

Saifun Semiconductors Ltd.  
Form F-1  
March 08, 2006

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**As filed with the Securities and Exchange Commission on March 8, 2006**

**Registration No. 333-**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form F-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**SAIFUN SEMICONDUCTORS LTD.**

*(Exact Name of Registrant as Specified in its Charter)*

**State of Israel**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**3674**  
*(Primary Standard Industrial  
Classification Code Number)*

**Not Applicable**  
*(I.R.S. Employer  
Identification No.)*

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Netanya 42504  
Israel  
+972 (9) 892-8444**

*(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive  
Offices)*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after effectiveness of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, check the following box.

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Ordinary shares, nominal value NIS 0.01	U.S.\$150,000,000	U.S.\$16,050

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information contained in this prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and neither we nor the selling shareholders are soliciting offers to buy these securities, in any state where the offer or sale is not permitted.**

Subject to Completion, dated March 8, 2006

PROSPECTUS

Shares  
Ordinary Shares

Saifun Semiconductors is offering 340,000 ordinary shares and the selling shareholders are offering ordinary shares. Our ordinary shares are quoted on The Nasdaq National Market and trade under the symbol SFUN. On March 6, 2006, the last reported sale price of our ordinary shares on The Nasdaq National Market was \$28.85 per share.

*Investing in our ordinary shares involves risks. See Risk Factors beginning on page 7.*

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to Saifun Semiconductors (before expenses)	\$	\$
Proceeds to Selling Shareholders (before expenses)	\$	\$

The selling shareholders have granted the underwriters a 30-day option to purchase up to an additional ordinary shares on the same terms and conditions as set forth above if the underwriters sell more than ordinary shares in this offering.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Lehman Brothers, on behalf of the underwriters, expects to deliver the ordinary shares on or about , 2006.

<b>Lehman Brothers</b> <i>Sole Book-Running Manager</i>	<b>Deutsche Bank Securities</b> <i>Joint Lead Manager</i>	<b>Citigroup</b> <i>Joint Lead Manager</i>
<b>CIBC World Markets</b>	<b>William Blair &amp; Company</b>	
	<b>Raymond James</b>	
		<b>WR Hambrecht + Co</b>

, 2006

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell or a solicitation of an offer to buy our ordinary shares in any jurisdiction where it is unlawful. 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 ordinary shares.

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**PROSPECTUS SUMMARY**

*You should read the following summary together with the entire prospectus, including the more detailed information in our consolidated financial statements and related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors.*

**Saifun Semiconductors Ltd.**

We have invented and patented a technology that we refer to as nitride-read-only memory, or NROM, that we believe is leading a revolutionary shift in the non-volatile semiconductor memory market.

Unlike volatile semiconductor memory devices which lose stored information after electrical power is turned off, non-volatile semiconductor memory devices retain stored information even without a power source. We believe that our NROM technology represents a breakthrough in the non-volatile memory market because it offers a number of significant advantages over existing non-volatile memory technology. Although the semiconductor market has periodically experienced cyclicalities, we believe overall demand in the industry will continue to remain strong. According to market estimates from Web-Foot Research, a market research firm in the electronics and the semiconductor industry, the code flash and data flash devices that our technology addresses accounted for sales of \$19.9 billion in 2005, and are expected to grow to \$46.5 billion by 2010, representing a compound annual growth rate of 18.5%. Web-Foot Research estimates that the embedded flash devices that our technology addresses accounted for sales of \$3.3 billion in 2005, and are expected to grow to \$6.3 billion by 2010, representing a compound annual growth rate of 13.8%. Taken as a whole, our NROM technology can be applied in semiconductor memory devices that in 2005 accounted for sales of \$23.2 billion and that are expected to grow to \$52.8 billion by 2010, representing a compound annual growth rate of 17.9%.

We have a business model with two revenue streams. We derive our revenues primarily through licensing our intellectual property. We also derive revenues from design and product development services that we provide to our licensees. The non-volatile memory market is dominated by a small number of large semiconductor manufacturers. We are concentrating our efforts on licensing our technology to market leaders, including Spansion LLC (formerly known as Fujitsu AMD Semiconductor LLC), Infineon Technologies AG, Matsushita Electric Industrial Co., Ltd., Macronix International Co., Ltd., Sony Corporation and Semiconductor Manufacturing International Corporation. This has led us to depend on a relatively small number of licensees for revenues. To date, our revenues from Sony Corporation, Matsushita Electric Industrial Co., Ltd. and Semiconductor Manufacturing International Corporation have not constituted a significant portion of our total revenues.

In 2005, we had revenues of \$78.6 million (including \$19.2 million of non-cash license fees recognized in connection with the exit in December 2004 from our former joint venture with Infineon Technologies) and operating income of \$48.0 million, and for 2004, we had revenues of \$30.6 million and operating income of \$11.7 million. Our net loss of \$37.9 million in 2004 resulted primarily from our share of the losses of our former joint venture as well as from a capital loss resulting from our exit from the joint venture. In 2005, we had net income of \$44.5 million.

**Industry Overview**

Demand for non-volatile memory is experiencing rapid growth as consumer electronics, communications, automotive and industrial products proliferate and require increasingly complex programming codes, and as digitization of information, including photographs, video, music and documents, require increased data storage capacity. These products include mobile phones, still and video digital cameras, portable computers, portable digital music players, digital video recorders, set-top boxes, communication routers and switches, digital televisions and other electronic systems. The growth in demand for these products is expected to result in an increase in average bit density per device, representing the average number of bits available in a memory device, of 79.2% for code flash and 46.5% for data flash from 2005 to 2006, according to Web-Foot Research.

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Concurrent with this growth, product manufacturers are demanding (1) faster read and write speeds to access code and data, (2) the ability to read and modify stored information repeatedly without adversely impacting reliability, and (3) the ability to retain stored information for an extended period. As a consequence, semiconductor manufacturers are continuously seeking advancements to existing technologies and exploring new technologies in order to meet these requirements and lower their costs.

The most widely-used technology for non-volatile semiconductor memory devices is floating gate technology, which was developed in the late 1960s and has been the prevalent technology for non-volatile semiconductor memory devices since that time. Non-volatile memory based on floating gate technology is subject to a number of limitations. Floating gate devices face significant challenges in reducing cell size and packing cells into smaller spaces on a silicon wafer, referred to as device shrink. In addition, manufacturing non-volatile memory devices using floating gate technology involves a complicated process, which results in high manufacturing costs and a long manufacturing cycle and may also result in lower yields. Floating gate devices also require different cell architectures and thus different manufacturing processes for each type of non-volatile memory device. As a result, most manufacturers of non-volatile memory devices concentrate in particular segments of the market due to the high cost and technical challenges associated with implementing different manufacturing processes within each segment.

Semiconductor manufacturers have sought to achieve device shrink through multi-level cells that use the same architecture as single-cell memory devices, but store fractional charge levels within a single cell, thereby permitting the storage of two bits of information per cell. However, current implementations of this technology have experienced problems with slow read and write times and reduced overall levels of reliability.

### **Our Solution**

We believe that our NROM technology offers the following significant advantages over traditional non-volatile semiconductor memory technology:

*Increased storage capacity.* Our NROM technology doubles the storage capacity of each memory cell on a silicon wafer by enabling the storage of two physically-separated bits of information within a single cell. This results in a significantly lower cost per bit. In addition, our next generation NROM technology, referred to as QUAD NROM, enables the storage of four bits of information in a single cell. We believe that our QUAD NROM technology will enable us to achieve further device shrink and further lower the cost per bit.

*Device shrink.* Due to a simpler cell architecture, we believe that our NROM technology is easier to migrate to smaller manufacturing process geometries than floating gate technology. To date, some of our licensees have sold devices based on our NROM technology down to 110 nanometer process geometries and are also sampling products based on 90 nanometer processes and one licensee has announced plans for products based on 65 nanometer processes.

*Simple, low cost manufacturing process.* Non-volatile memory devices that incorporate our NROM technology require fewer manufacturing steps than comparable floating gate devices.

*High performance and reliability.* Devices based on our NROM technology benefit from enhanced performance and reliability compared to comparable floating gate devices because the charge stored in the device cannot leak out through a single point defect in the cell.

*Same platform for all primary segments of non-volatile memory market.* Our NROM technology uses the same cell and array architecture and manufacturing process for all primary segments of the non-volatile memory market. This allows us to grant licenses that enable semiconductor manufacturers to compete in all segments without the need for separate manufacturing facilities.

Our technology has some limitations. For example, NROM devices may require a higher programming electrical current than some comparable floating gate devices. This may require a more complex design to meet comparable specifications and may result in a longer development time.

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### **Our Strategy**

Our goal is to establish our NROM technology as the leading technology in the non-volatile semiconductor memory market. We intend to achieve our goal through the following strategy:

*Accelerate implementation of NROM technology by our licensees.* We are seeking to accelerate implementation of our NROM technology in a broad range of our licensees' products and to reduce their time to market by providing them with design and product development services focused, in particular, on enabling them to incorporate our NROM technology into their products using their existing manufacturing facilities.

*Continue to direct licensing efforts of our NROM technology at market-leaders.* We believe that our NROM technology will appeal to semiconductor manufacturers in all segments of the non-volatile memory market, and we intend to continue licensing our technology selectively to market leaders.

*Continue to innovate.* We believe that we can further develop and enhance our NROM technology. For example, we have provided engineering samples to several of our licensees of a product implementing four bits per cell using our QUAD NROM technology. We believe that our QUAD NROM technology is currently the only technology that is suited to mass production of four-bit-per-cell devices.

*Enhance our existing technology portfolio.* We believe that our strong patent portfolio and intellectual property position, with over 65 issued U.S. patents (including 10 co-owned U.S. patents) and seven non-U.S. patents, and over 55 pending U.S. patent applications and over 100 pending non-U.S. patent applications, will allow us to maintain our competitive position. We are committed to investing in research and development and continuing to expand and broaden our patent portfolio in key jurisdictions.

### **Company Information**

We were incorporated under the laws of the State of Israel in November 1996 and commenced operations in July 1997. Our principal executive offices are located at ELROD Building, 45 Hamelacha Street, Sappir Industrial Park, Netanya 42504, Israel, and our telephone number is +972 (9) 892-8444. Our web site address is [www.saifun.com](http://www.saifun.com). The information on our web site does not constitute part of this prospectus.

The terms Saifun, we, us and our refer to Saifun Semiconductors Ltd. and our wholly-owned subsidiaries. The term Infineon Technologies refers to Infineon Technologies AG. The term Infineon Technologies Flash Germany refers to Infineon Technologies Flash GmbH & Co. KG. The term Infineon Technologies Flash Israel refers to Infineon Technologies Flash Ltd.

### **Industry Data**

All references to market data, industry statistics and other information in this prospectus attributed to Gartner, Inc. are contained in the following industry publications: Semiconductor Market Share Database, dated March 2005; Market Share: Semiconductor Revenue, Worldwide, 2005 (Preliminary Estimates), dated December 2005; and Market Share: Foundries, Worldwide, 1H05, dated October 2005. All references to market data, industry statistics and other information in this prospectus attributed to Web-Foot Research are contained in the following industry publications: 2004 Non-Volatile Memory Market Shares by Vendor, dated March 2005; Flash Memory Market Shares by Vendor, dated February 2006; Flash Memory Component Forecast: Q4 2005/Q1 2006, dated January 2006; and emFlash Memory Markets 2005-2011: The Markets for Monolithically Embedded Flash Memory, dated January 2006. When we refer in this prospectus to industry and market data provided by Web-Foot Research, references to the data flash market are based on Web-Foot Research's estimates of the NAND flash market and references to the code flash market are based on Web-Foot Research's estimates of the NOR flash market. Web-Foot Research has advised us that they believe that these references are appropriate because the vast majority of flash memory for data applications is based on NAND technology and for code applications is based on NOR technology.

The terms Saifun NROM and QUAD NROM, as well as the name Saifun and our logo, are registered trademarks. All other registered trademarks appearing in this prospectus are owned by their holders.



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**The Offering**

Ordinary shares offered:

By Saifun Semiconductors 340,000 shares.  
 By the selling shareholders shares.

Ordinary shares to be outstanding after this offering shares.

Use of proceeds We estimate that the net proceeds to us from this offering will be approximately \$ million. We intend to use these proceeds for general corporate purposes and working capital. In addition, we will receive \$ pursuant to the exercise by certain selling shareholders prior to the closing of this offering of options to purchase ordinary shares. We will not receive any proceeds from the sale of the shares by the selling shareholders.

Lock-up period Our directors and officers and the selling shareholders have agreed not to sell any shares during the 90-day period following the date of this prospectus except for the additional shares that may be sold in connection with the option granted to the underwriters.

Nasdaq National Market symbol SFUN.

The number of ordinary shares to be outstanding after this offering is based on 29,607,722 ordinary shares outstanding as of February 28, 2006, gives effect to the issuance prior to the closing of this offering of ordinary shares pursuant to the exercise of options by certain selling shareholders, and excludes: 728,125 issued ordinary shares that are unpaid, are held in trust by the trust company of our Israeli counsel for delivery to the Company's employees upon exercise of options outstanding under our share option plans and carry no voting rights;

5,684,390 ordinary shares reserved for issuance under our share option plans (which includes the 728,125 ordinary shares referred to above), of which options to purchase 4,609,441 ordinary shares at a weighted average exercise price of \$11.73 per share have been granted; and

30,800 ordinary shares issuable upon the exercise of options granted outside of our share option plans at a weighed average exercise price of \$3.14.

Unless otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' option to purchase from the selling shareholders up to additional ordinary shares.

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The following table presents summary consolidated financial and operating data derived from our consolidated financial statements. You should read this data along with the sections of this prospectus entitled "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>Year ended</b>		
	<b>Dec. 28, 2003(3)</b>	<b>Dec. 26, 2004(3)</b>	<b>Dec. 31, 2005</b>
<b>(in thousands, except share and per share data)</b>			
<b>Statements of operations data:</b>			
Revenues:(1)			
Licenses	\$ 7,817	\$ 22,640	\$ 65,790
Services	6,639	7,926	12,811
<b>Total revenues</b>	<b>14,456</b>	<b>30,566</b>	<b>78,601</b>
Cost of services(2)	4,147	7,084	12,048
<b>Gross profit</b>	<b>10,309</b>	<b>23,482</b>	<b>66,553</b>
Operating expenses:			
Research and development(2)	9,132	6,792	7,427
Marketing and selling(2)	2,543	2,914	4,889
General and administrative(2)	1,779	2,115	6,216
<b>Total operating expenses</b>	<b>13,454</b>	<b>11,821</b>	<b>18,532</b>
<b>Operating income (loss)</b>	<b>(3,145)</b>	<b>11,661</b>	<b>48,021</b>
Financial income, net	1,137	1,699	1,749
Equity in losses of equity method investees	(12,820)	(26,172)	
Compensation expense related to issuance of options to employees of equity method investees	(206)	(569)	
Capital loss from sale of equity method investees		(17,334)	
<b>Income (loss) from continuing operations</b>	<b>(15,034)</b>	<b>(30,715)</b>	<b>49,770</b>
Loss from discontinued operations(2)(3)	(156)	(7,189)	(5,263)
<b>Net income (loss)</b>	<b>\$ (15,190)</b>	<b>\$ (37,904)</b>	<b>44,507</b>
<b>Basic earnings (loss) from continuing operations per ordinary share</b>	<b>\$ (0.89)</b>	<b>\$ (1.81)</b>	<b>\$ 0.46</b>
<b>Basic loss from discontinued operations per ordinary share</b>	<b>\$ (0.01)</b>	<b>\$ (0.43)</b>	<b>\$ (0.29)</b>

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Basic net earnings (loss) per ordinary share	\$	(0.90)	\$	(2.24)	\$	0.17
Weighted average number of ordinary shares used in computing net earnings (loss) per share amounts basic		16,896,134		16,927,087		29,452,828
Diluted earnings (loss) from continuing operations per ordinary share	\$	(0.89)	\$	(1.81)	\$	0.36
Diluted loss from discontinued operations per ordinary share	\$	(0.01)	\$	(0.43)	\$	(0.20)
Diluted net earnings (loss) per ordinary share	\$	(0.90)	\$	(2.24)	\$	0.16
Weighted average number of ordinary shares used in computing net earnings (loss) per share amounts diluted		16,896,134		16,927,087		31,947,043

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- (1) Includes revenues from related parties, principally from design and product development services provided to our former joint venture, consisting of \$6.4 million for 2003, and \$8.4 million for 2004. License revenues for 2005 include non-cash revenues of \$19.2 million resulting from the termination of our former joint venture.
- (2) Expenses include stock-based compensation related to options granted to employees and others as follows:

	<b>Year ended December 26, 2004</b>	<b>Year ended December 31, 2005</b>
	<b>(in thousands)</b>	
Cost of services	\$ 175	\$ 834
Research and development	220	330
Marketing and selling	87	667
General and administrative	96	2,410
Loss from discontinued operations	23	54
<b>Total</b>	<b>\$ 601</b>	<b>\$ 4,295</b>

During the third quarter of 2004, we adopted the fair value recognition provisions of FAS 123, as amended by FAS 148 for stock-based employee compensation. Effective December 29, 2003, we elected to apply the Modified Prospective Method under FAS 148. Accordingly, unvested options were accounted for under the fair value recognition provision of FAS 123 from December 29, 2003 as if the fair value method had been applied since the date of grant.

- (3) We decided to discontinue product sales in the second quarter of 2005. During the quarter ended September 25, 2005, we began accounting for products sales operations as discontinued operations; and prior year financial information has been reclassified.

	<b>As of December 31, 2005</b>	
	<b>Actual</b>	<b>As adjusted</b>
	<b>(unaudited)</b>	
	<b>(in thousands)</b>	
<b>Balance sheet data:</b>		
Cash and cash equivalents	\$ 100,327	\$
Held-to-maturity marketable securities	81,496	
Working capital	166,487	
Total assets	193,738	
Total liabilities	17,665	
Capital stock	120	
Accumulated deficit	(35,791)	
Total shareholders equity	176,073	

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As adjusted information included above in the consolidated balance sheet data reflects our receipt of (1) estimated net proceeds of \$            million from the sale by us of 340,000 ordinary shares in this offering, based on the offering price of \$            per share, after deducting underwriting discounts and commissions and estimated offering expenses, and (2) \$            pursuant to the exercise by certain selling shareholders prior to the closing of this offering of options to purchase            ordinary shares.

**Table of Contents****RISK FACTORS**

*This offering and an investment in our ordinary shares involve a high degree of risk. You should consider carefully the risks described below, together with the financial and other information contained in this prospectus, before you decide to buy our ordinary shares. If any of the following risks actually occurs, our business, financial condition and results of operations would suffer. In this case, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.*

**Risks Related to Our Business*****Our historical financial data may be of limited value in evaluating our future prospects.***

To date, we have derived substantially all of our revenues from licensing our intellectual property to third parties and from the provision of design and product development services to Infineon Technologies Flash. Almost all of our license revenues have consisted of license fees and a small portion of our revenues has consisted of license royalties based on a percentage of our licensees' net sales of products incorporating our intellectual property. Subject to our licensees increasing sales of products incorporating our licensed intellectual property, we expect that the proportion of our revenues derived from license royalties will increase relative to license fees. As a result, the components of our revenues may change substantially in future periods. In addition, because we exited our joint venture with Infineon Technologies in December 2004, we will no longer include in our net loss a percentage share of the net loss of the joint venture. Furthermore, in the second quarter of 2005, we decided to discontinue product sales in order to focus on our licensing and services activities. Our product-related activities are presented in our financial statements as a separate line item entitled Loss from discontinued operations. As a result of these factors, our historical financial data may be of limited value in evaluating our future prospects.

***We depend on a small number of licensees for our revenues and if we lose any of these licensees our revenues may decrease substantially.***

To date, we have derived the majority of our revenues from license and service agreements with semiconductor manufacturers in the code, data and embedded flash memory segments. Three licensees accounted for 90% of our licensing and service revenues in 2004 and 87% of our licensing and service revenues in 2005:

	Year ended	
	December 26, 2004	December 31, 2005
Macronix International Co., Ltd.	37%	18%
Infineon Technologies AG	28*	57
Spansion LLC	25	12

\* Includes revenues from Infineon Technologies Flash Israel, the Israeli entity in our former joint venture which we exited in December 2004.

As of December 31, 2005, our license agreements contained contractual commitments for license fees payable to us before December 31, 2007 totaling approximately \$42 million, the substantial majority of which we expect to recognize prior to December 31, 2007. The majority of this amount is payable by Infineon Technologies and the majority of the remaining balance by Semiconductor Manufacturing International Corporation. Substantially all of these fees are subject to cancellation by our licensees. Subject to these licensees successfully incorporating our intellectual property into their products, we expect that a significant portion of our future revenues will continue to be derived from them for the foreseeable future. The loss of any of these licensees or any other significant customer in the future could cause our revenues to decrease substantially.



**Table of Contents*****Our reputation and revenues could be adversely affected if our licensees do not successfully implement our NROM technology in a wide range of their products.***

An important element of our strategy is to accelerate the adoption of our NROM technology by our licensees in the code, data and embedded flash segments of the non-volatile memory market. In particular, the data flash market is projected by Web-Foot Research to grow between 2005 and 2010 at a compound annual growth rate of 24.0% to \$34.8 billion while the code flash market is projected to grow at 7.8% to \$11.7 billion over the same period. We have granted a license to use our NROM technology in data flash applications to Infineon Technologies, Macronix, Semiconductor Manufacturing International Corporation and Spansion, although only Infineon Technologies is selling data flash devices incorporating our technology. Our licensees may fail to implement our NROM technology in a timely manner or in a large number of their products. While certain of our license agreements contain provisions for prepaid royalty payments irrespective of sales by our licensees, these amounts are less than the amounts we would expect to earn from royalty payments based on substantial sales of products incorporating our NROM technology. In addition, our licensees may elect to rely on other licensed or internally-developed technologies for some or all of their products instead of implementing our NROM technology. If a leading semiconductor manufacturer adopts and achieves success with another technology or incorporates our NROM technology but fails to achieve success with its products, our reputation and revenues could be adversely affected.

***Our growth and future prospects could be harmed if we are unable to enter into favorable agreements to license our NROM technology to other semiconductor manufacturers.***

We intend to license our NROM technology to other semiconductor manufacturers in the code, data and embedded flash segments of the non-volatile memory market. In order to successfully license our NROM technology to additional licensees, we must persuade them of the benefits of our technology over existing floating gate technology. The code and data flash memory segments are each dominated by a small number of large manufacturers. According to Web-Foot Research, the top six manufacturers accounted for 82.0% of revenues in the code and data memory segments in 2005. Due to the projected growth in the data flash market compared to the code flash market, a failure to enter into license agreements in the data flash segments or the failure of our existing licensees to penetrate this market could adversely affect our growth and future prospects. In addition, we have agreed with Macronix that we will be allowed to grant a license to manufacture products incorporating our NROM technology to only one other new licensee in Taiwan for code and data flash products, provided we pay Macronix a portion of the license fees that we receive from any such license. If additional significant manufacturers of non-volatile memory products are established in Taiwan in the future, this restriction may limit the revenues that we can derive from this market, or result in additional costs, to enter into license agreements with these manufacturers. If a leading semiconductor manufacturer in the code or data flash memory segment adopts and achieves success with a competing technology or incorporates our technology but fails to achieve success with its products, our reputation and revenues could be adversely affected. It takes a significant amount of time to design, develop and manufacture non-volatile memory devices and, as a result, if a competitor starts to manufacture products based on a competing technology, it may be difficult for us to displace that technology. In addition, we must negotiate license agreements with favorable license fees and royalty payments. The license fees and royalties under our current license agreements vary significantly among our licensees. For example, our first license agreement with Spansion, which in 2004, according to Web-Foot Research, was the largest vendor worldwide of code flash with total sales of \$2.4 billion, or 24.3% of the total code flash market, contains a uniform royalty rate that is lower than the royalty rates in some of our other license agreements and stepped thresholds that limit the amount from which we can derive royalties to \$1.2 billion of annual net sales of products by Spansion incorporating our NROM technology. If we are unable to negotiate favorable license agreements with other semiconductor manufacturers, our growth and future prospects could be harmed.



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***If we are unable to successfully protect our inventions through the issuance and enforcement of patents, our business could be significantly harmed.***

As we derive a significant portion of our revenue from licensing activities, our ability to innovate and protect our innovations by applying for, obtaining and enforcing our patents is important to our business and revenues. As of December 31, 2005, we owned over 65 issued U.S. patents (including 10 co-owned U.S. patents) and seven non-U.S. patents, and we had over 55 pending U.S. patent applications and over 100 pending non-U.S. patent applications. If we fail to obtain patents, are unable to obtain patents with claims of a scope necessary to cover our technology, or our issued patents are determined invalid or not to cover our technology, our licensees and others could use portions of our intellectual property without paying license fees and royalties, which could weaken our competitive position, significantly harm our revenues and prospects, and increase the likelihood of costly litigation. We have an active program to protect our proprietary inventions through the filing of patent applications and taking certain steps to preserve the confidentiality of our confidential and proprietary information. There can be no assurance, however, that:

current or future U.S. or foreign patent applications will be approved;

our issued patents will protect our intellectual property and not be challenged by third parties;

the validity of our patents will be upheld;

the patents of others will not have an adverse effect on our ability to do business; or

others will not independently develop similar or competing products or methods or design around any patents that may be issued to us.

***Our failure to protect the intellectual property created by us would cause our business to suffer.***

In addition to patent protection, we rely on a combination of trade secret, copyright and trademark laws and restrictions on disclosure to protect our intellectual property rights, including through confidentiality agreements with our employees, consultants and customers. We cannot be certain that these contracts have not been and will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently discovered by competitors. Further, the growth of our business depends in large part on our ability to convince third parties of the applicability of our intellectual property to their products, and our ability to enforce our intellectual property rights against them. As part of our marketing efforts, we disclose to our prospective customers some of our proprietary information, not all of which is patent protected. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as do the laws of the United States or in countries where we have not obtained or have limited patents on our technology, including China and Taiwan. We cannot be certain that the steps we have taken to protect our proprietary information will be sufficient.

***Potential intellectual property claims by and against us and resulting litigation could subject us to significant costs and could invalidate our proprietary rights.***

In the semiconductor industry, it is not unusual for companies to receive notices alleging infringement of patents or other intellectual property rights of others. We are not currently subject to any proceedings for infringement of patents or intellectual property rights of others and are not aware of any parties that intend to pursue such claims against us. If it appears necessary or desirable, we may seek to license intellectual property that we are alleged to be infringing. Licenses may not be offered and the terms of any offered licenses may not be acceptable to us. The failure to obtain a license under a key patent or intellectual property directly from a third party for technology used by us or provided by us to our licensees could cause us to incur substantial liabilities and to suspend the manufacture of the products utilizing certain technology or to attempt to develop non-infringing products, any of which could harm our business. We may find it necessary to litigate to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of



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infringement of others' intellectual property or invalidity of our own intellectual property. For example, in 2002 we incurred expenses of approximately \$2.2 million in connection with a settlement and license agreement with Fujitsu Limited and Advanced Micro Devices, Inc. pursuant to which we agreed to settle a claim that we filed in the United States District Court for the Southern District of New York for infringement of patents, breach of contract and unjust enrichment. In addition, we have provided a limited indemnity to certain of our licensees against losses resulting from claims that our NROM technology incorporated into their products infringes certain third party intellectual property rights, and we may agree to indemnify other licensees in the future. These indemnification obligations could result in significant expense. Litigation is inherently uncertain and any adverse decision could result in a loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses from others, limit the value of our licensed technology and otherwise negatively impact our business. Even if we adequately protect our intellectual property rights, litigation may be necessary to enforce these rights, which could result in substantial costs to us and a substantial diversion of management attention, which could harm our business.

***The timing and amount of our revenues from new license agreements and the amount of our revenues from royalties is difficult to predict and may fluctuate.***

The amount of time it takes to enter into a new license agreement and generate a license fee and to establish a royalty stream can range from three or more months, for the entry into the license agreement, to two years or more, for establishment of a royalty stream. As such, it is difficult to make an accurate prediction of future license fees and royalties from new licensees. In addition, we recognize license fees ratably over the period during which we expect to provide initial customer support to our licensees to assist them in incorporating our intellectual property into their products, independent of the actual payment schedules under the license agreement, but provided that payment is due or guaranteed according to the terms of the agreement. We review our assumptions regarding the support periods on a regular basis; however, there can be no assurance that we will accurately estimate the period during which we will provide initial customer support to our licensees, or that we will have, or be able to expend, sufficient resources required to complete a project. We have in the past experienced changes and delays to our licensees' projected product development schedules and there can be no assurance that they will not be changed or delayed in the future. Royalties are also dependent upon fluctuating sales volumes and prices of products that include our NROM technology, all of which are beyond our ability to control or assess in advance. As a result of these uncertainties, the timing and amount of license revenues and the amount of royalty revenues are difficult to predict. This may make accurate financial forecasts difficult to achieve, which could cause our stock price to become volatile and decline.

***Our licensees may be subject to intellectual property infringement claims by third parties or other licensees of our technology.***

Our licensees use various aspects of their own patents and intellectual property in the manufacture, design and testing of non-volatile memory products incorporating our NROM technology. Third parties may claim that the products manufactured by our licensees infringe the third party's patents and other intellectual property. In addition, our licensees may sue each other for infringement of each other's patent and intellectual property rights. While two of our licensees have agreed not to block certain other licensees from manufacturing products incorporating our NROM technology, these arrangements are subject to exceptions and may be difficult to enforce. The code and data flash memory segments of the non-volatile memory market are each dominated by a small number of large manufacturers. As a result, there are a limited number of companies to which we can license our patents and intellectual property in these segments. While there are a larger number of potential licensees in the embedded flash memory market, these licensees too could be subject to intellectual property infringement claims from third parties or each other. Our ability to receive royalties depends on our licensees' sales of products incorporating our NROM technology. Our royalty revenues may be adversely affected if third parties attempt to block our licensees, or our licensees attempt to block other licensees, from manufacturing products incorporating our NROM technology.

**Table of Contents*****Our difficulties in verifying royalty amounts and other payments owed to us under our license and other agreements may cause us to lose revenues.***

Our long-term success depends in part on future royalties paid to us by licensees. Royalties are based on a percentage of the revenues received by licensees on sales of products incorporating our licensed intellectual property. We are dependent upon our ability to enforce agreements for the payment of royalties. The standard terms of our license agreements require our licensees to document the manufacture and sale of products that incorporate our NROM technology and report this data to us on a periodic basis. We have also entered into a collaboration and distribution agreement with Spansion pursuant to which we share the profits from sales of agreed-upon serial flash products. Although our license agreements and this collaboration and distribution agreement give us the right to audit books and records of our counterparties and to verify this information, audits can be expensive, time consuming, and potentially detrimental to our ongoing business relationships. In addition, our agreements generally limit our audit rights to one audit each year. As a result, to date, we have relied exclusively on the accuracy of the reports themselves without independently verifying the information in them. Any inaccuracies or reporting errors that we fail to discover may result in us receiving less revenue than we are entitled to receive.

***A decrease in the demand for consumer electronic, communications, automotive and industrial products may significantly decrease the demand for the products sold by our licensees and reduce our revenues and profitability.***

Flash memory devices that are based on our NROM technology are incorporated into products for consumer electronic, communications, automotive and industrial markets. These products include mobile phones, still and video digital cameras, personal digital assistants (or PDAs), portable computers, portable digital music players, digital video recorders, set-top boxes, network computers, communication routers and switches, digital televisions and other electronic systems. A significant decrease in the demand for these products may decrease the demand for the products of our licensees and could adversely affect our results of operations.

***Our revenues and business will be harmed if we do not develop new innovations in a timely and cost-effective manner.***

We operate in highly competitive, quickly changing markets, which are characterized by rapid obsolescence of existing products. As a result, our future success depends on our ability to develop new technology and introduce this new technology that our customers choose to use or buy in significant quantities. In particular, the non-volatile memory market has been characterized by downward price pressure together with the demand for:

increased memory and features on same size or smaller chip;

migration to smaller process technologies;

faster read and write speeds, which allow a system's microprocessor to access data without having to wait;

lower power consumption to allow for longer operating times using the same power source;

ability to withstand extreme temperature fluctuations; and

the ability to read and modify data many times without adversely impacting reliability.

These challenges make developing new generations of products substantially more difficult than prior generations. In 2005, several of our licensees began developing products incorporating our next generation QUAD NROM technology which enables the storage of four bits of information in a single cell. We face challenges in implementing four-bit-per-cell devices based on our NROM technology. In particular, in order to program and read a QUAD NROM device, each cell must be capable of reliably storing and reading multiple voltage levels. The need to program and reliably distinguish between multiple voltage levels, without generating unacceptable error levels or materially degrading performance, requires more precise and

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sophisticated operation control. This is similar to the challenge that companies face when attempting to make two-bit-per-cell devices using floating gate technology. We invest in research and development and provide design and product development services to our licensees to assist them in meeting the manufacturing challenges presented by these demands. If our licensees are unsuccessful in introducing products that meet the demands described above or in migrating products incorporating our NROM technology to more advanced manufacturing processes, our business and financial results could be seriously harmed.

***Cyclical in the semiconductor industry may affect our revenues and, as a result, our operating results could be adversely affected.***

The semiconductor industry has historically been cyclical and is characterized by wide fluctuations in product supply and demand. From time to time, the industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product and technology cycles, excess inventories and declines in general economic conditions. This cyclical nature could cause our operating results to decline dramatically from one period to the next. Our royalty revenues will depend heavily upon sales by our licensees and products incorporating our NROM technology, which, in turn, depend upon the current and anticipated market demand for semiconductors and products that use semiconductors. Our design and product development service revenues depend in part upon the outsourcing of design and product development projects by our licensees. Semiconductor manufacturers generally have adopted a variable cost structure, which has allowed them to sharply curtail their spending during industry downturns. Historically, many of these manufacturers have lowered their spending more than the decline in their revenues. As a result, if we are unable to control our expenses adequately in response to lower revenues from our licensees and service customers, our operating results will suffer and we might experience operating losses.

***The average selling prices of non-volatile memory devices has tended to decrease historically and this trend may negatively impact our revenue and gross margins.***

Average selling prices of non-volatile memory devices have historically declined over the course of a particular device's life. For example, according to Web-Foot Research, the average selling price per megabyte is forecasted to decline from 2005 to 2006 by 37.5% in a data flash device and by 41.0% in a code flash device. We expect this trend to continue in the future. Because royalty payments under our license agreements are based on a percentage of our licensees' net sales, any decrease in the average selling prices of non-volatile memory devices incorporating our NROM technology will adversely impact our revenues.

***The semiconductor memory market in which we participate is highly competitive and, if we do not compete effectively, our operating results would be harmed.***

We consider the primary competition for our NROM technology to be traditional floating gate technology in its single-bit-per-cell and multi-level cell implementations. This technology and its enhancements are developed primarily by the internal research and development departments of large semiconductor companies, some of which are our licensees and many of which we believe are potential licensees of our NROM technology. In the code flash memory market, the leading manufacturers are Spansion, Intel Corporation, STMicroelectronics and Sharp Electronics Corporation. In the data flash memory market, the leading manufacturers include Samsung Electronics Co. Ltd., Toshiba Corporation, SanDisk Corporation and Hynix Semiconductor. In addition, Intel and Micron recently formed a joint venture targeting the data flash market. Intel, Samsung, STMicroelectronics, Toshiba and SanDisk (through its joint venture with Toshiba) market floating gate devices incorporating multi-level-cell technology. Other companies have indicated that they are developing multi-level-cell floating gate technology. While we believe that floating gate cells suited to mass production are currently incapable of storing four bits per cell, there can be no assurance that one of our competitors will not successfully introduce such technology in the future, which could materially harm our competitive position. Many of these companies consider flash memory research and development to be one of their core competencies. In the serial flash memory market, our technology competes principally with technology developed by STMicroelectronics and Silicon Storage Technologies, Inc. In the embedded flash memory market, we compete directly with the technology of application companies

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that manufacture embedded products, as well as with a number of other companies that license their intellectual property, principally Silicon Storage Technologies, Inc. Many of our competitors have significantly greater name recognition, larger customer bases, more established customer relationships and greater financial, technical, manufacturing, marketing and other resources than us. Our failure to compete successfully in these or other areas could harm our business and financial results.

***If we fail to support our growth in operations, particularly by enhancing our sales and marketing, and internal controls systems, our business could suffer.***

Over the last five years, our business has grown rapidly with revenues increasing from \$14.5 million in 2003 to \$78.6 million in 2005. As of December 31, 2005, we had 236 employees compared to 137 employees as of December 28, 2003. We plan to expand our operations, domestically and internationally, and may do so through both internal growth and acquisitions. We may face significant challenges and risks in building and managing our growth. To succeed in the implementation of our business strategy, we must expand our business development and marketing activities and enhance our internal controls systems. Our systems, procedures and controls may not be adequate to support our expected growth in operations. Failure to manage our future growth effectively could result in increased costs and harm our financial results.

***We depend on our ability to attract and retain our key management and technical personnel.***

Our success depends, in large part, on the continued service of our key management, engineering, business development, marketing and finance personnel, many of whom are highly skilled and would be difficult to replace. In particular, we depend on the continued service of Dr. Boaz Eitan, our founder, Chief Executive Officer and Chairman. None of our senior management, key technical personnel or key sales personnel are bound by written employment contracts to remain with us for a specified period. In addition, we do not currently maintain key personnel life insurance covering any of our personnel. The loss of any of our senior management or other key personnel could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate. Our success also depends on our ability to attract, train and retain highly skilled managerial, engineering, sales, marketing, legal and finance personnel and on the abilities of new personnel to function effectively, both individually and as a group. Further, we must train our new personnel, especially our technical support personnel, to respond to and support our licensees and customers. If we fail to do this, it could lead to dissatisfaction among our licensees or customers, which could slow our growth or result in a loss of business.

***The international nature of our business exposes us to financial and regulatory risks and we may have difficulty protecting our intellectual property in some foreign countries.***

To date, we have derived the substantial majority of our licensing and service revenues from licensees headquartered outside the United States, principally in Europe and the Asia-Pacific region, and these revenues accounted for 88% of our licensing and service revenues in the fiscal year ended December 31, 2005. International operations are subject to a number of risks, including the following:

laws and business practices favoring local companies;

withholding tax obligations on license revenues that we may not be able to offset fully against our tax obligations, including the further risk that foreign tax authorities may re-characterize license fees or increase tax rates, which could result in increased tax withholdings and penalties;

less effective protection of intellectual property than is afforded to us in the United States, or other developed countries;

technology export license requirements and trade restrictions;

imposition of or increases in tariffs; and

changes in regulatory requirements.



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Our intellectual property is also used in a large number of countries. There are countries, including China, in which we currently have no issued patents, and others, such as Taiwan, in which we have a limited number of issued patents. In addition, effective intellectual property enforcement may be unavailable or limited in some foreign countries. It may be difficult for us to protect our intellectual property from misuse or infringement by other companies in these countries. We expect this to become a greater problem for us as our licensees increase their manufacturing in countries that provide less protection for intellectual property. Our inability to enforce our intellectual property rights in some countries may harm our business.

***Our international operations expose us to the risk of fluctuations in currency exchange rates.***

In 2005, we derived all of our revenues in U.S. dollars. However, 46% of our expenses were denominated in New Israeli Shekels. Our shekel-denominated expenses consist principally of salaries and related personnel expenses, as well as vehicle lease payments. We anticipate that a material portion of our expenses will continue to be denominated in shekels. If the U.S. dollar weakens against the shekel, there will be a negative impact on our profit margins. In addition, to the extent that our licensees' sales are not denominated in U.S. dollars, they are translated into U.S. dollars at the prevailing exchange rate for the purpose of calculating the royalty payable to us. Therefore, if the U.S. dollar strengthens against the currency in which any of our licensees makes its sales, the dollar-denominated amount of the royalties that we receive would be reduced and subject to fluctuations. If the effective price of licensed semiconductors sold by our foreign licensees were to increase as a result of fluctuations in the exchange rate of relevant currencies, demand for licensed semiconductors could fall, which in turn would reduce our royalties.

***If our prototypes or products based on our designs are used in defective products, we may be subject to product liability or other claims.***

If products incorporating our technology are used in defective or malfunctioning products, we could be sued for damages, especially if the defect or malfunction causes physical harm to people. The occurrence of a problem could result in product liability claims and/or a recall of, or safety alert or advisory notice relating to, the product. While we believe the amount of product liability insurance maintained by us combined with the indemnities that we have been granted under our license agreements are adequate, there can be no assurance that these will be adequate to satisfy claims made against us in the future or that we will be able to obtain insurance in the future at satisfactory rates or in adequate amounts. Product liability claims in the future, regardless of their ultimate outcome, could have a material adverse effect on our business, financial condition and reputation, and on our ability to attract and retain licensees and customers.

***We may need to raise additional capital in the future and may be unable to do so on acceptable terms. This could limit our ability to grow and carry out our business plan.***

Our future capital requirements will depend on the acceptance of our licensees' products that incorporate our NROM technology and the costs associated with the growth of our business. If the proceeds from our initial public offering in November 2005 and this offering, together with other sources of cash and cash flows, are not sufficient to fund our activities, we may need to raise additional capital, which may not be available on favorable terms, or at all. In addition, we may seek to take advantage of any capital raising opportunities that arise in the future. We cannot be certain that we will be able to obtain additional financing on commercially reasonable terms or at all, which could limit our ability to grow, or that any such additional financing, if raised through the issuance of equity securities, will not be dilutive to our existing shareholders.

***Under current U.S. and Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.***

We have entered into non-competition agreements with all of our employees. These agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors for a limited period. Under current U.S. and Israeli law, we may be unable to enforce these agreements and it may be difficult for us to restrict our competitors from gaining the expertise our former employees gained



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while working for us. For example, Israeli courts have recently required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer which have been recognized by the courts, such as the secrecy of a company's confidential commercial information or its intellectual property. If we cannot demonstrate that harm would be caused to us, we may be unable to prevent our competitors from benefiting from the expertise of our former employees.

### ***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

We prepare our financial statements in conformity with generally accepted accounting principles in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

### **Risks Relating to this Offering**

#### ***Our quarterly financial performance is likely to vary in the future, and may not meet our guidance or the expectations of analysts or investors, which may lead to additional volatility in our share price.***

The market price of our ordinary shares may be volatile and could fluctuate substantially due to many factors, including:

- announcements or introductions of technological innovations or new products, or product enhancements or pricing policies by us or our competitors;

- disputes or other developments with respect to our or our competitors' intellectual property rights;

- announcements of strategic partnerships, joint ventures or other agreements by us or our competitors;

- recruitment or departure of key personnel;

- the gain or loss of licensees;

- regulatory developments in the United States, Israel and abroad;

- our sale of ordinary shares or other securities in the future;

- changes in the estimation of the future size and growth of our markets; and

- market conditions in our industry, the industries of our customers and the economy as a whole.

Share price fluctuations may be exaggerated if the trading volume of our ordinary shares is too low. The lack of a trading market may result in the loss of research coverage by securities analysts. Moreover, we cannot assure you that any securities analysts will initiate or maintain research coverage of our company and our ordinary shares. If our future quarterly operating results are below the expectations of securities analysts or investors, the price of our ordinary shares would likely decline. Securities class action litigation has often been brought against companies following periods of volatility. Any securities litigation claims brought against us could result in substantial expense and divert management's attention from our business.

#### ***Our Chief Executive Officer and Chairman, Dr. Boaz Eitan, has significant influence over matters requiring shareholder approval, which could delay or prevent a change of control.***

The largest beneficial owner of our ordinary shares, our Chief Executive Officer and Chairman, Dr. Boaz Eitan, beneficially owns 38.9% of our outstanding ordinary shares. As a result, Dr. Eitan has



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significant influence over our operations and business strategy, as well as sufficient voting power to control the outcome of matters requiring shareholder approval. These matters may include:

the composition of our board of directors, which has the authority to direct our business and to appoint and remove our officers;

approving or rejecting a merger or other business combination;

raising future capital; and

amending our Articles of Association, which govern the rights attached to our ordinary shares.

This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our ordinary shares. This concentration of ownership may also adversely affect our share price.

***This offering and substantial future sales of our ordinary shares in the public market may cause the price of our shares to decline.***

The sale of our ordinary shares in this offering could cause the market price of our shares to fall. In addition, if our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the exercise of outstanding options, in the public market following this offering, the market price of our ordinary shares could fall. Such sales also might make it more difficult for us to issue equity or equity-related securities in the future at a time and price that we deem appropriate. Upon the completion of this offering, we will have outstanding ordinary shares, based upon the assumptions described in Prospectus Summary The Offering. In addition, as of February 28, 2006, we had 4,609,441 ordinary shares subject to outstanding stock options, of which will be issued upon the exercise of stock options in connection with this offering. Of the ordinary shares outstanding upon completion of this offering, the shares sold in this offering and additional shares, including 5,750,000 shares sold in our initial public offering, will be freely tradable. Our remaining outstanding ordinary shares will become tradable upon expiration of various holding periods under Rule 144, subject in some cases to the volume restrictions of that rule. See Ordinary Shares Available for Future Sale Eligibility of Restricted Shares for Sale in the Public Market.

Our directors and officers and the selling shareholders have signed lock-up agreements in connection with this offering under which, subject to certain exceptions, they have agreed not to sell or otherwise dispose of their ordinary shares not included in this offering for a period of 90 days following this offering without the prior written consent of Lehman Brothers Inc. In addition, our directors, officers and substantially all of our shareholders are subject to lock-up agreements that became effective in connection with our initial public offering, which prevent them from selling shares prior to May 8, 2006. In both cases, the lock-up agreements are subject to extension in the case of an earnings release or material news or a material event relating to us that occurs within 18 days of the date on which the lock-up agreement would otherwise terminate.

After this offering, the holders of an aggregate of approximately ordinary shares will have registration rights, including the right to require us to register the sale of their shares and the right to include their shares in public offerings we undertake in the future. After this offering we intend to register on Form S-8 all ordinary shares that we may issue under our share option plans. Upon issuance they may be freely sold in the public market, subject to the lock-up agreements described above.

***If you acquire more than 9.9% of our shares, your voting rights will be limited with respect to those shares.***

Each Ten Percent Shareholder in a non-U.S. corporation that is classified as a controlled foreign corporation, or a CFC, for United States federal income tax purposes in any taxable year is required to include in income for U.S. tax purposes such Ten Percent Shareholder's pro rata share of the CFC's Subpart F income and investment of earnings in U.S. property, even if the CFC has made no distributions

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to its shareholders. A non-U.S. corporation will be classified as a CFC for United States federal income tax purposes in any taxable year in which Ten Percent Shareholders own, directly or indirectly, more than 50.0% of either the total combined voting power of all classes of stock of such corporation entitled to vote or of the total value of the stock entitled to vote of such corporation. A Ten Percent Shareholder is a United States person (as defined by the U.S. Internal Revenue Code of 1986, as amended (the Code )) who owns or is considered to own, on any day during such taxable year, 10.0% or more of the total combined voting power of all classes of stock entitled to vote of such corporation.

We believe based on our current ownership that we currently are not classified as a CFC. In order to reduce the risk that we will become a CFC in future years, our Articles of Association provide that any United States persons that purchase our shares, directly, indirectly or constructively, after September 29, 2005 will be limited to voting a maximum of 9.9% of our total combined voting power, to the extent that their voting rights notwithstanding such limitation would cause us to be considered a CFC.

See Description of Share Capital Limitations on Voting and Taxation United States Federal Income Taxation.

***Our U.S. shareholders may suffer adverse tax consequences if we are characterized as a Passive Foreign Investment Company.***

Generally, if for any taxable year 75.0% or more of our gross income is passive income, or at least 50.0% of our assets are held for the production of, or produce, passive income, we may be characterized as a passive foreign investment company for U.S. federal income tax purposes. If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are U.S. holders, and having potentially punitive interest charges apply to the proceeds of share sales. Because the market price of our ordinary shares is likely to fluctuate after this offering and the market price of the shares of technology companies has been especially volatile, and because that market price may affect the determination of whether we will be considered a passive foreign investment company, there can be no assurance that we will not be considered a passive foreign investment company for any taxable year. See Taxation United States Federal Income Taxation Passive Foreign Investment Company Considerations.

**Risks Relating to our Location in Israel**

***Conditions in Israel could adversely affect our business.***

We are incorporated under Israeli law and our principal offices and our research and development facilities are located in Israel. Therefore, political, economic and military conditions in Israel directly affect our operations. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, there has been an increase in unrest and terrorist activity, which began in September 2000 and which has continued with varying levels of severity into 2006. The election of Hamas representatives to a majority of seats in the Palestinian Legislative Council may create additional unrest and uncertainty. We do not believe that the political and security situation has had any material impact on our business to date; however, we can give no assurance that security and political conditions will have no such effect in the future. Any armed conflict, political instability or continued violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect the share price of publicly traded Israeli companies such as us.

***Our operations could be disrupted as a result of the obligation of key personnel in Israel to perform military service.***

Generally, all male adult citizens and permanent residents of Israel under the age of 45 (or older, for citizens with certain occupations) are, unless exempt, obligated to perform military reserve duty annually. Additionally, all Israeli residents of this age are subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual

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reserve duty. In response to the increase in terrorist activity and the Palestinian uprising, there have been, at times, significant call-ups of military reservists, and it is possible that there will be additional call-ups in the future. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees due to military service. Any disruption to our operations could materially adversely affect the development of our business and our financial condition.

***We have recently applied to the Office of the Chief Scientist for government grants for research and development expenditures. If our application is approved, it will limit our ability to manufacture products and transfer technologies outside of Israel and will require us to satisfy specified conditions.***

In January 2006, we applied for grants of up to approximately \$625,000 from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade to finance research and development expenditures in Israel in connection with our controller card activity project. If we receive any grants, we will be required to pay royalties to the Chief Scientist of between 3% and 6% of revenues derived from technology developed using these grants until 100% of the grants are repaid, together with an annual interest as set forth in the research and development regulations (currently equal to the 12 month London Interbank Offered Rate). In addition, the terms of the grants prohibit recipients from manufacturing products developed using these grants outside of Israel without special approvals. Even if we receive approval to manufacture the products developed with government grants outside of Israel, we will be required to pay an increased total amount of royalties (possibly up to 300% of the grant amount plus interest), depending on the manufacturing volume that is performed outside of Israel, as well as a possible increased royalty rates.

Additionally, under the law governing the research grants, we will be prohibited from transferring the financed technologies and related intellectual property rights outside of Israel except under limited circumstances and provided the transfer is approved by the Research Committee of the Office of the Chief Scientist. Approval of the transfer of technology to residents of Israel is required, and may be granted in specific circumstances only if the recipient abides by the provisions of applicable laws, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased. If our application for grants is approved, we will be subject to the above mentioned restrictions and cannot provide any assurance that consent, if requested, will be granted. Such restrictions may impair our ability to outsource manufacturing, engage in change-of-control transactions or otherwise transfer our technology developed with government grants outside Israel.

Further, if we fail to comply with any of the conditions imposed by the Office of the Chief Scientist, we may be required to refund any grants received together with interest and penalties, and may be subject to criminal charges. In recent years, the government of Israel has accelerated the rate of repayment of Chief Scientist grants and may further accelerate them in the future. In addition, the Israeli government has, from time to time, discussed reducing or eliminating the availability of these grants. There can be no assurance that the Israeli government's support of such grants will continue.

***We receive tax benefits that may be reduced or eliminated in the future.***

Our investment program in equipment at our facility in Netanya, Israel has been granted approved enterprise status and we are therefore eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959, referred to as the Investments Law. Subject to compliance with applicable requirements, the portion of our net income derived from our licensing and services activities will be exempt from income tax during the first two years in which these investment programs produce taxable income, which will be after we have utilized our net operating loss carry forwards. Thereafter it will be subject to a reduced tax rate of between 10% and 25% for the remaining five to eight years of the program, depending on the extent of non-Israeli investment in our company during the relevant year. Israeli companies are currently subject to income tax at the corporate rate of 34% for the 2005 tax year, 31% for the 2006 tax year and the rate is set to decline annually to 25% for the 2010 tax year and thereafter. As of December 31, 2005, the end of our last fiscal year, our net operating loss carry forwards for Israeli tax purposes amounted to approximately \$16.7 million. The period during which we receive these tax benefits is limited to the earlier of 12 years from the year in which operations or production by the enterprise commenced and 14 years from the year in which approval of the program was granted. The benefits under our existing approval enterprises are due to expire



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between 2011 and 2015. The benefits available to an approved enterprise are conditional upon our fulfilling certain requirements stipulated in the Investments Law and its regulations and the criteria set forth in the specific certificate of approval. If we do not meet these requirements in the future, the tax benefits may be canceled and we could be required to refund any tax benefits that we have already received. See Taxation Israeli Tax Considerations and Government Programs Taxation of Companies Law for the Encouragement of Capital Investments, 1959 for more information about the requirements. In addition, in order to manage certain investments, we have established a wholly owned subsidiary, Saifun (BVI) Limited, a company incorporated under the laws of the British Virgin Islands. Under our Approved Enterprise status, we are not entitled to receive any tax benefits from any income derived from investments made through Saifun (BVI) Limited. As of December 31, 2005, carryforward losses related to Saifun (BVI) Limited amounted to approximately \$3.3 million, which may be carried forward indefinitely. After the carryforward losses are utilized, we will be subject to Israeli income tax, which will be considered a deemed dividend and taxed at 25% tax rate.

***It may be difficult to enforce a U.S. judgment against us, our officers and directors and the Israeli experts named in this prospectus in Israel or the United States, or to assert U.S. securities laws claims in Israel or serve process on our officers and directors and these experts.***

We are incorporated in Israel. The majority of our executive officers and directors and the Israeli experts named in this prospectus are not residents of the United States, and the majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws against us or any of these persons in a U.S. or Israeli court, or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing the matters described above. See Enforceability of Civil Liabilities.

***Provisions of Israeli law and our Articles of Association may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.***

Our Articles of Association contain certain provisions that may delay or prevent a change of control. These provisions include a classified board of directors and a prohibition on certain transactions with a 15% shareholder approval unless certain board approvals are received. In addition, Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders, and may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders. See Description of Share Capital Anti-Takeover Measures and Acquisitions under Israeli Law.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These statements include but are not limited to:

the amount and timing of the recognition of deferred revenue and of additional license fees from our current licensees and the impact of adding additional licenses;

statements as to the timing of our future research and development expenses;

statements as to our discontinued operations;

statements as to the future technological innovations, including the implementation of our NROM technology with multi-level cell functionality;

statements as to our ability to meet anticipated cash needs based on our current business plan;

statements as to the impact of timing of integrating additional manufacturers or subcontractors;

expectations as to any increase in the amount and proportion of our revenues derived from royalties and the timing of recognition of these revenues; and

statements as to the impact of the rate of inflation and the political and security situation on our business.

These statements may be found in the sections of this prospectus entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business and in this prospectus generally, including the sections of this prospectus entitled Business Overview and Business Industry Overview, which contain information obtained from independent industry sources. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in Risk Factors and elsewhere in this prospectus.

In addition, statements that use the terms believe, expect, plan, intend, estimate, anticipate and similar expressions are intended to identify forward-looking statements. All forward-looking statements in this prospectus reflect our current views about future events and are based on assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from future results expressed or implied by the forward-looking statements. Many of these factors are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.



**Table of Contents****USE OF PROCEEDS**

We estimate that we will receive net proceeds of approximately \$      million from the sale by us of 340,000 ordinary shares in this offering, after deducting underwriting discounts and commissions and the estimated offering expenses. For the purpose of estimating net proceeds, we are assuming a public offering price of \$      per ordinary share, the last reported sale price of our ordinary shares on The Nasdaq National Market on      , 2006.

We intend to use the net proceeds of the offering for general corporate purposes and working capital. Pending use of the net proceeds as described above, we intend to invest the net proceeds in interest-bearing, investment-grade instruments with maturities of less than one year or deposit the net proceeds in bank accounts in Israel or outside of Israel.

In addition, we will receive \$      pursuant to the exercise by certain selling shareholders prior to the closing of this offering of options to purchase      ordinary shares. We will not receive any proceeds from the sale of ordinary shares by the selling shareholders.

**MARKET PRICE OF ORDINARY SHARES**

Our ordinary shares began trading publicly on The Nasdaq National Market on November 9, 2005. Prior to that date, there was no public market for our ordinary shares. The following table lists the high and low closing sale prices for our ordinary shares for the periods indicated as reported by The Nasdaq National Market:

<b>Most Recent Five Months</b>	<b>High</b>	<b>Low</b>
March 2006 (through March 6, 2006)	\$ 30.00	\$ 28.85
February 2006	\$ 33.81	\$ 28.93
January 2006	\$ 37.90	\$ 33.77
December 2005	\$ 31.47	\$ 27.69
November 2005	\$ 35.38	\$ 29.00

On March 6, 2006, the last reported sale price of our ordinary shares on The Nasdaq National Market was \$28.85 per share. According to the our transfer agent, as of March 6, 2006, there were approximately 96 holders of record of our ordinary shares.

**DIVIDEND POLICY**

We have never declared or paid any cash dividends on our ordinary shares and we do not anticipate paying any cash dividends on our ordinary shares in the future. We currently intend to retain all future earnings to finance our operations and to expand our business. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors our board of directors may deem relevant.

**Table of Contents****CAPITALIZATION**

The following table presents our capitalization as of January 31, 2006:

on an actual basis;

on an as adjusted basis to give effect to (1) the issuance by us of 340,000 ordinary shares in this offering at the assumed offering price and the receipt by us of estimated net proceeds of approximately \$        million, after deducting underwriting discounts and commissions and the estimated offering expenses; and (2) the issuance of        ordinary shares pursuant to the exercise by certain selling shareholders of options prior to the closing of this offering and the receipt of \$        therefrom.

You should read this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and related notes appearing elsewhere in the prospectus and the other financial information included in our reports filed with the Securities and Exchange Commission and incorporated by reference in this prospectus.

	<b>As of January 31, 2006</b>	
	<b>Actual</b>	<b>As adjusted</b>
	<b>(unaudited) (in thousands)</b>	
<b>Shareholders' equity:</b>		
Ordinary shares: NIS 0.01 par value; 200,000,000 shares authorized, actual and as adjusted; 30,251,247 shares issued and 29,523,122 shares outstanding, actual;        shares issued and        outstanding as adjusted	\$        121	\$
Additional paid-in capital	212,496	
Accumulated other comprehensive income	12	
Accumulated deficit	(34,250)	
 Total shareholders' equity	 \$    178,379	 \$
 Total capitalization	 \$    178,379	 \$

The preceding table excludes as of February 28, 2006:

728,125 issued ordinary shares that are unpaid, are held in trust by the trust company of our Israeli counsel for delivery to the Company's employees upon exercise of options outstanding under our share option plans and carry no voting rights;

5,684,390 ordinary shares reserved for issuance under our share option plans (which includes the 728,125 ordinary shares referred to above), of which options to purchase 4,609,441 ordinary shares at a weighted average exercise price of \$11.73 per share have been granted; and

30,800 ordinary shares issuable upon the exercise of options granted outside of our share option plans at a weighted average exercise price of \$3.14.

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You should read the following selected consolidated financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. Commencing in fiscal year 2005, we used a calendar year ending on December 31. For fiscal years 2003 and 2004, we used a 52-week fiscal year ending on the last Sunday in December. For fiscal years 2003 and 2004, the fiscal year ended on December 28 and December 26, respectively. For prior fiscal years, the fiscal year ended on December 31. The consolidated statements of operations data for the years ended December 28, 2003, December 26, 2004 and December 31, 2005 and the consolidated balance sheet data as of December 26, 2004 and December 31, 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus, which have been prepared in accordance with generally accepted accounting principles in the United States. The consolidated statements of operations for the years ended December 31, 2001 and 2002 and the consolidated balance sheet data as of December 31, 2001, December 31, 2002 and December 28, 2003 have been derived from our audited consolidated financial statements which are not included in this prospectus.

	Year ended				
	December 31, 2001	December 31, 2002	December 28, 2003(3)	December 26, 2004(3)	December 31, 2005
(in thousands, except share and per share data)					
<b>Statements of operations data:</b>					
Revenues:(1)					
Licenses	\$ 2,468	\$ 3,170	\$ 7,817	\$ 22,640	\$ 65,790
Services	1,914	3,438	6,639	7,926	12,811
Total revenues	4,382	6,608	14,456	30,566	78,601
Cost of services(2)	1,146	2,086	4,147	7,084	12,048
Gross profit	3,236	4,522	10,309	23,482	66,553
Operating expenses:					
Research and development(2)	7,022	6,583	9,132	6,792	7,427
Marketing and selling(2)	967	920	2,543	2,914	4,889
General and administrative(2)	783	3,426	1,779	2,115	6,216
Total operating expenses	8,772	10,929	13,454	11,821	18,532
Operating income (loss)	(5,536)	(6,407)	(3,145)	11,661	48,021
Financial income, net	2,209	1,030	1,137	1,699	1,749
Equity in losses of equity method investees	(3,468)	(6,851)	(12,820)	(26,172)	
Compensation expense related to issuance of options to employees of equity method investees			(206)	(569)	

Capital loss from sale of equity method investees				(17,334)	
Income (loss) from continuing operations	(6,795)	(12,228)	(15,034)	(30,715)	49,770
Loss from discontinued operations(2)(3)			(156)	(7,189)	(5,263)
Net income (loss)	\$ (6,795)	\$ (12,228)	\$ (15,190)	\$ (37,904)	44,507

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	<b>Year ended</b>				
	<b>December 31, 2001</b>	<b>December 31, 2002</b>	<b>December 28, 2003(3)</b>	<b>December 26, 2004(3)</b>	<b>December 31, 2005</b>
	<b>(in thousands, except share and per share data)</b>				
Basic earnings (loss) from continuing operations per ordinary share	\$ (0.44)	\$ (0.76)	\$ (0.89)	\$ (1.81)	\$ 0.46
Basic loss from discontinued operations per ordinary share					