

DOT HILL SYSTEMS CORP  
Form S-3  
January 17, 2003

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As filed with the United States Securities and Exchange Commission on January 17, 2003

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-3**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**DOT HILL SYSTEMS CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3460176**

(I.R.S. Employer Identification No.)

**6305 El Camino Real  
Carlsbad, California 92009  
(760) 931-5500**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**James L. Lambert  
Chief Executive Officer  
Dot Hill Systems Corp.  
6305 El Camino Real  
Carlsbad, California 92009  
(760) 931-5500**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Copies to:**

**Thomas A. Coll, Esq.**  
Cooley Godward LLP  
4401 Eastgate Mall  
San Diego, California 92121  
(858) 550-6000

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**Approximate date of commencement of proposed sale to the public:  
From time to time after this Registration Statement becomes effective.**

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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

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

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

**CALCULATION OF REGISTRATION FEE**

<b>Title of Class of Securities to be Registered</b>	<b>Amount to be Registered(1)</b>	<b>Proposed Maximum Offering Price Per Share(2)</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration Fee(3)</b>
Common Stock, par value \$0.001 per share	3,368,039	\$4.28	\$14,415,206.92	\$1,326.20

- (1) Includes (i) up to 488,041 shares of the registrant's common stock issuable upon exercise of warrants issued to the Selling Stockholders, as defined in the accompanying prospectus, on December 18, 2002, (ii) up to 1,846,152 shares of the registrant's common stock issuable upon conversion of 6,000 shares of Series A Redeemable Convertible Preferred Stock, or Series A Preferred, of the registrant issued to the Selling Stockholders on December 18, 2002, (iii) up to 664,613 shares of the registrant's common stock issuable in lieu of the cash payment of dividends on the Series A Preferred and (iv) up to 369,233 additional shares of the registrant's common stock issuable pursuant to the terms of the Series A Preferred, as described in the accompanying prospectus. Pursuant to Rule 416(a) of the Securities Act of 1933, as amended, this registration statement also registers such additional shares of the registrant's common stock as may become issuable to prevent dilution as a result of stock splits, stock dividends or similar transactions.
- (2) Estimated in accordance with Rule 457(c) of the Securities Act solely for the purpose of computing the amount of the registration fee, based on \$4.28, the average of the high and low prices of the registrant's common stock quoted on the American Stock Exchange on January 13, 2003.
- (3) Calculated by multiplying 0.000092 by the proposed maximum aggregate offering price.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**SUBJECT TO COMPLETION, DATED JANUARY 17, 2003**

**PROSPECTUS**

**3,368,039 Shares**

## **Common Stock**

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This prospectus relates to the resale, from time to time, of up to 3,368,039 shares of common stock of Dot Hill Systems Corp., par value \$0.001 per share, or Common Stock, by the selling stockholders named in this prospectus in the section "SELLING STOCKHOLDERS," including their pledgees, assignees and successors-in-interest, whom we collectively refer to in this document as the "Selling Stockholders." On December 18, 2002, we consummated a financing pursuant to which we issued to the Selling Stockholders (i) an aggregate of 6,000 shares of our Series A Redeemable Convertible Preferred Stock, or Series A Preferred, (ii) Stock Purchase Warrants to purchase up to an aggregate of 369,229 shares of Common Stock and (iii) a Common Stock Warrant to purchase up to an aggregate of 118,812 shares of Common Stock. The warrants we issued in connection with the financing are collectively referred to as the "Warrants" in this prospectus. Pursuant to the terms of the Series A Preferred, up to 664,613 shares of Common Stock are issuable in lieu of the cash payment of dividends on the Series A Preferred, subject to certain limitations (calculated assuming that the shares of Series A Preferred are outstanding for 3 years and accrue interest at a rate of 12% per annum, and a conversion price of the Series A Preferred of \$3.25 per share). Up to 369,233 additional shares of Common Stock are issuable pursuant to the terms of the Series A Preferred. The Common Stock being offered by this prospectus may include shares issued pursuant to the conversion of the Series A Preferred, upon the exercise of the Warrants and/or in lieu of the cash payment of dividends on the Series A Preferred. The Common Stock offered by this prospectus shall be adjusted to cover any additional securities as may become issuable to prevent dilution resulting from stock splits, stock dividends or similar transactions. References in this prospectus to "our company," "we," "our," and "us" refer to Dot Hill Systems Corp.

Subject to the restrictions described in this prospectus, the Selling Stockholders (directly, or through agents or dealers designated from time to time) may sell the Common Stock being offered by this prospectus from time to time on terms to be determined at the time of sale. The prices at which the Selling Stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. To the extent required, the number of shares of Common Stock to be sold, purchase price, public offering price, the names of any such agent or dealer and any applicable commission or discount with respect to a particular offering will be set forth in an accompanying prospectus supplement. We will not receive any of the proceeds from the sale of any of the shares covered by this prospectus. The Selling Stockholders will pay all applicable stock transfer taxes, brokerage commissions, discounts or commissions and fees of the Selling Stockholders' counsel. We have agreed to pay certain expenses in connection with the filing of a registration statement, of which this prospectus is a part, with the Securities and Exchange Commission, or SEC, and to indemnify the Selling Stockholders against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended, or Securities Act, in connection with the registration and offering of our Common Stock being offered by this prospectus. The Selling Stockholders and any agents, dealers or broker-dealers that participate with the Selling Stockholders in the distribution of our Common Stock being offered by this prospectus may be deemed to be "underwriters" within the meaning of the Securities Act, and any commissions received by them and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. See "PLAN OF DISTRIBUTION" beginning on page 19.

Our Common Stock is traded on the American Stock Exchange under the symbol "HIL." On January 15, 2003, the last reported sales price of our Common Stock as reported on the American Stock Exchange was \$4.97 per share.

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**INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6 OF THIS PROSPECTUS.**

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**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT (OF WHICH THIS PROSPECTUS IS A PART) IS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND HAS BECOME EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.**

The date of this prospectus is January 17, 2003.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we are filing with the SEC on behalf of the Selling Stockholders utilizing a "shelf" registration process. Under this shelf registration process, the Selling Stockholders may, from time to time until we withdraw this registration statement from registration, sell the shares of our Common Stock covered by this prospectus in one or more offerings (subject to the restrictions described in this prospectus).

This prospectus provides you with a general description of the securities that the Selling Stockholders may offer. To the extent required, the number of shares of our Common Stock to be sold, the purchase price, the public offering price, the names of any such agent or dealer and any applicable commission or discount with respect to a particular offering by the Selling Stockholders will be set forth in an accompanying prospectus supplement. You should read both this prospectus and any prospectus supplement together with the additional information described in the section entitled "WHERE YOU CAN FIND MORE INFORMATION," beginning on page 20.

You should rely only on the information contained or incorporated by reference in this prospectus or any applicable prospectus supplement. We have not authorized anyone, including the Selling Stockholders, to provide you with different information. The Selling Stockholders are not making an offer of the securities to be sold under this prospectus in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus or the prospectus supplement, or that the information contained in any document incorporated by reference in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date of the document incorporated by reference, regardless of when this prospectus or any prospectus supplement is delivered to you or when the shares of Common Stock covered by this prospectus are offered or sold.

**TRADEMARKS AND TRADENAMES**

The Dot Hill Logo, SANnet, SANscape, SANpath and Dot Hill are our registered trademarks. OpenAxis Intelligence and Axis Storage Managers are other trademarks that we own. All other trade names and trademarks are the property of their respective owners.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this prospectus or incorporated by reference into this prospectus are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, and are subject to the safe harbor created by the Securities Litigation Reform Act of 1995. Any prospectus supplement may also contain such forward-looking statements. These forward-looking statements relate to future events or our anticipated financial and/or operating performance and can generally be identified as such because the context of the statement will include words such as "may," "will," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue," or "opportunity," the negative of these words or words of similar meaning. Statements that describe our plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking

statements. These forward-looking statements are based largely on our expectations and projections about future events and future trends affecting our business, and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. We urge you to consider carefully cautionary statements described in the section "RISK FACTORS" beginning on page 6, which identify important factors that could cause actual results to differ materially from those in any forward-looking statement. You are cautioned not to rely on these forward-looking statements, which speak only as of the date of this prospectus and of information currently and reasonably known. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends.

**WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS WHETHER AS A RESULT OF NEW INFORMATION, NEW EVENTS OR ANY OTHER REASON, OR REFLECT ANY EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS PROSPECTUS OR THE DATE OF ANY APPLICABLE PROSPECTUS SUPPLEMENT OR THE DATE OF DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS THAT INCLUDE FORWARD-LOOKING STATEMENTS.**

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## PROSPECTUS SUMMARY

*The following summary highlights information contained elsewhere in this prospectus and may not contain all of the information that is important to you. You should read this summary together with the more detailed information regarding our company, our common stock and our financial statements and notes to those statements appearing elsewhere in this prospectus or incorporated herein by reference in this prospectus, including the "Risk Factors" beginning on page 6. References in this prospectus to "our company," "we," "our," and "us" refer to Dot Hill Systems Corp. References to the "Selling Stockholders" refer to the entities named in this prospectus in the section "Selling Stockholders" and their pledgees, assignees and successors-in-interest, which may sell shares of our Common Stock issuable upon conversion of the Series A Preferred and exercise of the Warrants from time to time as described in this prospectus.*

## DOT HILL SYSTEMS CORP.

### General

We are a provider of highly reliable, high-performance, disk-based data storage and networking solutions for the open systems computing environment, including Windows NT, Solaris, Linux, HP-UX and AIX. Our solutions encompass a broad range of scalable products and services targeting customers with mission critical applications. Our storage solutions reach these customers through direct and indirect channels, including through Original Equipment Manufacturers, or OEMs, Value Added Resellers, or VARs, and system integrators. With information becoming an increasingly critical business resource, these customers demand that their storage systems be highly reliable, available, and manageable, provide fault-tolerance and high performance, and come with a high level of customer and technical support. We have a history of providing high-end storage solutions that meet these requirements by combining extensive design and implementation experience with leading-edge technologies. We sell storage as modular building blocks and as solution packages. Our storage solutions range from SCSI Disk Array configurations to multi-terabyte Fibre Channel-based SANs. We are one of the few companies in our industry to offer NEBS Level 3 and MIL-STD-810F certified, carrier class storage systems. These standards speak to system ruggedness and reliability, which are increasingly important requirements.

Historically, we have relied mainly on direct sales to an array of primarily government and telecommunications clients. Beginning in 2001, we redirected our business strategy to shift our efforts away from direct sales and to focus on indirect sales channels, including OEMs, VARs and system integrators; we believe such customers fit well with our product set and manufacturing strategy.

In the second quarter of 2002, we entered into three strategic agreements: an OEM agreement with Sun Microsystems, Inc., or Sun, a manufacturing agreement with Solectron Corporation, or Solectron, and a supply agreement with Infortrend Technology Inc., or Infortrend. Under the terms of the OEM agreement with Sun, we expect to produce and provide our products for private label sales by Sun. Under the terms of the Solectron Agreement, Solectron has been engaged to supply us with the bulk of our new production capacity, including new product introduction, complete product manufacturing and assembly, product testing and distribution services. Infortrend has agreed to supply us with storage computer components (particularly with controllers) to incorporate into our products. We believe the Solectron and Infortrend agreements will provide us with significant volume production capabilities while minimizing the addition of fixed costs associated with expanding internal manufacturing capabilities.

We were reincorporated in Delaware in September 2001. Our principal executive offices are located at 6305 El Camino Real, Carlsbad, California 92009. Our telephone number is (760) 931-5500. We have facilities in Carlsbad, California, the Netherlands and Japan. We also have

sales offices across the United States and in the United Kingdom, Germany and Singapore.

**Recent Developments**

On December 18, 2002, we completed a financing in which we raised \$6 million in gross proceeds from the sale of 6,000 shares of Series A Redeemable Convertible Preferred Stock and warrants to purchase up to an aggregate of 369,229 shares of our Common Stock in a private placement led by Omicron Master Trust, or Omicron. The preferred shares carry a 7% cumulative dividend and are convertible into shares of our Common Stock at a per share price of \$3.25. We are entitled to issue shares of Common Stock in lieu of the cash payment of dividends on the Series A Preferred, subject to certain limitations. We have the option to redeem 1/18th (or approximately \$333,333) of the preferred stock in cash or Common Stock each month beginning in June 2003 through December 2004. If we choose not to redeem the preferred stock in any month, the dividend rate for the unredeemed shares increases to 12%. We are entitled to force conversion of the preferred stock to Common Stock in the event our Common Stock price exceeds \$6.50 per share for 15 consecutive trading days. We may also redeem the preferred stock at any time in cash, subject to certain conditions, for 110% of the cost of the outstanding shares. We will use the proceeds from the financing primarily for working capital and product development.

Additionally, in connection with the financing, we issued a warrant to Roth Capital Partners, the sole placement agent in the transaction, to purchase up to an aggregate of 118,812 shares of our Common Stock.

On October 28, 2002, we announced our new SANnet® II family of compact RAID and JBOD storage solutions. The SANnet II family of storage systems provides industry-leading 99.9998+ percent uptime in a compact, rugged enclosure. SANnet II brings enterprise class features into the workgroup and virtually eliminates downtime with no single points of failure. On November 13, 2002, we announced that our SANnet® storage systems are in use by Getmapping PLC, which has built a 2.5 terabyte online database of aerial photos of the United Kingdom and Spain. Getmapping uses a combination of SANnet systems and our ultra-slim RAID Blade in both direct attached and storage area network configurations. On December 16, 2002, we announced that our SANnet II SCSI storage systems have achieved Microsoft Cluster Server certification from the Microsoft® Windows® Hardware Quality Labs. As a result, our SANnet II is now included on Microsoft's online Hardware Compatibility List in the "Cluster/Raid" classification.

**THE OFFERING**

Our securities to be offered by the Selling Stockholders	3,368,039 shares of our Common Stock, par value \$0.001 per share(1)
Total shares of our Common Stock outstanding as of January 14, 2003	25,158,869
Use of proceeds	We will not receive any proceeds from the sale of the shares of our Common Stock covered by this prospectus.
American Stock Exchange symbol	HIL

(1) Includes 664,613 shares of our Common Stock issuable in lieu of the cash payment of dividends on the Series A Preferred, 488,041 shares issuable upon full exercise of the Warrants, 1,846,152 shares issuable upon the full conversion of all of our outstanding shares of Series A Preferred and 369,233 additional shares issuable pursuant to the terms of the Series A Preferred, absent any adjustment to the terms of the Warrants or the Series A Preferred.

The Selling Stockholders may sell the shares of our Common Stock subject to this prospectus from time to time and may also decide not to sell all of the shares the Selling Stockholders are allowed to sell under this prospectus. The Selling Stockholders will act independently of us in making decisions

with respect to the timing, manner and size of each sale. Furthermore, the Selling Stockholders may enter into hedging transactions with broker-dealers in connection with distributions of the shares or otherwise.

Prior to making a decision about investing in our Common Stock, you should consider carefully the specific risks contained in the section "RISK FACTORS" beginning on page 6, and any applicable prospectus supplement, together with all of the other information contained in this prospectus and any prospectus supplement or appearing or incorporated by reference in the registration statement of which this prospectus is a part.

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## RISK FACTORS

*An investment in our Common Stock is risky. Prior to making a decision about investing in our Common Stock, you should carefully consider the following risk factors and the risk factors described in any applicable prospectus supplement, together with all of the other information contained in this prospectus and any prospectus supplement or appearing or incorporated by reference in the registration statement of which this prospectus is a part. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, including those not presently known to us, or that we currently see as immaterial, may also harm our business. If any of the risks or uncertainties described below or any such additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected. In that case, the trading price of our Common Stock could decline, and you might lose all or part of your investment.*

***We have experienced and may continue to experience operating losses and may need to raise additional funds to continue our operations.***

In the years ended December 31, 1999, 2000 and 2001, we incurred net losses of \$9.0 million, \$948,000 and \$43.3 million, respectively. For the nine-month period ended September 30, 2002, we incurred a net loss of \$22.3 million. We cannot provide assurance that we will be profitable in any future period. We have expended, and will continue to be required to expend, substantial funds to pursue research and development projects, enhance marketing efforts and otherwise operate our business. Our future capital requirements will depend on, and could increase substantially as a result of, many factors, including:

the progress of our research, development and product testing programs

the success of our sales and marketing efforts

costs of filing, prosecuting, defending and enforcing intellectual property rights

the extent and terms of any development, manufacturing, marketing or other arrangements

changes in economic, regulatory or competitive conditions

Our available cash balances as of December 31, 2002 are estimated to be between \$11.0 and \$12.0 million, which should be sufficient to finance operations through December 31, 2003. We may need to raise additional funds to continue our operations, either through borrowings or the sale of our debt or equity securities. Unanticipated events, such as Sun's failure to meet its product purchase forecast or extraordinary expenses or operating expenses in excess of our projections, may require us to raise funds sooner than we expect. We may not be able to raise additional funds in the future on commercially reasonable terms or at all. Any sales of our debt or equity securities in the future may have a substantial dilutive effect on our existing stockholders. We may be required to grant liens on our assets to the provider of any source of financing or enter into operating, debt service or working capital covenants with any provider of financing that could hinder our ability to operate our business in accordance with our plans.

***Our shift in business strategy to focus on OEM customers will further increase our dependence on sales to a relatively small number of customers.***

Historically, a material percentage of our net revenues in each year has been derived from a limited number of customers. For the years ended December 31, 1999, 2000 and 2001, our top five customers accounted for approximately 25%, 37% and 36%, respectively, of our net revenues. Sales to Comverse Network Systems, an OEM customer, accounted for 15% of our net revenues for the year ended December 31, 2001. Sales to UUNET Technologies, Inc., a subsidiary of Worldcom, Inc., accounted for 10% and 17% of our net revenues for the years ended December 31, 1999 and 2000,

respectively. Changes in timing or volume of purchases by such major customers could harm our results. In addition, a significant portion of our net revenues to date have been concentrated in the UNIX marketplace, and within the UNIX marketplace a significant portion of our net revenues is associated with versions of UNIX manufactured by Sun. If Sun were to change its policy of supporting open systems computing environments, and if our products were thereby rendered incompatible with Sun's products, our business would be harmed.

As we shift our business strategy to place greater emphasis on sales to OEMs, we expect to experience further concentration in our customer base. We expect many of our existing customers, including customers that currently account for significant portions of our net revenues, to stop purchasing directly from us and begin purchasing our products through our OEM partners. In particular, we expect to receive a substantial portion of our projected net revenues for the year ended December 31, 2003 from sales of our products to Sun. As a result, if our relationship with Sun or other significant OEM partners does not expand or is otherwise disrupted, we could lose substantially all of our anticipated net revenues. There is no guarantee that these relationships will expand or not otherwise be disrupted. Factors that could influence our relationship with significant OEM partners, including Sun, include our ability to:

maintain our products at a price level that is competitive with other OEM suppliers

maintain quality standards for our products sufficient to meet the expectations of our OEM partners

timely produce, ship and deliver a sufficient quantity of our products to meet the needs of our OEM suppliers

None of our contracts with our existing OEM partners, including Sun, contain any minimum purchasing commitments. Further, we do not expect that any future OEM partnership contracts will include any minimum purchasing commitments. Additionally, these contracts do not require our OEM partners to purchase our products exclusively or on a preferential basis over the products of any of our competitors. As a result, our OEM partners are also free to incorporate the products of our competitors into their products rather than our products at any time.

***Our existing or potential direct sales customers may purchase our storage products from our OEM customers.***

Our OEM customers are able to compete directly with us in the storage product market, and are able to offer our products under their labels as a stand-alone product or packaged as part of a larger, more complete system. Furthermore, our OEM customers are generally larger and more widely recognized than we are, have greater resources than we do, and are able to offer a wider variety of storage products and systems, including our storage systems, as well as complete computer systems. We may be unable to compete with our OEM customers for direct sales. Our net revenues from existing direct sales customers may decline if such customers choose to purchase from our OEM customers and we may lose potential direct sales customers to our OEM customers in the future. In addition, we expect that some of our largest customers will start buying from our OEM customers and no longer buy directly from us. Even if our volume of units sold does not decline as a result, our net revenues may be reduced since our price per unit is normally less for units sold through indirect sales channels. Further, we expect our gross margins for OEM sales to be lower than our gross margins for direct sales.

***A portion of our existing inventory may become obsolete.***

As of September 30, 2002, we had approximately \$8.7 million in inventory. As a result of our transition to outsourced manufacturing, our shift in our business strategy to primarily OEM sales and the continued slowness of the economy, we expect that a material portion of our current SANnet



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inventory may become obsolete. During the three months ended December 31, 2002, we took non-cash charges to increase our inventory reserves by approximately \$3.5 million to \$4.5 million as a result of excess inventory. We may be required to take additional charges in the future for excess inventory if our transition from direct to indirect sales occurs more rapidly or completely than we presently anticipate or if our product sales do not meet our projected sales levels.

In addition, we typically plan our production and inventory levels based on internal forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. From time to time, in response to anticipated long lead times to obtain inventory and materials from our outside suppliers, we may order materials in advance of anticipated customer demand. This advance ordering has and likely will continue to result in excess inventory levels or unanticipated inventory write-downs due to expected orders that fail to materialize.

### *We may have difficulty predicting results.*

Our quarterly operating results have varied in the past and may vary significantly in the future depending on a number of factors, including:

the level of competition

the size, timing, cancellation or rescheduling of significant orders

product configuration, mix and quality issues

market acceptance of our new products and product enhancements and new product announcements or introductions by our competitors

deferrals of customer orders in anticipation of new products or product enhancements

changes in pricing by us or our competitors

our ability to develop, introduce and market new products and product enhancements on a timely basis

hardware component costs and availability, particularly with respect to hardware components obtained from Infortrend, a sole-source provider

our success in creating brand awareness and in expanding our sales and marketing programs

technological changes in the open systems storage market

levels of expenditures on research, engineering and product development

changes in our business strategies

personnel changes

general economic trends and other factors

Sales for any future period are not predictable with any degree of certainty. Although we have historically operated with limited order backlog, we expect that we will experience increased backlog as we shift our business strategy to focus on OEM sales. As of December 31, 2002 we had an order backlog of approximately \$25.0 million attributable to commitments to purchase principally by Sun. However, the backlog does

not represent actual sales and our customers, including Sun, can cancel the orders at any time.

We do not generally enter into long-term purchase contracts with customers and customers usually have the right to extend or delay shipment of their orders, as well as the right to return products and cancel orders in some circumstances. We cannot assure you that actual returns will not exceed our recorded allowances. In addition, our OEM customers generally do not have any minimum purchasing

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obligations from us. As a result, sales in any period are generally dependent on orders booked and shipped in that period.

Sales are also difficult to forecast because the open systems storage market is rapidly evolving and our sales cycles vary substantially from customer to customer. Customer orders for us can range in value from a few thousand dollars to over a million dollars. The length of time between initial contact with a potential customer and sale of a product may last from 3 to 24 months. This is particularly true during times of economic slowdown, for sales to OEM customers, and for the sale and installation of complex, turnkey solutions. Our net revenues are difficult for us to predict since they are directly affected by the timing of large orders. Due to the unpredictable timing of customer orders, we may ship products representing a significant portion of our net sales for a quarter during the last month of that quarter. Further, with our increased use of third-party manufacturers, our ability to control the timing of shipments will decrease. Any significant deferral of these sales could harm our results of operations in any particular quarter. Net revenues for a period may be lower than predicted if large orders forecasted for that period are delayed or are not realized.

Factors that may delay or defer an order, particularly orders for new products, include:

the amount of time needed for technical evaluations by customers

customer budget constraints and changes to customers' budgets during the course of the sales cycle

a slowdown in the overall economy or in the particular industries into which we sell

customer internal review and testing procedures

our engineering work to integrate a storage solution with a customer's system

Our business strategy is to focus primarily on OEM customers, with whom sales cycles are generally lengthier, more costly and less certain than sales to end-users. Also, in 2002, we began shifting our focus away from certain older products toward our SANnet II and other more recent product lines. This shift in focus may affect the sales cycles and predictability of orders. To the extent that we complete significant sales earlier than expected, operating results for subsequent quarters may be adversely affected. Our expense levels are based, in part, on our expectations as to future sales. As a result, if sales levels are below expectations, our operating results may be disproportionately affected. There is no assurance that we will experience sales growth in future periods.

Our industry has experienced an economic downturn that has significantly harmed our net revenues and operating results and may continue to do so in the future. Our net revenues have been derived primarily from sales to customers in the xSPs, telecommunications, e-commerce and government sectors. For the years ended December 31, 2000 and 2001, sales to e-commerce, telecommunications, and xSPs customers were 39% and 37%, respectively, and sales to the government sector were 13% and 16%, respectively, of our net revenues. For the year ended December 31, 1999, sales to customers in the telecommunications and financial services industries were 18% and 21%, respectively, of our net revenues. An economic downturn in any industry targeted by us could significantly adversely impact our sales.

***We cannot provide assurance that our relationships with our OEM customers, and Sun in particular, will not be terminated or that they will generate significant sales.***

Our agreements with our OEM customers are an important element of our strategy to focus on indirect sales channels. Prior to 1999, we derived a majority of our net revenues from our direct sales to customers. In the future we expect to derive a substantial majority of our net revenues from our OEM customers. In particular, we expect to receive the majority of our projected net revenues for the year ended

December 31, 2003 from sales of our products to Sun. We cannot provide assurance that

we will achieve these sales levels from Sun. There are no minimum purchase commitments or guarantees in our agreement with Sun, and the agreement does not obligate Sun to purchase its storage solutions exclusively from us. Further, none of our other agreements with OEMs provide for minimum purchase commitments, and we cannot expect that future OEM agreements will provide for minimum purchase commitments. If we do not achieve the sales levels we expect to receive from Sun and others in the foreseeable future, our business and result of operations will be significantly harmed.

***Any default under our loan and security agreement with Sun could materially harm our business.***

Our loan and security agreement with Sun provides Sun with a security interest in all of our assets, including our intellectual property. If we default under the loan and security agreement, Sun could accelerate the maturity of the loan and take all or a portion of the collateral if we are unable to pay all interest and principal then due, which could materially harm our business, financial condition and results, or force us to cease conducting business altogether.

***The loss of one or more suppliers could adversely affect our ability to manufacture and sell products.***

We rely on third parties to supply key components of the products that we sell. Many of these components are available only from limited sources in the quantities and quality we require. We purchase the large majority of our disk drives from Seagate, and purchase the vast majority of our RAID controllers from Infortrend. Approximately 11%, 14% and 23% of our total raw material purchases were from Seagate, and approximately 4%, 10% and 7% were from Infortrend for the years ended December 31, 1999, 2000 and 2001, respectively. Approximately 10% of our raw material purchases during the year ended December 31, 1999 were from IBM. We purchase a significant portion of our raw materials pursuant to purchase orders, rather than long-term purchase agreements. We maintain minimum inventory levels. However, we have ordered and likely will continue to order certain materials in advance of anticipated customer demand which has resulted in past, and could result in future, excess inventory levels and unanticipated inventory write-downs due to a failure of the orders to materialize.

From time to time there is a significant market demand for disk drives, tape drives, RAID controllers, and other components, and we may experience component shortages, selective supply allocations and increased prices of such components. Even if alternative sources of supply for critical components such as disk drives and controllers become available, incorporating substitute components could delay our ability to deliver our products in a timely manner. For example, we estimate that replacing Infortrend's RAID controllers with those of another supplier would involve several months of hardware and software modification, which could significantly harm our ability to meet our customers' orders for our products and therefore damage our customer relationships and result in a loss of sales.

In May 2002, we entered into an agreement with Solectron under which we will rely on Solectron to manufacture our new products under our OpenAxis Intelligence strategic initiative. If our agreement with Solectron terminates or if Solectron does not perform its obligations under our agreement, it could take several months to establish alternative manufacturing for these products and we may not be able to fulfill our customers' orders for these products in a timely manner. Under our OEM agreement with Sun, Sun has the right to require that we use a third party to manufacture our products. Such an external manufacturer must meet Sun's engineering, qualification and logistics requirements. If our agreement with Solectron terminates, we may be unable to find another suitable external manufacturer. In addition, we subcontract some of our other manufacturing, such as plastic molding, sheet metal bending, PCB fabrication and certain assemblies, to qualified suppliers in the United States and Asia.

We own the design and tools/molds associated with the manufacture of these parts. The third parties that we rely on for these production activities include, but are not limited to, Pan Dimensional for PCB assemblies and Accurate Metal Fabrication for sheet metal assemblies. If we were required to

have other third parties provide subassembly products and services work, it could take several months to achieve the same levels of productivity and quality with new third party suppliers. These delays could significantly harm our ability to meet our customers' orders for our products and therefore could damage our customer relationships and result in a loss of sales.

*Our success depends significantly upon our ability to protect our intellectual property and to avoid infringing the intellectual property of third parties.*

We have eight U.S. patents and no patents pending as of December 31, 2002. We do not expect that our patents will provide us with any meaningful protection of our intellectual property. We also rely on copyrights, trademarks, trade secrets, nondisclosure agreements and common law to protect our intellectual property. For example, we have registered trademarks for the SANnet, SANpath, SANscape, Dot Hill and the Dot Hill logo. Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. In addition, the laws of foreign countries may not adequately protect our intellectual property rights. Our efforts to protect our intellectual property from third party discovery and infringement may be insufficient and third parties may independently develop technologies similar to ours, duplicate our products or design around our patents.

In addition, third parties may assert that our products and technologies infringe their intellectual property, which could result in infringement lawsuits being filed against us. We expect that providers of storage will increasingly be subject to infringement claims as the number of products and competitors grow. From time to time, we receive letters from third parties suggesting that we may require a license from such third parties to manufacture or commercialize our products. We most recently received such a letter in October 2002. We evaluate all such communications to assess whether to seek a license from the patent owner. As of the date hereof, have not determined to seek any such licenses. However, we cannot assure you that we will not subsequently determine that we require one or more such licenses or that we would prevail in any litigation if any of such patent owners lodged formal infringement claims against us. Moreover, we cannot assure you that additional third parties will not assert infringement claims against us in the future.

If we were to become party to any litigation to protect our intellectual property from infringement by a third party, or as a result of a claim that our products and technologies infringe the intellectual property of a third party, we would likely incur substantial legal fees and expenses and our management's attention would be distracted from the operations of our business. Further, any settlement or adverse judgment involving a determination that our products or technology infringe the intellectual property of a third party could require us to pay substantial damages or royalties to a third party. In such event we could also be required to obtain a license from the third party to continue to sell our products or use our technologies. We may not be able to obtain a license from a third party on commercially reasonable terms, or at all. We may be required to pay significant royalties in connection with any license that we might obtain, which could impede our ability to price our products competitively and could adversely affect our gross margins. If our suppliers or we were unable to license protected technology, we could be prohibited from marketing products that incorporate the protected technology. We could also incur substantial costs to redesign our products in a manner to avoid infringement of third party intellectual property rights.

*The storage system market is highly competitive.*

The storage system market is intensely competitive. We compete with various companies, including, but not limited to, Hewlett Packard, Sun, IBM, Hitachi Data Systems, Compaq Corporation, and Dell Computer Corp., all of which market storage systems as well as other computer products, and which have become more focused on storage during the past few years. We also compete against independent storage system suppliers to the high-end market including, but not limited to, EMC Corporation, Network Appliance, Ciprico, Procom, MTI Technology, Eurologic, LSI Logic and Storage Technologies, Inc.

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Many of these competitors are significantly larger than us and have significantly greater name recognition and engineering, manufacturing and marketing capabilities, as well as greater financial and personnel resources. As a result, competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion and sale of products or to deliver competitive products at a lower end-user price than us.

We also expect that competition will increase as a result of industry consolidations and the formation of new companies with new, innovative product offerings. Current and potential competitors have established or may establish cooperative relationships among themselves or with 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. For example, NAS has gained popularity recently as an alternative to SANs. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share, any of which could harm our business. In fact, competitive pricing pressures have had, and may continue to have, an adverse impact on our net revenues and earnings.

We believe that the principal competitive factors affecting our markets include fault-tolerance, reliability, performance, ease of use, scalability, manageability, price and customer service and support. There can be no assurance that we will be able to successfully incorporate these factors into our products and to compete against current or future competitors or that competitive pressures we face will not harm our business. If we are unable to develop and market products to compete with the products of competitors, our business will be materially and adversely affected. In addition, if major customers who are also competitors cease purchasing our products in order to concentrate on sales of their own products, our business will be harmed.

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We sell our products to OEMs, some or all of whom may elect to purchase storage products from our competitors instead of from us, which could harm our business. We also sell our products through distributors and VARs. These distributors and VARs may carry competing product lines, and may reduce or discontinue sales of our products, which could harm our business. In addition, we cannot ensure that existing end-user customers will not purchase storage equipment from the manufacturer that provides their network computing systems and, as a result, reduce or eliminate purchases from us.

***The open systems storage market is rapidly changing and we may be unable to keep pace or properly prepare for the effects of those changes.***

The open systems data storage market in which we operate is characterized by rapid technological change, frequent new product introductions, evolving industry standards and consolidation among our competitors, suppliers and customers. Customer preferences in this market are difficult to predict and changes in those preferences and the introduction of new products by our competitors or us could render our existing products obsolete. Our success will depend upon our ability to address the increasingly sophisticated needs of customers, to enhance existing products, and to develop and introduce on a timely basis, new competitive products (including new software and hardware, and enhancements to existing software and hardware) that keep pace with technological developments and emerging industry standards. If we cannot successfully identify, manage, develop, manufacture or market product enhancements or new products, our business will be harmed. In addition, consolidation among our competitors, suppliers and customers may harm our business by increasing the resources of our competitors, reducing the number of suppliers available to us for our product components and increasing competition for customers by reducing customer-purchasing decisions.

***A significant percentage of our expenses are fixed, which may affect our operating results.***

During the year ended December 31, 2001 and the nine-month period ended September 30, 2002, we reduced costs through workforce reductions and a consolidation of excess facilities. We believe strict

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cost containment is essential to maintaining positive cash flow from operations and achieving profitability in future periods. We may attempt to take further measures to reduce expenses if we continue to experience operating losses or do not achieve a stable net income. A number of factors could preclude us from successfully bringing costs and expenses in line with our net revenues, such as the fact that our expense levels are based in part on our expectations as to future sales, and that a significant percentage of our expenses are fixed, which limits our ability to reduce expenses quickly in response to any shortfalls in net revenues. As a result, if net revenues do not meet our projections, operating results may be disproportionately affected. We may experience shortfalls in net revenues for various reasons, including:

significant pricing pressures that occur because of declines in selling prices over the life of a product or because of increased competition

sudden shortages of raw materials or fabrication, test or assembly capacity constraints that lead our suppliers to allocate available supplies or capacity to other customers, which, in turn, may harm our ability to meet our sales obligations

the reduction, rescheduling or cancellation of customer orders

***Our business and operating results will suffer if we encounter significant product defects.***

Our products may contain undetected software errors or failures, particularly when first introduced or as new versions are released. We cannot ensure that, despite testing, errors will not be found in products after shipments, resulting in a loss of or delay in market acceptance, which could harm our business. Our standard warranty provides that if the system does not function to published specifications, we will repair or replace the defective component without charge. Significant warranty costs, particularly those that exceed reserves, could adversely impact our business. In addition, defects in our products could result in our customers claiming damages against us for property damage or destruction, and could also result in our loss of customers and goodwill. Any such claim, if successful, could distract management's attention from operating our business and result in damage claims against us that may not be covered by our insurance.

***Our success depends on our ability to attract and retain key personnel.***

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Our performance depends in significant part on our ability to attract and retain talented senior management and other key personnel. If any one of these individuals were to terminate his or her employment with us, we would be required to locate and hire suitable replacements. We may be unable to identify suitable replacements for any employees that we lose. In addition, even if we are successful in locating suitable replacements, the time and cost involved in recruiting, hiring, training and integrating new employees, particularly key employees responsible for significant portions of our operations, could harm our business by delaying our production schedule, our research and development efforts, our ability to execute on our business strategy and our client development and marketing efforts. Since many of our customer relationships are based on personal relationships between the customer and our sales representatives, if these representatives were to terminate their employment with us, we may be forced to expend substantial resources to attempt to maintain the customers that the sales representatives serviced. Ultimately, we may be unsuccessful in retaining these customers, which would harm our sales.

We have recently made several reductions in our workforce. Although the reductions were designed to reduce our operating costs, the reductions have increased the responsibility of our remaining employees. As a result, we face risks associated with transferring the duties of our former employees to our remaining employees. In addition to the expense involved in retraining employees, there is a risk that our current work force will be unable to effectively manage all of the duties of our

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former employees, which could adversely impact our research and development efforts, our general accounting and operating activities, our sales efforts and our production capabilities.

### *Our international business activities subject us to risks.*

Our international sales represented approximately 30% of net revenues for the year ended December 31, 2001 and we currently have sales offices in Japan, Singapore, the United Kingdom, Germany and the Netherlands. Our international operations are subject to a variety of risks associated with conducting business internationally, including the following, any of which could harm our business:

longer payment cycles

unexpected changes in regulatory requirements

import and export restrictions and tariffs, and increases in tariffs, duties, price controls or other restrictions on foreign currencies

the burden of complying with a variety of foreign laws

potentially adverse tax consequences

currency exchange rate fluctuations

the imposition of trade barriers or price controls

political and economic instability abroad

difficulties in staffing and managing international operations

seasonal reductions in business activity during the summer months in Europe and other times in other parts of the world

problems in collecting accounts receivable

A portion of our international business is presently conducted in currencies other than the U.S. dollar. Foreign currency transaction gains and losses arising from normal business operations are credited to or charged against earnings in the period incurred. As a result, fluctuations in the value of the exchange rates may adversely impact our operating results. We do not engage in any hedging transactions to cover our currency exposure.

Proprietary rights and intellectual property may be more difficult to protect outside of the United States. Also, we are continuing to gain experience in marketing and distributing our products internationally. We cannot be certain that we will be able to successfully grow our international presence in a timely manner, which could harm our business.

***Our Series A Preferred financing may result in dilution to our common stockholders.***

Dilution of the per share value of our Common Stock could result from the conversion of most or all of the Series A Preferred we sold in the private placement on December 18, 2002 or the exercise of most or all of the Warrants we issued in connection therewith. There are currently outstanding 6,000 shares of our Series A Preferred and Warrants to purchase up to 488,041 shares of our Common Stock. The holders of our outstanding shares of Series A Preferred may convert these shares into shares of our Common Stock at a conversion price equal to \$3.25 per share. Accordingly, the outstanding 6,000 shares of Series A Preferred are presently convertible into an aggregate of 1,846,152 shares of our Common Stock. In addition, the Warrants are exercisable at a price of \$3.25 per share. On January 15, 2003, the last reported sales price of our Common Stock as reported on the American Stock Exchange was \$4.97 per share. When the conversion price of the Series A Preferred and the exercise price under the Warrants are less than the trading price of our Common Stock, the holders of our Series A

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Preferred and the Warrants may choose to convert their shares of Series A Preferred into Common Stock or exercise their Warrants, respectively, significantly diluting our common stockholders. Furthermore, the significant downward pressure placed on the trading price of our Common Stock as a result of the sale of the shares of our Common Stock issued upon conversion of the Series A Preferred or exercise of the Warrants could encourage short sales by the holders of our Series A Preferred or the Warrants, or other stockholders. This would place further downward pressure on the trading price of our Common Stock. Even the mere perception of eventual sales of shares of our Common Stock issued upon the conversion of the Series A Preferred or exercise of the Warrants could lead to a decline in the trading price of our Common Stock.

***Our executive officers and directors and their affiliates own a significant percentage of our outstanding shares, which could prevent a change in control of us and adversely affect our stock price.***

As of October 31, 2002, our executive officers, directors and their affiliates beneficially owned approximately 19.0% of our outstanding shares of Common Stock. Further, two individual stockholders who are married to each other collectively own approximately 19.9% of our outstanding Common Stock. These stockholders may be able to influence matters requiring approval by our stockholders, including the election of a majority of our directors. The voting power of these stockholders under certain circumstances could have the effect of delaying or preventing a change in control of us. This concentration of ownership may also make it more difficult or expensive for us to obtain financing. Further, any substantial sale of shares by these individuals could depress the market price of our common stock and impair our ability to raise capital in the future through the sale of our equity securities.

Our Certificate of Incorporation and Bylaws contain a number of provisions that could impede a takeover or change in control of us, including, but not limited to, those prescribing a classified board of directors, the elimination of our stockholders' ability to take action by written consent, and limitations on the ability of our stockholders to remove a director from office without cause. Our board of directors may issue additional shares of common stock or establish one or more classes or series of preferred stock with such designations, relative voting rights, dividend rates, liquidation and other rights, preferences and limitations as determined by our board without stockholder approval. Each of these provisions gives our board, acting without stockholder approval, the ability to prevent, or render more difficult or costly, the completion of a takeover transaction that our stockholders might view as being in their best interests.

***Our stock price is volatile, which may increase the likelihood that we will become involved in expensive, time-consuming litigation.***

The market price of our Common Stock has been, and is expected to continue to be, volatile. Following periods of market volatility in the past, many companies have been sued by stockholders alleging violations of U.S. securities laws. Any securities litigation against us would be costly and time-consuming and could result in significant liability if resolved against us. Further, any such allegation would distract our management from operating our business and could increase our insurance rates.

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### USE OF PROCEEDS

The Selling Stockholders will receive all of the proceeds from the sale of any shares of our Common Stock covered by this prospectus.

### SELLING STOCKHOLDERS

#### Summary

Set forth below is a summary of the transaction pursuant to which we issued the Warrants and Series A Preferred to the Selling Stockholders, as well as the terms of the Warrants and Series A Preferred and our relationship with the Selling Stockholders.

#### *Private Placement*

On December 18, 2002, we completed the sale of 6,000 shares of our Series A Redeemable Convertible Preferred Stock, par value \$0.001 per share, and warrants to purchase up to 369,229 shares of our Common Stock, to certain accredited investors pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. We received gross proceeds of approximately \$6.0 million from the sale, which we intend to use primarily for working capital and product development. The following investors purchased the Series A Preferred: Omicron Master Trust, Midsummer Investment, LTD., Cranshire Capital, L.P. and Islandia, L.P.

The shares of Series A Preferred were issued pursuant to the Securities Purchase Agreement dated as of December 18, 2002 between us and the investors that purchased the Series A Preferred. The terms of Series A Preferred are prescribed in our Certificate of Designation of Preferences, Rights and Limitations of Series A Redeemable Convertible Preferred Stock. Each share of Series A Preferred has a stated value equal to \$1,000. Shares of Series A Preferred carry a cumulative 7% dividend and are convertible into shares of our Common Stock at a per share price of \$3.25. We are entitled to issue Common Stock in lieu of the cash payment of dividends on the Series A Preferred, subject to certain limitations. The 6,000 shares of Series A Preferred are convertible into 1,846,152 shares of our Common Stock, subject to certain restrictions. We have the option to redeem 1/18th (or approximately \$333,333) of the Series A Preferred in cash or Common Stock each month beginning in June 2003 through December 2004. If we choose not to redeem the Series A Preferred in any month, the dividend rate for the unredeemed shares increases to 12%. We are entitled to force conversion of the Series A Preferred to Common Stock in the event our Common Stock price exceeds \$6.50 per share for 15 consecutive trading days. We may also redeem the Series A Preferred at any time in cash, subject to certain conditions, for 110% of the cost of the outstanding shares.

The Warrants issued in the financing to the investors identified above are exercisable at a price per share of \$3.25, subject to adjustment. The warrants are immediately exercisable and terminate upon the earlier of December 19, 2007 or our consummation of certain acquisition transactions.

Roth Capital Partners, LLC, or Roth, acted as the sole placement agent in the financing. Pursuant to our Engagement Letter dated November 7, 2002 with Roth, we issued Roth a warrant to purchase up to 118,812 shares of our Common Stock, subject to adjustment. The Roth warrant is exercisable at a price of \$3.25 per share. The Roth warrant is immediately exercisable and expires on December 19, 2007.

We entered into the Registration Rights Agreement, or Rights Agreement, dated as of December 18, 2002 with the investors that purchased the Series A Preferred in connection with the financing. Pursuant to the Rights Agreement, we agreed to file with the SEC no later than January 17, 2003 a registration statement covering the resale of all of our Common Stock covered by this prospectus pursuant to Rule 415 of the Securities Act, including 664,613 shares of Common Stock issuable in lieu of the cash payment of dividends on the Series A Preferred (calculated assuming that

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the shares of Series A Preferred are outstanding for 3 years and accrue interest at a rate of 12% per annum, and a conversion price of the Series A Preferred of \$3.25 per share) and 369,233 shares of Common Stock issuable pursuant to anti-dilution, redemption and related provisions of the Series A Preferred. Accordingly, we filed a Registration Statement on Form S-3, of which this prospectus forms a part, on January 17, 2003, with respect to the resale of these shares from time to time. In addition, we agreed in the Rights Agreement to use our



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commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act as promptly as possible thereafter, and use our commercially reasonable efforts to keep the registration statement effective for two years following its effective date, unless the shares of our Common Stock covered by this prospectus have been sold or may be sold pursuant to Rule 144(k) of the Securities Act, subject to certain restrictions.

### *Our Relationships with the Selling Stockholders*

Other than as set forth above, we have had no material relationship with any of the Selling Stockholders during the past three years.

### **Selling Stockholders Table**

We have filed a registration statement with the SEC, of which this prospectus forms a part, with respect to the resale of our Common Stock covered by this prospectus from time to time under Rule 415 of the Securities Act. Our Common Stock being offered by this prospectus is being registered to permit secondary public trading of our Common Stock. Subject to the restrictions described in this prospectus, the Selling Stockholders may offer our Common Stock covered under this prospectus for resale from time to time. The shares of our Common Stock covered, as to their resale, under this prospectus include shares issuable upon conversion of the Series A Preferred and exercise of the Warrants, including any additional shares issuable to prevent dilution as a result of stock splits, stock dividends or similar events. In addition, subject to the restrictions described in this prospectus, the Selling Stockholders may sell, transfer or otherwise dispose of a portion of our Common Stock being offered under this prospectus in transactions exempt from the registration requirements of the Securities Act. See "PLAN OF DISTRIBUTION."

The table below presents information as of January 14, 2003 regarding the Selling Stockholders and the shares that the Selling Stockholders (and their pledgees, assignees and successors-in-interest) may offer and sell from time to time under this prospectus. More specifically, the following table sets forth as to the Selling Stockholders:

the number and percent of shares of our Common Stock that the Selling Stockholders beneficially owned prior to the offering for resale of any of the shares of our Common Stock being registered by the registration statement of which this prospectus is a part;

the number of shares of our Common Stock that may be offered for resale for the Selling Stockholders' accounts under this prospectus; and

the number and percent of shares of our Common Stock to be held by the Selling Stockholders after the offering of the resale shares, assuming all of the resale shares are sold by the Selling Stockholders and that the Selling Stockholders do not acquire any other shares of our Common Stock prior to their assumed sale of all of the resale shares.

The table is prepared based on information supplied to us by the Selling Stockholders. Although we have assumed for purposes of the table below that the Selling Stockholders will sell all of the shares offered by this prospectus, because the Selling Stockholders may offer from time to time all or some of their shares covered under this prospectus, or in another permitted manner, no assurances can be given as to the actual number of shares that will be resold by the Selling Stockholders or that will be held by the Selling Stockholders after completion of the resales. In addition, the Selling Stockholders may have

sold, transferred or otherwise disposed of the Series A Preferred or the Warrants in transactions exempt from the registration requirements of the Securities Act since the date the Selling Stockholders provided the information regarding their securities holdings. Information concerning the Selling Stockholders may change from time to time and changed information will be presented in a supplement to this prospectus if and when necessary and required. Except as described above, there are currently no agreements, arrangements or understandings with respect to the resale of any of the shares covered by this prospectus.

The applicable percentages of ownership are based on an aggregate of 25,158,869 shares of our Common Stock issued and outstanding on January 14, 2003. The number of shares beneficially owned by the Selling Stockholders is determined under rules promulgated by the SEC.

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Name	Shares Beneficially Owned Prior to Offering		Number of Shares Being Offered	Shares Beneficially Owned After Offering	
	Number	Percent		Number	Percent
	1,919,998	7.09			
Midsummer Investment, LTD.(2)	527,999	2.06%	527,999		
Granshire Capital L.P.(3)	239,999	*%	239,999		
Omicron Master Trust(1)	191,998	*	191,998		
Islandia, L.P.(4)	191,998	*	191,998		
Roth Capital Partners, LLC(5)	118,812	*	118,812		
Selling Stockholders holding any additional shares issuable pursuant to the terms of the Series A Preferred(6)	369,233	1.45%	369,233		
Any pledgees, assignees and successors-in-interest of the Selling Stockholders(7)(8)					

\*

Less than 1%

- (1) Includes: (i) 246,153 shares of Common Stock issuable upon exercise of the Warrants, (ii) 1,230,769 shares of Common Stock issuable upon conversion of 4,000 shares of Series A Preferred and (iii) 443,076 shares of Common Stock issuable in lieu of the cash payment of dividends on the Series A Preferred.
- (2) Includes: (i) 67,692 shares of Common Stock issuable upon exercise of the Warrants, (ii) 338,461 shares of Common Stock issuable upon conversion of 1,100 shares of Series A Preferred and (iii) 121,846 shares of Common Stock issuable in lieu of the cash payment of dividends on the Series A Preferred.
- (3) Includes: (i) 30,769 shares of Common Stock issuable upon exercise of the Warrants, (ii) 153,846 shares of Common Stock issuable upon conversion of 500 shares of Series A Preferred and (iii) 55,384 shares of Common Stock issuable in lieu of the cash payment of dividends on the Series A Preferred.
- (4) Includes: (i) 24,615 shares of Common Stock issuable upon exercise of the Warrants, (ii) 123,076 shares of Common Stock issuable upon conversion of 400 shares of Series A Preferred and (iii) 44,307 shares of Common Stock issuable in lieu of the cash payment of dividends on the Series A Preferred.
- (5) Includes shares of Common Stock issuable upon exercise of the Warrants.
- (6) Includes shares of Common Stock issuable pursuant to redemption, anti-dilution and related provisions of the Series A Preferred. Information concerning the allocation of these shares to the Selling Stockholders will be set forth in one or more prospectus supplements from time to time, if required.
- (7) Information concerning other Selling Stockholders will be set forth in one or more prospectus supplements from time to time, if required.
- (8) Assumes that any pledgees, assignees and successors-in-interest do not beneficially own any Common Stock other than Common Stock issuable or issued upon conversion of the Series A Preferred or exercise of the Warrants.

### PLAN OF DISTRIBUTION

The Selling Stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock covered by this prospectus on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling their shares of Common Stock:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction

purchases by a broker-dealer as principal and resale by the broker-dealer for its account

an exchange distribution in accordance with the rules of the applicable exchange

privately negotiated transactions

short sales

broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share

a combination of any such methods of sale

any other method permitted pursuant to applicable law

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus. Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

Each Selling Stockholder may from time to time pledge or grant a security interest in some or all of any Warrant, shares of Series A Preferred or shares of Common Stock covered by this prospectus that it owns and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of Common Stock covered by this prospectus from time to time under this prospectus or an amendment to this prospectus under Rule 424(b)(3) of the Securities Act, or another applicable provision of the Securities Act of 1933, amending the list of Selling Stockholders to include the pledgees, transferees or other successors-in-interest as Selling Stockholders under this prospectus.

The Selling Stockholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors-in-interest will be the reselling beneficial owners for purposes of this prospectus.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The Selling Stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

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We are required to pay all fees and expenses incurred by us incident to the registration of the shares of Common Stock. We have agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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### LEGAL MATTERS

Cooley Godward LLP, 4401 Eastgate Mall, San Diego, California 92121, will pass upon the validity of the issuance of the Common Stock offered by this prospectus.

### EXPERTS

The financial statements and the related financial statement schedule incorporated in this prospectus by reference from our Annual Report on Form 10-K for the year ended December 31, 2001 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

### WHERE YOU CAN FIND MORE INFORMATION

We are a public company and file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain information on the operation of the SEC's public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330.

The SEC allows us to "incorporate by reference" into this prospectus the information we file with the SEC in other documents, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, until the offering of securities by this prospectus is completed:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2001 filed with the SEC on March 29, 2002;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed with the SEC on May 15, 2002;

our definitive proxy statement for the 2002 Annual Meeting of Stockholders filed with the SEC on April 5, 2002;

our Current Report on Form 8-K filed with the SEC on July 10, 2002;

our Current Report on Form 8-K filed with the SEC on July 23, 2002;

our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the SEC on August 2, 2002;

our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the SEC on November 14, 2002;

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our Current Report on Form 8-K filed with the SEC on January 14, 2003;

the description of our capital stock contained in our Current Report on Form 8-K filed with the SEC on July 23, 2002, including any amendments or reports filed for the purpose of updating such description; and

the description of our capital stock contained in our registration statement on Form 8-A (File No. 001-13317) filed with the SEC on August 29, 1997, as amended by Amendment No. 1 to our registration statement on Form 8-A, filed with the SEC on September 4, 1997, as further

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amended by Amendment No. 2 to our registration statement on Form 8-A, filed with the SEC on December 11, 2002, including any amendments or reports filed for the purpose of updating such description.

All documents filed by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering are incorporated by reference into this prospectus.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act covering the securities described in this prospectus. This prospectus does not contain all of the information included in the registration statement, some of which is contained in exhibits included with or incorporated by reference into the registration statement. The registration statement, including the exhibits contained or incorporated by reference therein, can be read at the SEC's website or at the SEC offices referred to above. Any statement made in this prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed or incorporated by reference any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address or telephone number:

**Dot Hill Systems Corp.**  
**6305 El Camino Real**  
**Carlsbad, California 92009**  
**(760) 931-5500**  
**Attention: Investor Relations**

Information contained on our website is not part of this prospectus. You should rely only on the information contained or incorporated by reference in this prospectus and any prospectus supplement. We have not authorized anyone to provide you with information different from that contained in this prospectus or any prospectus supplement. The information contained in this prospectus and any prospectus supplement is accurate only as of the date of this prospectus and any prospectus supplement and, with respect to material incorporated by reference herein or in any prospectus supplement, the dates of such referenced material.

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## PART II

### INFORMATION NOT REQUIRED IN THE PROSPECTUS

#### Item 14. Other Expenses of Issuance and Distribution

The following table sets forth all expenses payable by the registrant in connection with the resale of the Common Stock being registered. The Selling Stockholders will not bear any portion of such expenses. All the amounts shown are estimates except for the registration fee.

SEC Registration Fee	\$	1,327
Legal fees and expenses	\$	12,500

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Accounting fees and expenses	\$	5,000
Printing and related expenses	\$	1,000
Miscellaneous	\$	1,000
		<hr/>
Total	\$	20,827
		<hr/>

### Item 15. Indemnification of Officers and Directors

Section 145 of the Delaware General Corporation Law provides generally that a corporation shall have the power, and in some cases is required, to indemnify an agent, including an officer or director, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, against certain expenses, judgments, fines, settlements, and other amounts under certain circumstances.

The registrant's Certificate of Incorporation limits, to the maximum extent permitted by Delaware law, the personal liability of the registrant's directors and officers for monetary damages. The registrant's Bylaws require the registrant to indemnify its directors and executive officers to the fullest extent not prohibited by Delaware law or any other applicable law, and permit the registrant to indemnify its other officers. A summary of the circumstances in which such indemnification is provided for is contained herein, but that description is qualified in its entirety by reference to Article XI of the registrant's Bylaws, incorporated by reference in this registration statement.

Under the registrant's Bylaws, the registrant must generally advance all expenses incurred by its directors and executive officers who are party or threatened to be made party to any action by reason of the fact that each such director or executive officer is or was a director or executive officer of the registrant. Each advancement shall only be made if such director or executive officer undertakes to repay any such advancement if it is ultimately determined that such person is not entitled to be indemnified under the Registrant's Bylaws or otherwise. The registrant's Bylaws further provide that the registrant may purchase indemnification insurance on a person required or permitted to be indemnified under the Bylaws.

These indemnification provisions may be sufficiently broad to permit indemnification of registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

From time to time, the registrant may enter into individual contracts with any or all of its directors or officers regarding indemnification and advances, to the fullest extent permitted under Delaware law. The registrant believes that these agreements and arrangements are necessary to attract and retain qualified persons as directors and officers. On August 2, 1999, registrant entered into employment letter agreements with each of James Lambert and Dana Kammersgard. Pursuant to these agreements, registrant agreed to indemnify Mr. Lambert and Mr. Kammersgard for all damages and costs incurred by them in connection with claims arising out of their acts or omissions within the authorized scope of their employment. The agreements further state that the registrant shall provide such indemnification

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and advance all expenses incurred in connection with such claims as reasonably requested by these persons to the fullest extent permitted under applicable law, subject to approval by the registrant's board of directors from time to time.

### Item 16. Exhibits and Financial Statement Schedules

Exhibit Number	Description of Document
4.1	Certificate of Incorporation of the registrant (filed as Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on September 19, 2001 and incorporated herein by reference).
4.2	Bylaws of the registrant (filed as Exhibit 4.2 to the registrant's Current Report on Form 8-K filed with the SEC on September 19, 2001 and incorporated herein by reference).
4.3	Form of Common Stock Certificate (filed as Exhibit 4.3 to the registrant's Current Report on Form 8-K filed with the SEC on

Exhibit Number	Description of Document
	January 14, 2003 and incorporated herein by reference).
5.1	Opinion of Cooley Godward LLP.
23.1	Consent of Deloitte & Touche LLP, independent auditors.
23.2	Consent of Cooley Godward LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included on signature page of the registration statement).

**Item 17. Undertakings**

The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) That, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on January , 2003.

**DOT HILL SYSTEMS CORP.**

By: /s/ JAMES L. LAMBERT

Name: James L. Lambert

Title: *Chief Executive Officer, President, Chief Operating Officer and Director*

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints JAMES L. LAMBERT and PRESTON ROMM, and each or any one of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ JAMES L. LAMBERT</u> (James L. Lambert)	Chief Executive Officer, President, Chief Operating Officer and Director (PRINCIPAL EXECUTIVE OFFICER)	January 17, 2003
<u>/s/ PRESTON ROMM</u> (Preston Romm)	Chief Financial Officer and Treasurer (PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)	January 17, 2003
<u>/s/ CHARLES F. CHRIST</u> (Charles F. Christ)	Chairman of the Board of Directors	January 17, 2003
<u>/s/ BENJAMIN BRUSSELL</u> (Benjamin Brussell)	Director	January 16, 2003
<u>/s/ NORMAN R. FARQUHAR</u> (Norman R. Farquhar)	Director	January 15, 2003
<u>/s/ CHONG SUP PARK</u> (Chong Sup Park)	Director	January 17, 2003
<u>/s/ W.R. SAUEY</u> (W.R. Sauey)	Director	January 17, 2003



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<b>Exhibit Number</b>	<b>Description of Document</b>
4.1	Certificate of Incorporation of the registrant (filed as Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on September 19, 2001 and incorporated herein by reference).
4.2	Bylaws of the registrant (filed as Exhibit 4.2 to the registrant's Current Report on Form 8-K filed with the SEC on September 19, 2001 and incorporated herein by reference).
4.3	Form of Common Stock Certificate (filed as Exhibit 4.3 to the registrant's Current Report on Form 8-K filed with the SEC on January 14, 2003 and incorporated herein by reference).
5.1	Opinion of Cooley Godward LLP.
23.1	Consent of Deloitte & Touche LLP, independent auditors.
23.2	Consent of Cooley Godward LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included on signature page of the registration statement).

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