes restrictions on currency conversion, those actions may negatively impact our operations and could reduce our operating results. In addition, fluctuations in the exchange rate between Yuan and U.S. dollars may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. These fluctuations may also adversely affect the comparability of our period-to-period results. If we decide to declare dividends and repatriate funds from our Chinese operations, we will be required to comply with the procedures and regulations of applicable Chinese law. Any changes to these procedures and regulations, or our failure to comply with those procedures and regulations, could prevent us from making dividends and repatriating funds from our Chinese operations, which could adversely affect our financial condition. If we are able to make dividends and repatriate funds from our Chinese operations, these dividends would be subject to U.S. corporate income tax.

We depend on a few key employees, and if we lose the services of any of those employees or are unable to hire additional personnel, our business could be harmed.

Our success to date has been highly dependent on the experience, relationships and technical knowledge of Chun K. Hong, our President, Chief Executive Officer and Chairman of the Board, Jayesh Bhakta, our Vice President of Engineering, and Christopher Lopes, our Vice President of Sales. We believe that our future success will be dependent on our ability to retain the services of these key employees, develop their successors, reduce our reliance on them, and properly manage the transition of their roles should departures occur.

The loss of these key employees could delay the development and introduction of, and negatively impact our ability to sell, our products and otherwise harm our business. We do not have employment agreements with any of these key employees other than Mr. Hong. We do not carry key man life insurance on any of our key employees.

Our future success also depends on our ability to attract, retain and motivate highly skilled engineering, manufacturing, other technical and sales personnel. Competition for experienced personnel is intense. We may not be successful in attracting new engineers or other technical personnel, or in retaining or motivating our existing personnel. If we are unable to hire and retain engineers with the skills necessary to keep pace with the evolving technologies in our markets, our ability to continue to provide our current products and to develop new or enhanced products will be negatively impacted, which would harm our business. In addition, the shortage of experienced engineers, and other factors, may lead to increased recruiting, relocation and compensation costs for such engineers, which may exceed our expectations and resources. These increased costs may make hiring new engineers difficult, or may reduce our margins.

As of September 30, 2006, 39% of our workforce consisted of contract personnel. We invest considerable time and expense in training these contract employees. We may experience high turnover rates in our contract employee workforce, which may require us to expend additional resources in the future. If we convert any of these contract employees into permanent employees, we may have to pay finder's fees to the contract agency.

Our lack of a significant backlog of unfilled orders, and the difficulty inherent in forecasting customer demand, makes it difficult to forecast our short-term production requirements to meet that demand.

We do not have long-term purchase agreements with our customers. Instead, our customers generally place purchase orders no more than two weeks in advance of their desired delivery date, and these purchase orders generally have no cancellation or rescheduling penalty provisions. This fact, combined with the quick turn-around times that apply to each order, makes it difficult to forecast our production needs and allocate production capacity efficiently. Our production expense levels are based in part on our forecasts of our customers' future product requirements and to a large extent are fixed in the short term. As a result, we likely will be unable to adjust spending on a timely basis to compensate for any unexpected shortfall in those orders. Any significant shortfall of customer orders in relation to our expectations could hurt our operating results, cash flows and financial condition. Also, any rapid increases in production required by our customers could strain our resources and reduce our margins. If such a rapid increase were to occur at any given time, we may not have sufficient short-term manufacturing capacity to meet our customers' immediate demands.

We attempt to forecast the demand for the DRAM ICs and other components needed to manufacture our products. Lead times for components vary significantly and depend on various factors, such as the specific supplier and the demand and supply for a component at a given time. If we underestimate customer demand or if we have not provided for sufficient manufacturing capacity, we would not be able to manufacture a sufficient quantity of our products and could forego sales opportunities, lose market share and damage our customer relationships.

If we are unable to manufacture our products efficiently, our operating results could suffer.

We must continuously review and improve our manufacturing processes in an effort to maintain satisfactory manufacturing yields and product performance, lower our costs and otherwise remain competitive. For example, we began implementing lead-free soldering technologies in our manufacturing processes in the second quarter of fiscal 2005, and "Reduction of Hazardous Substances" manufacturing processes in the fourth quarter of fiscal 2005, both of which have been fully implemented as of the date of this prospectus. Implementing process improvements in the future could negatively impact our manufacturing yields, which would in turn adversely affect our results of operations.

As we manufacture more complex products, the risk of encountering delays or difficulties increases. The start-up costs associated with implementing new manufacturing technologies, methods and processes, including the purchase of new equipment, and any resulting manufacturing delays and inefficiencies, could negatively impact our results of operations.

If we need to add manufacturing capacity, an expansion of our existing manufacturing facility or establishment of a new facility could be subject to factory audits by our customers. For example, our new manufacturing facility in China will need to be audited and approved by our key customers. Any delays or unexpected costs resulting from this audit process could adversely affect our net sales and results of operations. In addition, we cannot be certain that we will be able to increase our manufacturing capacity on a timely basis or meet the standards of any applicable factory audits.

If we fail to protect our proprietary rights, our customers or our competitors might gain access to our proprietary designs, processes and technologies, which could adversely affect our operating results.

We rely on a combination of patent protection, trade secret laws and restrictions on disclosure to protect our intellectual property rights. We have submitted a number of patent applications regarding our proprietary processes and technology. It is not certain when or if any of the claims in the remaining applications will be allowed. To date we have had only four patents issued. We intend to continue filing patent applications with respect to most of the new processes and technologies that we develop. However, patent protection may not be available for some of these processes or technologies.

It is possible that our efforts to protect our intellectual property rights may not:

- prevent challenges to, or the invalidation or circumvention of, our existing intellectual property rights;
- prevent our competitors from independently developing similar products, duplicating our products or designing around any patents that may be issued to us;
- prevent disputes with third parties regarding ownership of our intellectual property rights;
- prevent disclosure of our trade secrets and know-how to third parties or into the public domain;
- result in valid patents, including international patents, from any of our pending or future applications; or
- otherwise adequately protect our intellectual property rights.

Others may attempt to reverse engineer, copy or otherwise obtain and use our proprietary technologies without our consent. Monitoring the unauthorized use of our technologies is difficult. We cannot be certain that the steps we have taken will prevent the unauthorized use of our technologies. This is particularly true in foreign countries, such as China, where we intend to establish a new manufacturing facility and where the laws may not protect our proprietary rights to the same extent as applicable U.S. laws.

If some or all of the claims in our patent applications are not allowed, or if any of our intellectual property protections are limited in scope by a court or circumvented by others, we could face increased competition with regard to our products. Increased competition could significantly harm our business and our operating results.

We may be involved in costly legal proceedings to defend against claims that we infringe the intellectual property rights of others or to enforce or protect our intellectual property rights.

Lawsuits claiming that we are infringing others' intellectual property rights may be brought against us, and we may have to defend against claims of infringement or invalidity. Litigation is inherently uncertain, and an adverse outcome could subject us to significant liability for damages or invalidate our proprietary rights. An adverse outcome also could force us to take specific actions, including causing us to:

- cease selling products that are claimed to be infringing a third party's intellectual property;
- pay royalties on past or future sales;
- seek a license from the third party intellectual property owner to use their technology in our products, which license may not be available on reasonable terms, or at all; or
- redesign those products that are claimed to be infringing a third party's intellectual property.

There is a limited pool of experienced technical personnel that we can draw upon to meet our hiring needs. As a result, a number of our existing employees have worked for our existing or potential competitors at some point during their careers, and we anticipate that a number of our future employees will have similar work histories. In the past, some of these competitors have claimed that our employees misappropriated their trade secrets or violated non-competition or non-solicitation agreements. Some of our competitors may threaten or bring legal action involving similar claims against us or our existing employees or make such claims in the future to prevent us from hiring qualified candidates. Lawsuits of this type may be brought, even if there is no merit to the claim, simply as a strategy to drain our financial resources and divert management's attention away from our business.

We also may find it necessary to litigate against others, including our competitors, customers and former employees, to enforce our intellectual property and contractual and commercial rights including, in particular, our trade secrets, as well as to challenge the validity and scope of the proprietary rights of others. We could become subject to counterclaims or countersuits against us as a result of this litigation. Moreover, any legal disputes with customers could cause them to cease buying or using our products or delay their purchase of our products and could substantially damage our relationship with them.

Any litigation, regardless of its outcome, would be time consuming and costly to resolve, divert our management's time and attention and negatively impact our results of operations.

If we are required to obtain licenses to use third party intellectual property and we fail to do so, our business could be harmed.

Although some of the components used in our final products contain the intellectual property of third parties, we believe that our suppliers bear the sole responsibility to obtain any rights and licenses to such third party intellectual property. While we have no knowledge that any third party licensor disputes our belief, we cannot assure you that disputes will not arise in the future. The operation of our business and our ability to compete successfully depends significantly on our continued operation without claims of infringement or demands resulting from such claims, including demands for payments of money in the form of, for example, ongoing licensing fees.

If it is determined that we are required to obtain inbound licenses and we fail to obtain licenses, or if such licenses are not available on economically feasible terms, our business, operating results and financial condition could be significantly harmed.

If our products are defective or are used in defective systems, we may be subject to product recalls or product liability claims.

If our products are defectively manufactured, contain defective components or are used in defective or malfunctioning systems, we could be subject to product liability claims and product recalls, safety alerts or advisory notices. While we have product liability insurance coverage, it may not be adequate to satisfy claims made against us. We also may be unable to obtain insurance in the future at satisfactory rates or in adequate amounts. Product liability claims or product recalls, regardless of their ultimate outcome, could have an adverse effect on our business, financial condition and reputation, and on our ability to attract and retain customers. In addition, while we may not be contractually obligated to accept returned products, we may determine that it is in our best interest to accept returns in order to maintain good relations with our customers. Accepting product returns may negatively impact our operating results.

If we acquire other businesses or technologies in the future, these acquisitions could disrupt our business and harm our operating results and financial condition.

We will evaluate opportunities to acquire businesses or technologies that might complement our current product offerings or enhance our technical capabilities. We have no experience in acquiring other businesses or technologies. Acquisitions entail a number of risks that could adversely affect our business and operating results, including:

- difficulties in integrating the operations, technologies or products of the acquired companies;
- the diversion of management's time and attention from the normal daily operations of the business;
- insufficient increases in net sales to offset increased expenses associated with acquisitions or acquired companies;
- difficulties in retaining business relationships with suppliers and customers of the acquired companies;
- the overestimation of potential synergies or a delay in realizing those synergies;
- entering markets in which we have no or limited experience and in which competitors have stronger market positions; and
- the potential loss of key employees of the acquired companies.

Future acquisitions also could cause us to incur debt or be subject to contingent liabilities. In addition, acquisitions could cause us to issue equity securities that could negatively impact the ownership percentages of our existing stockholders. Furthermore, acquisitions may result in material charges or adverse tax consequences, substantial depreciation, deferred compensation charges, in-process research and development charges, the amortization of amounts related to deferred stock-based compensation expense and identifiable purchased intangible assets or impairment of goodwill, any or all of which could negatively affect our results of operations.

If we do not effectively manage our growth, our resources, systems and controls may be strained and our results of operations may suffer.

We have expanded, and plan to continue to expand, our operations, both domestically and internationally. Any future growth may strain our resources, management information and telecommunication systems, and operational and financial controls. To manage our growth effectively, including our planned development of a new manufacturing facility in China, we must continue to improve and expand our systems and controls. We may not be able to do this in a timely or cost-effective manner, and our current systems and controls may not be adequate to support our future operations. In addition, our officers have relatively limited experience in managing a rapidly growing business or a public company. As a result, they may not be able to provide the guidance necessary to continue our growth or maintain our market position. Any failure to manage our growth or improve or expand our existing systems and controls, or unexpected difficulties in doing so, could harm our business.

Our internal controls over financial reporting may not be effective, and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business.

We plan to evaluate our internal controls over financial reporting to allow management to report on, and our independent registered public accounting firm to attest to, those internal controls as will be required by Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission, which we collectively refer to as Section 404. This will involve system and process evaluations and testing to comply with the management assessment and auditor attestation requirements of Section 404, which will initially apply to us for the year ended December 29, 2007. Effective internal controls are necessary for us to produce reliable financial reports and are important in our effort to prevent financial fraud. In the course of our Section 404 evaluations, we may identify conditions that may result in significant deficiencies or material weaknesses and we may conclude that enhancements, modifications or changes to our internal controls are necessary or desirable. Implementing any such controls would divert the attention of our management, could involve significant costs, and may negatively impact our results of operations.

We note that there are inherent limitations on the effectiveness of internal controls, as they cannot prevent collusion, management override or failure of human judgment. If we fail to maintain an effective system of internal controls or if management or our independent registered public accounting firm were to discover material weaknesses in our internal controls, we may be unable to produce reliable financial reports or prevent fraud, and it could harm our financial condition and results of operations, result in a loss of investor confidence and negatively impact our share price.

If a standardized memory solution which addresses the demands of our customers is developed, our net sales and market share may decline.

Many of our memory subsystems are specifically designed for our OEM customers' high performance systems. Our business would be harmed if these high performance systems were to become standardized so that DRAM IC manufacturers or other companies could develop and manufacture a commodity memory module addressing the requirements of some or all of these high performance applications. If DRAM IC manufacturers or other companies are able to develop a standardized solution, our future business may be limited to identifying the next generation of high performance memory demands of OEM customers and developing a solution that addresses such demands. Until fully implemented, this next generation of products may constitute a much smaller market, which may reduce our net sales and market share.

Our failure to comply with environmental laws and regulations could subject us to significant fines and liabilities or cause us to incur significant costs.

We are subject to various and frequently changing U.S. federal, state and local and foreign governmental laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites and the maintenance of a safe workplace. In particular, some of our manufacturing processes may require us to handle and dispose of hazardous materials from time to time. For example, in the past our manufacturing operations have used lead-based solder in the assembly of our products. Today, we use lead-free soldering technologies in our manufacturing processes, as this is required for products entering the European Union. We could incur substantial costs, including clean-up costs, civil or criminal fines or sanctions and third-party claims for property damage or personal injury, as a result of violations of, or noncompliance with, environmental laws and regulations. These laws and regulations also could require us to incur significant costs to remain in compliance.

Economic, political and other risks associated with international sales and operations could adversely affect our net sales.

Part of our growth strategy involves making sales to foreign corporations and delivering our products to facilities located in foreign countries. To facilitate this process and to meet the long-term projected demand for our products, we are planning to set up a new manufacturing facility in China. Selling and manufacturing in foreign countries subjects us to additional risks not present with our domestic operations. We will begin operating in business and regulatory environments in which we have little or no previous experience. We will need to overcome language and cultural barriers to effectively conduct our operations in these new environments. In addition, the economies of China and other countries have been highly volatile in the past, resulting in significant fluctuations in local currencies and other instabilities. These instabilities affect a number of our customers and suppliers in addition to our foreign operations and continue to exist or may occur again in the future. International turmoil and the threat of future terrorist attacks, both domestically and internationally, have contributed to an uncertain political and economic climate, both in the U.S. and globally, and have negatively impacted the worldwide economy. The occurrence of one or more of these instabilities could adversely affect our foreign operations and some of our customers or suppliers, each of which could adversely affect our net sales. In addition, our failure to meet applicable regulatory requirements or overcome cultural barriers could result in production delays and increased turn-around times, which would adversely affect our business.

Our operations could be disrupted by power outages, natural disasters or other factors.

Our current manufacturing facility is located in Irvine, California. Due to this geographic concentration, a disruption of our manufacturing operations, resulting from equipment failure, power failures, quality control issues, human error, government intervention or natural disasters, including earthquakes, fires or floods, could interrupt or interfere with our manufacturing operations and consequently harm our business, financial condition and results of operations. Such disruptions would cause significant delays in shipments of our products and adversely affect our operating results.

Risks Related to This Offering

There has been no prior public market for our common stock, and an active trading market may not develop.

Prior to this offering, there has been no public market for our common stock. The initial public offering price for the shares of our common stock sold in this offering has been determined by negotiation between the representatives of the underwriters and us. This price may not reflect the market price of our common stock following this offering. An active trading market may not develop following completion of this offering or, if it is developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. We cannot assure you that the market price will equal or exceed the public offering price of your shares. An inactive market may also impair our ability to raise capital by selling shares in the future and may impair our ability to acquire complementary companies or technologies by using our shares as consideration.

Our common stock price may fluctuate substantially, and your investment could suffer a decline in value.

The market price of our common stock may be volatile and could fluctuate substantially due to a number of factors, many of which are beyond our control and some of which are only indirectly related to our business, including:

- actual or anticipated fluctuations in our net sales or operating results;
- the failure to meet the expectations of securities analysts or investors with respect to our financial performance;
- actual or anticipated changes in our growth rate;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rate;
- the sale of our common stock or other securities in the future;
- our ability to raise additional capital;
- the trading volume of our common stock;
- changes in securities analysts' financial estimates for, and ratings of, us or our competitors or the industry generally; and
- changes in market conditions within our industry, the industries of our customers, the financial markets and the economy as a whole.

In addition, the stock market in general has experienced extreme price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of listed companies. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance.

If our net sales or operating results for future quarters are below our estimates or the estimates or expectations of securities analysts and investors, our stock price could decline. In the past, securities class action litigation has often been brought against companies following a decline in the market price of their securities. Technology companies have experienced stock price volatility that is greater, on average, than companies in many other industries in recent years and, as a result, have, on average, been subject to a greater number of securities class action claims. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of our management's attention and resources that are needed to successfully run our business.

Our principal stockholders have significant voting power and may take actions that may not be in the best interest of our other stockholders.

Upon completion of this offering, our executive officers, directors and principal stockholders will beneficially own, in total, approximately 55% of our outstanding common stock. As a result, these stockholders, acting together, will have the ability to exert substantial influence over all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. This concentration of control could be disadvantageous to other stockholders with interests different from those of our executive officers, directors and principal stockholders. For example, our executive officers, directors and principal stockholders could delay or prevent an acquisition or merger even if the transaction would benefit other stockholders. In addition, this significant concentration of share ownership may adversely affect the trading price for our common stock because investors may perceive disadvantages in owning stock in companies with stockholders that have the ability to exercise significant control.

Substantial future sales of our common stock may depress our stock price.

After this offering, based on shares outstanding as of September 30, 2006, we will have 19,544,197 shares of common stock outstanding. The 6,250,000 shares sold in this offering, or 7,187,500 shares if the underwriters' over-allotment option is exercised in full, will be freely tradable without restriction or further registration under federal securities laws unless purchased by our affiliates. Based on shares outstanding as of September 30, 2006, outstanding shares of our common stock will be available for sale in the public market after this offering, subject to the current information, manner of sale and volume restrictions of Rule 144 and Rule 701, as follows:

Date	Number of Shares	Comment
On the date of this prospectus		Shares not locked up and eligible for sale under Rule 144
90 days after the date of this prospectus	24,197	Shares not locked up and eligible for resale under Rule 144 and Rule 701
180 days after the date of this prospectus	13,270,000	Lock-up released; shares eligible for sale under Rule 144 and Rule 701

The above table assumes the effectiveness of the lock-up agreements under which holders of our common stock have agreed not to sell or otherwise dispose of their shares of common stock. The underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to such lock-up agreements. In addition, as soon as practicable after the completion of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act covering 5,750,000 shares of our common stock issuable under our Amended and Restated 2000 Equity Incentive Plan and 5,500,000 shares of our common stock issuable under our 2006 Equity Incentive Plan. See "Management Employee Benefit Plans" for a description of these plans. Shares registered under that registration statement will be available for sale in the open market, subject to the contractual lock-up agreements described in "Shares Eligible for Future Sale Lock-up Agreements."

We may need to raise additional funds in the future which may not be available on acceptable terms or at all.