SIMPLETECH INC
Form 10-Q
August 15, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

or

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

For the transition period from _____ to _____

Commission File Number 000-31623

SIMPLETECH, INC.

(Exact name of Registrant as specified in its charter)

CALIFORNIA	**33-0399154**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3001 Daimler Street **Santa Ana, CA** **(Address of principal executive offices)**	**92705-5812** **(Zip Code)**

(949) 476-1180

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as described in Exchange Act Rule 12b-2). Yes ¨ No x

The number of shares outstanding of the registrant s common stock, par value $0.001, as of August 1, 2005 was 44,617,771.

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SIMPLETECH, INC.

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QUARTERLY PERIOD ENDED JUNE 30, 2005

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Except as otherwise noted in this report, SimpleTech, the Company, we, us and our collectively refer to SimpleTech, Inc.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIMPLETECH, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2005	December 31, 2004
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 60,537	$ 73,346
Marketable securities, held to maturity		9,972
Accounts receivable, net of allowances of $748 at June 30, 2005 and $993 at December 31, 2004	39,745	37,047
Inventory, net	32,293	19,002
Deferred income taxes	1,658	1,515
Other current assets	3,835	2,663
Total current assets	138,068	143,545
Furniture, fixtures and equipment, net	5,531	6,146
Intangible assets	333	373
Deferred income taxes	2,299	3,345
Total assets	$ 146,231	$ 153,409
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current Liabilities:		
Accounts payable	$ 18,375	$ 16,553
Accrued and other liabilities (Note 4)	4,845	5,428
Total liabilities	23,220	21,981
Commitments and contingencies (Note 5)		
Shareholders Equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized, no shares outstanding		
Common stock, $0.001 par value, 100,000,000 shares authorized, 44,556,249 shares issued and outstanding as of June 30, 2005 and 47,450,722 shares issued and outstanding as of December 31, 2004	45	47
Additional paid-in capital	109,808	121,193
Retained earnings	13,158	10,188
Total shareholders equity	123,011	131,428

Total liabilities and shareholders equity	$ 146,231	$ 153,409

See accompanying notes to unaudited consolidated financial statements.

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SIMPLETECH, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net revenues	$ 70,268	$ 56,509	$ 131,516	$ 122,799
Cost of revenues	57,477	48,248	107,741	103,014
Gross profit	12,791	8,261	23,775	19,785
Operating expenses:				
Sales and marketing	6,018	4,142	11,398	9,195
General and administrative	3,102	2,149	6,181	5,077
Research and development	1,616	970	2,903	1,814
Total operating expenses	10,736	7,261	20,482	16,086
Operating income	2,055	1,000	3,293	3,699
Interest income	417	202	852	401
Income from continuing operations before provision for income taxes	2,472	1,202	4,145	4,100
Provision for income taxes	537	347	1,175	1,574
Income from continuing operations	$ 1,935	$ 855	$ 2,970	$ 2,526
Loss from discontinued operations before benefit for income taxes		(4,668)		(7,115)
Benefit for income taxes		(1,940)		(3,013)
Loss from discontinued operations		$ (2,728)		$ (4,102)
Net income (loss)	$ 1,935	$ (1,873)	$ 2,970	$ (1,576)
Net income (loss) per share:				
Basic:				
Continuing operations	$ 0.04	$ 0.02	$ 0.07	$ 0.05
Discontinued operations		(0.06)		(0.08)
Total	$ 0.04	$ (0.04)	$ 0.07	$ (0.03)
Diluted:				
Continuing operations	$ 0.04	$ 0.02	$ 0.06	$ 0.05

Discontinued operations		(0.06)		(0.08)
Total	$ 0.04	$ (0.04)	$ 0.06	$ (0.03)
Shares used in per share computation:				
Basic	44,638	47,908	45,613	47,869
Diluted	45,772	49,632	46,897	49,957

See accompanying notes to unaudited consolidated financial statements.

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SIMPLETECH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2005	**2004**
Cash flow from operating activities:		
Net income (loss)	$ 2,970	$ (1,576)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,391	1,764
Loss (gain) on sale of furniture, fixtures and equipment	61	(23)
Impairment charges		23
Loss on disposal of a segment		2,979
Accounts receivable provisions	418	298
Inventory excess and obsolescence expense	499	773
Deferred income taxes	903	(1,648)
Tax benefit of employee stock option exercise	92	122
Change in operating assets and liabilities:		
Accounts receivable	(3,116)	8,533
Inventory	(13,790)	628
Other current assets	(1,172)	106
Accounts payable	1,822	(9,270)
Accrued and other liabilities	(583)	(1,229)
Net cash (used in) provided by operating activities	(10,505)	1,480
Cash flows from investing activities:		
Sales of marketable securities, net	9,972	35,651
Purchase of furniture, fixtures and equipment	(834)	(949)
Proceeds from sale of furniture, fixtures and equipment	37	534
Net cash provided by investing activities	9,175	35,236
Cash flows from financing activities:		
Cost of equity issuance		(34)
Stock Buyback	(11,828)	
Proceeds from issuance of common stock	349	419
Net cash (used in) provided by financing activities	(11,479)	385
Net decrease in cash	(12,809)	37,101
Cash and cash equivalents at beginning of period	73,346	30,769

Cash and cash equivalents at end of period	$ 60,537	$ 67,870

See accompanying notes to unaudited consolidated financial statements.

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SIMPLETECH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

The accompanying interim consolidated financial statements of SimpleTech, Inc., a California corporation (the Company), are unaudited and have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all normal and recurring adjustments considered necessary for a fair statement of the consolidated financial position of the Company at June 30, 2005, the consolidated results of operations for the three months and six months ended June 30, 2005 and 2004, and the consolidated results of cash flows for the six months ended June 30, 2005 and 2004, have been included. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the most recent Annual Report on Form 10-K filed with the SEC. The December 31, 2004 balances reported herein are derived from the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2004. The results for the interim periods are not necessarily indicative of results to be expected for the full year.

The consolidated financial statements of the Company include the accounts of the Company s subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2 Summary of Significant Accounting Policies

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities (e.g., bad debt reserves and inventory reserves), disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations:

As shown in the table below, customer concentrations of accounts receivable and revenues of greater than 10% were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	

	2005		2004		2005		2004	
	Accounts Receivable	Revenues	Accounts Receivable	Revenues	Accounts Receivable	Revenues	Accounts Receivable	Revenues
Customer A	27%	24%	13%	10%	27%	22%	13%	11%
Customer B	9%	15	11	11	9%	10%	11	12
Customer C	9%	15	17	22	9%	16	17	20
Total	45%	54%	41%	43%	45%	48%	41%	43%

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For each of the three-month and six-month periods ended June 30, 2005 and 2004, international sales comprised 13% and 21%, respectively, of the Company s revenues. During these periods, no single foreign country accounted for more than 10% of total revenues. Substantially all of the Company s international sales are export sales, which are shipped from the Company s domestic facility to foreign customers.

Warranties:

The Company s memory products are generally sold under various limited warranty arrangements, which range from one year to the product s lifetime. Estimated warranty costs are recorded concurrently with the recognition of revenue. Historically, the costs of repairs or replacement have been immaterial and have approximated management s estimates.

Sales and marketing incentives:

Sales and marketing incentives were offset against revenues or charged to operations in accordance with Emerging Issues Task Force (EITF) Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer. Sales and marketing incentives amounted to $2.3 million and $1.6 million for the three months ended June 30, 2005 and 2004, respectively, of which $2.1 million and $1.1 million, respectively, were offset against revenues, and $184,000 and $452,000, respectively, were charged as an operating expense. Sales and marketing incentives amounted to $4.5 million and $3.4 million for the six months ended June 30, 2005 and 2004, respectively, of which $4.2 million and $2.2 million, respectively, were offset against revenues, and $340,000 and $1.2 million, respectively, were charged as an operating expense.

Shipping and handling costs:

Shipping and handling costs incurred in a sales transaction to ship products to a customer are included in sales and marketing. For the three months ended June 30, 2005 and 2004, shipping and handling costs were $568,000 and $441,000, respectively.

Income taxes:

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the year and the change during the year in deferred income tax assets and liabilities. The difference between the effective tax rate and the statutory rates for the three-month periods ended June 30, 2005 and 2004 reflects the recognition of tax credits related to research and development and enterprise zone hiring credits.

New Accounting Pronouncements:

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending the compliance dates for SFAS No. 123(R). In accordance with the new rule, the accounting provisions of SFAS No. 123(R) will be effective for the Company in fiscal 2006. The Company is currently assessing the impact that adoption of this standard will have on its consolidated financial statements; however, the Company has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123, as amended.

On March 29, 2005, the SEC issued Staff Accounting Bulletin (SAB) 107 which expresses the views of the SEC regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides the SEC s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instrument issues under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation costs related to share-based payment arrangements, the accounting for income tax effects of share-based payments arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R, and disclosures in Management s Discussion and Analysis of Financial Condition and Results of Operations subsequent to adoption of SFAS No. 123R. The Company is currently evaluating the impact that SAB 107 will have on its results of operations and financial position when they adopt it in fiscal 2007.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB No. 20 and FAS No. 3 (SFAS 154). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is required to be adopted in fiscal years beginning after December 15, 2005. The Company does not believe its adoption will have a material impact on its consolidated results of operations or financial position.

Note 3 Net Income (Loss) Per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of shares outstanding. In computing diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the potentially dilutive securities. Options to purchase 10,281,857 and 8,840,306 shares of common stock were outstanding at June 30, 2005 and 2004, respectively. For the three months ended June 30, 2005 and 2004, potentially dilutive securities consisted solely of options and resulted in potential common shares of 1,134,516 and 1,723,748, respectively.

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Pursuant to Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, the Company has elected to continue the intrinsic value method of accounting for stock options granted to employees and directors in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations for its accounting for stock option plans. Had compensation cost been determined based on the fair value at the grant dates for stock options under the Plan consistent with the method promulgated by SFAS No. 123, the Company s net income (loss) for the three months ended June 30, 2005 and 2004, would have resulted in the pro forma amounts below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(in thousands, except per share amounts)			
Net income (loss), as reported	$ 1,935	$ (1,873)	$ 2,970	$ (1,576)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,021)	(1,078)	(1,950)	(2,089)
Pro forma net income (loss)	$ 914	$ (2,951)	$ 1,020	$ (3,665)
Income (loss) per share:				
Basic as reported	$ 0.04	$ (0.04)	$ 0.07	$ (0.03)
Basic pro forma	$ 0.02	$ (0.06)	$ 0.02	$ (0.08)
Diluted as reported	$ 0.04	$ (0.04)	$ 0.06	$ (0.03)
Diluted pro forma	$ 0.02	$ (0.06)	$ 0.02	$ (0.07)

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Note 4 Supplemental Balance Sheet Information

Inventory consists of the following:

(in thousands)	June 30, 2005	December 31, 2004
Raw materials	$ 20,613	$ 12,316
Work-in-progress	1,527	1,541
Finished goods	11,578	6,485
	33,718	20,342
Valuation allowances	(1,425)	(1,340)
Inventory, net	$ 32,293	$ 19,002

Accrued and other liabilities consisted of the following as of:

(in thousands)	June 30, 2005	December 31, 2004
Payroll costs	$ 3,084	$ 2,837
Marketing	1,360	1,079
Other	401	1,512
Total	$ 4,845	$ 5,428

Note 5 Commitments and Contingencies

DPAC Technologies, Inc. Patent Infringement

On September 23, 1998, the Company filed a lawsuit against DPAC Technologies, Inc., formerly Dense-Pac Microsystems, Inc. (DPAC), in the United States District Court for the Central District of California for infringement of the Company s IC Tower stacking patent, U.S. Patent No. 5,514,907. On March 29, 2001, the District Court entered final judgment finding DPAC did not infringe the Company s patent and that the Company did not infringe DPAC s patent. The Appeals Court affirmed the final judgment on March 7, 2002. On June 3, 2002, the Company filed a petition for certiorari with the U.S. Supreme Court. On October 7, 2002, the petition to the Supreme Court was granted and the matter was remanded to the Circuit Court of Appeals. DPAC filed a motion for summary affirmance with the Circuit Court of Appeals. The Court of Appeals denied the motion and remanded the matter back to District Court to reconsider the case in light of a recent decision by the U.S. Supreme Court. On September 15, 2003, the District Court re-entered judgment that DPAC does not infringe the Company s patent. Subsequently, the Company filed the appropriate documents to seek review of the last decision.

On March 8, 2004, the Company entered into a confidential settlement agreement whereby it agreed to dismiss with prejudice its appeal of the case. Under the settlement, the Company granted DPAC a paid-up, non-exclusive license under the affected patents. This settlement is a complete and amicable resolution and should not be construed as an admission by any of the parties to this litigation of any wrongdoing.

Lemelson Medical, Education & Research Foundation, LLP Patent Infringement

The Company received notice on November 26, 2001 that the Lemelson Medical, Education & Research Foundation, LLP (Lemelson Foundation) filed a complaint on November 13, 2001 against the Company and other defendants. The complaint was filed in the District Court of Arizona and alleges that the Company s manufacturing processes infringe several patents that the Lemelson Foundation allegedly owns. The complaint also states that these allegedly infringed patents relate to machine vision technology and bar coding technology. On March 7, 2002, the Company was served with the Lemelson Foundation complaint. Thereafter, the case was stayed pending the outcome of related cases against other parties involving the same patents. Because of the preliminary stage of this case, an estimate of potential damages, if any, would be premature and speculative. The Company believes this lawsuit is without merit and it intends to vigorously defend itself against it.

Staktek Corporation Patent Infringement

On July 30, 2003, the Company filed a lawsuit against Staktek Corporation in the United States District Court for the Central District of California for infringement of its IC Tower stacking patent, U.S. Patent No. Re. 36,916. The Company sought

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monetary damages in an amount to be stated later, an injunction against further infringement of its patent, attorneys fees and trebled damages. Staktek answered the complaint denying infringement and alleging that the patent is invalid.

On October 10, 2003, Staktek Group, L.P., a subsidiary of Staktek Corporation, filed a lawsuit against the Company in the United States District Court for the Western District of Texas which alleged that the Company s IC Tower stacking products infringe on Staktek s U.S. patents Nos. 6,025,642 and 6,049,123. Staktek sought a permanent injunction against further infringement of the 642 and 123 patents, monetary damages in an amount to be stated later, interest on damages, costs and attorneys fees and trebled damages.

On March 31, 2004, the Company resolved its two lawsuits with Staktek Group L.P. The parties agreed to a mutual dismissal with prejudice of the intellectual property infringement lawsuits. In settlement of these matters, both parties agreed not to sue each other, its customers, or licensees in the future for patent infringement in connection with making or selling the products related to the lawsuits. Under the terms of the settlement, no money was exchanged, and neither party licensed its technology to the other.

Other Legal Proceedings

The Company is currently not a party to any other material legal proceedings. However, the Company is involved in other suits and claims in the ordinary course of business, and the Company may from time to time become a party to other legal proceedings arising in the ordinary course of business.

Indemnification

The Company has agreements whereby the Company indemnifies its officers and directors over his or her lifetime for certain events or occurrences while the officer or director is, or was serving, at the Company s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy that limits the Company s exposure and should enable the Company to recover a portion of any future amounts paid. As a result of the Company s insurance policy coverage, the Company believes the estimated potential liability related to these indemnification agreements is minimal. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded for these agreements as of June 30, 2005.

As is common in the industry, the Company currently has in effect a number of agreements in which the Company has agreed to defend, indemnify and hold harmless certain of its suppliers and customers from damages and costs which may arise from the infringement by the Company s products of third-party patents, trademarks or other proprietary rights. The scope of such indemnity varies, but may, in some instances, include indemnification for damages and expenses, including attorneys fees. The Company s insurance does not cover intellectual property infringement. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of June 30, 2005.

Other Commitments

The Company is subject to repurchase agreements with various financial institutions in connection with wholesale inventory financing. Under these agreements, the Company may be required to repurchase inventory upon customer default with a financing institution and then resell the inventory through normal distribution channels. As of June 30, 2005, the Company has not been required to repurchase inventory in connection with the customer default agreements noted above. However, it may be possible that the Company will be required to repurchase inventory, upon customer default, in the future. Sales under such agreements were approximately $176,000 and $362,000 in the three months ended June 30, 2005 and 2004, respectively and $701,000 and $606,000 in the six months ended June 30, 2005 and 2004, respectively.

Note 6 Segment Information

The Company reports financial results for two reportable operating segments: OEM and Consumer. The Company does not aggregate any operating segments.

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The accounting policies for each of the reportable operating segments are the same as those described in Note 2 from the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and reflect the information used by the Company s management to evaluate the performance of its segments. For the OEM and Consumer segments, the Company tracks separately net sales and gross profit, but does not track separately operating expenses. The Company does not maintain separate records to identify assets by operating segment.

Summarized financial information regarding the Company s two reportable segments is shown in the following table:

(In Thousands)

	Three Months Ended June 30, 2005		
	Consumer	**OEM**	**Consolidated**
Net Revenues	$ 32,210	$ 38,058	$ 70,268
Cost of Revenues	27,884	29,593	57,477
Gross Profit	$ 4,326	$ 8,465	12,791
Operating Expenses			10,736
Operating Income			$ 2,055

	Three Months Ended June 30, 2004		
	Consumer	**OEM**	**Consolidated**
Net Revenues	$ 32,900	$ 23,609	$ 56,509
Cost of Revenues	28,526	19,722	48,248
Gross Profit	$ 4,374	$ 3,887	8,261
Operating Expenses			7,261
Operating Income *			$ 1,000

* From continuing operations

	Six Months Ended June 30, 2005		
	Consumer	**OEM**	**Consolidated**

Net Revenues	$ 66,541	$ 64,975	$ 131,516
Cost of Revenues	57,778	49,963	107,741
Gross Profit	$ 8,763	$ 15,012	23,775
Operating Expenses			20,482
Operating Income			$ 3,293

	Six Months Ended June 30, 2004		
	Consumer	**OEM**	**Consolidated**
Net Revenues	$ 71,116	$ 51,683	$ 122,799
Cost of Revenues	60,487	42,527	103,014
Gross Profit	$ 10,629	$ 9,156	19,785
Operating Expenses			16,086
Operating Income *			$ 3,699

* From continuing operations

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Note 7 Stock Repurchase

In June 2004, the Company s board of directors authorized the repurchase of up to $15 million of its outstanding common stock from time to time over the next 18 months. The Company repurchased 3,045,886 shares of common stock at an average share price of $3.88, including commissions, in the first half of 2005. The Company repurchased 841,509 shares of common stock at an average share price of $3.68, including commissions, in the year 2004. Shares may be purchased from time to time at prevailing market prices through open market or unsolicited negotiated transactions, depending on market conditions and other considerations. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue purchases at any time when its management determines that additional purchases are not warranted. Repurchased shares would be returned to the status of authorized but unissued shares of common stock. The Company believes that all funds required for the repurchase of common stock will be obtained from its available cash resources and marketable securities.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement

Certain statements in this report, including statements regarding our strategy, financial performance and revenue sources, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and are subject to the safe harbors created by those sections. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management s beliefs, and certain assumptions made by us. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. The section entitled Risk Factors set forth in this Form 10-Q and similar discussions in filings with the Securities and Exchange Commission made from time to time, including other quarterly reports on Form 10-Q, our Annual Reports on Form 10-K, and in our other SEC filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition.

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto.

Overview

SimpleTech, Inc. was originally incorporated in California in March 1990 as Simple Technology, Inc. Our name was then changed to SimpleTech, Inc. in May 2001. SimpleTech designs, manufactures and markets custom and open-standard memory and storage solutions based on Flash memory, Dynamic Random Access Memory (DRAM), and hard disk drive (HDD) technologies. Headquartered in Santa Ana, California, we offer a comprehensive line of more than 2,500 products and specialize in developing high-density memory modules, memory cards and storage solutions.

We sell our products through our Consumer and OEM Divisions. Our Consumer Division sells our products through a variety of distribution channels, including VARS, mail order, distributors, and mass market retailers. Our OEM Division markets our products to OEMs, leveraging our custom design capabilities to offer custom memory solutions to address their specific needs. In June 2004, we discontinued the operation of our Xiran Division, which was formed in 2002 as a result of our acquisition of the assets of Irvine Networks, LLC.

We are focusing on several revenue growth initiatives, including:

- Developing and qualifying customized OEM Flash-based products, including our recently introduced Zeus product line, for industrial applications;
- Targeting new customers for our Value-add OEM DRAM memory solutions;
- Increasing retail sales of our storage product line; and
- Expanding our international business in Asia and Europe.

Over the past several years we have expanded our custom design capabilities of Flash products for OEM applications. OEM Flash product revenue increased 47% from $4.9 million in the first quarter of 2005 to $7.2 million in the second quarter of 2005. We expect continued revenue growth from our OEM Flash product line in the second half of 2005 and into 2006. OEM Flash product gross margins are typically significantly higher than our Consumer Flash product gross margins.

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We offer monolithic DRAM memory modules and DRAM memory modules based on our stacking technology. The majority of our Consumer DRAM business has been comprised of monolithic DRAM memory modules. Prior to 2005, the substantial majority of our OEM DRAM business has been comprised of stacked DRAM memory modules. As a result of the introduction of new DRAM technologies, we expect that a higher percentage of our OEM DRAM business will be derived from monolithic DRAM memory modules. During the first half of 2005, we faced transitional challenges as some of our customers transitioned from modules based on PC 2100 to PC 2700 and from DDR I to DDR II technologies. Our OEM stacked DRAM memory module revenue decreased from a high of $30.8 million in the fourth quarter of 2004, to $16.0 million in the first quarter of 2005, and rebounded to $22.9 million in the second quarter of 2005. However, we expect our OEM stacked DRAM memory module business to remain difficult to project for the next several quarters as our customers continue to qualify the latest generation modules.

In the past year, we have invested significantly in the design, development and initial launch of our SimpleShare product line of network attached storage (NAS) external drives. As a result of several storage product launches in the retail channel in the second quarter of 2005, our storage product revenue increased 53% from $5.5 million in the first quarter of 2005 to $8.4 million in the second quarter of 2005. We expect a significant increase in the deployment of our storage products by the fourth quarter of 2005 with major U.S. retailers.

One of our long-term revenue growth initiatives is expansion of our international business in Asia and Europe. Since the beginning of 2004, we have opened sales, marketing and engineering offices in the Netherlands, Hong Kong and Taiwan in order to build the necessary infrastructure to support revenue growth in those geographical regions.

We do not expect continued pursuit of these initiatives to have a material impact on our quarterly general and administrative expenses in 2005 compared to our recent quarterly run rates. However, if revenues increase due to the execution of these initiatives, we expect related increases in sales and marketing expenses.

Gross profit as a percentage of revenues for our OEM Division is typically higher than our Consumer Division. We track revenues and gross margins for our Consumer and OEM Divisions. We do not track separately, and do not intend to track separately, operating expenses for our Consumer and OEM Divisions.

Historically, a limited number of customers have accounted for a significant percentage of our revenue. Our ten largest customers accounted for an aggregate of 69.3% of our total revenues in the first half of 2005 compared to 60.6% of our total revenues in the first half of 2004. Smart Modular and CDW Logistics, Inc. (formerly CDW Computer Centers), accounted for 21.6% and 16.1%, respectively, of our total revenues in the first half of 2005. CDW Logistics, Inc, Micron Semiconductor and Smart Modular accounted for 19.7%, 12.1% and 11.0%, respectively, of our total revenues in the first half of 2004. Other than Smart Modular, CDW Logistics, Inc., and Micron Semiconductor, no other customer accounted for more than 10.0% of our total revenues in the first half of 2005 or 2004. The composition of our major customer base changes from quarter to quarter as the market demand for our products changes, and we expect this variability will continue in the future. We expect that sales of our products to a limited number of customers will continue to account for a majority of our revenues in the foreseeable future. The loss of, or a significant reduction in purchases by any of our major customers, would harm our business, financial condition and results of operations. See Risk Factors Sales to a limited number of customers represent a significant portion of our revenues, and the loss of any key customer would materially reduce our revenues.

International sales of our products accounted for 12.5% of our revenues in the first half of 2005 compared to 21.3% of our revenues in the first half of 2004. No foreign geographic area or single foreign country accounted for more than 10.0% of our revenues in the first half of 2005 or 2004. For each of the first half of 2005 and 2004, more than 95.0% of our international sales were denominated in U.S. dollars. In addition, our purchases of DRAM and Flash components are currently denominated in U.S. dollars. However, we do face risks associated with doing business in foreign countries. See Risk Factors We face risks associated with doing business in foreign countries, including foreign currency fluctuations

and trade barriers, that could lead to a decrease in demand for our products or an increase in the cost of the components used in our products.

In the past, we have been, and expect to continue to be, impacted by seasonal purchasing patterns resulting in lower sales in the first and second quarters of each year. Other factors, including component price fluctuations, may distort the effect of seasonality. Our ability to adjust our short-term operating expenses in response to fluctuations in revenues is limited. As a result, should revenues decrease to a level lower than expected in any given period, our results of operations would be harmed.

Discontinued Operations of Xiran Division

In June 2004, we discontinued the operation of our Xiran Division, which was formed in 2002 as a result of our acquisition of the assets of Irvine Networks, LLC. The Xiran Division developed advanced board-level solutions that optimized server

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performance for networked storage applications, including IP storage. In the first half of 2004, the discontinued Xiran Division recorded a $4.1 million operating loss before benefit for income taxes. In addition, we took a pre-tax charge of approximately $3.0 million that included a $1.5 million write-off of inventory, an $802,000 write-off reflecting the net book value of Xiran Division fixed assets that will no longer be used, a $310,000 write-off of the net book value of the intangible asset recorded at the date of acquisition, a $173,000 lease impairment charge related to the Xiran Division office space that will no longer be used, $102,000 in severance costs of Xiran Division employees who are no longer employed by us, and approximately $51,000 in other charges. Monthly rent on the Xiran Division office lease, which expired on June 30, 2005, was approximately $22,000. In calculating the lease impairment charge, we reduced the total lease liability by the estimated fair market value of sublease rental income. The closure of the Xiran Division had no impact on net revenues, gross profit or net income in the three months and six months ended June 30, 2005.

Results of Operations Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004

Net Revenues. Our revenues were $70.3 million in the second quarter of 2005, compared to $56.5 million in the same period in 2004. Revenues increased 24.2% in the second quarter of 2005 due to a 42% increase in unit shipments, partially offset by a decrease of 13% in the average sales price from $76 in the second quarter of 2004 to $66 in the second quarter of 2005. The increase in unit shipments resulted primarily from a 66% increase in Flash memory units shipped and a 60% increase in stacked memory units shipped. The decrease in our average sales price resulted from significant declines in DRAM and Flash component pricing in the second quarter of 2005 compared to the second quarter of 2004.

Our Consumer Division revenues decreased 2.1% from $32.9 million in the second quarter of 2004 to $32.2 million in the second quarter of 2005. Consumer Division revenues decreased in the second quarter of 2005 due to a 24% decrease in average sales price from $59 in the second quarter of 2004 to $45 in the second quarter of 2005, partially offset by a 29% increase in unit volume, resulting primarily from a 53% increase in Flash memory units shipped. The decrease in Consumer Division average sales price resulted from declines in DRAM and Flash component pricing in the second quarter of 2005 compared to the second quarter of 2004. Our OEM Division revenues increased 61.4% from $23.6 million in the second quarter of 2004 to $38.1 million in the second quarter of 2005. The increase in OEM Division revenues was due to a 82% increase in OEM Division unit volume in the second quarter of 2005 compared to the second quarter of 2004, partially offset by an 11% decrease in OEM Division average sales price from $126 in the second quarter of 2004 to $112 in the second quarter of 2005. The increase in OEM Division unit volume resulted primarily from a 107% increase in Flash memory units shipped. The decrease in OEM Division average sales price resulted from declines in DRAM and Flash component pricing in the second quarter of 2005 compared to the second quarter of 2004.

Sales of our products are made under short-term cancelable purchase orders. We include in our backlog only those customer orders for which we have accepted purchase orders and to which we have assigned shipment dates within the upcoming six months. Since orders constituting our backlog are subject to change due to, among other things, customer cancellations and reschedulings, and our ability to procure necessary components, backlog is not necessarily an indication of future revenues. In addition, there can be no assurance that current backlog will necessarily lead to revenues in any future period. Our combined backlog was $17.9 million as of June 30, 2005, compared to $11.0 million as of June 30, 2004. Our Consumer Division backlog was $2.6 million as of June 30, 2005, compared to $3.9 million as of June 30, 2004. Our OEM Division backlog was $15.3 million as of June 30, 2005, compared to $7.1 million as of June 30, 2004. Our ability to predict future sales is limited because a majority of our quarterly product revenues come from orders that are received and fulfilled in the same quarter.

Gross Profit. Our gross profit was $12.8 million in the second quarter of 2005, compared to $8.3 million in the same period in 2004. Gross profit as a percentage of revenues was 18.2% in the second quarter of 2005, compared to 14.7% in the same period in 2004. Gross profit as a percentage of revenue in the second quarter of 2004 was abnormally low due to an initiative to reduce our inventory balance during the quarter by selling a portion of our inventory at lower than normal selling prices. Gross profit for our Consumer Division as a percentage of Consumer Division revenues was relatively flat at 13.4% in the second quarter of 2005, compared to 13.3% in the second quarter of 2004. Gross profit for our OEM Division as a percentage of OEM Division revenues was 22.2% in the second quarter of 2005, compared to 16.5% in the second quarter of 2004. This increase in gross profit as a percentage of revenues for our OEM Division resulted primarily from a shift in product and customer revenue mix.

Sales and Marketing. Sales and marketing expenses are primarily comprised of personnel costs and travel expenses for our domestic and international sales and marketing employees, commissions paid to internal salespersons and independent manufacturers representatives, shipping costs and marketing programs. Sales and marketing expenses were $6.0 million in the second quarter of 2005, compared to $4.1 million in the same period in 2004. Sales and marketing expenses as a percentage of revenue were 8.6% in the second quarter of 2005, compared to 7.3% in the same period in 2004. The increase

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in sales and marketing expenses in absolute dollars and as a percentage of revenue was due primarily to the addition of sales and marketing personnel hired to execute on our revenue growth initiatives such as the launch of our recently introduced NAS storage and Zeus Flash product lines and our international expansion. We expect our sales and marketing expenses to increase in absolute dollars as our revenues grow.

General and Administrative. General and administrative expenses are primarily comprised of personnel costs for our executive and administrative employees, professional fees and facilities overhead. General and administrative expenses were $3.1 million in our second quarter of 2005, compared to $2.1 million in the second quarter of 2004. General and administrative expenses as a percentage of revenues were 4.4% in the second quarter of 2005, compared to 3.7% in the second quarter of 2004. The increase in general and administrative expenses in absolute dollars and as a percentage of revenue was due primarily to increased legal fees and Sarbanes-Oxley related costs, including consulting fees for accounting related services and additional accounting personnel.

Research and Development. Research and development expenses are comprised primarily of personnel costs for our engineering and design staff and the cost of prototype supplies. Research and development expenses were $1.6 million in the second quarter of 2005, compared to $970,000 in the same period in 2004. Research and development expenses as a percentage of revenues were 2.3% in the second quarter of 2005, compared to 1.7% in the same period in 2004. Research and development expenses increased due to increased payroll costs and Flash and storage product design expenses in the second quarter of 2005 compared to the second quarter of 2004.

Interest Income, Net. Interest income, net was $417,000 in the second quarter of 2005 and $202,000 in the second quarter of 2004. Interest income is comprised of interest earned on our cash, cash equivalents and marketable securities. This increase in interest income resulted primarily from an increase in average cash, cash equivalents and marketable securities balance and higher interest rates in the second quarter of 2005 compared to the second quarter of 2004.

Provision for Income Taxes. Provision for income taxes was $537,000 in the second quarter of 2005. Provision for income taxes from continuing operations was $347,000 in the second quarter of 2004. As a percentage of income before provision for income taxes, provision for income taxes was 22% in the second quarter of 2005. Provision for income taxes as a percentage of income before provision for income taxes was abnormally low in the second quarter of 2005, due primarily to the completion of a state income tax audit in which the final tax liability was less than we had previously anticipated. In addition, we received increased research and development income tax credits as a result of higher research and development costs in the second quarter of 2005 compared to the second quarter of 2004. As a percentage of income from continuing operations before provision for income taxes, provision for income taxes was 29% in the second quarter of 2004.

Net Income. Net income was $1.9 million in the second quarter of 2005. Income from continuing operations was $855,000 in the second quarter of 2004.

Discontinued Operations. In June 2004, we discontinued the operation of our Xiran Division. No revenues or operating expenses were recorded in the second quarter of 2005 related to our discontinued Xiran Division. The operating expense figures above do not include operating expenses related to our discontinued Xiran Division during the second quarter of 2004.

Results of Operations Comparison of the First Half of 2005 to the First Half of 2004

Net Revenues. Our revenues were $131.5 million in the first half of 2005, compared to $122.8 million in the same period in 2004. Revenues increased 7.1% in the first half of 2005 due to a 27% increase in units shipped, partially offset by a 15% decrease in average sales price from $75 in the first half of 2004 to $64 in the first half of 2005. The increase in unit shipments resulted primarily from a 39% increase in Flash memory units shipped and a 38% increase in stacked memory units shipped. The decrease in our average sales price resulted from declines in DRAM and Flash component pricing in the first half of 2005 compared to the first half of 2004.

Our Consumer Division revenues decreased 6.5% from $71.1 million in the first half of 2004 to $66.5 million in the first half of 2005. Consumer Division revenues decreased in the first half of 2005 due to a 25% decrease in Consumer Division average sales price from $59 in the first half of 2004 to $44 in the first half of 2005, partially offset by a 24% increase in Consumer Division unit volume, resulting primarily from a 37% increase in Flash memory units shipped. The decrease in Consumer Division average sales price resulted from declines in DRAM and Flash component pricing in the first half of 2005 compared to the first half of 2004. Our OEM Division revenues increased 25.7% from $51.7 million in the first half of 2004 to $65.0 million in the first half of 2005. The increase in OEM Division revenue was due to a 33% increase in OEM Division unit volume during this period, partially offset by a 6% decrease in OEM Division average sales price from $123 in

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the first half of 2004 to $116 in the first half of 2005. The increase in OEM Division unit volume resulted primarily from a 46% increase in Flash memory units shipped and a 43% increase in stacked memory units shipped. The decrease in OEM Division average sales price resulted from declines in DRAM and Flash component pricing in the second quarter of 2005 compared to the second quarter of 2004.

Gross Profit. Our gross profit was $23.8 million in the first half of 2005, compared to $19.8 million in the same period in 2004. Gross profit as a percentage of revenues was 18.1% in the first half of 2005, compared to 16.1% in the same period in 2004. Gross profit as a percentage of revenue in the first half of 2004 was abnormally low due to an initiative to reduce our inventory balance during the quarter by selling a portion of our inventory at lower than normal selling prices. Gross profit for our Consumer Division as a percentage of Consumer Division revenues was 13.2% in the first half of 2005, compared to 14.9% in the first half of 2004. Gross profit for our Consumer Division as a percentage of Consumer Division revenues declined due primarily to a drop in standard memory gross profit percentage from 16.0% in the first half of 2004 to 14.3% in the first half of 2005 as a result of declining DRAM component prices during the first half of 2005. Gross profit for our OEM Division as a percentage of OEM Division revenues was 23.1% in the first half of 2005, compared to 17.7% in the first half of 2004. This increase in gross profit as a percentage of revenues for our OEM Division resulted primarily from a shift in product and customer revenue mix.

Sales and Marketing. Sales and marketing expenses are primarily comprised of personnel costs and travel expenses for our domestic and international sales and marketing employees, commissions paid to internal salespersons and independent manufacturers representatives, shipping costs and marketing programs. Sales and marketing expenses were $11.4 million in the first half of 2005, compared to $9.2 million in the same period in 2004. Sales and marketing expenses as a percentage of revenues were 8.7% in the first half of 2005, compared to 7.5% in the same period in 2004. The increase in sales and marketing expenses in absolute dollars and as a percentage of revenue was due primarily to the addition of sales and marketing personnel hired to execute on our revenue growth initiatives such as the launch of our recently introduced NAS storage and Zeus Flash product lines and our international expansion. We expect our sales and marketing expenses to increase in absolute dollars as our revenues grow.

General and Administrative. General and administrative expenses are comprised primarily of personnel costs for our executive and administrative employees, professional fees and facilities overhead. General and administrative expenses were $6.2 million in the first half of 2005, compared to $5.1 million in the same period in 2004. General and administrative expenses as a percentage of revenues were 4.7% in the first half of 2005, compared to 4.2% in the first half of 2004. The increase in general and administrative expenses in absolute dollars and as a percentage of revenue was primarily due to increased legal fees and Sarbanes-Oxley related costs, including consulting fees for accounting related services and additional accounting personnel.

Research and Development. Research and development expenses are primarily comprised of personnel costs for our engineering and design staff and the cost of prototype supplies. Research and development expenses were $2.9 million in the first half of 2005, compared to $1.8 million in the same period in 2004. Research and development expenses as a percentage of revenues were 2.2% in the first half of 2005, compared to 1.5% in the same period in 2004. Research and development expenses increased due to increased payroll costs and Flash and storage product design expenses in the first half of 2005 compared to the first half of 2004.

Interest Income. Interest income, net was $852,000 in the first half of 2005 and $401,000 in the first half of 2004. Interest income is comprised primarily of interest earned on our cash, cash equivalents and marketable securities. This increase in interest income resulted primarily from higher interest rates in the first half of 2005 compared to the first half of 2004.

Provision for Income Taxes. Provision for income taxes was $1.2 million in the first half of 2005. Provision for income taxes from continuing operations was $1.6 million in the first half of 2004. As a percentage of income before provision for income taxes, provision for income taxes was 28.4% in the first half of 2005. As a percentage of income from continuing operations before provision for income taxes, provision for income taxes was 38.4% in the first half of 2004. Provision for income taxes as a percentage of income before provision for income taxes was

abnormally low in the first half of 2005, due primarily to the completion of a state income tax audit in which the final tax liability was less than we had previously anticipated. In addition, we received increased research and development income tax credits as a result of higher research and development costs in the first half of 2005 compared to the first half of 2004.

Net Income. Net income was $3.0 million in the first half of 2005. Income from continuing operations was $2.5 million in the first half of 2004.

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Discontinued Operations. In June 2004, we discontinued the operation of our Xiran Division. No revenues or operating expenses were recorded in the second quarter of 2005 related to our discontinued Xiran Division. The operating expense figures above do not include operating expenses related to our discontinued Xiran Division during the second quarter of 2004.

Liquidity and Capital Resources

As of June 30, 2005, we had working capital of $114.8 million, including $60.5 million of cash and cash equivalents, compared to working capital of $121.6 million, including $73.3 million of cash and cash equivalents and $10.0 million in marketable securities as of December 31, 2004. Current assets were 5.9 times current liabilities at June 30, 2005, compared to 6.5 times current liabilities at December 31, 2004.

Net cash used in operating activities was $10.5 million for the first half of 2005 and resulted primarily from a $13.3 million increase in inventory, net of reserves, and a $2.7 million increase in accounts receivable, net of allowances, partially offset by net income of $3.0 million and a $1.8 million increase in accounts payable. Inventory, net of reserves, increased primarily to support increased OEM Division orders and the continued growth of our external storage product line in the retail channel.

Net cash provided by investing activities was $9.2 million for the first half of 2005, attributable to $10.0 million of redemptions of marketable securities, partially offset by $834,000 in purchases of furniture, fixtures and equipment. We expect to spend approximately $3.0 to $5.0 million on capital expenditures during the next 24 months, primarily for the purchase of manufacturing, testing and engineering equipment.

Net cash used by financing activities was $11.5 million for the first half of 2005 and resulted primarily from the $11.8 million repurchase of our common stock under our stock buy back plan, partially offset by the issuance of common stock for proceeds of $349,000 related to our employee stock purchase plan and stock option exercises.

In June 2004, our board of directors authorized the repurchase of up to $15 million of our outstanding common stock from time to time over the next 18 months. We repurchased 841,509 shares of common stock at an average share price of $3.68, including commissions, in 2004. We repurchased 3,045,886 shares of common stock at an average share price of $3.88, including commissions, in the first half of 2005. Since the inception of the program, we have repurchased 3,887,395 shares of common stock at an average share price of $3.84, including commissions, for an aggregate purchase price of $14,926,085. Shares may be repurchased from time to time at prevailing market prices through open market or unsolicited negotiated transactions, depending on market conditions and other considerations. There is no guarantee as to the exact number of shares that will be repurchased by us, and we may discontinue purchases at any time when management determines that additional purchases are not warranted. Repurchased shares would be returned to the status of authorized but unissued shares of common stock. We believe that all funds required for the repurchase of common stock will be obtained from our available cash resources and marketable securities.

We believe that our existing assets, cash, cash equivalents and investments on hand, together with cash that we expect to generate from our operations, will be sufficient to meet our capital needs for at least the next twelve months. However, it is possible that we may need or elect to raise additional funds to fund our activities beyond the next year or to consummate acquisitions of other businesses, products or technologies. We could raise such funds by selling more stock to the public or to selected investors, or by borrowing money. In addition, even though we may not need additional funds, we may still elect to sell additional equity securities or obtain credit facilities for other reasons. We cannot assure you that we will be able to obtain additional funds on commercially favorable terms, or at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock.

Although we believe we have sufficient capital to fund our activities for at least the next twelve months, our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will depend on many factors, including:

- our relationships with suppliers and customers;
- the market acceptance of our products;
- the levels of promotion and advertising that will be required to launch our new products and achieve and maintain a competitive position in the marketplace;

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expansion of our international business, including the opening of offices and facilities in foreign countries;

price discounts on our products to our customers;

our pursuit of strategic transactions;

our business, product, capital expenditure and research and development plans and product and technology roadmaps;

the levels of inventory and accounts receivable that we maintain;

our entrance into new markets;

capital improvements to new and existing facilities;

technological advances; and

competitors responses to our products.

Off-Balance Sheet Financing Arrangements

We do not have off-balance sheet financing arrangements as of June 30, 2005.

Inflation

Inflation was not a material factor in either revenue or operating expenses during the first six months of 2005 and 2004.

Risk Factors

This Report contains forward-looking statements based on the current expectations, assumptions, estimates and projections about our industry and us. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of certain factors, as more fully described in this section and elsewhere in this Report. You should carefully consider the following risks before you decide to buy shares of our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, including those risks set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations above, may also adversely impact and impair our business. If any of the following risks actually occur, our business, results of operations or financial condition would likely suffer. In such case, the trading price of our common stock could

decline, and you may lose all or part of the money you paid to buy our stock. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

We expect our quarterly operating results to fluctuate in future periods, causing our stock price to fluctuate or decline.

Our quarterly operating results have fluctuated in the past, and we believe they will continue to do so in the future. Our future results of operations will depend on many factors including:

Our suppliers production levels for the components used in our products;

Our ability to procure required components or fluctuations in the cost of such components;

Fluctuating market demand for, and changes in the average sales prices of our products;

Changes in our product and revenue mix;

Our ability to successfully integrate any acquired businesses or assets;

Seasonal purchasing patterns for our products with lower sales generally occurring in the first and second quarters followed by higher sales in the fourth quarter of each year;

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Market acceptance of new and enhanced versions of our products;

Expansion of our international business, including the opening of offices and facilities in foreign countries;

The timing of the introduction of new products or components and enhancements to existing products or components by us, our competitors or our suppliers;

Order cancellations, product returns, inventory write-downs, price protections, and rebates;

Manufacturing inefficiencies associated with the start-up of new products and volume production;

Expenses associated with acquisitions;

Our ability to adequately support future rapid growth;

Our ability to absorb manufacturing overhead;

The effects of litigation;

Increases in our sales and marketing expenses in connection with decisions to pursue new product initiatives; and

Expenses associated with the start up of new operations or divisions.

Due to the above and other factors, quarterly revenues and results of operations are difficult to forecast, and period-to-period comparisons of our operating results may not be predictive of future performance. In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors. In that event, the trading price of our common stock would likely decline. In addition, the trading price of our common stock may fluctuate or decline regardless of our operating performance.

Our dependence on a small number of suppliers for integrated circuit, or IC, devices and inability to obtain a sufficient supply of these components on a timely basis could harm our ability to fulfill orders.

IC devices represent more than 90% of the component costs of our manufactured Flash cards and DRAM modules. We are dependent on a small number of suppliers that supply Flash and DRAM components. We have no long-term DRAM or Flash IC device supply contracts. Some of our competitors have entered into long-term contracts with suppliers that guarantee them a certain allocation of Flash IC devices. We have no assurance that our existing suppliers will agree to supply the quantities of Flash IC devices we may need to meet our production goals. We periodically review opportunities to develop alternative sources for our Flash and DRAM IC device needs. However, our options are very limited because of the small number of memory manufacturers. Our dependence on a small number of suppliers and the lack of any guaranteed sources of supply expose us to several risks, including the inability to obtain an adequate supply of components, price increases, late deliveries and poor component quality. Renesas, Matsushita and Samsung supply substantially all of the IC devices used in our Flash memory products. In

addition, Infineon Technologies, Micron Technology and Samsung currently supply a majority of the DRAM IC devices used in our DRAM and IC Tower stacking DRAM memory products. A disruption in or termination of our supply relationship with any of these significant suppliers due to natural disasters or other factors, or our inability to develop relationships with new suppliers, if required, would cause delays, disruptions or reductions in product shipments or require product redesigns which could damage relationships with our customers and negatively affect our revenues and could increase our costs or the prices of our products. In particular, if our supply relationships with Infineon Technologies, Micron Technology or Samsung are disrupted or terminated, our ability to manufacture and sell our DRAM and Flash products would be harmed and our business would be adversely affected.

Moreover, from time to time, our industry experiences shortages in Flash and DRAM IC devices which have required some vendors to place their customers, ourselves included, on component allocation. This means that while we may have customer orders, we may not be able to obtain the materials that we need to fill those orders in a timely manner or at competitive prices. If we are unable to obtain sufficient Flash IC devices and other components to meet our customers requirements, they may reduce future orders or eliminate us as a supplier and our revenues may decline. Additionally, our reputation could be harmed, we may not be able to replace any lost business with new customers, and we may lose market share to our competitors.

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Declines in our average sales prices may result in declines in our revenues and gross profit.

Our average sales prices may decline due to several factors. From time to time, overcapacity in the DRAM memory component market has resulted in significant declines in component prices, which has negatively impacted our average sales prices, revenues and gross profit. Declines in semiconductor prices could also affect the valuation of our inventory, which could harm our financial results. During periods of overcapacity, our revenues and gross profit will decline if we do not increase unit sales of existing products or fail to introduce and sell new products in quantities sufficient to offset declines in sales prices. Our efforts to reduce costs and develop new products to offset the impact of further declines in average sales prices may not be successful. Declines in average sales prices would also enable OEMs to pre-install higher capacity base memory into new systems at existing price points, and thereby reduce the demand for our aftermarket memory products.

In addition, the continued transition to smaller design geometries and the use of 300 millimeter wafers by existing memory manufacturers could lead to a significant increase in the worldwide supply of DRAM and Flash components. Increases in the worldwide supply of DRAM and Flash components could also result from manufacturing capacity expansions. If not offset by increases in demand, these increases would likely lead to further declines in the average sales prices of our products and have a material adverse effect on our business and operating results. Furthermore, even if supply remains constant, if demand were to decrease, it would harm our average sales prices.

We are subject to the cyclical nature of the semiconductor industry and any future downturn could adversely affect our business.

The semiconductor industry, including the memory markets in which we compete, is highly cyclical and characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry has experienced significant downturns often connected with, or in anticipation of, maturing product cycles of both semiconductor companies and their customers products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average sales prices. Any future downturns could have a material adverse effect on our business and results of operations.

Sales to a limited number of customers represent a significant portion of our revenues, and the loss of any key customer would materially reduce our revenues.

Our dependence on a limited number of customers means that the loss of a major customer or any reduction in orders by a major customer would materially reduce our revenues. Historically, a relatively limited number of customers have accounted for a significant percentage of our revenues. Our ten largest customers accounted for an aggregate of 69.9% and 69.3% of our total revenues in the three months and six months ended June 30, 2005, respectively, compared to 64.1% and 60.6% of our total revenues in the three months and six months ended June 30, 2004, respectively. Our ten largest Consumer Division customers accounted for an aggregate of 66.4% and 66.2% of our Consumer Division revenues, or 30.4% and 33.5% of our total revenues, in the three months and six months ended June 30, 2005, respectively, and 64.8% and 62.2% of our Consumer Division revenues, or 37.7% and 36.0% of our total revenues, in the three months and six months ended June 30, 2004, respectively. Our largest Consumer Division customer in each of the three months and six months ended June 30, 2005 and 2004, CDW Logistics, Inc. (formerly CDW Computer Centers), accounted for 31.7% and 31.8% of our Consumer Division revenues, or 14.5% and 16.1% of our total revenues, in the three months and six months ended June 30, 2005, respectively, and 37.3% and 34.0% of our Consumer Division revenues, or 21.7% and 19.7% of our total revenues, in the three months and six months ended June 30, 2004, respectively. No other Consumer Division customer accounted for more than 10.0% of our total revenues in each of the three months and six months ended June 30, 2005 and 2004.

Our ten largest OEM Division customers accounted for an aggregate of 88.3% and 86.7% of our OEM Division revenues, or 47.8% and 42.8% of our total revenues, in the three months and six months ended June 30, 2005, respectively, and 84.3% and 80.8% of our OEM Division revenues, or 35.2% and 34.0% of our total revenues, in the three months and six months ended June 30, 2004, respectively. Our two largest OEM Division customers, Smart Modular and Micron Semiconductor, accounted for 43.9% and 27.2%, respectively, of our OEM Division revenues, or 23.8% and 14.7%, respectively, of our total revenues for the three months ended June 30, 2005. Smart Modular accounted for 43.6% of our OEM Division revenues, or 21.6% of our total revenues for the six months ended June 30, 2005. Additionally, Micron Semiconductor and Smart Modular accounted for 27.4% and 24.7%, respectively, of our OEM Division revenues, or 11.4% and 10.3%, respectively, of our total revenues for the three months ended June 30, 2004, and 28.8% and 26.1%, respectively, of our OEM Division revenues, or 12.1% and 11.0%, respectively, of our total revenues for the six months ended June 30, 2004. No other OEM Division customer accounted for more than 10.0% of our total revenues in each of the three and six months ended June 30, 2005 and 2004.

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Consolidation in some of our customers industries may result in increased customer concentration and the potential loss of customers as a result of acquisitions. In addition, the composition of our major customer base changes from quarter to quarter as the market demand for our customers products changes, and we expect this variability to continue in the future. We expect that sales of our products to a limited number of customers will continue to contribute materially to our revenues in the foreseeable future. The loss of, or a significant reduction in purchases by any of our major customers, could harm our business, financial condition and results of operations.

Our ability to use our tax credit carryforwards may be substantially limited, which could harm our financial condition.

We have generated tax credits in recent years, which we are not fully able to utilize at this time. The availability of some of these credit carryforwards is subject to expiration and/or certain limitations. As of June 30, 2005, we had federal research and development credit carryforwards of approximately $774,000, which begin to expire in 2023. In addition, we had the following state credits as of June 30, 2005: research and development credit carryforwards of approximately $2.1 million, which carryforward indefinitely; enterprise zone credit carryforwards of approximately $2.0 million, which carryforward indefinitely; and manufacturer s investment credit carryforwards of approximately $206,000, which begin to expire in 2010. We periodically review our ability to use our tax credit carryforwards. Based on this periodic review, we may determine that the amount of tax credit carryforwards that can be utilized to offset future tax liabilities should be limited. Since a potential limitation is based on a number of factors, we cannot determine the impact of such a limitation at this time, but if our ability to use tax credit carryforwards were substantially limited, it could harm our financial condition.

New accounting and financial reporting requirements, including new standards that affect how we account for equity compensation, may impact our financial results.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. These principles are subject to interpretation by the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in these policies could significantly impact our reported results and could retroactively affect previously reported transactions.

In addition, there has been an ongoing public debate as to whether employee stock option and employee stock purchase plan shares should be treated as a compensation expense and, if so, how to properly value such charges. We have accounted for employee stock options and employee stock purchase plan shares for financial and accounting purposes under APB Opinion No. 25, which does not require the expensing of stock options until they are exercised. In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), which amended financial accounting standards and will require that awards under such plans be treated as compensation expense using the fair value method. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending the compliance dates for SFAS No. 123(R). In accordance with the new rule, the accounting provisions of SFAS No. 123(R) will be effective in fiscal 2006. Although management is continuing to assess the implications of this revised standard, we believe this revised standard will likely significantly increase our compensation expense, could make our operating results less predictable and could change the way we compensate our employees or cause other changes in the way we conduct our business.

Failure to maintain effective internal control over financial reporting could result in a negative market reaction.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we undertake a thorough examination of our internal control systems and procedures for financial reporting. We also are required to completely document and test those systems. Ultimately, our management will be responsible for assessing the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm

will be requested to attest to that report. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations since there is no precedent available by which to measure compliance adequacy.

If we identify one or more material weaknesses in our internal control over financial reporting, our management will be unable to assert such internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to attest that our management s report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls, it could result in a negative market reaction.

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Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq National Market rules, have required most public companies, including us, to devote additional internal and external resources to various governance and compliance matters. Because we have a relatively small corporate staff, we rely heavily on outside professional advisers to assist us with these efforts. Although we are uncertain about the total costs we will incur in connection with these efforts, we know they will at least be substantial. These costs will include increased accounting related fees associated with preparing the attestation report on our internal controls over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002. The costs to comply with evolving laws, regulations and standards may offset all or a portion of the savings we realized through our efforts to reduce our expenses in 2004 and expect to realize from our continuing cost reduction efforts. These new or changed laws, regulations and standards are subject to varying interpretations, as well as modifications by the government and Nasdaq. The way in which they are applied and implemented may change over time, which could result in even higher costs to address and implement revisions to compliance (including disclosure) and governance practices. We intend to invest the necessary resources to comply with evolving laws, regulations and standards. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed and we will be required to incur additional expenses.

We may make acquisitions that are dilutive to existing shareholders, result in unanticipated accounting charges or otherwise adversely affect our results of operations.

We intend to grow our business through business combinations or other acquisitions of businesses, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. If we make any future acquisitions, we could issue stock that would dilute our shareholders percentage ownership, incur substantial debt, reduce our cash reserves or assume contingent liabilities.

Furthermore, acquisitions may require material infrequent charges and could result in adverse tax consequences, substantial depreciation, deferred compensation charges, in-process research and development charges, the amortization of amounts related to deferred compensation and identifiable purchased intangible assets or impairment of goodwill, any of which could negatively impact our results of operations.

Our limited experience in acquiring other businesses, product lines and technologies may make it difficult for us to overcome problems encountered in connection with any acquisitions we may undertake.

We continually evaluate and explore strategic opportunities as they arise, including business combinations, strategic partnerships, capital investments and the purchase, licensing or sale of assets. Our experience in acquiring other businesses, product lines and technologies is limited. The attention of our small management team may be diverted from our core business if we undertake any future acquisitions. Our recent acquisition of Memtech, SSD Corporation and any potential future acquisitions also involve numerous risks, including, among others:

- Problems and delays in successfully assimilating and integrating the purchased operations, personnel, technologies, products and information systems;

- Unanticipated costs and expenditures associated with the acquisition, including any need to infuse significant capital into the acquired operations;

Adverse effects on existing business relationships with suppliers, customers and strategic partners;

Risks associated with entering markets and foreign countries in which we have no or limited prior experience;

Contractual, intellectual property or employment issues;

Potential loss of key employees of purchased organizations; and

Potential litigation arising from the acquired company s operations before the acquisition.

These risks could disrupt our ongoing business, distract our management and employees, harm our reputation and increase our expenses. Our inability to overcome problems encountered in connection with any acquisitions could divert the attention of management, utilize scarce corporate resources and otherwise harm our business. These challenges are magnified as the size of an acquisition increases, and we cannot assure you that we will realize the intended benefits of any acquisition. For

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example, in June 2004 we discontinued the operation of our Xiran Division, which was formed in 2002 as a result of our acquisition of the assets of Irvine Networks, LLC. The Xiran Division developed advanced board-level solutions that optimize server performance for networked storage applications, including IP storage. We were unable to successfully bring the Xiran Division products to market after funding its operations for over two years. In connection with the discontinued operation, we recorded a one-time charge of approximately $3.0 million in the second quarter of 2004.

We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms or realize the anticipated benefits of any acquisitions we do undertake.

Three of our beneficial shareholders have substantial influence over our operations and could control all matters requiring shareholder approval.

Manouch Moshayedi, Mike Moshayedi and Mark Moshayedi, each of whom is an executive officer and director of SimpleTech, are brothers and beneficially own approximately 61.7% of our outstanding common stock at June 30, 2005 (assuming the inclusion of shares of common stock subject to options that are presently exercisable or will become exercisable within 60 days of such date). In addition, they have a non-binding understanding that at any shareholders meeting of SimpleTech where action is to be taken with respect to the election of directors, they each would cause the shares of SimpleTech common stock beneficially owned by them to be voted in favor of their election as directors. As a result, they have the ability to control all matters requiring approval by our shareholders, including the election and removal of directors, approval of significant corporate transactions and the decision of whether a change in control will occur. This control could affect the price that certain investors may be willing to pay in the future for shares of our common stock.

We are involved from time to time in claims and litigation over intellectual property rights, which may adversely affect our ability to manufacture and sell our products.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. We believe that it may be necessary, from time to time, to initiate litigation against one or more third parties to preserve our intellectual property rights. Some of our suppliers and licensors have generally agreed to provide us with various levels of intellectual property indemnification for products and technology we purchase or license from them. A third-party could claim that our products, which incorporate the products purchased or technology licensed from our suppliers and licensors, infringes a patent or other proprietary right. In addition, from time to time, we have received, and may continue to receive in the future, notices that claim we have infringed upon, misappropriated or misused other parties proprietary rights. Any of the foregoing events or claims could result in litigation. Such litigation, whether as plaintiff or defendant, would likely result in significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation is ultimately determined in our favor. In the event of an adverse result in such litigation, we could be required to pay substantial damages, cease the manufacture, use and sale of certain products, expend significant resources to develop non-infringing technology, discontinue the use of certain processes or obtain licenses to use the infringed technology. In addition, our suppliers and licensors obligation to indemnify us for intellectual property infringement may be insufficient or inapplicable to any such litigation. A license may not be available on commercially reasonable terms, if at all. Our failure to obtain a license on commercially reasonable terms, or at all, could cause us to incur substantial costs and suspend manufacturing products using the infringed technology. If we obtain a license, we would likely be required to pay license fees or make royalty payments for sales under the license. Such payments would increase our costs of revenues and reduce our gross margins and gross profit. If we are unable to obtain a license from a third party for technology, we could incur substantial liabilities or be required to expend substantial resources redesigning our products to eliminate the infringement. There can be no assurance that we would be successful in redesigning our products or that we could obtain licenses on commercially reasonable terms, if at all. Product development or license negotiating would likely result in significant expense to us and divert the efforts of our technical and management personnel.

We are currently a party to one lawsuit regarding intellectual property as further described under Legal Proceedings. Because litigation is inherently uncertain, we cannot predict the outcome of this lawsuit. This lawsuit has diverted, and is expected to continue to divert, the efforts and attention of our key management and technical personnel. In addition, we have incurred, and expect to continue to incur, substantial legal fees and expenses in connection with this lawsuit. As a result, our defense of this lawsuit, regardless of its eventual outcome, has been, and will continue to be, costly and time consuming.

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Our indemnification obligations for the infringement by our products of the intellectual property rights of others could require us to pay substantial damages.

We currently have in effect a number of agreements in which we have agreed to defend, indemnify and hold harmless our customers and suppliers from damages and costs which may arise from the infringement by our products of third-party patents, trademarks or other proprietary rights. The scope of such indemnity varies, but may, in some instances, include indemnification for damages and expenses, including attorneys fees. Our insurance does not cover intellectual property infringement. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. We may periodically have to respond to claims and litigate these types of indemnification obligations. Any such indemnification claims could require us to pay substantial damages.

Our indemnification obligations to our customers and suppliers for product defects could require us to pay substantial damages.

A number of our product sales and product purchase agreements provide that we will defend, indemnify and hold harmless our customers and suppliers from damages and costs which may arise from product warranty claims or claims for injury or damage resulting from defects in our products. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not be adequate to cover all or any part of the claims asserted against us. A successful claim brought against us that is in excess of, or excluded from, our insurance coverage could substantially harm our business, financial condition and results of operations.

Our intellectual property may not be adequately protected, which could harm our competitive position.

Our intellectual property is critical to our success. We protect our intellectual property rights through patents, trademarks, copyrights and trade secret laws, confidentiality procedures and employee disclosure and invention assignment agreements. It is possible that our efforts to protect our intellectual property rights may not:

Prevent the challenge, invalidation or circumvention of our existing patents;

Result in patents that lead to commercially viable products or provide competitive advantages for our products;

Prevent our competitors from independently developing similar products, duplicating our products or designing around the patents owned by us;

Prevent third-party patents from having an adverse effect on our ability to do business;

Provide adequate protection for our intellectual property rights;

Prevent disputes with third parties regarding ownership of our intellectual property rights;

Prevent disclosure of our trade secrets and know-how to third parties or into the public domain; and

Result in patents from any of our pending applications.

As part of our confidentiality procedures, we enter into non-disclosure and invention assignment agreements with all of our employees and attempt to control access to and distribution of our technology, documentation and other proprietary information. However, if such agreements are found to be unenforceable, we may be unable to adequately protect our intellectual property rights. In addition, despite these procedures, third parties could copy or otherwise obtain and make unauthorized use of our technologies or independently develop similar technologies.

In addition, if our IC Tower stacking patent is found to be invalid, our ability to exclude competitors from making, using or selling the same or similar products to our IC Tower stacking products would cease. We have on at least one occasion applied for and may in the future apply for patent protection in foreign countries. The laws of foreign countries, however, may not adequately protect our intellectual property rights. Many U.S. companies have encountered substantial infringement problems in foreign countries. Because we sell some of our products overseas, we have exposure to foreign intellectual property risks.

We may not be able to maintain or improve our competitive position because of the intense competition in the memory industry.

We conduct business in an industry characterized by intense competition, rapid technological change, evolving industry standards, declining average sales prices and rapid product obsolescence. Our primary competitors in the third-party memory

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module industry include: Crucial Memory, a division of Micron Technology, Kingston Technology, Lexar Media, M-Systems, PNY Technologies, SanDisk, and SMART Modular. Our competitors include many large domestic and international companies that have substantially greater financial, technical, marketing, distribution and other resources, broader product lines, lower cost structures, greater brand recognition and longer-standing relationships with customers and suppliers. As a result, our competitors may be able to respond better to new or emerging technologies or standards and to changes in customer requirements. Further, some of our competitors are in a better financial and marketing position from which to influence industry acceptance of a particular industry standard or competing technology than we are. Our competitors may also be able to devote greater resources to the development, promotion and sale of products, and may be able to deliver competitive products at a lower price.

We expect to face competition from existing competitors and new and emerging companies that may enter our existing or future markets with similar or alternative products, which may be less costly or provide additional features. In addition, some of our significant suppliers, including Micron Semiconductor Electronics and Samsung Semiconductor, are also our competitors, many of whom have the ability to manufacture competitive products at lower costs as a result of their higher levels of integration. We also face competition from current and prospective customers that evaluate our capabilities against the merits of manufacturing products internally. Competition may arise due to the development of cooperative relationships among our current and potential competitors or third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

We expect our competitors will continue to improve the performance of their current products, reduce their prices and introduce new products that may offer greater performance and improved pricing, any of which could cause a decline in sales or loss of market acceptance of our products. In addition, our competitors may develop enhancements to, or future generations of, competitive products that may render our technology or products obsolete or uncompetitive.

We may be less competitive if we fail to develop new and enhanced products and introduce them in a timely manner.

The memory, high-performance computing, networking and communications, consumer electronics and OEM markets are subject to rapid technological change, product obsolescence, frequent new product introductions and enhancements, changes in end-user requirements and evolving industry standards. Our ability to compete in these markets will depend in significant part upon our ability to successfully develop, introduce and sell new and enhanced products on a timely and cost-effective basis, and to respond to changing customer requirements.

We have experienced, and may in the future experience, delays in the development and introduction of new products. These delays would provide a competitor a first-to-market opportunity and allow a competitor to achieve greater market share. Our product development is inherently risky because it is difficult to foresee developments in technology, anticipate the adoption of new standards, coordinate our technical personnel, and identify and eliminate design flaws. Defects or errors found in our products after commencement of commercial shipments could result in delays in market acceptance of these products. New products, even if first introduced by us, may not gain market acceptance. Accordingly, there can be no assurance that our new products, including our Zeus product line of Flash-based solid state drives and SimpleShare product line of network attached external drives, as well as any future product development efforts will result in future profitability or market acceptance. Lack of market acceptance for our new products will jeopardize our ability to recoup research and development expenditures, hurt our reputation and harm our business, financial condition and results of operations.

We may also seek to develop products with new standards for our industry. It will take time for these new standards and products to be adopted, for consumers to accept and transition to these new products and for significant sales to be generated from them, if this happens at all. Moreover, broad acceptance of new standards or products by consumers may reduce demand for our older products. If this decreased demand is not offset by increased demand for our new products, our results of operations could be harmed. We cannot assure you that any new products or standards

we develop will be commercially successful.

The Flash-based storage market is constantly evolving, and we may not have rights to manufacture and sell certain types of products utilizing emerging new Flash formats, or we may be required to pay a royalty to sell products utilizing these formats.

The Flash-based storage market is constantly undergoing rapid technological change and evolving industry standards. Many consumer devices, such as digital cameras, PDAs and smartphones, may transition to emerging Flash memory formats, such as the xD Picture Card format, which we do not currently manufacture and do not have rights to manufacture. This will likely result in a decline in demand, on a relative basis, for other products that we manufacture such as CompactFlash, Secure Digital and MultiMedia cards. If we decide to manufacture Flash products utilizing emerging formats, such as the xD Picture

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Card, we will be required to secure licensing arrangements to give us the right to manufacture such products which may not be available at reasonable rates or at all. If we are not able to supply all Flash card formats at competitive prices or if we were to have product shortages, our revenues could be adversely impacted and our customers would likely cancel orders or seek other suppliers to replace us.

The execution of our growth strategy depends on our ability to retain key personnel, including our executive officers, and to attract qualified personnel.

Competition for employees in our industry is intense. We have had and may continue to have difficulty hiring the necessary engineering, sales and marketing and management personnel to support our growth. The successful implementation of our business model and growth strategy depends on the continued contributions of our senior management and other key research and development, sales and marketing and operations personnel, including Manouch Moshayedi, our Chief Executive Officer, Mike Moshayedi, our President, and Mark Moshayedi, our Chief Operating Officer, Chief Technical Officer and Secretary. The loss of any key employee, the failure of any key employee to perform in his or her current position, or the inability of our officers and key employees to expand, train and manage our employee base would prevent us from executing our growth strategy.

Ineffective management of inventory levels or product mix, order cancellations, product returns, inventory write-downs, price protection and rebates could adversely affect our results of operations.

If we are unable to properly monitor, control and manage our inventory and maintain an appropriate level and mix of products with our customers, we may incur increased and unexpected costs associated with this inventory. For example, if our Consumer Division customers are unable to sell their inventory in a timely manner, we may choose or be required to lower the price of our products or allow our customers to exchange the slow-moving products for newer products. Similarly, if we manufacture products in anticipation of future demand that does not materialize, or if a customer cancels outstanding orders, we could experience an unanticipated increase in our inventory that we may be unable to sell in a timely manner, if at all. As a result, we could incur increased expenses associated with writing off excess or obsolete inventory. A majority of our sales through commercial channels include limited rights to return unsold inventory. In addition, while we may not be contractually obligated to accept returned products, we may determine that it is in our best interest to accept returns in order to maintain good relations with our customers. Product returns would increase our inventory and reduce our revenues. In addition, some of our inventory is sold on a consignment basis, and we have very little ability to control or manage that inventory. Alternatively, we could end up with too little inventory and we may not be able to satisfy demand, which could have a material adverse effect on our customer relationships. Our risks related to inventory management are exacerbated by our strategy of closely matching inventory levels with product demand, leaving limited margin for error.

We have had to write-down inventory in the past for reasons such as obsolescence, excess quantities and declines in market value below our costs. These inventory write-downs were $456,000 and $499,000 in the three months and six months ended June 30, 2005, respectively, compared to $458,000 and $773,000 in the three months and six months ended June 30, 2004, respectively. In addition, we offer some of our Consumer Division customers limited price protection rights for inventories of our products held by them. If we reduce the list price of our products, these customers may receive credits from us. We incurred price protection charges of $0 and $581,000 in the three months and six months ended June 30, 2005, respectively, compared to $72,000 and $227,000 in the three months and six months ended June 30, 2004, respectively. We also offer rebate programs through some of our Consumer Division customers to end-users. We incurred rebate charges of $205,000 and $330,000 in the three months and six months ended June 30, 2005, respectively, compared to $31,000 and $0 in the three months and six months ended June 30, 2004, respectively.

We are also subject to repurchase agreements with various financial institutions in connection with wholesale inventory financing. Under these agreements, we may be required to repurchase inventory upon customer default with a financing institution and then resell the inventory through

normal distribution channels. As of June 30, 2005, we have never been required to repurchase inventory in connection with the customer default agreements noted above. However, it may be possible that we will be required to repurchase inventory, upon customer default, in the future. Sales under such agreements were approximately $176,000 and $701,000 in the three months and six months ended June 30, 2005, respectively, compared to $362,000 and $606,000 in the three months and six months ended June 30, 2004, respectively.

We have no long-term volume commitments from our customers. Sales of our products are made through individual purchase orders and, in certain cases, are made under master agreements governing the terms and conditions of the relationships. Customers may change, cancel or delay orders with limited or no penalties. We have experienced cancellations of orders and fluctuations in order levels from period-to-period and we expect to continue to experience similar cancellations and fluctuations in the future, which could result in fluctuations in our revenues.

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Our efforts to expand our business internationally may not be successful and may expose us to additional risks that may not exist in the United States, which in turn could cause our business and operating results to suffer.

We sell our products to customers in foreign countries and seek to increase our level of international business activity through the expansion of our operations into select international markets, including Asia and Europe. Such strategy may include opening sales offices in foreign countries, the outsourcing of manufacturing operations to third party contract manufacturers, establishing joint ventures with foreign partners, and the establishment of manufacturing operations in foreign countries. Establishing operations in any other foreign country or region presents numerous risks, including:

- foreign laws and regulations, which may vary country by country, may impact how we conduct our business;
- higher costs of doing business in certain foreign countries, including different employment laws;
- difficulty protecting our intellectual property rights from misappropriation or infringement;
- difficulties and costs of staffing and managing operations in certain foreign countries;
- political or economic instability;
- changes in import/export duties;
- necessity of obtaining government approvals;
- trade restrictions;
- work stoppages or other changes in labor conditions;
- difficulties in collecting of accounts receivables on a timely basis or at all;
- taxes;
- longer payment cycles and foreign currency fluctuations; and
- seasonal reductions in business activity in some parts of the world, such as Europe.

In addition, changes in policies and/or laws of the United States or foreign governments resulting in, among other things, higher taxation, currency conversion limitations, restrictions on fund transfers or the expropriation of private enterprises, could reduce the anticipated benefits of our international expansion. We may also encounter potential adverse tax consequences if taxing authorities in different jurisdictions worldwide disagree with our interpretation of various tax laws or our determinations as to the income and expenses attributable to specific jurisdictions, which could result in our paying additional taxes, interest and penalties. Furthermore, any actions by countries in which we conduct business to reverse policies that encourage foreign trade or investment could adversely affect our business. If we fail to realize the anticipated revenue growth of our future international operations, our business and operating results could suffer.

We expect that our strategy to expand our international operations will require the expenditure of significant resources and involve the efforts and attention of our management. Unlike some of our competitors, we have limited experience operating our business in foreign countries. Some of our competitors may have substantial advantage over us in attracting customers in certain foreign countries due to earlier established operations in that country, greater knowledge with respect to cultural differences of customers residing in that country and greater brand recognition and longer-standing relationships with customers in that country. If our international expansion efforts in any foreign country are unsuccessful, we may decide to cease these foreign operations, which would likely harm our reputation and cause us to incur expenses and losses.

We face risks associated with doing business in foreign countries, including foreign currency fluctuations and trade barriers, that could lead to a decrease in demand for our products or an increase in the cost of the components used in our products.

The volatility of general economic conditions and fluctuations in currency exchange rates affect the prices of our products and the prices of the components used in our products. International sales of our products accounted for 12.5% of our revenues in each of the three months and six months ended June 30, 2005, and 21.5% and 21.3% of our revenues in the three

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months and six months ended June 30, 2004, respectively. No foreign geographic area or single foreign country accounted for more than 10.0% of our revenues in each of the three months and six months ended June 30, 2005 or 2004. For each of the three months and six months ended June 30, 2005 and 2004, more than 95.0% of our international sales were denominated in U.S. dollars. However, if there is a significant devaluation of the currency in a specific country, the prices of our products will increase relative to that country s currency and our products may be less competitive in that country. In addition, we cannot be sure that our international customers will continue to be willing to place orders denominated in U.S. dollars. If they do not, our revenues and results of operations will be subject to foreign exchange fluctuations, which could harm our business. We do not hedge against foreign currency exchange rate risks.

We purchase a majority of the DRAM and Flash components used in our products from local distributors of foreign suppliers. Although our purchases of DRAM and Flash components are currently denominated in U.S. dollars, devaluation of the U.S. dollar relative to the currency of a foreign supplier would likely result in an increase in our cost of DRAM and Flash components.

Our international sales are subject to other risks, including regulatory risks, tariffs and other trade barriers, timing and availability of export licenses, political and economic instability, difficulties in accounts receivable collections, difficulties in managing distributors, lack of a significant local sales presence, difficulties in obtaining governmental approvals, compliance with a wide variety of complex foreign laws and treaties and potentially adverse tax consequences. In addition, the United States or foreign countries may implement quotas, duties, taxes or other charges or restrictions upon the importation or exportation of our products, leading to a reduction in sales and profitability in that country.

We have experienced quarterly and annual losses in the past and may continue to experience losses in the future.

Although we have been profitable for most of our history, we have experienced losses on a quarterly and annual basis in the past. In 2003 and 2002, we incurred net losses of $1.6 million and $1.4 million, respectively. We have expended, and will continue to expend, substantial funds to pursue engineering, research and development projects, enhance sales and marketing efforts and otherwise operate our business. There can be no assurance that we will be profitable on a quarterly or annual basis in the future.

Disruption of our operations in our Santa Ana, California, manufacturing facility would substantially harm our business.

Substantially all of our manufacturing operations are located in our facility in Santa Ana, California. Due to this geographic concentration, a disruption of our manufacturing operations, resulting from sustained process abnormalities, human error, government intervention or natural disasters, including earthquakes, power failures, fires or floods, could cause us to cease or limit our manufacturing operations and consequently harm our business, financial condition and results of operations.

Compliance with environmental laws and regulations could harm our operating results.

We are subject to a variety of environmental laws and regulations governing, among other things, air emissions, waste water discharge, waste storage, treatment and disposal, and remediation of releases of hazardous materials. Our failure to comply with present and future requirements could harm our ability to continue manufacturing our products. Such requirements could require us to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. The imposition of additional or more stringent environmental requirements, the results of future testing at our facilities, or a determination that we are potentially responsible for remediation at other sites where problems are not presently known to us, could result in expenses in excess of amounts currently estimated to be required for such matters.

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various federal and state governmental agencies. Such regulation includes the radio frequency emission regulatory activities of the Federal Communications Commission, the anti-trust regulatory activities of the Federal Trade Commission and Department of Justice, the consumer protection laws of the Federal Trade Commission, the import/export regulatory activities of the Department of Commerce, the product safety regulatory activities of the Consumer Products Safety Commission, the regulatory activities of the Occupational Safety and Health Administration, the environmental regulatory activities of the Environmental Protection Agency, the labor regulatory activities of the Equal Employment Opportunity Commission and tax and other regulations by a variety of regulatory authorities in each of the areas in which we conduct business. We are also subject to regulation in other countries where we conduct business. In certain jurisdictions, such regulatory requirements may be more stringent than in the United States. We are also subject to a variety of federal and state employment and labors laws and regulations, including the Americans with Disabilities Act, the Federal

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Fair Labor Standards Act, the WARN Act and other regulations related to working conditions, wage-hour pay, over-time pay, employee benefits, anti-discrimination, and termination of employment.

Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, or injunctions. In addition from time to time we have received, and expect to continue to receive, correspondence from former employees terminated by us who threaten to bring claims against us alleging that we have violated one or more labor and employment regulations. In certain of these instances the former employee has brought claims against us and we expect that we will encounter similar actions against us in the future. An adverse outcome in any such litigation could require us to pay contractual damages, compensatory damages, punitive damages, attorneys fees and costs.

These enforcement actions could harm our business, financial condition, results of operations and cash flows. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management s attention and resources and an increase in professional fees.

Our stock price is likely to be volatile and could drop unexpectedly.

Our common stock has been publicly traded only since September 2000. The market price of our common stock has been subject to significant fluctuations since the date of our initial public offering. The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices of securities, particularly securities of technology companies. As a result, the market price of our common stock may materially decline, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management s attention and resources.

Anti-takeover provisions in our charter documents and stock option plan could prevent or delay a change in control and, as a result, negatively impact our shareholders.

We have taken a number of actions that could have the effect of discouraging a takeover attempt. For example, provisions of our amended and restated articles of incorporation and amended and restated bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions also could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

These provisions include:

- limitations on who may call special meetings of shareholders;
- advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by shareholders at shareholder meetings;

elimination of cumulative voting in the election of directors;

the right of a majority of directors in office to fill vacancies on the board of directors;

the ability of our board of directors to issue, without shareholder approval, blank check preferred stock to increase the number of outstanding shares and thwart a takeover attempt.

Provisions of our 2000 Stock Incentive Plan allow for the automatic vesting of all outstanding options granted under the 2000 Stock Incentive Plan upon a change in control under certain circumstances. Such provisions may have the effect of discouraging a third party from acquiring us, even if doing so would be beneficial to our shareholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At any time, fluctuations in interest rates could affect interest earnings on our cash and cash equivalents. We believe that the effect, if any, of reasonably possible near term changes in interest rates on our financial position, results of operations, and

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cash flows would not be material. Currently, we do not hedge these interest rate exposures. The primary objective of our investment activities is to preserve capital. We have not used derivative financial instruments in our investment portfolio.

At June 30, 2005, our cash and cash equivalents were $60.5 million invested in money market and other interest bearing accounts.

From time to time, we invest in marketable securities, however, at June 30, 2005, our investment in marketable securities was $0.

If interest rates were to decrease 1%, the result would be an annual decrease in our interest income related to our cash and cash equivalents of approximately $605,000. However, due to the uncertainty of the actions that would be taken and their possible effects, this analysis assumes no such action. Further, this analysis does not consider the effect of the change in the level of overall economic activity that could exist in such an environment.

The carrying amount, principal maturity and estimated fair value of our cash, cash equivalents and marketable securities as of June 30, 2005 were as follows:

	Expected Maturity Date			
	Before July 1, 2006	Thereafter	Total	Fair Value 6/30/2005
Investments				
Cash and cash equivalents:				
Money Market Funds	$ 60,537,000	$ 0	$ 60,537,000	$ 60,537,000
Weighted average interest rate	2.26%		2.26%	2.26%
Total cash and cash equivalents	$ 60,537,000	$ 0	$ 60,537,000	$ 60,537,000
Weighted average interest rate	2.26%		2.26%	2.26%

Foreign Currency Exchange Rate Risk

More than 95.0% of our international sales are denominated in U.S. dollars. Consequently, if the value of the U.S. dollar increases relative to a particular foreign currency, our products could become relatively more expensive. In addition, we purchase substantially all of our DRAM and Flash components from local distributors of Japanese, Korean and Taiwanese suppliers. Fluctuations in the currencies of Japan, Korea or Taiwan could have an adverse impact on the cost of our raw materials. To date, we have not entered any derivative instruments to manage risks related to interest rate or foreign currency exchange rates.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d 15 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our quarterly reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission s rules and forms.

(b) *Changes in Internal Controls*. During the quarterly period covered by this report, there have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Lemelson Medical, Education & Research Foundation, LLP Patent Infringement

We received notice on November 26, 2001 that the Lemelson Medical, Education & Research Foundation, LLP filed a complaint on November 13, 2001 against us and other defendants. The complaint was filed in the District Court of Arizona and alleges that our manufacturing processes infringe several patents that the Lemelson Foundation allegedly owns. The complaint also states that these allegedly infringed patents relate to machine vision technology and bar coding technology. On March 7, 2002, we were served with the Lemelson Foundation complaint. Thereafter, the case was stayed pending the outcome of related cases against parties involving the same patents. Because of the preliminary stage of this case, an estimate of potential damages, if any, would be premature and speculative. We believe this lawsuit is without merit and we intend to vigorously defend ourself against it.

We are not currently involved in any other material legal proceedings. From time to time, however, we may become subject to additional legal proceedings, claims, and litigation arising in the ordinary course of business, including, but not limited to, employee, customer and vendor disputes. In addition, in the past we have received, and we may continue to receive in the future, letters alleging infringement of patent or other intellectual property rights. Our management believes that these letters generally are without merit and intend to contest them vigorously.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(b) Use of Proceeds from Sales of Registered Securities

On October 4, 2000, we completed our initial public offering of our common stock pursuant to our Registration Statement on Form S-1 (File No. 333-32478) that was declared effected by the Securities and Exchange Commission on September 28, 2000. There has been no material change with respect to our use of the net proceeds from our initial public offering to the information discussed in our Annual Report on Form 10-K for the year ended December 31, 2000. We continue to invest the remaining net proceeds in short-term, interest-bearing instruments, pending their use to fund working capital and other general corporate purposes, including expansion of sales and marketing activities, enhancement of our technology, possible acquisitions and international expansion.

(c) Issuer Purchases of Equity Securities

The number of shares of our common stock repurchased and the average price paid per share for each month in the three months ended June 30, 2005 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of	Maximum Dollar Value that May Yet be Purchased

			Shares as Part of Publicly Announced Program (1)	Under the Program
April 1, 2005 through April 30, 2005	520,549	$ 3.67	3,777,022	$ 519,216
May 1, 2005 through May 31, 2005	110,373	$ 3.87	3,887,395	$ 73,914
June 1, 2005 through June 30, 2005	0	$ 0	3,887,395	$ 73,914
Total (2)	630,922	$ 3.71	3,887,395	$ 73,914

(1) On June 16, 2004 we announced that our board of directors had authorized a share repurchase program enabling us to repurchase up to $15 million of our common stock over an 18-month period expiring on December 16, 2005. The shares may be purchased from time to time at prevailing market prices through open market or unsolicited negotiated transactions, depending on market conditions and other considerations. There is no guarantee as to the exact number of shares that will be repurchased by us, and we may discontinue purchases at any time that management determines that additional purchases are not warranted. Repurchased shares would be returned to the status of authorized but un-issued shares of common stock.

(2) All shares were purchased pursuant to our existing share repurchase program. As of August 1, 2005, we had repurchased 3,887,395 shares of our common stock at an average price of $3.84 per share for an aggregate purchase price of $14,926,085 since inception of our existing share repurchase program, and the remaining authorized amount for stock repurchases under this program was $73,914.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our 2005 Annual Meeting of Shareholders as further discussed below:

(a) Our 2005 Annual Meeting of Shareholders was held on May 26, 2005 in Irvine, California.

(b) Proxies for the Annual Meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended, there was no solicitation in opposition to the management s nominees as listed in the proxy statement, and all of such nominees were elected.

(c) At the Annual Meeting, the following matters were considered and voted upon:

(i) The election of seven directors to our board of directors. Our board of directors currently consists of seven persons. All seven positions on our board of directors were to be elected at our Annual Meeting. At the Annual Meeting, our shareholders elected each of the following director nominees as directors, to serve on our board of directors until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified. The vote for each director was as follows:

Name	For	Withheld
Manouch Moshayedi	40,521,941	2,074,744
Mike Moshayedi	40,513,211	2,083,474
Mark Moshayedi	40,517,698	2,078,987
Dan Moses	40,527,479	2,069,206
F. Michael Ball	42,082,630	514,055
Mark R. Hollinger	42,083,130	513,555
James J. Peterson	42,080,330	516,355

(ii) To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005. At the Annual Meeting, our shareholders approved this proposal by the votes indicated below:

	Shares
For	42,474,135
Against	35,400
Abstain	87,150

(d) Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer

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Exhibit Number	Description
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* The information in Exhibits 32.1 and 32.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act (including this Report), unless SimpleTech, Inc. specifically incorporates the foregoing information into those documents by reference.

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SIGNATURES

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

SIMPLETECH, INC.,
a California corporation

Date: August 15, 2005

/s/ DAN MOSES
Dan Moses
Chief Financial Officer (Principal Financial

Officer and Duly Authorized Signatory)

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SIMPLETECH, INC.

Index to Exhibits

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