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SIMTEK CORP
Form 10QSB
August 05, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

SIMTEK CORPORATION

(Exact name small business issuer as specified in its charter)

Colorado

84-1057605

(State or other jurisdiction of
incorporation or organization)

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

4250 Buckingham Dr. #100; Colorado Springs, CO 80907

(Address of principal executive offices)

(719) 531-9444

(issuer's telephone number)

(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter
period that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

Yes X No

--- ---

Indicate the number of shares outstanding of each of the issuer's classes of
Common Stock, as of the latest practicable date.

Class Outstanding at August 3, 2004

(Common Stock, \$.01 par value)

57,703,387

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For Quarter Ended June 30, 2004

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BALANCE SHEETS

ASSETS

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CURRENT ASSETS:

Cash and cash equivalents
 Certificate of deposit, restricted
 Accounts receivable - trade, net
 Inventory, net
 Prepaid expenses and other

Total current assets

EQUIPMENT AND FURNITURE, net
 DEFERRED FINANCING COSTS
 OTHER ASSETS

TOTAL ASSETS

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable
 Accrued expenses
 Accrued wages
 Line of credit
 Accrued vacation payable
 Obligation under capital leases

Total current liabilities

NOTES PAYABLE
 DEBENTURES
 OBLIGATION UNDER CAPITAL LEASES

Total liabilities

SHAREHOLDERS' EQUITY:

Preferred stock, \$1.00 par value, 2,000,000 shares
 authorized and none issued and outstanding
 Common stock, \$.01 par value, 300,000,000 shares authorized,
 57,703,387 and 56,713,352 shares issued and outstanding
 at June 30, 2004 and December 31, 2003, respectively
 Additional paid-in capital
 Treasury Stock
 Accumulated deficit

Shareholders' equity

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

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

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SIMTEK CORPORATION		
STATEMENTS OF OPERATIONS		
(unaudited)		
	Three Months Ended June 30,	
	2004	2003
	-----	-----
NET SALES.....	\$ 4,004,801	\$ 3,419,971
Cost of sales.....	2,547,652	2,433,655
	-----	-----
GROSS MARGIN.....	1,457,149	986,316
OPERATING EXPENSES:		
Design, research and development.....	1,487,002	1,225,502
Administrative.....	328,706	204,022
Marketing.....	517,827	395,444
	-----	-----
Total Operating Expenses.....	2,333,535	1,824,968
NET LOSS FROM OPERATIONS.....	(876,386)	(838,652)
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income.....	5,719	7,809
Interest expense.....	(59,344)	(63,591)
Other income (expense), net.....	(255)	(943)
	-----	-----
Total other income (expense).....	(53,880)	(56,725)
	-----	-----
LOSS BEFORE TAXES.....	(930,266)	(895,377)
Provision for income taxes.....	--	--
	-----	-----
NET LOSS.....	\$ (930,266)	\$ (895,377)
	=====	=====
NET LOSS PER COMMON SHARE:		
Basic and diluted EPS.....	\$ (.02)	\$ (.02)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES		
OUTSTANDING:		
Basic and diluted.....	57,395,172	54,446,394

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

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SIMTEK CORPORATION
STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ende
	----- 2004 ----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss.....	\$ (1,967,386)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization.....	237,511
Net change in allowance and reserve accounts.....	81,218
Deferred financing fees.....	8,298
Loss on disposal of assets.....	13,165
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable.....	(310,350)
Inventory.....	115,502
Prepaid expenses and other	68,672
Increase (decrease) in:	
Accounts payable.....	827,058
Accrued expenses.....	(18,718)
Deferred revenue.....	--
Customer deposits.....	--

Net cash used in operating activities.....	(945,030)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment and furniture	(338,433)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on notes payable and lines of credit.....	(150,000)
Payments on capital lease obligation.....	(72,534)
Exercise of stock options.....	355,960

Net cash provided by (used in) by financing activities.....	133,426

NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(1,150,037)

CASH AND CASH EQUIVALENTS, beginning of period.....	3,431,679

CASH AND CASH EQUIVALENTS, end of period.....	\$ 2,281,642
	=====
SUPPLEMENTAL CASH FLOW INFORMATION:	
Purchase of equipment through payables and capital leases	\$ --

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

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements included herein are presented in accordance with the requirements of Form 10-QSB and consequently do not include all of the disclosures normally made in the registrant's annual Form 10-KSB filing. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included the Annual Report and Form 10-KSB for Simtek Corporation ("Simtek" or the "Company") filed on March 4, 2004 for fiscal year 2003.

In the opinion of management, the unaudited financial statements reflect all adjustments of a normal recurring nature necessary to present a fair statement of the results of operations for the respective interim periods. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year.

The Company applies APB Opinion 25 and related interpretations in accounting for its stock options which are granted to its employees. Accordingly, no compensation cost has been recognized for grants of options to employees since the exercise prices were not less than the market value of the Company's common stock on the grant dates. Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of the fair value approach, the Company's net loss and Earnings Per Share ("EPS") would have been adjusted to the pro forma amounts indicated below.

	Three Months Ended		Six Months Ended	
	----- June 30, -----		----- June 30, -----	
	2004	2003	2004	2003
	----	----	----	----
Net loss as reported	\$ (930,266)	\$ (895,377)	\$ (1,967,386)	\$ (1,967,386)
Add: stock based compensation included in reported net loss	-	-	-	-
Deduct: Stock-based compensation cost under the fair value approach	(362,114)	(130,018)	(724,227)	(724,227)
	-----	-----	-----	-----
Pro Forma net loss	\$ (1,292,380)	\$ (1,025,395)	\$ (2,691,613)	\$ (2,691,613)
	=====	=====	-----	-----

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Pro forma basic and diluted net loss per share:				
Pro forma shares used in the calculation of pro forma net loss per common share basic and diluted	57,395,172	54,446,394	57,209,142	
Reported net loss per common share basic and diluted	\$ (.02)	\$ (.02)	\$ (.03)	\$
Pro forma net loss per common share basic and diluted	\$ (.02)	\$ (.02)	\$ (.05)	\$

2. LINE OF CREDIT:

In April 2004, Simtek renewed its revolving line of credit in the amount of \$250,000 on the existing terms of such line of credit.

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SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBENTURES:

On July 1, 2002, the Company received \$3,000,000 in a financing transaction with BFSUS Special Opportunities Trust Plc, Renaissance US Growth & Investment Trust Plc and Renaissance Capital Growth & Income Fund III, Inc (collectively, "RENN Capital") pursuant to a Convertible Loan Agreement. RENN Capital is the agent for the three investment funds. One of the Company's directors, Mr. Robert Pearson, holds the position of Senior Vice President of RENN Capital. The \$3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate; each of the three investment funds invested \$1,000,000. The holder of the debentures has the right, at any time, to convert all, or in multiples of \$100,000, any part of the debenture into fully paid and nonassessable shares of the Company's common stock. The debentures are convertible into the Company's common stock at \$0.312 per share, which was in excess of the market price per share on July 1, 2002. Based on the conversion rate of \$0.312 per share, it would entitle each investment fund to 3,205,128 shares of the Company's outstanding common stock. Through June 30, 2004, the Company was not in compliance with two of the covenants set forth in the loan agreement which covenants relate to the interest coverage ratio and debt to equity ratio. On July 30, 2004, the Company received a waiver for the two covenants through July 1, 2005. However, significant variances in future actual operations from the Company's current estimates could result in the reclassification of this note to current liabilities.

4. GEOGRAPHIC CONCENTRATION:

Sales of our semiconductor products by location for the three months and six months ended June 30, 2004 and 2003 were as follows (as a percentage of semiconductor product sales only):

Three Months Ended June 30,		Six Months Ended June 30,	
2004	2003	2004	2003
----	----	----	----

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United States	26%	29%	32%	39%
Europe	10%	14%	10%	12%
Far East	45%	52%	44%	43%
All others	19%	5%	14%	6%
	-----	-----	-----	-----
	100%	100%	100%	100%

5. BUSINESS SEGMENTS:

The Company has two reportable segments. One segment designs and produces semiconductor devices for sale into the semiconductor market. The second segment specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications that is supported by government and commercial contracts. Although both segments are managed as part of an integrated enterprise, they are reported herein in a manner consistent with the internal reports prepared for management.

Transactions between reportable segments are recorded at cost. Substantially all operating expenses are identified per each segment. Substantially all of the Company's assets are located in the United States of America.

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SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Description	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	
	-----	-----	-----	-----
Net Sales:				
Semiconductor Devices	\$3,685,613	\$2,907,713	\$ 6,621,282	\$
Government Contracts	319,188	512,258	882,354	
	-----	-----	-----	-----
Total	\$4,004,801	\$3,419,971	\$ 7,503,636	\$
Net Loss:				
Semiconductor Devices	\$ (844,506)	\$ (862,544)	\$ (1,911,489)	\$
Government Contracts	(85,760)	(32,833)	(55,897)	
	-----	-----	-----	-----
Total	\$ (930,266)	\$ (895,377)	\$ (1,967,386)	\$
	June 30, 2004	December 31, 2003		
	-----	-----		
Total Assets:				

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Semiconductor Devices	\$6,433,329	\$7,302,828
Government Contracts	538,284	694,959
	-----	-----
Total	\$6,971,613	\$7,997,787

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Item 2: Management's Discussion and Analysis of Financial Condition and Results

of Operations

OVERVIEW

The Company has seen an increase in unit shipments for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003. The majority of the increase was for large production orders, with competitive bidding, which resulted in a decrease of average selling prices. The Company's net revenue was \$7,504,000 for the first six months of 2004 up from \$7,355,000 for the comparable period of 2003. The Company's net revenue was \$4,005,000 for the second quarter 2004 up from \$3,420,000 for the comparable period of 2003. The increases in revenues for the three month and six month periods ending June 30, 2004 as compared to the same periods ended June 30, 2003 were primarily due to increases in demand of the Company's nonvolatile semiconductor memory products. These increases were offset by decreases in the Company's logic product revenue and government research and development revenue. The increase of revenues from the Company's high end industrial and military products was primarily due to completing shipments of the Company's nonvolatile semiconductor memory products against ongoing military contracts. The increase in revenues of the Company's commercial products was due to production increases by the Company's key system manufacturers. The decrease in revenue from the Company's logic products was a result of the Company's decision to discontinue this product line at the end of 2003. The decrease of revenue from the Company's research and development contracts was due to an increase in bid and proposal activities resulting in fewer billable man-hours, along with increased internal research and development expenditures.

Increased operating expenses had an impact on the Company's profitability for the three and six months ended June 30, 2004 compared to the three and six months ended June 30, 2003.

RESULTS OF OPERATIONS:

REVENUES - SEMICONDUCTOR DEVICES.

The following table sets forth the Company's net revenues by product markets for the three and six months ended June 30, 2004 and 2003 (in thousands):

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	Three Months Ended			Six Months Ended		
	2004	June 30, 2003	Variance	2004	June 30, 2003	Variance
	----	----	-----	----	----	-----
Commercial	\$2,908	\$2,509	\$ 399	\$5,408	\$5,101	\$ 307
High-end industrial and military	\$ 778	\$ 203	\$ 575	\$1,213	\$ 816	\$ 397
Logic products	\$ -	\$ 196	\$ (196)	\$ -	\$ 415	\$ (415)
	-----	-----	-----	-----	-----	-----
Total Semiconductor Revenue	\$3,686	\$2,908	\$ 778	\$6,621	\$6,332	\$ 289

Commercial revenues increased by \$399,000 and \$307,000 for the three and six months ended June 30, 2004, respectively, when compared to the comparable periods in 2003. The increases for the three and six month periods were due to an increase in unit demand of our commercial nonvolatile semiconductor memory products.

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High-end industrial and military product revenues increased by \$575,000 and \$397,000 for the three and six months ended June 30, 2004, respectively, when compared to the comparable periods in 2003. The increase was primarily due to completing shipments of the Company's nonvolatile semiconductor memory products against on-going military contracts.

Revenues from our logic products decreased by \$196,000 and \$415,000 for the three and six months ended June 30, 2004 as compared to 2003, respectively. The decreases were due to a reduction in demand for this product and the Company's decision to eliminate this product line effective December 31, 2003.

Three distributors accounted for approximately 44% of the Company's semiconductor device product sales for the quarter ended June 30, 2004. Products sold to distributors are re-sold to various end customers.

COST OF SALES AND GROSS MARGIN - SEMICONDUCTOR DEVICES

The Company recorded cost of sales for semiconductor devices of \$2,378,000 and \$4,491,000 for the three and six months ended June 30, 2004 as compared with the \$2,163,000 and \$4,407,000 for the three and six months ended June 30, 2003. These costs reflect an approximate 9% and 2% increase in gross profit margin percentages for the second quarter and six months ended June 30, 2004 as compared to the second quarter and six months ended June 30, 2003. Actual gross profit margin percentages for the second quarter and six month periods ending June 30, 2004 were 35% and 32%, respectively. The increases in gross margin percentages for the three and six month periods were due to an increase in revenue of the Company's high-end industrial and military products, which more than offset increased costs experienced for commercial products.

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The Company purchased all of its silicon wafers to produce its 0.8 micron nonvolatile static random access memory products from a single supplier, Chartered Semiconductor Manufacturing Plc. ("Chartered") of Singapore to support sales of its nonvolatile semiconductor memory products. Sales of products built on these wafers accounted for approximately 98% of the Company's semiconductor product revenue for each of the three and six month period ended June 30, 2004. The Company purchased its silicon wafers to produce its 1 megabit nonvolatile static random access memory products built on 0.25 micron technology from Dongbu Anam Semiconductor. Sales of the 1 megabit semiconductor products built on these wafers accounted for approximately 2% of the Company's semiconductor product revenue for each of the three and six month period ended June 30, 2004.

The Company had an agreement with Chartered to provide wafers through September 1998. Although Chartered continues to provide the Company wafers under the terms defined in this contract the Company does not have a current signed agreement with Chartered. In March 2004, Chartered closed its wafer fabrication facility #1 where the Company's memory wafers were manufactured. The Company received its final shipments from Chartered's facility #1 at the end of March 2004. The Company is working with Chartered to transfer the process of manufacturing its memory wafers to Chartered's facility #2. However, with this process being transferred to an alternative manufacturing facility, the Company has seen lower than average production yields, which in turn has lowered its gross margins. The Company anticipates receiving qualified silicon wafers from Chartered's facility #2 in time to support product shipments of its nonvolatile semiconductor memory products in the third quarter of 2004. If the Company cannot complete the transfer of manufacturing into facility #2 this will have a material negative impact on the Company's future revenues and earnings.

The Company also engaged X-FAB Texas, Inc., of Texas ("X-FAB") to install the Company's nonvolatile semiconductor memory process and currently anticipates receiving material from X-FAB for production shipments during third quarter of 2004. If this activity does not meet production requirements, a negative impact on the Company's future revenues and earnings will result.

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RESEARCH AND DEVELOPMENT - SEMICONDUCTOR DEVICES

The Company believes that continued investments into new product development are required for us to remain competitive in the markets we serve. Beginning in the fourth quarter 2001, the Company's research and development department has been focusing its efforts on developing a 3 volt 256 kilobit nonvolatile semiconductor memory and the installation of the Company's process at Dongbu Anam Semiconductor for the development of a 1 megabit 3 volt nonvolatile semiconductor memory. During the first six months of 2004, the Company continued to see increased demand for its 3 volt 256 kilobit nonvolatile semiconductor memories. Development of the 1 megabit 3 volt nonvolatile semiconductor memory is continuing and the Company began shipping samples of its 1 megabit 3 volt nonvolatile semiconductor during the third quarter of 2003. As of July 15, 2004, the Company shipped samples to approximately 201 different customers. During the three and six months ended June 30, 2004, sales of the Company's 1 megabit 3 volt products accounted for approximately 2% of the Company's revenue.

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Research and development expenses for the three and six month periods ending June 30, 2004 have been directly related to the development and qualification of the Company's family of 0.25 micron nonvolatile semiconductor memory products at Dongbu Anam Semiconductor, the transfer of the Company's 3 volt 256 kilobit nonvolatile semiconductor memory into Chartered's Facility #2, and the transfer of the Company's 5 volt 64 kilobit and 256 kilobit nonvolatile semiconductor memory products into Chartered's Facility #2 and into X- FAB. The Company anticipates that qualification of these products will occur by the end of the third quarter of 2004. Once the qualification is complete, the Company anticipates that its research and development activities will focus on yield improvements of its nonvolatile semiconductor memory products, enhancements to the 1 megabit 3 volt product family, and development of its next-generation 0.18 micron nonvolatile memory process.

Total research and development expenses related to the semiconductor portion of the Company's business were \$1,397,000 and \$2,601,000 for the three and six months ended June 30, 2004 compared to \$1,050,000 and \$2,120,000 for the three and six months ended June 30, 2003.

The \$347,000 increase for the three month period was related to the net between increases in payroll and payroll overhead costs of \$72,000, product development costs of \$382,000 and qualification costs of \$3,000 and reductions in contract engineering services of \$64,000, equipment leases, maintenance agreements for software and depreciation of \$32,000, and miscellaneous other expenses of \$14,000. The increase of \$481,000 for the six month period was related to the net between increases in payroll and payroll costs of \$109,000, product development costs of \$574,000 and qualification costs of \$11,000 and reductions in contract engineering services of \$152,000, equipment leases, maintenance agreements for software and depreciation of \$54,000 and miscellaneous other expenses of \$7,000. The primary increase in payroll costs is related to an increase in employee headcount which is required to meet production schedules of our new products. The primary increase in product development costs was due to an increase in silicon wafer purchases and reticles for the Company's 1 megabit products from Dongbu Anam Semiconductor, 64 kilobit and 256 kilobit products from X-FAB and 256 kilobit products from Chartered's wafer fabrication facility #2 and an increase in costs related to the commercial development of datacomm products performed by the Company's Q-DOT subsidiary.

ADMINISTRATION - SEMICONDUCTOR DEVICES

Total administration expenses related to the semiconductor portion of the Company's business were \$284,000 and \$531,000 for the three and six months ended June 30, 2004 as compared to the \$184,000 and \$409,000 for the three and six months ended June 30, 2003.

The \$100,000 increase for the three month period was due to increases in accounting and legal fees of \$18,000, professional services of \$32,000, costs associated with the Company's annual meeting of shareholders of \$47,000 and travel and other miscellaneous expenses of \$16,000 and a decrease in payroll and payroll overhead costs of \$13,000. The \$122,000 increase for the six month period

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of \$45,000, costs associated with the Company's annual meeting of shareholder's of \$47,000 and other miscellaneous expenses including travel of \$20,000 and a decrease in payroll and payroll overhead costs of \$27,000. The increases in legal fees were primarily related to costs incurred in relation to the Company's annual meeting of shareholders. The increase in professional services was primarily due to an increase in fees paid to the Company's Board of Directors and fees paid for financial consulting. The increases in accounting fees were due to increased audit fees related to the Company's registration statements on Form SB-2 that the Company is contractually obligated to file with the Securities and Exchange Commission.

MARKETING - SEMICONDUCTOR DEVICES

Total marketing expenses related to the semiconductor portion of the Company's business were \$418,000 and \$802,000 for the three and six months ended June 30, 2004 as compared to the \$317,000 and \$671,000 for the three and six months ended June 30, 2003.

The \$101,000 increase for the three month period ended June 30, 2004 as compared to June 30, 2003 was due primarily to increases in payroll and payroll related costs of \$58,000, travel and other miscellaneous expenses of \$16,000, sales commissions of \$13,000 and advertising expenses of \$14,000. The increase of \$131,000 for the six month period ended June 30, 2004 as compared to June 30, 2003 was due to increases in payroll and payroll related costs of \$73,000, advertising expenses of \$31,000, travel and other miscellaneous expenses of \$24,000 and sales commissions of \$3,000. The increase in payroll and payroll overhead costs was a result of increased headcount and the increase in sales commissions was a direct result of increased revenue.

NET LOSS - SEMICONDUCTOR DEVICES

The Company recorded a net loss of \$845,000 and \$1,911,000 for the three and six months ended June 30, 2004 as compared to a net loss of \$863,000 and \$1,382,000 for the three and six months ended June 30, 2003. The decrease in net loss for the three month period was due primarily to increased sales and increased gross margin percentages; these increases were offset by increases in operating expenses. The increase in net loss for the six month period was due primarily to increased operating expenses which was offset by increased sales.

REVENUES - GOVERNMENT CONTRACTS

The following table sets forth the Company's net revenues from its government contracts portion of its business for the three and six months ended June 30, 2004 and 2003 (in thousands):

	Three Months Ended			Six Months Ended		
	2004	2003	Variance	2004	2003	Variance
	----	----	-----	----	----	-----
Government Contracts	\$319	\$512	\$(193)	\$882	\$1,023	\$(141)

The decrease of revenue for the three and six month periods ending June 30, 2004 as compared to the same periods in 2003 was the result of an increase in employee hours dedicated to bid and proposals resulting in reduced direct labor charges against government contracts, along with increased research and development expenditures committed to internal product developments.

COST OF SALES AND GROSS MARGIN - GOVERNMENT CONTRACTS

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The cost of sales for the government contracts portion of the Company's business was \$170,000 and \$486,000 for the three and six months ended June 30, 2004 as compared to the \$271,000 and \$513,000 for the same periods in 2003. This was equivalent to gross margin percentages of 47% and 45% for the three and six months ended June 30, 2004 as compared to gross margin percentages of 47% and

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50% for the same periods in 2003. The decreases in gross margin percentages for the six month period was primarily due to an increase in non-direct labor which could not be billed as revenue.

RESEARCH AND DEVELOPMENT - GOVERNMENT CONTRACTS

Total research and development expenses related to the government contracts portion of the Company's business were \$90,000 and \$199,000 for the three and six months ended June 30, 2004 compared to \$175,000 and \$363,000 for the three and six months ended June 30, 2003.

The \$85,000 decrease for the three months ended June 30, 2004 as compared to the same period in 2003 was related to a \$50,000 decrease in employment related expenses, a decrease of \$31,000 in software maintenance contracts and a \$4,000 decrease in miscellaneous expenses. The \$164,000 decrease for the six month period ending June 30, 2004 as compared to the same period in 2003 was related to decreases of \$96,000 in employment related expenses, \$51,000 in software maintenance contracts and equipment leases and \$17,000 in miscellaneous expenses. The decreases in employment related expenses apportioned to government contracts, for the three and six month period were primarily due to labor that was performed toward commercial product development for the semiconductor portion of the business. These expenses were transferred to the semiconductor portion of the business.

ADMINISTRATION - GOVERNMENT CONTRACTS

Total administration expenses related to the government contracts portion of the Company's business were \$45,000 and \$76,000 for the three and six months ended June 30, 2004 as compared to the \$20,000 and \$67,000 for the three and six months ended June 30, 2003.

The \$25,000 increase for the three months ended June 30, 2004 compared to the same period in 2003 was primarily due to an increase in employment related expenses. The increase of \$9,000 for the six months ended June 30, 2004 as compared to the same period in 2003 was primarily due to a \$9,000 increase in employment related expenses. The increase in employment related expenses was due primarily to a decrease in labor transferred to the semiconductor portion of the business.

MARKETING - GOVERNMENT CONTRACTS

Total marketing expenses related to the government contracts portion of the Company's business were \$100,000 and \$172,000 for the three and six months ended June 30, 2004 as compared to the \$78,000 and \$149,000 for the three and six months ended June 30, 2003.

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The increases of \$22,000 and \$23,000 for the three and six month periods ended June 30, 2004 as compared to June 30, 2003 were primarily due to increased bid and proposal activities.

NET INCOME (LOSS) - GOVERNMENT CONTRACTS

The Company recorded a net loss of \$86,000 and \$56,000 for the three and six months ended June 30, 2004 as compared to a net loss of \$33,000 and \$71,000 for the three and six months ended June 30, 2003. The decreases in net income were primarily due to indirect overhead costs, such as bid and proposal activities and increased research and development expenses committed to internal product development, that could not be billed to specific government contracts.

FUTURE RESULTS OF OPERATIONS

The Company's ability to be profitable will depend primarily on its ability to continue reducing manufacturing costs and increasing net product sales by increasing the availability of existing products, by the introduction of new

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products and by expanding its customer base. The Company is also dependent on the overall state of semiconductor industry and the demand for semiconductor products by equipment manufacturers.

The Company is continuing its co-development program with Dongbu Anam Semiconductor to develop a semiconductor process module that combines the Company's nonvolatile technology with Anam's advanced 0.25 micron digital CMOS fabrication line. The module will incorporate silicon oxide nitride oxide silicon ("SONOS") technology, which will be used to manufacture both high density SONOS flash and nonvolatile static random access memories, for stand alone and embedded products. The Company began shipping samples of its new 1 megabit 3 volt nonvolatile semiconductor memory product in September 2003. As of July 15, 2004, the Company had shipped samples to 201 different customers. The Company is currently shipping 1 megabit products tested to production requirements on a provisional qualification and plan to have qualification complete in the third quarter of 2004. The Company cannot assure you that the Company will not discover technical problems or manufacturing concerns with this new product, that demand will develop for the new product or that we will be able to sell this new product at a profit.

As of June 30, 2004, the Company had a backlog of unshipped customer orders of approximately \$2,398,000 expected to be filled by December 31, 2004. Orders are cancelable without penalty at the option of the purchaser prior to 30 days before scheduled shipment and therefore are not necessarily a measure of future product revenue.

Chartered closed its wafer fabrication facility #1 in March 2004. The Company has purchased silicon wafers, the raw materials used to produce its nonvolatile semiconductor memory products, from fabrication facility #1. The Company is working with Chartered to transfer the manufacturing process of its memory wafers to Chartered's facility #2. Chartered's facility #2 is newer and more modern than its facility #1, processing 8 inch wafers rather than the older 6 inch wafers that were processed in facility #1. As of June 30, 2004, the Company had received production wafers from Chartered's facility #2 suitable for

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customer shipments. This should provide uninterrupted supply of its current 256 kilobit 3 volt 0.8 micron family of nonvolatile Static Random Access memory products, and should have no material impact on the Company's ability to support its customers. If production yields or wafer availability from Chartered's facility #2 do not meet the Company's production requirements, this may have a material negative impact on the Company's future revenues and earnings.

The Company has also engaged X-FAB to install the Company's nonvolatile semiconductor memory process and currently anticipates receiving material from X-FAB for production shipments during third quarter of 2004. If this activity does not meet production requirements, a negative impact on the Company's future revenues and earnings will result.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2004, the Company had net working capital of \$3,390,720 as compared to a net working capital of \$1,241,933 as of June 30, 2003.

On November 7, 2003, the Company closed a \$1,500,000 equity financing with RENN Capital. In exchange for the \$1,500,000, the Company issued 550,661 shares of its common stock to each of the three investment funds for a total of 1,651,982 shares of the Company's common stock. The purchase price was based on the average closing price of the Company's common stock as reported on the Over-the-Counter Bulletin Board over the five trading days before closing, which average closing price was \$0.908 per share. In addition to the shares of common stock, each fund received warrants to acquire 250,000 shares of the Company's common stock. The warrants have a 5-year term with 125,000 shares being exercisable at \$1.25 per share and 125,000 shares being exercisable at \$1.50 per share.

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On July 1, 2002, the Company received \$3,000,000 in a financing transaction with RENN Capital pursuant to a Convertible Loan Agreement. One of the Company's directors holds the position of Senior Vice President of RENN Capital Group. Through June 30, 2004, the Company was not in compliance with two of the covenants set forth in the loan agreement which covenants relate to the interest coverage ratio and debt to equity ratio. On July 30, 2004, the Company received a waiver for the two covenants through July 1, 2005. However, significant variances in future actual operations from the Company's current estimates could result in the reclassification of this note to current liabilities.

The change in cash flows for the six months ended June 30, 2004 provided by operating activities was primarily a result of a net loss of \$1,967,386, which is offset by \$237,511 in depreciation and amortization, decreases in inventory, prepaid expenses and accrued expenses of \$115,502, \$68,672, and \$18,718, respectively and increases in allowance accounts, accounts receivable and accounts payable of \$81,218, \$310,350 and \$827,058, respectively. The increase of \$310,350 in accounts receivable was directly related to increased revenue in June 2004. The \$827,058 increase in accounts payable was due to extended payment terms received from one of our suppliers; the extended payment terms end in July 2004. The decrease in inventory of \$115,502 was primarily due to the timing of depleting the products produced from raw materials received from Chartered's wafer fabrication facility #1 and the replenishing of these products with raw

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materials received from either Chartered's wafer fabrication facility #2 or X-FAB. The change in cash flows used in investing activities of \$338,433 was primarily due to the purchase of equipment required to test our nonvolatile semiconductor memory products and reticles required to produce our wafers. The change in cash flows provided by financing activities of \$133,426 was primarily due to the net effect of payments on a line of credit and capital leases offset by funds received from the exercise of stock options by employees of the Company.

The change in cash flows for the six months ended June 30, 2003 provided by operating activities was primarily a result of a net loss of \$1,453,389, which is offset by \$245,575 in depreciation and amortization, decreases in accounts receivable, inventory, prepaid expenses and deferred revenue of \$313,731, \$2,451, \$103,737 and \$40,500, respectively and increases in accounts payable, accrued expenses and customer deposits of \$152,530, \$188,765 and \$33,075, respectively. The decrease of \$313,731 in accounts receivable was directly related to certain customers paying invoices within the Company's terms at the end of second quarter 2003. The increases in accounts payable of \$152,530 was primarily due to the timing of payments for standard operating expenses. The increase in accrued expenses was due primarily to increased vacation payable and accrued wages. These increases have occurred due to certain employees foregoing their vacation time until later in 2003. The change in cash flows used in investing activities of \$292,527 was primarily due to the purchase of equipment required to test our nonvolatile semiconductor memory products and software acquired for research and development activities. The cash flows used in financing activities of \$65,611 were due primarily to payments on a capital lease obligation.

Short-term liquidity.

The Company's cash balance at June 30, 2004 was \$2,281,642.

The Company's future liquidity will depend on its revenue growth and its ability to sell its products at positive gross margins and control of its operating expenses. Over the coming six months, the Company expects to spend approximately \$4,100,000 for operating expenses assuming revenue growth. The Company expects to meet these capital needs from sales revenues and, to the extent it does not have sufficient revenues, from its existing cash reserves.

Long-term liquidity.

The Company continues to evaluate its long term liquidity. The Company's growth plans may require additional funding from outside sources. The Company is in ongoing discussions with investment banking organizations and potential lenders to ensure access to funds as required.

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The Company is a party to a lease agreement with Baja Properties, LLC as landlord pursuant to which the Company leases approximately 16,000 square feet of space in Colorado Springs, Colorado. The lease is scheduled to expire on February 28, 2013. The Company's monthly rental payment obligation is approximately \$16,000.

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ITEM 3: CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures.

Douglas Mitchell, who serves as the Company's chief executive officer, president and chief financial officer (acting), after evaluating the effectiveness of the Company's disclosure controls and procedures as of the filing date of this quarterly report (the "Evaluation Date") concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

(b) Changes in internal control over financial reporting.

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There were no changes in the Company's internal control over financial reporting during the three and six months ended June 30, 2004, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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PART II. OTHER INFORMATION

- Item 1. Legal Proceedings - None
- Item 2. Changes in Securities - None
- Item 3. Defaults upon Senior Securities - None
- Item 4. Matters Submitted to a Vote of Securities Holders

On May 24, 2004, we held an annual meeting of our shareholders to vote on the following proposals:

- a. Amendment to our Articles of Incorporation to increase the number of authorized shares of common stock: The proposal was approved by the vote of our shareholders with holders representing 44,893,157 shares voting for the proposal, holders representing 1,691,723 shares voting against the proposal and holders representing 82,790 shares abstaining.
- b. Election of Directors: Mr. Douglas Mitchell was re-elected by the vote of our shareholders with holders representing 46,466,729 shares voting for Mr. Mitchell and holders representing 200,941 shares withheld from voting. Dr. Robert Keeley was re-elected by the vote of our shareholders with holders representing 46,444,194 shares voting for Dr. Keeley and holders representing 223,476 shares withheld from voting.
- c. Ratification of selection of Hein & Associates, LLP as our auditors for 2004: The proposal was approved by the vote of our shareholders with holders representing 45,807,138 shares voting for the proposal, holders representing 118,852 shares voting against the proposal and holders representing 741,680 shares abstaining.

- Item 5. Other Information - None
- Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- | | |
|------------|---|
| Exhibit 31 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32 | Certification pursuant to Section 906 of the |

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Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

Form 8-K filed April 8, 2004 - Item 5: Other information: Press Release of Simtek Corporation, dated April 7, 2004, announcing its outlook for 2004 and the status of a new product rollout.

Form 8-K filed April 27, 2004 - Item 5: Other information: Press Release, dated April 23, 2004, with respect to Shareholder Meeting.

Form 8-K filed May 11, 2004 - Item 5: Other information: Press Release, dated May 10, 2004, Simtek Reports First Quarter 2004 Financial Results.

Form 8-K filed June 2, 2004 - Item 5: Other information: On May 27, 2004, Simtek Corporation amended its Amended and Restated Articles of Incorporation to increase the number of authorized shares. Item 7: Financial Statements and Exhibits: Exhibit number 3.1 "Articles of

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Amendment to the Amended and Restated Articles of Incorporation of Simtek Corporation.

Form 8-K filed June 16, 2004 - Item 5: Other information: Press Release, dated June 15, 2004, Simtek Updates Investors for 2004 Revenue and New Product Developments.

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SIGNATURES

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

SIMTEK CORPORATION
(Registrant)

August 5, 2004

By /s/Douglas Mitchell

DOUGLAS MITCHELL
Chief Executive Officer, President

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and Chief Financial Officer (Acting)