SIMTEK CORP
Form SB-2/A
September 04, 2001

As filed with the Securities and Exchange Commission on September 4, 2001
Registration 333-60492

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3 TO FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SIMTEK CORPORATION
(Exact name of registrant 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, Colorado 80907
(719) 531-9444
(Address, including zip code, and telephone number, including area code, of Principal Executive Offices)

Douglas M. Mitchell
Chief Executive Officer, President and Chief Financial Officer (acting)
Simtek Corporation
4250 Buckingham Dr. #100
Colorado Springs, CO 80907
(719) 531-9444
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:
Garth B. Jensen, Esq.
Holme Roberts & Owen LLP
1700 Lincoln, Suite 4100
Denver, CO 80203
(303) 861-7000

Approximate Date of Commencement of Proposed Sale to the Public: From time to time after the effective date of this Registration Statement.

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

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

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

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8 (A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 4, 2001

PROSPECTUS
1,810,123 Shares

SIMTEK CORPORATION

Common stock

This prospectus is being used to register 1,810,123 shares of Simtek Corporation's common stock being offered by thirty of our shareholders.

Our common stock is traded on the OTC Bulletin Board under the symbol "SRAM." On August 30, 2001, the closing sale price of our common stock was $0.345 per share.

SEE "RISK FACTORS" BEGINNING ON PAGE 4 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING OUR STOCK.

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

The date of this Prospectus is _____, 2001.

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SUMMARY

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION FROM THIS PROSPECTUS AND DOES NOT CONTAIN ALL OF THE INFORMATION THAT MAY BE IMPORTANT TO YOU. PLEASE CAREFULLY READ THE ENTIRE PROSPECTUS AND THE DOCUMENTS INCORPORATED BY REFERENCE.

INFORMATION ABOUT US AND OUR BUSINESS

We develop, market and subcontract the production of nonvolatile semiconductor memories and programmed semiconductor logic products. Nonvolatility prevents loss of programs and data when electrical power is removed from the semiconductor. Our memory products feature fast data access and programming speeds. Our logic products route electronic signals to perform tasks in electronic systems that use our products. All of our products are targeted for use in commercial or military electronic equipment markets. These markets are industrial control systems, office automation, medical instrumentation, telecommunication systems, cable television, and numerous military systems, including communications, radar, sonar and smart weapons.

Our principal executive office is located at 4250 Buckingham Dr. #100; Colorado Springs, Colorado 80907. Our telephone number is 719-531-9444.

THE SHARES

We are registering 1,810,123 shares of our common stock being offered for resale by thirty of our shareholders.

We will not receive any of the proceeds of the shares being sold by our shareholders.

SUMMARY FINANCIAL INFORMATION

	Year Ended December 31,		Six Months En
	2000	1999	2001
Statement of Operations Data:			
Net revenues	$ 14,467,814	$ 11,168,624	$ 9,064,480
Total expenses	17,904,616	11,124,982	9,674,829
Operating income (loss)	(3,436,802)	43,642	(610,349)
Income (loss) before taxes	(3,540,342)	(90,526)	(561,685)
Net income (loss)	$ (3,540,342)	$ (122,926)	$ (561,685)
Net income (loss) per share:			
Basic	$ (.07)	$ *	$ (.01)
Diluted	$ *	$ *	$ (.01)

* Less than $.01 per share.

	Year Ended December 31, 2000	Six Mont June 3
Balance Sheet Data:		
Cash and cash equivalents	$ 2,853,769	$ 1,5

Working capital.....	4,046,107	3,8
Total assets.....	7,287,985	7,7
Shareholders' equity.....	4,924,205	4,8

RISK FACTORS

YOU SHOULD CONSIDER CAREFULLY THE FOLLOWING RISK FACTORS, AS WELL AS THE OTHER INFORMATION IN THIS PROSPECTUS BEFORE BUYING OUR SHARES. THE SEMICONDUCTOR INDUSTRY IS CHANGING RAPIDLY. THEREFORE, THE FORWARD-LOOKING STATEMENTS AND STATEMENTS OF EXPECTATIONS, PLANS AND INTENT IN THIS PROSPECTUS ARE SUBJECT TO A GREATER DEGREE OF RISK THAN SIMILAR STATEMENTS REGARDING SOME OTHER INDUSTRIES.

OUR LIMITED OPERATING CAPITAL AND OUR ABILITY TO RAISE ADDITIONAL MONEY MAY HARM OUR ABILITY TO DEVELOP AND MARKET OUR PRODUCTS

To date, we have required significant capital for product development, subcontracted production and marketing. We have funded this from the sale of products, the sale of product and technology licenses and from royalties as well as from the sale of our convertible debt and equity securities.

We believe that if we are able to increase our product sales substantially and with continued positive gross margins, our cash requirements for the development, subcontracted production and marketing of our existing product families will be satisfied. We are not sure, however, whether we will be able to achieve this increase in product sales and continue our positive gross margins. We may need more capital in the next year and after that to develop new products. We are not sure that we will be able to raise more capital on reasonable terms, if at all. If we cannot, then we may not be able to develop and market new products. The development, subcontracted production and marketing of our existing products may also suffer.

WE MAY EXPERIENCE OPERATING LOSSES IN THE NEXT SEVERAL YEARS

We began business in 1987. Through June 30, 2001, we had accumulated losses of approximately $33.0 million. We realized net income for the first time for the year ended December 31, 1997 and continued to realize net income through June 30, 2000. However, through June 30, 2001, we realized a net loss primarily as a result of accounting charges from the purchase of incomplete research and development in September 2000. We may continue to experience net operating losses for the foreseeable future. Continuing net operating losses could materially harm our results of operations and increase our need for additional capital in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

BECAUSE OUR COMMON STOCK IS LISTED ONLY ON THE OTC ELECTRONIC BULLETIN BOARD IT WILL BE MORE DIFFICULT TO SELL OUR COMMON STOCK

Our common stock is listed on the OTC Electronic Bulletin Board under the symbol "SRAM." Our common stock was listed on the Nasdaq Small-Cap Market until July 18, 1995 but because we no longer met Nasdaq's listing requirements, we transferred to the OTC Electronic Bulletin Board as mandated by Nasdaq rules. We may not be able to meet the requirements for relisting our common stock on Nasdaq in the near future or in the longer term.

Securities that are not listed on the Nasdaq Small-Cap Market are subject

to a Securities and Exchange Commission rule that imposes special requirements on broker-dealers who sell those securities to persons other than their established customers and accredited investors. The broker-dealer must determine that the security is suitable for the purchaser and must obtain the purchaser's written consent prior to the sale. These requirements may make it more difficult for our security holders to sell their securities and may affect our ability to raise more capital.

SINCE WE DEPEND GREATLY ON SUBCONTRACTORS, THEIR POOR PERFORMANCE COULD HURT OUR OPERATIONS

We subcontract the silicon wafer processing, product assembly, and product testing portions of our business to independent companies. Our operating results depend on these subcontractors' ability to supply us with silicon wafers that meet our specifications and to assemble and test enough of our products to meet our customers' needs.

Currently, we depend on Chartered Semiconductor Manufacturing Plc. of Singapore to manufacture all of our silicon wafers for our 0.8 micron memory products and 0.35 micron logic products, which account for collectively approximately 86% of our total products. We depend on United Memories Corp. of Taiwan to manufacture all of our silicon wafers for our 0.5 micron logic products, which account for approximately 5% of our total products. These wafers are the raw materials required to manufacture our semiconductor products. Without these wafers, we would be unable to sell our products. If Chartered Semiconductor Manufacturing or United Memories Corp. is unable to meet our silicon wafer needs on time and at a price that we find acceptable, we would have to find other wafer manufacturers. If we cannot find other suppliers, manufacturers or assemblers on acceptable terms, we may not be profitable. In addition, our subcontractors must be audited and recertified by us on a regular basis for us to continue to produce military-qualified products. We cannot assure you that we will be able to complete this recertification successfully or in a timely manner.

WE DO NOT HAVE A CURRENT MANUFACTURING AGREEMENT WITH CHARTERED SEMICONDUCTOR MANUFACTURING WHICH MAY LIMIT OUR ABILITY TO PURCHASE RAW MATERIALS

Our current manufacturing agreement with Chartered Semiconductor Manufacturing has expired. Under our old agreement, we had the right to purchase up to 600 six-inch silicon wafers per month from Chartered Semiconductor Manufacturing's facility in Singapore. If we are unable to renew our agreement with Chartered Semiconductor Manufacturing or the limit on wafers that we can purchase from it is not increased, we may be limited in the number of semiconductors that we can sell, unless we are able to acquire a sufficient quantity from our other supplier. About 71% of our product sales for the year ended December 31, 2000 were based on wafers purchased from Chartered Semiconductor Manufacturing.

THE UNCERTAINTY INVOLVED IN MANUFACTURING SEMICONDUCTORS MAY INCREASE THE COSTS AND DECREASE THE PRODUCTION OF OUR PRODUCTS

In order for us to be profitable, we must keep our manufacturing costs down and secure the production of sufficient product. Semiconductor manufacturing depends on many factors that are very complex and beyond our control and often beyond the control of our subcontractors. These factors include contaminates in the manufacturing environment, impurities in the raw materials used and equipment malfunctions. Under our arrangements with our subcontractors, they

pass on to us substantially all of their costs that are unique to the manufacture of our products. Accordingly, these factors could increase the cost of manufacturing our products and decrease our profits. These factors could also reduce the number of semiconductors that our subcontractors are able to make in a production run. If our subcontractors produce fewer of our products, our revenues may decline.

DELAYS IN MANUFACTURING MAY NEGATIVELY IMPACT REVENUE AND NET INCOME

It takes approximately three months for us to manufacture our semiconductors. Any delays in receiving silicon wafers from our subcontractors will delay our ability to deliver our products to customers. This would delay sales revenue and could cause our customers to cancel existing orders or not place future orders. In addition, if we are not able to make all of our planned semiconductors in a production run this could delay delivery of our products. These delays could occur at any time and would affect our net income.

WE DEPEND ON INDEPENDENT SALES REPRESENTATIVES AND DISTRIBUTORS TO SELL OUR PRODUCTS AND THE TERMINATION OF ANY OF THESE RELATIONSHIPS MAY HARM OUR REVENUE

We use independent sales representatives and distributors to sell the majority of our products. The agreements with these sales representatives and distributors can be terminated without cause by either party with only 30 to 90 days written notice. If one or more of our sales representatives or distributors terminates our relationship, we may not be able to find replacement sales representatives and distributors on acceptable terms or at all. This would affect our profitability. In addition, during 2000, approximately 47% of our product sales were to two distributors and one direct customer. We are not sure that we will be able to maintain our relationship with these distributors.

DELAYS IN OR FAILURE OF PRODUCT QUALIFICATION MAY HARM OUR BUSINESS

Prior to selling a product, we must establish that it meets expected performance and reliability standards. As part of this testing process, known as product qualification, we subject representative samples of products to a variety of tests to ensure that performance in accordance with commercial, industrial and military specifications. If we are unable to successfully accomplish product qualification for our future products, we will be unable to sell these future products. Even with successful initial product qualifications, we cannot be assured that we will be able to maintain product qualification or achieve sufficient sales to meet our operating requirements.

SINCE THE SEMICONDUCTOR INDUSTRY IS FAST CHANGING, OUR SUCCESS DEPENDS ON OUR ABILITY TO INTRODUCE NEW PRODUCTS

The semiconductor industry is characterized by rapid changes in technology and product obsolescence. Our success in the semiconductor industry depends in part upon our ability to expand our existing product families and to develop and market new products. The technology we currently use may be made obsolete by other competing or newly developed memory technologies. The development of new semiconductor designs and technologies typically requires substantial costs for research and development. Even if we are able to develop new products, the success of each new product depends on several factors including whether we selected the proper product and our ability to introduce it at the right time, whether the product is able to achieve acceptable production yields and whether the market accepts the new product. We cannot guarantee you that we will be

successful in developing new products or whether any products that we do develop will satisfy the above factors.

THE CYCLICALITY OF THE SEMICONDUCTOR INDUSTRY MAY PREVENT US FROM MAINTAINING A CONSISTENT REVENUE STREAM AND MAY HARM OUR STOCK PRICE

The semiconductor industry has historically experienced significant peaks and valleys in sales volumes resulting in large variations of revenues and resulting profits or losses. We do not have direct influence on the nature of the broad semiconductor market. Variations in the revenues and profits within the semiconductor industry may cause us significant losses in the future. If the stock prices of many semiconductor companies decrease, our stock price may also suffer. Recently, the semiconductor industry has experienced increased losses and the stock prices of many semiconductor companies, including us, have suffered.

OUR RECENT PURCHASE OF INCOMPLETE RESEARCH AND DEVELOPMENT MAY RESULT IN SIGNIFICANT EXPENDITURES

In an effort to expand our products, we recently acquired incomplete research and development products from WebGear, Inc. We believe that the incomplete research and development we acquired should enable us to enter the wireless data communication market being developed under the "Bluetooth" trademark. "Bluetooth" is a new industry standard for wireless data communication developed by a consortium of electronic industry partners. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations." If this technology is successful in establishing wide spread use it may create sales opportunities for component suppliers. We expect to spend approximately $750,000 to bring products to this wireless market. However, we cannot assure you that we will be able, or have sufficient operating capital, to enter this market. See "-- Our Limited Operating Capital and Our Ability to Raise Money May Harm Our Ability to Develop and Market Our Products."

THE INTENSE COMPETITION IN THE SEMICONDUCTOR INDUSTRY MAY CAUSE US TO LOSE SALES REVENUE TO OTHER SUPPLIERS

There is intense competition in the semiconductor industry. We experience competition from a number of domestic and foreign companies, most of which have significantly greater financial, technical, manufacturing and marketing resources than we have. Our competitors include major corporations with worldwide silicon wafer fabrication facilities and circuit production facilities and diverse, established product lines. We also compete with emerging companies attempting to obtain a share of the market for our product families. If any of our new products achieve market acceptance, other companies may sell competitive products at prices below ours. This would have an adverse effect on our operating results. We have sold product and technology licenses to Zentrum Mikroelektronik Dresden. We have granted this company unlimited rights to much of our technology through its license agreements with us. Zentrum Mikroelektronik Dresden has entered the market and may become one of our significant competitors.

GIVEN THE SCARCITY OF TRAINED PERSONNEL IN THE SEMICONDUCTOR INDUSTRY, THE LOSS OF KEY EMPLOYEES COULD MATERIALLY AFFECT OUR FINANCIAL RESULTS

Our success depends in large part on our ability to attract and retain

qualified technical and management personnel. There are limited personnel trained in the semiconductor industry resulting in intense competition for these personnel. If we lose any of our key personnel, this could have a material adverse affect on our ability to conduct our business and on our financial results.

OUR PATENTS MAY NOT PROVIDE US EFFECTIVE INTELLECTUAL PROPERTY PROTECTION; THIS COULD HARM OUR BUSINESS

We have been issued 25 U.S. patents relating to specific aspects of our current products and we have four applications pending. We have also applied outside the United States for patents on our technology. We plan to continue to protect our intellectual property. We are not sure that any of the patents for which we have applied will be issued or, even if they are issued, will provide us with meaningful protection from competition. We may also not have the money required to maintain or enforce our patent rights. Notwithstanding our patents, other companies may obtain patents similar or relating to our patents.

We seek to protect a significant portion of our intellectual property as trade secrets, rather than patents. Unlike patents, trade secrets must remain confidential in order to retain protection as proprietary intellectual property. We cannot assure you that our trade secrets will remain confidential. If we lose trade secret protection, our business could suffer.

IF OUR PRODUCTS AND TECHNOLOGY INFRINGE ON THIRD PARTY PATENTS, OUR PRODUCT SALES MAY SUFFER

We have not determined whether our products are free from infringement of others' patents. If patent infringement claims are asserted against us and are upheld, we will try to modify our products so they are non- infringing. If we are unable to do so, we will have to obtain a license to sell those products or stop selling the products for which the claims are asserted. We may not be able to obtain the required licenses. Any successful infringement claim against us, our failure to obtain any required license or requirement for us to stop selling any of our products, may force us to discontinue production and shipment of these products. This may result in reduced product sales and harm our revenues.

We were notified of possible patent infringement by one company in December of 1989. After reviewing the related patents we responded in the same month with a position that our products were still under development, but that the analysis revealed no infringement. There was no further response from this company. In January of 1991 a second company sent us a package of nonvolatile memory and other memory patents for review to evaluate for any possible infringement and to seek licenses as appropriate. Our internal evaluation determined that there were no obvious infringements requiring the pursuit of licenses from this company. In both cases we believe that there are no definitive claims for infringement against our products, so no further actions have been taken, although there has not been direct recognition of this position by the other parties. However, we cannot assure you that these companies will not assert patent infringement claims against us in the future.

In 1998, we received notice of a claim for an unspecified amount from a foundation that owns approximately 180 patents and 70 pending applications. The foundation claimed that some of the machines and processes used in the building of our semiconductor devices infringe on the foundation's patents. In April 1999, we reached an agreement with the foundation for us to purchase a nonexclusive license of the foundation's patents, based on our product offerings and sales forecast at that time. If our products or actual sales revenue vary significantly from the time of the agreement, we may be subject to additional payments.

FOREIGN CURRENCY EXCHANGE RATE FLUCTUATIONS MAY INCREASE OUR COSTS, LOWER OUR

REVENUES AND CAUSE LOSS OF CUSTOMERS TO OUR COMPETITORS

We purchase materials, including silicon wafers, from outside the United States. In 2000, over 57% of our sales were to customers located outside of the United States. We operate using United States dollars as the functional

currency. Changes in foreign currency exchange rates can reduce our revenues and increase our costs. For example, our subcontractors may increase the prices they charge us, on a per purchase order basis, for silicon wafers if the United States dollar weakens. Any large exchange rate fluctuation could affect our ability to compete with manufacturers who operate using foreign currencies. We do not try to reduce our exposure to these exchange rate risks by using hedging transactions. Although we have not had any material losses due to exchange rate fluctuations over the last three years, we cannot assure you that we will not incur significant losses in the future.

BECAUSE WE DO NOT INTEND TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE, YOUR INVESTMENT RETURN MAY BE LIMITED

We have never paid cash dividends on our common stock. We do not expect to pay dividends in the foreseeable future. We intend to use any earnings to finance growth. You should not expect to receive dividends on your shares of common stock.

IF OUR BOARD OF DIRECTORS AUTHORIZES THE ISSUANCE OF PREFERRED STOCK, HOLDERS OF OUR COMMON STOCK COULD BE DILUTED AND HARMED

Our board of directors has the authority to issue up to 2,000,000 shares of preferred stock in one or more series and to establish the preferred stock's voting powers, preferences and other rights and qualifications without any further vote or action by the shareholders. The issuance of preferred stock by our board of directors could dilute and harm the rights of the holders of our common stock. It could potentially be used to discourage attempts by others to obtain control of us through merger, tender offer, proxy contest or otherwise by making such attempts more difficult to achieve or more costly. Our board of directors has no specific intention to issue shares of preferred stock, but given our present capital requirements, it is possible that we may need to raise capital through the sale of preferred stock in the future.

OUR FAILURE TO HOLD ANNUAL SHAREHOLDERS' MEETINGS TO RE-ELECT OFFICERS LIMITS OUR SHAREHOLDERS' CONTROL OVER MANAGEMENT

Since 1991, we have held only three annual shareholders' meetings at which shareholders elect directors. We have had some special shareholders meetings at which shareholders have voted on matters other than the election of directors. Our shareholders last elected directors on June 30, 1994. We have not held more meetings to elect directors primarily due to the costs associated with having the meetings. If we want to hold a meeting to elect directors, we must print and mail to each shareholder prior to the meeting an annual report. Based on the number of our shareholders, the printing and mailing cost would be approximately $30,000. If you would like to nominate directors for election, you would have to solicit proxy materials for an annual meeting we hold or request that we hold a special shareholders meeting. Under our bylaws, special meetings of our shareholders must be called by our president at the request of holders of not

less than one-tenth of all of our outstanding shares entitled to vote at the meeting. Since we currently have outstanding 53,688,745 shares of common stock, holders of at least 5,368,875 shares of our common stock must request a special meeting in order for such shareholders to effect a meeting. At this time, we are unsure of when we will hold our next annual meeting to elect directors. The infrequent annual shareholders' meetings limits the ability of shareholders to elect new members to the board of directors and to change our management.

USE OF PROCEEDS

We will receive no proceeds from the sale of shares by our shareholders.

CAPITALIZATION

The following table shows our capitalization at June 30, 2001.

Treasury stock, 10,000 shares	$ (12,504)
Preferred stock, $1.00 par value, 2,000,000 shares Authorized, none issued and outstanding	0
Common stock, $0.01 par value, 80,000,000 shares authorized, 53,684,245 issued and outstanding	536,842
Additional paid in capital	37,503,879
Accumulated deficit as of June 30, 2001	(32,940,979)
Shareholders' equity	$ 4,872,405

MARKET FOR OUR COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Our common stock is listed on the OTC Electronic Bulletin Board under the symbol "SRAM". Securities not included in the Nasdaq Small-CAP Market are covered by the Commission rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's

written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities, which will have an adverse effect on the ability of our security holders to sell their securities and the possibility of our ability to raise additional capital.

Shown below is the closing high bid and the closing low offer as reported by the OTC Electronic Bulletin Board on the last day of the quarter.

	Common Stock	
	High Bid	Low Bid
1998		
First Quarter	.4062	.3594
Second Quarter	.3594	.3125
Third Quarter	.2344	.2188
Fourth Quarter	.1562	.1406
1999		
First Quarter	.1875	.1875
Second Quarter	.2188	.2031
Third Quarter	.1562	.1562
Fourth Quarter	.2812	.2656
2000		
First Quarter	2.875	2.25
Second Quarter	1.5313	1.375
Third Quarter	.9688	.8438
Fourth Quarter	.3594	.2969
2001		
First Quarter	.7344	.6562
Second Quarter	.55	.49
Third Quarter (through July 30, 2001)	.46	.44

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

As of December 31, 2000, there were 379 shareholders of record, not including shareholders who beneficially own common stock held in nominee or "street name."

We have not paid any dividends on our common stock since inception and we do not intend to pay any in the foreseeable future.

SELECTED FINANCIAL DATA

The statements of operations for the years ended December 31, 2000 and 1999 and the balance sheet data as of December 31, 2000 have been derived from the financial statements that have been audited by Hein + Associates, LLP, independent auditors. The balance sheet as of June 30, 2001 and the statements of operations for the six months ended June 30, 2001 and 2000 are unaudited. In our opinion, these financial statements include all adjustments necessary for

the fair presentation of the financial position as of June 30, 2001 and statements of operations for the six months ended June 30, 2001 and 2000. The balance sheet as of June 30, 2001 and the statements of operations for the six months ended June 30, 2001 and 2000 were prepared on a consistent basis with our year end financial information. The balance sheet as of December 31, 2000 has been audited by Hein + Associates, LLP. This financial data should be read in conjunction with our financial statements and the notes thereto included elsewhere in this prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

	For the Years Ended December 31,		Six
Statement of Operations Data:	2000	1999	
Net Sales	$ 14,467,814	$ 11,168,624	$ 9,
Cost of Sales	8,423,529	6,172,643	6,
Gross Margin	6,044,285	4,995,981	2,
Operating Expenses:			
Design, research and development	6,158,189	2,240,273	1,
Administrative	2,152,593	1,793,424	1,
Marketing	1,170,305	918,642	
Total Operating Expenses	9,481,087	4,952,339	3,
Other income (expense), net	91,122	(81,654)	
Equity in losses of QDA and write off of related advances	(194,662)	(52,514)	
Net income (loss) before taxes	(3,540,342)	(90,526)	$ (
Provision for income taxes	-	32,400	
Net income (loss)	$(3,540,342)	$ (122,926)	$ (
Net income (loss) per common share:			
Diluted	$ (.07)	$ *	$
Basic	$ *	$ *	$
Weighted average common shares outstanding:			
Basic	48,337,167	38,345,697	53,
Diluted	48,337,167	38,345,697	53,

* Less than $.01 per share.

	Year Ended December 31, 2000	Six Ju
Balance Sheet Data:		
Working capital	$ 4,046,107	$
Total assets	7,287,985	
Shareholders' equity	$ 4,924,205	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW OF ACQUISITIONS AND OTHER TRANSACTIONS

During 2000 and the first quarter of 2001, we made several acquisitions of high technology companies, some of which we have accounted for as a pooling of interests.

On May 9, 2000, we acquired Integrated Logic Systems, Inc. We issued 3,000,000 shares of our common stock in exchange for all outstanding shares of all classes of Integrated Logic Systems stock. Integrated Logic Systems designs and sells programmed semiconductor logic products. We purchased approximately $30,000 of product from Integrated Logic Systems in the year preceding the acquisition. The acquisition was accounted for as a pooling of interest, and the results of Integrated Logic Systems have been consolidated with our results, as if we have been merged throughout the periods presented.

On June 16, 2000, we acquired 1,875,000 shares of the common stock of WebGear in return for 1,250,000 shares of our common stock. On September 29, 2000, we purchased incomplete research and development, patents and trademarks from WebGear and entered into an agreement to purchase at preferential rates new products developed from the patents and related technology. This agreement provided for WebGear to pay us approximately $600,000 over a 12-month period. The original contract price for the incomplete research and development totaled 1,875,000 shares of WebGear stock plus 3,400,000 shares of our common stock of which 500,000 were held in escrow based on WebGear fulfilling all obligations under the contract. In December 2000, WebGear defaulted on its payment obligations under the preferential rate purchase agreement, thus forcing them to relinquish the 500,000 escrow shares of our common stock which reduced the shares issued to 2,900,000 of our common stock.

On July 31, 2000, we acquired Macrotech Semiconductor. We issued 1,250,000 shares of our common stock in exchange for all outstanding shares of all classes of Macrotech Semiconductor stock. Macrotech Semiconductor designs and sells programmed semiconductor logic products, which are an extension of the programmed semiconductor logic products that Integrated Logic Systems manufactures. The acquisition was accounted for as a pooling of interest, and the results of Macrotech Semiconductor have been consolidated with ours, as if we have been merged throughout the periods presented.

On September 14, 2000, we entered into a one-year contract with two investment bankers, E.B.M. Associates, Inc. and World Trade Partners. Each company has received 500,000 shares of our common stock. Both companies will assist us in broadening our financial market presence and establishing new relationships within the industry, investment community and financial media, by arranging meetings for our management with industry analysts, presenting company profiles to analysts and brokerage firms, mailings and personal communication with investors. E.B.M. Associates supports these activities primarily in retail investment markets, while World Trade Partners supports these activities primarily in institutional markets. E.B.M. Associates and World Trade Partners cooperate to coordinate their activities. On September 14, 2000, the closing share price for our common stock was $ 1.0312 per share and accordingly $1,031,000 has been assigned to prepaid investor relations. The cost associated with this transaction is being amortized over the life of the contract. Approximately $301,000 was expensed in 2000. The balance will be expensed over the term of the contract, ending in the third quarter of 2001.

On September 29, 2000, we purchased incomplete research and development, patents and trademarks from WebGear. The incomplete research and development consists of hardware and software developed for wireless data communications,

that needs to be modified for use with the Bluetooth technology standard. See "Risk Factors-Our Recent Purchase of Incomplete Research and Development May Result in Significant Expenditures." We originally issued 3,400,000 shares of our common stock which was amended in December 2000 to 2,900,000. We also returned to WebGear the 1,875,000 shares of WebGear common stock that we acquired from WebGear on June 16, 2000. On September 29, 2000, the closing price of our common stock was $0.8438 per share. We have valued the purchased patents and trademarks at $125,000, which was capitalized and recorded as intangible assets. We have valued the incomplete research and development acquired from WebGear at $3,962,646, which was expensed immediately.

On December 6, 2000, we signed a letter of intent to acquire Q-DOT Group, Inc. The merger was completed on March 14, 2001. We acquired Q-DOT Group in exchange for approximately 5,171,731 shares of our common stock, valued at $4,000,000 based on a twenty day average share closing price of approximately $0.77. One of the Q-DOT Group subsidiaries, specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications. Q-DOT Group's projects have been supported by "conventional" government and commercial contracts in addition to government contacts sponsored by the Small Business Innovation Research program. Independent government agencies, such as the Department of the Army, Department of the Navy and Department of the Air Force may award contracts directly, or "conventionally," or may award contracts through the Small Business Innovation Research program. The Small Business Innovation Research program is a Department of Defense program that funds early-stage research projects at small technology companies. We operate our Q-DOT Group's government contract research and development operations as a wholly owned subsidiary of us. The acquisition was accounted for as a pooling of interest, and the results of Q-DOT Group are consolidated with ours in our financials as if we have been merged throughout the periods. Q-DOT Group held a 1% membership interest in QD Acoustics, LLC. QD Acoustics specializes in high performance semiconductor applications for sonar and medical imaging products such as ultrasound equipment. We do not expect that our ownership interest in QD Acoustics will be material to our business.

RESULTS OF OPERATIONS

GENERAL. We have designed and developed nonvolatile semiconductor products since we commenced business operations in May 1987. We have concentrated on the design and development of our nonvolatile semiconductor memory product families and technologies, marketing, distribution channels, and sources of supply, including production at subcontractors. With the acquisition of Integrated Logic Systems and Macrotech Semiconductor, we have added the capability to design, develop and produce gate array integrated circuits, or our logic products.

Our business was founded on a specialized technology that supported development of nonvolatile semiconductor memories. We developed our current memory products out of this technology. This single product family does not allow growth into a broad range of applications. Therefore, in an effort to expand our products, we acquired from WebGear incomplete research and development of technology that we intend to apply within the emerging Bluetooth market segment. "Bluetooth" is an industry standard, short range wireless communications technology designed to allow a variety of electronic devices, such as wireless telephones, Personal Digital Assistants, notebook computers, desktop computers, peripheral input-output devices, television set-top boxes and Internet appliances to exchange data without the use of physical cabling. See "Risk Factors-Our Recent Purchase of Incomplete Research and Development May

Result in Significant Expenditures."

We anticipate that our acquisition of Q-DOT Group will enable us to enter the high speed data communications market, addressing both wired and wireless applications, based on advanced "Silicon Germanium" process technology. Silicon Germanium is rapidly becoming the technology of choice for many analog, mixed signal and high speed digital circuits.

In September 1991, we began the sale of our commercially qualified 64 kilobit nonvolatile semiconductor memory products based on a 1.2 micron process technology. The 1 micron process technology is manufactured with spacing between design elements of approximately one millionth of one meter. Generally speaking, the smaller the spacing between design elements, the less expensive the production cost of our memory products. Accordingly, we generally try to design with lower micron technology. Kilobits are a measure of the amount of data that can be stored. More kilobits imply more storage.

After initial qualification of our first product in 1991, we began expanding the 64 kilobit nonvolatile semiconductor memory product family. By the end of 1993, we had qualified the complete product family for commercial, industrial and military markets and had commenced sales of these products. When we say we "qualify" a product, we mean that our internal quality organization confirms the product's performance to the product's data sheet and accepted industry standards. Commercial products operate from 0 degrees to 70 degrees Centigrade, industrial products from -40 degrees to 85 degrees Centigrade and

military products from -55 degrees to 125 degrees Centigrade. Specific customers require different temperatures for their applications. During 1995, we developed our 64 kilobit nonvolatile semiconductor memory products based on a 0.8 micron process technology. Qualification of this product occurred in 1996. In late 1996 and into 1997, we, along with assistance from Zentrum Mikroelektronik Dresden, completed the design, installation and qualification of our 256 kilobit nonvolatile semiconductor memory product based on 0.8 micron process technology into Zentrum Mikroelektronik Dresden's silicon wafer fabrication facility. In 1997, we installed the 256 kilobit nonvolatile semiconductor memory product built on 0.8 micron process technology in Chartered Semiconductor Manufacturing's silicon wafer fabrication facility. Qualification of this product for use in the commercial and industrial market occurred in 1997 and qualification for use in the military market occurred in the second quarter of 1998. In the fourth quarter 1997, we qualified the 64 kilobit nonvolatile semiconductor memory product built on 0.8 micron process technology for sale in the commercial and industrial market. Our programmed semiconductor logic products are supported with silicon wafers, built on 0.5 micron process technology, purchased from United Memories and silicon wafers purchased from Chartered Semiconductor Manufacturing built on a 0.35 micron process technology. Products manufactured with smaller spacing generally support lower product costs by reducing the amount of raw material required for the product. Sales of products built on wafers purchased from Chartered Semiconductor Manufacturing and United Memories accounted for all of our semiconductor product sales revenue for 2000.

SIX MONTHS JUNE 30, 2001 AND 2000. During the six months ended June 30, 2001, we purchased our silicon wafers from Chartered Semiconductor Manufacturing to support the sales of our nonvolatile semiconductor memory products. Sales of our programmed semiconductor logic products were supported by silicon wafers

purchased from United Memories.

We had net sales of $9,064,480 for the six months ended June 30, 2001 up from $7,678,004 recorded for the six months ended June 30, 2000. Product sales from our 4 kilobit, 16 kilobit, 64 kilobit and 256 kilobit nonvolatile semiconductor memory products were $7,770,629 and $5,483,421 for the six months ended June 30, 2001 and 2000, respectively. The increase in sales was due primarily to an increase in large customers placing production orders of our products, worldwide, along with an increase in product availability which allowed us to fill delinquent orders to our customers. Sales of our high end industrial and military products decreased by approximately $561,573 in the six months ended June 30,2001 as compared to the six months ended June 30, 2000. This decrease was due to a continued decrease in defense contracts. Two distributors of our nonvolatile semiconductor memory products and two direct customers accounted for approximately 64% of our net sales for the six months ended June 30, 2001. Products sold to distributors are re-sold to various end customers. The revenue generated from the sale of our logic products was $500,378 and $740,881 for the six months ended June 30, 2001 and 2000, respectively. This decrease was due to the completion of production contracts in 2000 and the internal activities focusing on integration of the logic business into the our operations. The revenue generated from research and development contracts acquired in the Q-DOT Group merger was $793,473 and $1,453,702 for the six months ended June 2001 and 2000, respectively. This decrease was primarily due to reduced billing rates against government contract due to employee attrition.

We saw a decrease of approximately 9% decrease in our gross margin percentages for the six months ended June 30, 2001 as compared to the six months ended June 30, 2000. These decreases were due primarily to an increase in the cost of the silicon wafers required to produce our products. In March 2001, we were able to negotiate better pricing from this supplier and we also negotiated better pricing from our test subcontractor. We believe that these cost reduction measures should have an impact on the gross margins beginning in the third quarter of 2001.

Total other operating expenses saw an increase of approximately $1,131,000 in the six months ended June 30, 2001 as compared to the six months ended June 30, 2000. Research and Development saw an approximate increase of $249,000, which was related to an approximate $301,000 increase in payroll and payroll overhead costs and a decrease of approximately $22,000 in product development costs and an approximate $30,000 decrease in repair and maintenance. Administration saw an approximate increase of $725,000, which was primarily related to an approximate increase of $516,000 which was related to the amortization of the shares of stock issued in September 2000, to two investment banker firms in return for services and an approximate $209,000 increase in legal and audit fees related to the acquisition of Q-DOT Group and securities work. Sales and Marketing saw an approximate $157,000 increase due primarily in an approximate increase in payroll and payroll overhead costs of $32,000 from Simtek, an approximate increase of $125,000 related to sales commissions to independent sales representatives as a direct result of revenue.

We recorded a net loss of $561,685 and a net income of $756,146 for the six months ended June 30,2001 and 2000, respectively. The increase in net losses was due primarily to decreased gross margin percentages and the increase in

administration costs.

REVIEW OF 2000 OPERATIONS. Total sales for 2000 were $14,467,814. $12,150,750 was directly related to the sale of our semiconductor memories and $2,317,064 was related to revenue generated from our research and development contracts. Our product sales could have been greater if not for a shortage in the second half of 2000 of the wafers required to produce our nonvolatile semiconductor memory products. During 2000, total market demand exceeded Chartered Semiconductor Manufacturing's ability to supply silicon wafers to many of its customers. This condition persisted through 2000 limiting our raw materials supplies, but has improved in 2001 as total market demand has decreased. We believe that the lack of a long term contract with Chartered Semiconductor Manufacturing may have impacted our ability to receive silicon wafers because a long term contract could have obligated Chartered Semiconductor Manufacturing to provide us with silicon wafers. We did see an increase in volume production orders in 2000, which caused an increase in unit shipments and a slightly overall lower average selling price as compared to 1999. Sales of our 4 kilobit and 16 kilobit products decreased in 2000 by approximately 9% over 1999. This decrease was due to customers using higher density parts in their applications. Sales, based on dollar revenues, of our 64 kilobit and 256 kilobit commercial products saw an increase in 2000 by approximately 63% and 145%, respectively. These increases were due to larger production volume orders, or orders of high volume manufacturing of systems, targeted at competitive growth markets being placed in 2000 as compared to 1999. Sales of our 64 kilobit high-end industrial and military market saw a slight increase of 3% in 2000, while our 256 kilobit high-end industrial and military market saw a decrease in 2000 of approximately 65% as compared to 1999. This decrease was due to a decrease in defense contracts in 2000 resulting from federal policies which reduced production of defense systems using our products. We believe that future defense spending will increase to historic levels as a result of policy changes within the new administration, but it remains unclear when this will occur. Sales of our logic products saw an increase of approximately 79% in 2000 as compared to 1999. This increase was due primarily to increased product demand generated by our increased sales activities. The revenue generated from research and development contracts acquired in the Q-DOT Group merger decreased approximately 35%. This decrease was primarily due to reduced billing rates against government contracts which was a direct result of employee attrition.

With the return of production volume orders being placed for our nonvolatile semiconductor commercial memory products and an increase in competition, we saw a decrease in our overall average selling prices as compared to 1999. These orders reflect high volume manufacturing of systems targeted at

competitive growth markets. However, with this decrease, we saw an increase in unit shipments for 2000 as compared to 1999 of approximately 6%, 56%, 178% and 76% for our 16 kilobit, 64 kilobit, 256 kilobit, and logic commercial products, respectively. Our 256 kilobit high-end industrial and military products saw a decrease of approximately 55% in unit shipments.

Due to the decrease in high-end industrial and military sales, we had an approximate 3% decrease in our gross margins for 2000 as compared to 1999.

YEARS ENDED DECEMBER 31, 2000 AND 1999. Our net sales for 2000 totaled $14,467,814 compared to $11,168,624 in 1999. $12,150,750 was directly related to the sale of our semiconductor memories and $2,317,064 was related to revenue

generated from our research and development contracts. The increase in net product sales for the year ended December 31, 2000 was due primarily to increased volume production orders in the Far East and North America. During 2000, sales of our 64 kilobit and 256 kilobit nonvolatile semiconductor memory military products accounted for approximately 12% of our sales, while 64 kilobit and 256 kilobit commercial and industrial nonvolatile semiconductor memory products accounted for approximately 34% and 25% of sales in 2000 and 1999, respectively. Sales of our programmed semiconductor logic products account for approximately 9% of our sales. Revenue from research and development contracts accounted for approximately 15% of our sales. Sales of our 4 kilobit and 16 kilobit nonvolatile semiconductor memory products accounted for the balance of the sales in 2000. Two distributors and one direct customer of our nonvolatile semiconductor memory products accounted for approximately 42% of our net product sales for the year ended December 31, 2000. Products sold to distributors are resold to a larger number of system manufacturers.

The increase in net loss in 2000 is primarily the result of expensing approximately $3,963,000 of purchased incomplete research and development from WebGear. We realized a positive gross margin of $6,044,285 in 2000 compared to $4,995,981 in 1999 for percentages of 42% and 45%, respectively.

Operating expenses were approximately $4,500,000 more for the year ended December 31, 2000 than for the year ended December 31, 1999. The largest part of this increase, was related to research and development which had an approximate $3,900,000 increase. Of the approximate $3,900,000 increase, approximately $3,963,000 was due to the issuance of stock to WebGear for the purchase of their Bluetooth technology, an approximate $100,000 decrease in indirect costs related to our research and development contracts which was related to a decrease headcount, an approximate $100,000 increase in headcount additions, an approximate $18,000 increase in depreciation and an approximate decrease of $55,000, $14,000 and $12,000 related to product development, legal fees and repairs and maintenance, respectively. The increase in headcount was due to the addition of engineers required to develop the programmed semiconductor logic products, the decrease in product development was due to a reduction in development costs assigned to processing silicon wafers for development of a higher density version of our nonvolatile semiconductor memory products. The next largest increase of approximately $360,000 was in general and administration. Of the approximate $360,000 increase, approximately $301,000 was related to the amortization of the issuance of 1,000,000 shares of stock to two investment banker firms in September 2000 for services performed by us. Approximately $157,000 was related to increased legal and approximately $80,000 was related to audit fees incurred with the acquisitions of Integrated Logic Systems, Macrotech Semiconductor and Q-DOT Group, and the purchase of Bluetooth technology from WebGear. The remaining decrease of $178,000 was the net effect of a $300,000 decrease in payroll and benefits costs related to the administration of our government contracts and increase in payroll and benefits costs resulting from the addition of one employee, pay rate raises and bonuses for the administration of our semiconductor products. The decrease in payroll and benefits for our government contract business was due to the reduction in the amount of administrative employees. Sales and marketing saw an approximate $250,000 increase, primarily due to approximately $186,000 paid in sales commission to our independent sales representatives as a direct result of our increased revenue and an approximately $64,000 increase due to the addition of one employee.

Other expense for the year ended December 31, 2000 decreased by approximately $30,000 as compared to December 31, 1999. This decrease was primarily due to an approximate $142,000 increase in funding to QD Acoustics, LLC which is offset with an approximate $95,000 decrease in interest expense and an approximate increase of $69,000 in interest income. Prior to March 14, 2001, Q-DOT Group had effective control over QD Acoustics pursuant to QD Acoustics' operating agreement. We ceased funding QD Acoustics and have no obligation to fund QD

Acoustics.

We had a net loss of $3,540,342 for the year ended December 31, 2000 compared to a net loss of $122,926 for the year ended December 31, 1999.

FUTURE RESULTS OF OPERATIONS

Our ability to maintain profitability will depend primarily on our ability to continue reducing our manufacturing costs and increasing net product sales by improving the availability of existing products, by the introduction of new products and by expanding our customer base.

As of June 30, 2001, we had a backlog of unshipped customer orders of approximately $4,100,000 expected to be filled by December 31, 2001. 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.

We believe that our earnings will increase in 2001 due to increased shipment volumes of our semiconductor products which we believe will result in lower costs based on volume purchasing of raw materials and subcontract services. We believe our shipment volumes will increase due to the growth in demand for our products that we have noticed over the last 18 months. During the first quarter of 2001, we had approximately 48% more revenue measured in dollars than in the previous quarter. During the second quarter of 2001, such growth in demand has decreased somewhat. We cannot assure you that the growth in demand, or demand for our products will not decline in the future. See "Risk Factors-Since the semiconductor industry is fast changing, our success depends on our ability to introduce new products." Our increased shipping volumes have led to reduced product costs. We have received reduced pricing from our packaging supplier that went into affect in the second quarter of 2001, and our silicon wafer subcontractor reduced prices that went into affect with June 2001 deliveries. We have also implemented test time reduction programs that started in May 2001 which will reduce test costs. We believe that the combination of these factors should result in improved earnings, provided that our customers' end markets remain robust.

In 2000 and the first six months of 2001, we purchased all of our silicon wafers for our nonvolatile semiconductor memory products from a single supplier, Chartered Semiconductor Manufacturing. Approximately 89% of our sales for 2000 and 86% of sales for the first six months of 2001 were from finished units produced from these silicon wafers. We had an agreement with Chartered Semiconductor Manufacturing to provide wafers through September 1998. Although Chartered Semiconductor Manufacturing continues to provide us wafers under the terms defined in this contract we do not have a current agreement signed. We are, however, negotiating with Chartered Semiconductor Manufacturing to renew the contract. In 2000, we purchased all of our silicon wafers built on a 0.5 micron process technology and our silicon wafers built on a 0.35 micron process technology for our programmed semiconductor logic products from United Memories and Chartered Semiconductor Manufacturing, respectively. Approximately 9% of our sales for 2000 were from finished units produced from these wafers. Currently, we do not have a current agreement signed for either of these companies to furnish us wafers, however, we have seen no disruption in their supply to us. Any disruptions in our relationship with Chartered Semiconductor Manufacturing could have an adverse impact on our operating results.

Zentrum Mikroelektronik Dresden, through their license agreement with us, has the worldwide right to sell nonvolatile semiconductor memory products developed jointly by us and Zentrum Mikroelektronik Dresden. As it has recently established volume production, Zentrum Mikroelektronik Dresden has begun selling such nonvolatile semiconductor memory products. In the past year, we did not see increased competition with Zentrum Mikroelektronik Dresden as compared to the previous year. However, due to Zentrum Mikroelektronik Dresden creating a second source for nonvolatile semiconductor memory products, we believe that its presence may have a positive impact because many large manufacturers require two sources from which to purchase product. We will not be receiving any further license payments from our contract with Zentrum Mikroelektronik Dresden.

We intend to continue designing, developing and subcontracting the production of our memory products. We also propose to continue to sell to existing and new customers through our normal sales and marketing efforts. We also intend to extend our logic product offerings. We will also begin development of high performance data communications products based on Silicon Germanium process expertise gained through our acquisition of Q-DOT Group. We believe that the additional logic and data communication products offered through these acquisitions will allow us to expand our product offering into new

applications and additional customers. We anticipate that this will reduce our dependence on any single product line and provide additional potential sources of revenue.

LIQUIDITY AND CAPITAL RESOURCES

From inception through December 31, 2000, we have received approximately $32,100,000 of gross proceeds from the sale of convertible debt and equity securities. From inception through December 31, 2000, we generated approximately $10,085,000 of gross revenue from the sale of product and technology licenses, approximately $45,215,000 from net product sales and approximately $600,000 in royalty income.

Under the Cooperation Agreement entered into with Zentrum Mikroelektronik Dresden in September 1995, Zentrum Mikroelektronik Dresden had the right to convert all financing into shares of our common stock at a price of $0.175 per share for all monies paid in 1995 and at the average share price of the quarter the monies were paid for all monies paid in 1996. In 1996, we received $378,551 under this agreement of which $248,398 was converted into 1,353,374 shares of our common stock at a price of $.1548 and 165,000 shares of our common stock at a price of $.2358. Zentrum Mikroelektronik Dresden converted the remaining $130,153 into 551,964 shares of our common stock. During 2000, Zentrum Mikroelektronik Dresden began selling their shares of our common stock.

In 1998, we closed a $1,500,000 financing transaction with Renaissance Capital. This offering involved convertible debentures with a seven year term bearing interest at 9 percent per annum. In the first quarter of 2000, Renaissance converted all $1,500,000 of the debentures into an aggregate of 7,692,308 shares of our common stock. At the time of the conversion of the debentures, we were able to cease making interest payments and the underlying note was paid in full.

During 2000 and the first quarter of 2001, we acquired three companies in exchange for a total of approximately 9,420,000 shares of our common stock. Each

of these acquisitions were handled as a pooling of interest and therefore the financial activities were integrated retroactively through 1999. We were not required to pay any cash as part of the purchase price in these transactions.

During 2000, we issued a total of 3,900,000 shares of our common stock to three separate companies. We issued 2,900,000 in exchange for incomplete research and development that we acquired from WebGear and 500,000 shares of our common stock to each of two separate investment banker firms, World Trade Partners and E.B.M. Associates, for their services.

For the six months ended June 30, 2000, cash flows used in operating activities was primarily a result of a net loss of $561,685 which is offset by $222,480 in depreciation and amortization, an increase in reserves of $11,642, customer deposits of $2,000 and a decrease in prepaid expenses and other expenses of $548,846 and a decrease of $53,634 in accrued expenses. Increases in accounts receivable, inventory and accounts payable of $659,541, $1,209,591 and $773,165, respectively were related to increased product demand. The change in cash flows used in investing activities was primarily due to the purchase of equipment required to test our products of $290,683 and payments on a capital lease obligation of $23,132. The change in cash flows used in financing activities of $80,976 was due primarily to payments on a line of credit and notes payable and the buyback of Simtek common stock and receipts from deferred revenue.

For the six months ended June 30, 2000, cash flows provided by operating activities was primarily due to a net income of $756,147, depreciation of $214,797, contributed services of $35,000, an increase in reserve accounts of $366,491 and a decrease of $24,750 in customer deposits. Increases in accounts receivable, inventory, accounts payable and accrued expenses of $635,612, $146,584, $89,673, $140,251, respectively, were related to increased product sales. Cash flows used in investing activities were due primarily to the purchase of equipment required to test our products of $238,275 and payments on a capital lease obligation of $18,542 both of which were offset by a decrease of $100,000 in restricted cash. Cash flows used in financing activities of $19,992 were due primarily to payments on notes payable and on a line of credit that was offset by the purchase of stock options by our employees.

For the year ended December 31, 2000, cash flow provided by operations was $962,818, which is primarily due to a net loss of $3,540,342, which is offset by

the WebGear asset purchase of $3,962,645, depreciation and amortization of $430,962, stock issuance for services of $22,932, a change in reserve accounts of $196,407, an increase of accounts receivable of $152,364, an increase of inventory of $85,270, a decrease in prepaid and other of $174,311 and a decrease in accounts payable of $39,689, an increase in accrued expenses of $44,371 and a decrease in customer deposits of $53,010. The increase in depreciation was due primarily to the addition of computers and software required to develop our programmed semiconductor logic products and the addition of equipment required to test our products nonvolatile semiconductor memory products. $300,767 of the stock issuance for services was related to the amortization of the stock issued to E.B.M. Associates and World Trade Partners, the balance was related to the issuance of stock for services performed by our board of directors. The change in reserve accounts, accounts receivable, and inventory was due to increased product sales. The increase in prepaid and other was due primarily by our requirement to prepay for our silicon wafer deliveries if we are above our

credit limit. The decrease in customer deposits was primarily due to customers prepaid orders at the end of 1999 and the product did not ship to them until 2000.

The use of cash flows in investing activities was due to purchases of equipment related to the purchase of test fixtures and printed circuit boards used to electrically exercise our nonvolatile semiconductor memory products manufactured at Chartered Semiconductor Manufacturing and the purchase of computers and software required for development of our programmed semiconductor logic products.

The cash flows provided by financing were primarily the result of the exercise of stock options of $297,067, borrowings from a line of credit and the issuance of a note of $908,231 which was offset by the payments on the line of credit of $1,133,000 and a notes payable of $136,135.

For the year ended December 31, 1999, cash flow provided by operations was $354,236, which was primarily due to depreciation and amortization of $391,718, a change in reserve accounts of $90,936, an increase of accounts receivable of $174,429, and an increase in accounts payable of $342,754, a decrease in accrued expenses of $179,291 and an increase in customer deposits of $51,850. The increase in accounts receivable was due to a large revenue month in December 1999, from which the cash was not received until the first quarter of 2000. The increase in accounts payable was due primarily to an increase in product demand which requires us to maintain a larger wafer and work-in-progress inventory, which is payable to our subcontractors on 30 day terms and to the purchase of software that is being paid for on a five year capital lease.

The use of cash flows in investing activities for the year ended December 31, 1999, was due to purchases of equipment related to the testing of our nonvolatile semiconductor memory products and manufacturing and test equipment for our programmed semiconductor logic products and from the purchase of a restricted certificate of deposit. Of the $317,625 of equipment purchased, $179,310 related primarily of test fixtures and printed circuit boards used to electrically exercise our products manufactured at Chartered Semiconductor Manufacturing and wafer processing hardware used to support manufacturing of our programmed semiconductor logic products at United Memories. The balance of $138,315 was related to computers and software purchased for use with our research and development contracts. A $300,000 certificate of deposit was established as collateral for a $300,000 letter of credit that is required by one of our suppliers in the event that we default on payments.

The cash flows provided by financing activities were primarily the result of proceeds from notes payable and capital contributions. We are not aware of any material commitments for capital expenditures, or any known trends, events, uncertainties that have had or expected to have a material impact on our sales, revenues or income, other than what we discussed above. We are also not aware of any seasonal aspects that had a material effect on our financial condition or results of operations.

SHORT-TERM LIQUIDITY.

Our cash balance at June 30, 2001 was $1,538,390.

Our future liquidity will depend on our revenue growth and our ability to sell our products at positive gross margins and control of our operating

expenses. Over the coming year, we expect to spend approximately $10,000,000 for operating expenses. We expect to meet these capital needs from sales revenues and, to the extent we do not have sufficient revenues, from our existing cash reserves.

LONG-TERM LIQUIDITY.

We will continue to evaluate our long term liquidity. We currently do not have any material plan of financing for the medium or long term or out of the ordinary demands of our cash. We expect to continue to meet our capital needs from sales revenues.

ACCOUNTING STATEMENTS

On June 30, 2001, the FASB approved the issuance of SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and other Intangible Assets. SFAS 141 states that all business combinations should be accounted for using the purchase method of accounting; use of pooling-of-interest method is prohibited. Accounting for the excess of the fair value of net assets of cost (negative goodwill), will be allocated to certain assets first with any remaining excess recognized as an extraordinary gain. SFAS No. 141 is effective for business combination completed afer June 30, 2001. Adoption of SFAS No. 141 is not expected to have a material impact on the accounting for business acquisitions prior to July 1, 2001. SFAS No. 142 addresses the accounting for all purchased intangible assets but not the accounting for internally developed intangible assets. Goodwill will no longer be amortized and will be reviewed for impairment in accordance with SFAS No. 142. Goodwill will be tested annually and on an interim basis if an event or circumstance occurs between the annual tests that might reduce the fair value of the reporting unit below its carrying value. SFAS No. 142 is effective for fiscal years beginning after December 31, 2001, with early adoption permitted. Goodwill and intangible assets acquired in a transaction completed after June 30, 2001 but before SFAS No. 142 is initially applied will be accounted for in accordance with SFAS No. 142. Therefore amortization of goodwill acquired prior to July 1, 2001 will cease when the company elects to adopt SFAS No. 142.

In 1998, Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities was issued. Statement 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments as fair value. This statement is effective for the Company's financial statements for the year ended December 31, 2001 and the adoption of this standard is not expected to have a material effect on the Company's financial statements.

INFLATION

The impact of inflation on our business has not been material.

BUSINESS

GENERAL

We provide integrated circuits to the electronics market for use in a variety of systems, such as computers, copiers, factory controllers, electric meters and military systems. We design, market and sell our products, but we subcontract the majority of our manufacturing requirements. We have designed and developed nonvolatile semiconductor products since we began business operations in May 1987. We have concentrated on the design and development of the 4, 16, 64 and 256 kilobit nonvolatile semiconductor memory product families and technologies, distribution channels, and sources of supply, including production at subcontractors. Kilobits are a measure of the amount of data that can be stored, more kilobits imply more storage. With our acquisitions of Integrated Logic Systems and Macrotech Semiconductor, we have added the capability to design, develop and produce programmed semiconductor logic products.

In September 2000, we purchased incomplete research and development, patents and trademarks from WebGear. Simtek has established a core business within the nonvolatile memory application segment, and is now expanding into other technology areas including logic and data communication markets. These additional product families are intended to allow more rapid total revenue growth and to reduce the risk inherent in our historic dependence on one product family.

As of June 30, 2001, our backlog for released purchase orders was approximately $4,100,000, all of which we expect to ship by December 31, 2001. 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.

We are in production of our first four families of memory products, 256 kilobit, 64 kilobit, 16 kilobit and 4 kilobit nonvolatile semiconductor memories. Our 256 kilobit nonvolatile semiconductor memory product was qualified by our internal quality organization to the product's data sheet and in accordance with accepted industry standard practices in 1997 for sales into commercial and industrial markets and in 1998 for shipment into the military market. Our 64 kilobit nonvolatile semiconductor memories meet or exceed the requirements for sales into commercial, industrial and military markets. Our 16 kilobit and 4 kilobit nonvolatile semiconductor memories have been qualified for sales into commercial and industrial markets. Our nonvolatile semiconductor memories are physically smaller and require less maintenance than Static Random Access Memory devices that achieve nonvolatility through the use of internal batteries and are more convenient to use than Static Random Access Memory devices that achieve nonvolatility by being combined with additional chips.

Our programmed semiconductor logic products are used to replace programmable logic devices when a customer has completed his system design and requires cost-reduced integrated circuits for volume manufacturing. Each programmed semiconductor logic product is configured using the individual customer's design files and is built to his specific requirements.

We reduce capital requirements by subcontracting all phases of the manufacturing process. Chartered Semiconductor Manufacturing began providing silicon wafers for our nonvolatile semiconductor memory products in September 1993 and continues to provide wafers based on our product technology. United Memories and Chartered Semiconductor Manufacturing provide silicon wafers for our programmed semiconductor logic products based on 0.5 micron and 0.35 micron product technology, respectively. Amkor Technology and Amkor Test Services provide assembly and final test services, respectively, for our nonvolatile semiconductor memory products built from the wafers purchased from Chartered Semiconductor Manufacturing. Advanced Semiconductor Engineering and IPAC provide assembly services for our programmed semiconductor logic products. Testing of our programmed semiconductor logic products is done either internally or by Multitech Design and Test.

During 2000, all of the wafers used to produce our nonvolatile semiconductor memories were purchased from Chartered Semiconductor Manufacturing. Sales of these products accounted for approximately 75% of our revenue for 2000. Wafers were purchased from both Chartered Semiconductor Manufacturing and United Memories in 2000 to support our programmed

semiconductor logic products. Sales of these products accounted for approximately 9% of our revenue for 2000. The remaining 16% of our revenue was from research and development contracts.

We currently have three sales and marketing offices, located in Colorado Springs, Colorado, Bristol, England and Atlanta, Georgia. We have engaged 17 independent representative organizations with 40 sales offices and 31 distributor organizations with 105 sales offices. These organizations have multiple sales offices and sales personnel covering specific territories. Through these organizations and their sales offices we are capable of serving a worldwide market.

In the last 12 months, we have made three acquisitions and issued stock instead of paying cash to three companies for the purchase of goods and services.

Memory Industry and Product Background

The semiconductor memory market is large and highly differentiated. This market covers a wide range of product densities, speeds, features and prices. The ideal memory would have:

- high bit density per chip to minimize the number of chips required in a system;
- fast data read and write speeds to allow a system's microprocessor to access data without having to wait;
- the ability to read and modify data an unlimited number of times;
- the ability to retain its data indefinitely when power is interrupted (i.e. nonvolatility);
- availability in a variety of package types for modern assembly techniques; and
- the ability to be tested completely by the manufacturer to ensure the highest quality and reliability.

Although customers would like to have memory components with all of these attributes it currently is not technically feasible. Therefore, the memory market is segmented with different products combining different mixes of these attributes.

Semiconductor memories can be divided into two main categories, volatile and nonvolatile. Volatile memories generally offer high densities and fast data access and programming speeds, but lose data when electrical power is interrupted. Nonvolatile memories retain data in the absence of electrical power, but typically have been subject to speed and testing limitations they also wear out if they are modified too many times. There are a number of common volatile and nonvolatile product types, as set forth below. The list of products under "Combinations" is limited to single packages and does not include

combinations of the listed memories in separate packages, such as Static Random Access Memories in combination with Electrically Erasable Programmable Read Only Memories and Erasable Programmable Read Only Memories.

Volatile	Nonvolatile	Combinatio
Static Random Access Memories	Electrically Erasable Programmable Read Only Memory	Nonvolatile Stati Memory
Dynamic Random Access Memory	Flash Memory	Nonvolatile Rando Memory
	Erasable Programmable Read Only Memory	Static Random Acc plus lithium batt
	Programmable Read Only Memory	
	Read Only Memory	

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VOLATILE MEMORIES. Rewritable semiconductor memories store varying amounts of electronic charge within individual memory cells to perform the memory function. In a Dynamic Random Access Memory the charge must be electrically refreshed many times per second or data are lost even when power is continuously applied. In a Static Random Access Memory the charge need not be refreshed, but data can be retained only if power is not interrupted.

NONVOLATILE MEMORIES. A Read Only Memory is programmed, or written, once in the later stages of the manufacturing process and cannot be reprogrammed by the user. Programmable Read Only Memory can be programmed once by the user, while Erasable Programmable Read Only Memory may be reprogrammed by the user a limited number of times if the Erasable Programmable Read Only Memory is removed from the circuit board in the equipment. Both Flash memory and Electrically Erasable Programmable Read Only Memory may be reprogrammed electrically by the user without removing the memory from the equipment. However, the reprogramming time on both Electrically Erasable Programmable Read Only Memory and Flash memory is excessively long compared to the read time such that in most systems the microprocessor must stop for a relatively long time to rewrite the memory.

COMBINATIONS. Many customers use a combination of volatile and nonvolatile memory functions to achieve the desired performance for their electronic systems. By using Static Random Access Memories in combination with Erasable Programmable Read Only Memory and Electrically Erasable Programmable Read Only Memory chips, customers can achieve nonvolatility in their systems and still retain the high data read and write speeds associated with Static Random Access Memory. This approach, however, is not desirable in many applications because of the size and cost disadvantages associated with using two or more chips to provide a single memory function. Also, it may take up to several seconds to transfer the data from the Static Random Access Memory to the Electrically Erasable Programmable Read Only Memory; an excessive time at power loss. As a result, attempts have been made to combine nonvolatile and volatile memory features in a single package or silicon chip. One approach combines an Static Random Access Memory with lithium batteries in a single package.

Nonvolatile Random Access Memories combine volatile and nonvolatile memory cells on a single chip and do not require a battery. We believe our nonvolatile semiconductor memory represents a significant advance over existing products that combine volatility and nonvolatility on a single silicon chip. We combine an Static Random Access Memory cell with an Electrically Erasable Programmable Read Only Memory cell to create a small nonvolatile semiconductor memory cell. Our unique and patented memory cell design enables the nonvolatile semiconductor memory to be produced at densities higher than existing Nonvolatile Random Access Memories and at a lower cost per bit. In addition to high density and nonvolatility, the nonvolatile semiconductor memory has fast data access and program speeds and the Static Random Access Memory portion of the memory can be modified an unlimited number of times without wearing out.

MEMORY TECHNOLOGY

We use an advanced implementation of silicon-nitride-oxide-semiconductor technology. Silicon-nitride- oxide-semiconductor technology stores electrical charge within an insulator, silicon nitride, and uses a thin tunnel oxide layer to separate the silicon nitride layer from the underlying silicon substrate. Silicon-nitride-oxide- semiconductor technology prevents tunnel oxide rupture in the memory cell from causing an immediate loss of data. Oxide rupture has been a major cause of failures in Flash and Electrically Erasable Programmable Read Only Memories using floating gate technology, where charge is stored on a polysilicon conductor surrounded by insulators. To protect against these failures, many floating gate Electrically Erasable Programmable Read Only Memories have required error correction circuitry and redundant memory cells. This increases product cost by requiring more silicon area. Error correction and redundancy are not required for our products to protect against tunnel oxide rupture. In addition, our product designs incorporate a special test feature which can predict data retention time for every individual memory cell based on measuring the rate of charge loss out of the silicon nitride.

The Silicon-nitride-oxide-semiconductor technology coupled with our nonvolatile semiconductor memory cell allows high performance nonvolatile Static Random Access Memory to be manufactured using complementary metal oxide semiconductor technology. The Silicon-nitride-oxide-semiconductor technology that we use has proven to be highly reliable, as demonstrated by our product qualification results to date.

OUR MEMORY PRODUCTS

Nonvolatile Static Random Access Memories. Our 256 kilobit, 64 kilobit, 16 kilobit and 4 kilobit nonvolatile semiconductor memory product families consist of nonvolatile memories that combine fast Static Random Access Memory and nonvolatile Electrically Erasable Programmable Read Only Memory characteristics within each memory cell on a single chip of silicon. The Static Random Access Memory portion of the nonvolatile semiconductor memories is operated in the same manner as most existing Static Random Access Memory products. The Static Random Access Memory can be written to and read from an unlimited number of times. The Electrically Erasable Programmable Read Only Memory can be programmed, depending upon device type, by user control or automatically by transferring the Static Random Access Memory contents into the Electrically Erasable Programmable Read Only Memory. The Electrically Erasable Programmable Read Only Memory data can be transferred back into the Static Random Access Memory by user control or the data can be transferred automatically.

Our nonvolatile semiconductor memories have fast data access speeds of 20, 25, 35 and 45 nanoseconds. These data access speeds correspond to those of fast Static Random Access Memory and meet the requirements of much of the fast Static Random Access Memory market. The high speed characteristics of our nonvolatile semiconductor memories allow them to be used in applications with various high performance microprocessors and digital signal processors such as those manufactured by Intel Corp., Texas Instruments and Motorola. Our nonvolatile semiconductor memories can be used to replace Static Random Access Memories with lithium batteries and multiple chip solutions such as Static Random Access Memory plus Electrically Erasable Programmable Read Only Memory or Flash Memory.

The various combinations of density and speed allow our nonvolatile semiconductor memory products to meet the design and performance requirements of many different types of systems.

We finalized commercial and industrial qualification of two versions of our initial 64 kilobit nonvolatile semiconductor memory product offering in September 1991 and April 1992, respectively. We completed military qualification of our initial nonvolatile semiconductor memories in May 1992. We began sales into the commercial market of our initial 16 kilobit nonvolatile semiconductor memory product family in 1992. The nonvolatile semiconductor memory product family also includes the 4 kilobit version. We completed the development and product qualification of the 64 kilobit AutoStoreTM nonvolatile semiconductor memory in 1993. The AutoStoreTM version automatically detects power loss and transfers the data from the Static Random Access Memory cells into the Electrically Erasable Programmable Read Only Memory cells. This device does not require instructions or intervention from the system microprocessor to notify it of the power loss. Commercial and industrial qualification of our 256 kilobit nonvolatile semiconductor memory occurred in 1997 and military qualification of our 256 kilobit nonvolatile semiconductor memory was completed in the second quarter of 1998.

PROGRAMMABLE LOGIC DEVICE INDUSTRY

The electronics industry uses logic integrated circuits to route electrical signals to perform tasks unique to that system. These unique operations differentiate one system capability from another. Field Programmable Gate Arrays and Complex Programmable Logic Devices have become popular for this purpose, and are supplied by a number of major suppliers, such as Xilinx and Altera. These products provide high performance, flexible solutions, but the technology required to allow these products to be programmable is expensive when compared to non- programmable, fixed function, application specific products.

PROGRAMMED SEMICONDUCTOR TECHNOLOGY

We subcontract the production of our semiconductor logic products to various fabrication facilities. We provide the fabrication facilities with the design of our programmed semiconductor logic products and these facilities install our designs on the chips through standard wafer processing. We currently contract with United Memories for 0.5 micron technology and with Chartered for 0.35 micron technology, in each case through purchase orders on a case-by-case basis. We plan to migrate the technology to a 0.25 micron process as the market develops. Lower micron processes allow us to provide our customers with the same functionality in our products but at a lower cost.

OUR PROGRAMMED SEMICONDUCTOR LOGIC PRODUCTS

Programmed semiconductor logic products are built to order based on customer designs that are electronically transferred to our design workstations. Our engineers then verify the design and implement it in the appropriate technology to provide the most cost effective solution available for the customer.

Our customers often ask that we provide them with programmed semiconductor logic products at a lower price than their existing logic products without sacrificing the products' functionality. Our software conversion tools translate our clients' design files of their logic products generally allowing us to provide our clients with a logic product that has the same functionality but at a lower cost than their existing logic products. We have also developed a testability feature that allows us to test our programmed semiconductor logic products without dedicating a portion of the chip area to such testing.

PRODUCT WARRANTIES

We presently provide a one-year limited warranty on our products.

RESEARCH AND DEVELOPMENT

Our research and development activities are centered around developing new products and reducing the cost of our nonvolatile semiconductor memory products as well as the development and design of customer specific programmed semiconductor logic products. We have reduced our production costs by introducing our 0.8 micron process technology. This technology reduced the size of the 64 kilobit nonvolatile semiconductor memory chip and enabled us to develop a cost effective 256 kilobit nonvolatile semiconductor memory. We are continuing our efforts to improve yield on the 0.8 micron technology. In order to further reduce costs, since late 1997 we have used outside experts for testing of our products. We have a test floor used for evaluation of our technologies, product designs and product quality. The test floor is also used for production testing of silicon wafers.

In an effort to expand our products, we acquired, from WebGear, incomplete research and development of technology that we intend to apply within the emerging Bluetooth market segment. "Bluetooth" is an industry standard, short range wireless communications technology designed to allow a variety of electronic devices, such as wireless telephone, Personal Digital Assistants, notebook computers, desktop computers, peripheral input-output devices, television set-top boxes and Internet appliances to exchange data without the use of physical cabling. We plan to spend approximately $750,000 over the next year in order to develop and manufacture integrated circuits using the technology in Bluetooth applications.

We anticipate that our acquisition of Q-DOT Group will enable us to enter the high speed data communications market, addressing both wired and wireless applications, based on advanced Silicon Germanium process technology. Silicon Germanium is rapidly becoming the technology of choice for many analog, mixed signal and high speed digital circuits. We plan to spend approximately $350,000 over the next year in order to develop and manufacture integrated circuits using the Silicon Germanium process technology.

Our research and development expenditures for the years ended December 31, 2000 and 1999 were $6,158,189 and $2,240,273, respectively. Of the $6,158,189 expenditure incurred in 2000, $3,962,646 was related to the incomplete research and development we purchased from WebGear with stock. We intend to continue expenditures on research and development; however, the percentage of research and development expenditures is expected to decrease relative to expenditures relating to the commercial production of our existing products.

MANUFACTURING AND QUALITY CONTROL

Our manufacturing strategy is to use subcontractors whose production capabilities meet the requirements of our product designs and technologies.

In 1992, we entered into a manufacturing agreement with Chartered Semiconductor Manufacturing to provide us with silicon wafers for our products. Under the manufacturing agreement with this subcontractor, it has installed a manufacturing process for versions of our current and future memory products.

Finished wafer procurement reverted to Chartered Semiconductor Manufacturing during 1998 as we ceased purchasing finished units from Zentrum Mikroelektronik Dresden. We used United Memories for wafer procurement of our 0.5 micron Programmed semiconductor logic products and Chartered Semiconductor Manufacturing for wafer procurement of our 0.35 micron Programmed semiconductor logic products. During 2000, all of our product revenue was based on wafers purchased from Chartered Semiconductor Manufacturing and United Memories.

Device packaging of our nonvolatile semiconductor memory products continued at the Amkor facilities in the Philippines and South Korea. Final test for our nonvolatile semiconductor memory products was established successfully at Integra Technologies, now Amkor Test Services, in Wichita, Kansas. Device packaging of our programmed semiconductor logic products continued at Advanced Semiconductor Eng., Inc. in Taiwan. Final test of our programmed semiconductor logic products was completed in our Colorado Springs facility and at Multitech Design and Test in San Jose, California.

Our subcontractors provide quality control for the manufacture of our products. We maintain our own quality assurance personnel and testing capability to assist the subcontractors with their quality programs and to perform periodic audits of the subcontractors' facilities and finished products to ensure product integrity.

Our quality and reliability programs were audited by several commercial and military customers during 2000 as part of routine supplier certification procedures. All such audits were completed satisfactorily.

MARKETS

Our memory products are targeted at fast nonvolatile Static Random Access Memory markets, Static Random Access Memory plus Electrically Erasable Programmable Read Only Memory markets and other nonvolatile memory products broadly used in commercial, industrial and military electronic systems.

Our programmed semiconductor logic products are built to customer requirements in many application areas. Therefore, we believe that our products will address very broad markets including these applications:

Airborne and Space Computers *	Lighting *
Automotive Control & Monitoring	Medical Instruments *
Portable Telephone Modems	Control Systems *
Portable Computers	Currency Changers
Postal Meters	Data Monitoring Equipment *
Printers *	Disk Drives *
Process Control Equipment *	Facsimile Machines *

Radar and Sonar Systems *	Gaming *
Telecommunications Systems *	GPS Navigational Systems
Terminals *	Guidance and Targeting Systems *
Test Equipment *	High Performance Workstations
Utility Meters *	Laser Printers *
Vending Machines	Mainframe Computers
Weapon Control Systems *	CD Writers
Security Systems *	Copiers *
Broadcast Equipment *	Cable TV Set Top Converter Boxes *
Studio Recording Equipment *	

The applications marked with an asterisk currently use our products. The other applications use similar products, but may use our products in newer designs.

We are increasing marketing and sales emphasis on office automation products such as copiers and mass storage systems as well as beginning new sales efforts in data communication applications.

SALES AND DISTRIBUTION

Our strategy is to generate sales through the use of independent sales representative agencies and distributors. We believe this strategy provides the fastest and most cost effective way to assemble a large and professional sales force.

We currently have three sales and marketing offices, located in Colorado Springs, Colorado, Bristol, England and Atlanta, Georgia. We have engaged 17 independent representative organizations with 40 sales offices and 31 distributor organizations with 105 sales offices. Both organizations have multiple sales offices and sales personnel covering specific territories. Through these organizations and their sales offices we are capable of serving a worldwide market.

Independent sales representatives typically sell a limited number of noncompeting products to semiconductor users in particular geographic assigned territories. Distributors inventory and sell products from a larger number of product lines to a broader customer base. These sales channels are complementary, as representatives and distributors often work together to consummate a sale, with the representative receiving a commission from us and the distributor earning a markup on the sale of the products. We supply sales materials to the sales representatives and distributors.

For our marketing activities, we evaluate external marketing surveys and forecasts and perform internal studies based, in part, on inputs from our independent sales representative agencies. We prepare brochures, data sheets and application notes on our products.

CUSTOMERS AND BACKLOG

We have shipped qualified nonvolatile semiconductor memory products to customers directly and through distributors since the September 1991 commercial product qualification; the majority of our customers are Fortune 500 companies. Approximately 40% of our net product sales during 2000 were to customers in the Pacific Rim and approximately 17% were to customers in Europe. The remaining product sales were to customers in North America.

As of June 30, 2001, we had a backlog of unshipped customer orders of approximately $4,100,000, which is expected to be filled by December 31, 2001. 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.

During 2000, we continued to receive initial and scheduled production orders on our 64 kilobit and 256 kilobit nonvolatile semiconductor memory product. We believe that we will continue to receive volume production orders on these products.

LICENSES

ZENTRUM MIKROELEKTRONIK DRESDEN. In June of 1994, we signed a joint development agreement with Zentrum Mikroelektronik Dresden to install the 1.2 micron products for manufacture at Zentrum Mikroelektronik Dresden and to jointly develop the 0.8 micron technology at Chartered Semiconductor Manufacturing. The agreement was modified in August of 1994 by a Letter of Intent between us to bypass the installation of our nonvolatile semiconductor memory products based on a 1.2 micron process technology at Zentrum Mikroelektronik Dresden and instead modify the 0.8 micron technology to run in the Zentrum Mikroelektronik Dresden factory. Zentrum Mikroelektronik Dresden has paid us all the monetary requirements under this agreement including any royalties we may receive from sales of these jointly developed products.

FUTURE LICENSE SALES. We intend to sell product and technology licenses on a selective basis. We will continue to seek licensing partners who can contribute to the development of the nonvolatile semiconductor memory market and provide a meaningful level of revenue to us while not posing an undue threat in the marketplace.

COMPETITION

Our products compete on the basis of several factors, including data access and programming speeds, density, data retention, reliability, testability, space savings, manufacturability, ease of use and price.

Products that compete with our family of nonvolatile semiconductor memories fall into three categories. The first category of products that compete with our nonvolatile semiconductor memories are volatile and nonvolatile chips used in combination, such as fast Static Random Access Memories used with Erasable Programmable Read Only Memories, Electrically Erasable Programmable Read Only Memories, or Flash memory. We believe that we have advantages over these applications because the nonvolatile semiconductor memory allows data to be stored in milliseconds as compared to seconds for chips used in pairs. Our single chip solution provides a space savings and easier manufacturing. Our single chip solution generally provides increased reliability versus multiple chips. We believe it will be able to compete with many solutions requiring density up to 256 kilobits; however, in those instances where the density requirement is beyond 256 kilobits the nonvolatile semiconductor memory does not compete. New systems designs tend to use larger memory densities greater than 256 kilobits, reducing the market available to us. We estimate that less than 10% of the market uses 256 kilobit or smaller memories. Competitors in the multiple chip category include Cypress Semiconductor Corp., Integrated Technology, Inc., Toshiba, Fujitsu, Advanced Micro Devices, Inc., Atmel and National Semiconductor Corp. We currently hold less than 1% market share this

market category.

The second category of products that compete with our nonvolatile semiconductor memories are products that combine Static Random Access Memories with lithium batteries in specially adapted packages. These products generally are slower in access speeds than our nonvolatile semiconductor memories due in part to limitations caused by life of the lithium battery when coupled with a faster Static Random Access Memory. Our nonvolatile semiconductor memories are offered in standard, smaller, less expensive packages, and do not have the limitation on lifetime imposed on the Static Random Access Memory/battery solutions by the lithium battery. Our nonvolatile semiconductor memories can also be used for wave soldered automatic insertion circuit board assembly since they do not have the temperature limitations of lithium batteries. However, lithium battery-backed Static Random Access Memory products are available in densities of 1 megabit and greater per package. Companies currently supplying products with lithium batteries include Dallas Semiconductor Corp., ST Microelectronics and Texas Instruments. We currently hold approximately 10% of this market category.

The third category consists of Nonvolatile random access memories that combine Static Random Access Memory cells and Electrically Erasable Programmable Read Only Memory memory cells on a monolithic chip of silicon. Our current product offerings are of higher density, faster access times and we believe can be manufactured at lower costs per bit than Nonvolatile random access memories. We believe that traditional manufactures of Nonvolatile random access memories have discontinued manufacturing their products.

Zentrum Mikroelektronik Dresden, through their license agreement with us, has the worldwide right to sell under the Zentrum Mikroelektronik Dresden label nonvolatile semiconductor memories developed jointly by Zentrum Mikroelektronik Dresden and us. With volume production established at Zentrum Mikroelektronik Dresden, Zentrum Mikroelektronik Dresden is selling such nonvolatile semiconductor memories. This has had a positive impact for us by creating a second source, which is required by many larger companies, for our nonvolatile semiconductor memory products. However, in 2000, we were required to reduce prices to specific markets due to the increased competition from Zentrum Mikroelektronik Dresden. We believe that the competition from Zentrum Mikroelektronik Dresden has increased the number of companies using nonvolatile semiconductor memories, but may have put downward pressure on average selling prices.

We are aware of other semiconductor technologies for nonvolatile memory products. These technologies include ferroelectric memory and thin film magnetic memory. Each of these requires a newly developed process technology which has processing risk, but may deliver performance characteristics superior to our technology if perfected. Each of these processes integrates materials into the silicon processing steps which are not commonly used for semiconductor memory products today. If successful, these products could perform the same functions in a system that our products currently perform, but may be manufactured in higher density or lower cost products. Ramtron, Raytheon, Symetrix, and others are developing ferroelectric products. Honeywell, Inc. is developing magnetic film products.

Programmed semiconductor logic-type solutions are supported by semiconductor companies such as AMI Semiconductor, NEC and Temic. These

competitors provide a wide variety of solutions using semiconductor processes ranging from 0.8 micron process technology to 0.25 micron process technology. The business of converting customers' programmable logic products to non-programmable logic products is highly dependent on the customers' designs and system performance requirements. Each competitor's process technology and software tools will affect its ability to support any particular requirement.

PATENTS AND INTELLECTUAL PROPERTY

We undertake to protect our product designs and technologies under the relevant intellectual property laws as well as by utilizing internal disclosure safeguards. Under our licensing programs, we exercise control over the use of our protected intellectual property and have not permitted our licensees to sublicense our nonvolatile semiconductor memory products or technology.

It is common in the semiconductor industry for companies to obtain copyright, trademark, trade secret and patent protection of their intellectual property. We believe that patents are significant in our industry, and we are seeking to build a patent portfolio. We expect to enter into patent license and cross-license agreements with other companies. We have been issued twenty five patents in the United States on our nonvolatile semiconductor memory cell and other circuit designs. These patents relate to circuit implementations used to design our nonvolatile memory products. The use of these patents allows us to design circuits with lower power consumption and faster store timing than would be possible otherwise giving us a competitive advantage over other technologies. These patents have terms that expire through 2008 to 2013. We have also taken steps to obtain European patents in the large European countries, including Germany, France, the United Kingdom and Sweden on the nonvolatile memory patents that would have potential value in international markets. We have four applications that have been allowed and intend to prepare patent applications on additional circuit designs we have developed. However, as with many companies in the semiconductor industry, it may become necessary or desirable in the future for us to obtain licenses from others relating to our products.

Many of our product designs are not protected by patents. We do not have patents on our logic product technology but rather protect such logic product technology as trade secrets. Our logic products accounted for approximately 9% of our sales for the year ended December 31, 2000. We also protect aspects of our technology that relate to our semiconductor memory products as trade secrets. There are disadvantages to protecting intellectual property as trade secrets rather than patents. See "Our Patents May Not Provide Us Effective Intellectual Property Protection; This Could Harm Our Business."

We have received federal registration of the term "Novcel" a term we use to describe our technology. We have not sought federal registration of any other trademarks, including "Simtek" and "QuantumTrapTM" or our logo.

EMPLOYEES

As of the date of this prospectus, we had 45 full-time employees.

FACILITIES

We lease approximately 12,000 square feet of space in Colorado Springs, Colorado. This space includes a product engineering test floor of approximately 2,350 square feet. The lease expires on December 31, 2001. During 2000, we signed a lease for a new location in Colorado Springs, Colorado for approximately 16,000 square feet of space that includes a product engineering test floor of approximately 3,000 square feet. The new lease agreement requires the new landlord to begin paying all costs related to the old location at the time we take occupancy at the new location. In March 2001, we moved into the new facility, located at 4250 Buckingham Drive #100, Colorado Springs, CO 80907.

LEGAL PROCEEDINGS

There were no legal proceedings against us as of the date of this prospectus.

MATTERS SUBMITTED TO A VOTE OF SECURITY HOLDERS

On November 16, 2000, we had a special meeting of shareholders to ratify the selection of Hein + Associates as our independent auditors for the year ending December 31, 2000. The proposal was passed with the voting of 32,532,148 For, 97,355 Against, and 138,458 Abstained.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers are as follows:

Name	Age	Position
Douglas M. Mitchell.....	51	Director, Chief Executive Officer a Chief Financial Officer (acting)
Klaus C. Wiemer.....	63	Director
Robert H. Keeley.....	59	Director
John Heightley	64	Director

DOUGLAS M. MITCHELL, served as our Chief Operating Officer from July 1, 1997 until January 1, 1998 at which time he became Chief Executive Officer, President and a director. Mr. Mitchell has over 20 years of experience in the semiconductor and electronics systems industry holding various marketing and sales management positions. Prior to joining us, he was President and Chief Executive Officer of a wireless communications company, Momentum Microsystems. Prior to this Mr. Mitchell was Vice President of Marketing with SGS- Thomson Microelectronics, responsible for marketing and applications engineering of Digital Signal Processing, transputer, microcontroller and graphics products in North America. SGS-Thomson had acquired Inmos Corporation where Mr. Mitchell had been Manager, US Marketing and Sales. Mr. Mitchell has held management positions

at Texas Instruments and Motorola and has been responsible for various product definition and product development. Mr. Mitchell holds a Bachelors degree in electrical engineering from the University of Texas and a Masters of Business Administration degree from National University.

KLAUS C. WIEMER, has served as a director since May 1993. He also serves on the boards of Neomagic Corp (NMGC) of Santa Clara, CA and InterFET Corp of Garland, TX. From July 1993 to May 1994, Dr. Wiemer served as President and Chief Executive Officer of our company. Since May 1994, Dr. Wiemer has been an independent consultant. From April 1991 to April 1993, Dr. Wiemer was President and Chief Executive Officer of Chartered Semiconductor Manufacturing , and from July 1987 to March 1991, Dr. Wiemer was President and Chief Operat