

Edgar Filing: SIMTEK CORP - Form 10KSB40

SIMTEK CORP
Form 10KSB40
March 28, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

-
- Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001
- Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission file number 0-19027

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 Drive Suite 100,
Colorado Springs, Colorado 80907
(Address of principal executive offices) (Zip Code)

(719) 531-9444
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$.01 Par Value OTC Bulletin Board

(Title of Class)

Class B Redeemable Warrants Not Listed

(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB

Edgar Filing: SIMTEK CORP - Form 10KSB40

or any amendment to this form 10-KSB. [X]

The registrant's revenues for its most recent fiscal year were \$16,950,487.

The aggregate market value of the 54,076,887 shares of voting stock held by non-affiliates of the registrant was approximately \$18,926,910, based upon the closing sale price of the Common Stock on March 19, 2002 of \$0.35 per share as reported by the OTC Electronic Bulletin Board. The calculation of such market value should not be construed as an admission or conclusion by the registrant that any person is in fact an affiliate of the registrant.

The total number of shares of Common Stock issued and outstanding as of March 22, 2002 was 54,151,273.

Transitional Small Business Disclosure Format: Yes ----- No X -----

TABLE OF CONTENTS

PART I

Item 1: Business..... 3
Item 2: Properties..... 15
Item 3: Legal Proceedings..... 15
Item 4: Matters Submitted to a Vote of Security Holders..... 15

PART II

Item 5: Market for Registrant's Common Stock and Related Security Holder Matters..... 16
Item 6: Management's Discussion and Analysis of Financial Condition and Results of Operations..... 17
Item 7: Financial Statements and Supplementary Data..... 27
Item 8: Changes in and Disagreements with Accountants on Accounting Financial Disclosure..... 50

PART III

Item 9: Directors and Executive Officers of the Registrant..... 51
Item 10: Executive Compensation..... 55
Item 11: Security Ownership of Certain Beneficial Owners and Management..... 58
Item 12: Certain Relationships and Related Transactions..... 60

PART IV

Edgar Filing: SIMTEK CORP - Form 10KSB40

Item 13: Exhibits, Financial Statement Schedules and Reports on Form 8-K..... 61

2

PART I

ITEM 1: 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 during 2000 of Integrated Logic Systems, Inc. and Macrotech Semiconductor Inc., 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. We have established a core business within the nonvolatile memory application segment, and are 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.

In March 2001, we acquired Q-DOT Group, Inc. Q-DOT Group specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications. Their projects are supported by "conventional" government and commercial contracts in addition to government contracts sponsored by the Small Business Innovation Research program. We operate Q-DOT Group's government contract research and development operations as our wholly owned subsidiary. We anticipate that this acquisition will enable us to enter the high speed data communications market, addressing both wired and wireless applications, based on advanced "Silicon Germanium" process technology.

As of December 31, 2001, our backlog for released purchase orders was approximately \$1,444,000, all of which is expected to ship by June 30, 2002. 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

market. Our 64 kilobit nonvolatile semiconductor memories have been qualified for sale 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.

3

Our programmed semiconductor logic products are used to replace programmable logic devices when a customer has completed its 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 Microelectronics 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 OSE USA, Inc. provide assembly services for our programmed semiconductor logic products. Testing of our programmed semiconductor logic products is done either internally or by Advanced Interconnect Technologies.

During 2001, all of the wafers used to produce our nonvolatile semiconductor memories were purchased from Chartered Semiconductor Manufacturing. Sales of these products accounted for approximately 86% of our revenue for 2001. Wafers were purchased from both Chartered Semiconductor Manufacturing and United Microelectronics in 2001 to support our programmed semiconductor logic products. Sales of these products accounted for approximately 5% of our revenue for 2001. The remaining 9% 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 Savannah, Georgia. We have engaged 18 independent representative organizations with 43 sales offices and 31 distributor organizations with over 250 sales offices worldwide. These organizations have multiple sales offices and technical sales personnel covering specific geographic territories. Through these organizations and their sales offices we believe that we are capable of serving a significant portion of the worldwide market with our full line of products.

Since May 2000, 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. We believe that the ideal memory would have:

Edgar Filing: SIMTEK CORP - Form 10KSB40

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

4

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	Combinations
Static Random Access Memories	Electrically Erasable Programmable Read Only Memory	Nonvolatile Static Random Access Memory
Dynamic Random Access Memory	Flash Memory	Nonvolatile Random Access Memory
	Erasable Programmable Read Only Memory	Static Random Access Memory with lithium battery
	Programmable Read Only Memory	
	Read Only Memory	

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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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.

5

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 a 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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

6

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 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 AutoStore™ nonvolatile semiconductor

Edgar Filing: SIMTEK CORP - Form 10KSB40

memory in 1993. The AutoStore™ 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.

7

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.

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 Microelectronics 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.

PRODUCT WARRANTIES

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

RESEARCH AND DEVELOPMENT

Edgar Filing: SIMTEK CORP - Form 10KSB40

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 continually work to improve yield on the 0.8 micron technology in order to reduce costs. 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 \$250,000 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

8

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, 2001 and 2000 were \$3,155,360 and \$6,277,617, respectively. Of the \$6,277,617 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 Microelectronics 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

Microelectronics.

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 Advanced Interconnect Technologies 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 2001 and 2000 as part of routine supplier certification procedures. All such audits were completed satisfactorily.

9

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

Edgar Filing: SIMTEK CORP - Form 10KSB40

products such as copiers and mass storage systems as well as increasing 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 Savannah, Georgia. We have engaged 18 independent representative organizations with 43 sales offices and 31 distributor organizations with over 250 sales offices worldwide. These organizations have multiple sales offices and technical sales personnel covering specific geographic territories. Through these organizations and their sales offices we believe that we are capable of serving a significant portion of the worldwide market with our full line of products.

10

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 49% of our net product sales during 2001 were to customers in the United States, approximately 29% were to customers in the Pacific Rim, and 14% were to customers in Europe. The remaining product sales were to customers in other locations.

As of December 31, 2001, we had a backlog of unshipped customer orders of approximately \$1,444,000, which is expected to be filled by June 30, 2002. 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.

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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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.

11

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 products 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 manufacturers 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 and 2001, 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.

12

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. IBM is developing magnetic film products.

Programmed semiconductor logic-type solutions are supported by semiconductor companies such as AMI Semiconductor, NEC, Flextronics, 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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 six 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 have one patent on our logic product technology but protect most of our logic product technology as trade secrets. Our logic products accounted for approximately 5% of our sales for the year ended December 31, 2001. 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. 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.

13

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 Form 10-KSB, we had 55 full-time employees.

14

ITEM 2. PROPERTIES

We lease approximately 16,000 square feet of space in Colorado Springs, Colorado. This space includes a product engineering test floor of approximately 3,000 square feet. The lease expires on February 28, 2008. We lease approximately 17,000 square feet of space in Colorado Springs which is occupied by Q-DOT, our wholly-owned subsidiary. This space includes a research and

Edgar Filing: SIMTEK CORP - Form 10KSB40

development lab facility of approximately 2,500 square feet. The lease expires on April 30, 2005. Approximately 2,400 square feet of the space is subleased and the tenants' lease with us expires on May 31, 2002.

ITEM 3. LEGAL PROCEEDINGS

We are not aware of any legal proceedings as of the date of this report.

ITEM 4. MATTERS SUBMITTED TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders in 2001.

15

PART II

ITEM 5: MARKET FOR REGISTRANT'S 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 Securities and Exchange 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
	-----	-----
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

Edgar Filing: SIMTEK CORP - Form 10KSB40

Second Quarter.....	.55	.49
Third Quarter.....	.37	.33
Fourth Quarter43	.38

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, 2001, we had 434 shareholders of record. This number does not reflect 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 dividends on our common stock in the foreseeable future.

16

ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS ----- OF OPERATIONS -----

THIS ANNUAL REPORT ON FORM 10-KSB CONTAINS STATEMENTS WHICH CONSTITUTE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. DISCUSSION CONTAINING SUCH FORWARD-LOOKING STATEMENTS MAY BE FOUND IN THE MATERIAL SET FORTH BELOW AND UNDER "BUSINESS," AS WELL AS WITHIN THE ANNUAL REPORT GENERALLY. IN ADDITION, WHEN USED IN THIS ANNUAL REPORT, THE WORDS "BELIEVES," "ANTICIPATES," "EXPECTS," "PLANS," "INTENDS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS AND STATEMENTS OF EXPECTATIONS, PLANS AND INTENT ARE SUBJECT TO A NUMBER OF RISKS AND UNCERTAINTIES. ACTUAL RESULTS IN THE FUTURE COULD DIFFER MATERIALLY FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS, AS A RESULT, AMONG OTHER THINGS, OF CHANGES IN TECHNOLOGY, CUSTOMER REQUIREMENTS AND NEEDS, AMONG OTHER FACTORS. WE UNDERTAKE NO OBLIGATION TO RELEASE PUBLICLY THE RESULTS OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT ANY FUTURE EVENTS OR CIRCUMSTANCES.

OVERVIEW OF CERTAIN 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. 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 1999. 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,

Edgar Filing: SIMTEK CORP - Form 10KSB40

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 WebGear 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

17

company has received 500,000 shares of our common stock. Both companies assisted 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 supported these activities primarily in retail investment markets, while World Trade Partners supported these activities primarily in institutional markets. E.B.M. Associates and World Trade Partners cooperated 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 was amortized over the life of the period the services were performed. Approximately \$301,000 was expensed in 2000. The balance was 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 consist of hardware and software developed for wireless data communications, that needs to be modified for use with the Bluetooth technology standard. 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. 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. One of the Q-DOT Group

Edgar Filing: SIMTEK CORP - Form 10KSB40

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 contracts 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 our wholly owned subsidiary. 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.

18

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. 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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 Microelectronics 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 Microelectronics accounted for all of our semiconductor product sales revenue for 2000 and 2001.

19

REVIEW OF 2001 OPERATIONS - SEMICONDUCTOR DEVICES. Total product sales of our semiconductor devices for 2001 was approximately \$15,500,000. We did see an increase in volume production orders in 2001, which caused an increase in unit shipments and a slightly overall lower average selling price as compared to 2000. Sales of our 4 and 16 kilobit, 64 kilobit and 256 kilobit commercial products saw an increase in 2001 by approximately 12%, 10% and 84%, respectively. These increases were due to better product availability in 2001 and larger production volume orders being placed in 2001 as compared to 2000. Sales of our 64 kilobit high-end industrial and military market saw a decrease of approximately 32%. This decrease was due to a reduction in demand for older system designs. Sales of our 256 kilobit high-end industrial and military market saw an increase in 2001 of approximately 105% as compared to 2000. This increase was due to an increasing government spending on newer, state of the art, military systems. We believe that future defense spending will increase to historic levels, but it remains unclear when this will occur. Sales of our logic products saw a decrease of approximately 35% in 2001 as compared to 2000. This decrease was due primarily to a decrease in broad-based market requirements for digital applications specific integrated circuits as world-wide consumer demand declined with the general economy.

With the return of production volume orders being placed for our 16 kilobit, 64 kilobit and 256 kilobit commercial products and an increase in competition, we saw a slight decrease in our overall average selling prices as compared to 2000. These orders reflect high volume manufacturing of systems

Edgar Filing: SIMTEK CORP - Form 10KSB40

targeted at competitive growth markets. However, with this decrease, we saw an increase in unit shipments for 2001 as compared to 2000 of approximately 20%, 11%, 96% and 20% for our 16 kilobit, 64 kilobit, 256 kilobit, and logic commercial products, respectively. Our 256 kilobit high-end industrial and military products saw an increase of approximately 64% in unit shipments.

Due to the decrease in average selling prices, an increase in freight costs and internal manufacturing costs, we had an approximate 4% decrease in our gross margins for 2001 as compared to 2000.

REVIEW OF 2001 OPERATIONS - GOVERNMENT CONTRACTS. Total revenue received from our research and development contracts for 2001 was approximately \$1,500,000. This was equal to 9% of our total revenue in 2001.

YEARS ENDED DECEMBER 31, 2001 AND 2000 - SEMICONDUCTOR DEVICES. Our net product sales of our semiconductor devices for 2001 totaled approximately \$15,500,000 compared to \$12,200,000 in 2000. The increase in net product sales for the year ended December 31, 2001 was due primarily to increased volume production orders in North America. During 2001, sales of our 64 kilobit and 256 kilobit nonvolatile semiconductor memory military products accounted for approximately 10% of our total semiconductor device sales as compared to 14% in 2000. Sales of our 64 kilobit and 256 kilobit commercial and industrial nonvolatile semiconductor memory products accounted for approximately 80% and 70% of our total semiconductor device sales in 2001 and 2000, respectively. Sales of our programmed semiconductor logic products account for approximately 5% of our total semiconductor sales in 2001 as compared to 11% in 2000. Sales of our 4 kilobit and 16 kilobit nonvolatile semiconductor memory products accounted for the balance of the sales in 2001. One distributor and two direct customers of our nonvolatile semiconductor memory products accounted for approximately 49% of our net product sales for the year ended December 31, 2001. Products sold to distributors are resold to a larger number of system manufacturers.

The 2001 loss of approximately \$926,000, from the semiconductor devices portion of our business, decreased in 2001 by approximately \$2,450,000 as

20

compared to 2000. This decrease was related to increases in revenue of approximately \$3,300,000, an increase in cost of sales of approximately \$2,730,000, a decrease in operating expenses of approximately \$2,010,000 and an increase of \$130,000 in other income and expense.

Operating expenses, from the semiconductor devices portion of our business, were approximately \$2,100,000 less for the year ended December 31, 2001 than for the year ended December 31, 2000. The largest part of this decrease was related to research and development which had an approximate \$2,940,000 decrease. Of the approximate \$2,940,000 decrease, approximately \$3,960,000 was due to the issuance of stock to WebGear for the purchase of their Bluetooth technology that occurred in 2000 and not in 2001 and an approximate \$10,000 decrease in rented and leased equipment expense. These decreases were offset by increases of approximately \$790,000 for labor and benefits costs related to an increase of the number of engineers required to develop our programmed semiconductor logic products and an increase in engineering contractors required to layout our new test chip that we are developing with Amkor Technology, Inc. Additional increases were \$190,000 for new product development and qualification costs, \$30,000 in repairs and maintenance and \$20,000 for increased depreciation. The next largest increase was approximately \$430,000 which was related to the amortization of the issuance of 1,000,000 shares of stock to two investment

Edgar Filing: SIMTEK CORP - Form 10KSB40

banker firms in September 2000 for services they performed for us. Sales and marketing saw an increase of approximately \$340,000 of which \$185,000 was due to an increase in costs related to sales and marketing personnel and the addition of a vice-president of sales and marketing. An approximate \$175,000 increase in sales commissions was paid to our salesmen and our sales representatives. Sales commissions are a direct result of product sales. These increases were offset with a decrease of approximately \$20,000 in travel and advertising expenses. General and administration saw an increase of approximately \$160,000 of which \$140,000 of this increase was related to legal fees, audit fees and consulting services related to the acquisition of Q-DOT Group. Increased costs related to payroll and benefits accounted for the balance of the increase.

Other income/expense, from the semiconductor devices portion of our business, for the year ended December 31, 2001 decreased by approximately \$130,000 as compared to December 31, 2000. This decrease was primarily due to an approximate \$90,000 decrease in interest income, a \$30,000 decrease in interest and an increase in other income of approximately \$70,000.

YEARS ENDED DECEMBER 31, 2001 AND 2000 - GOVERNMENT CONTRACTS. Revenue received from research and development contracts in 2001 totaled approximately \$1,500,000 compared to \$2,300,000 in 2000. The decrease was primarily due to reduced billings against government contracts which was a direct result of employee attrition. Revenue against government contracts is realized as labor is applied to the contract. Reduced staffing results in reduced billings.

The 2001 loss of approximately \$190,000, from the government contracts portion of our business, increased in 2001 by approximately \$30,000 as compared to 2000. This increase was related to a decrease in revenue of approximately \$810,000, a decrease in costs of contracts of approximately \$390,000, and decreases in operating spending, other income/expense and equity losses of QD Acoustics of \$160,000, \$40,000 and \$190,000, respectively.

Operating expenses, from the government contracts portion of our business, were approximately \$160,000 less for the year ended December 31, 2001 than for the year ended December 31, 2000. The largest part of this decrease was related to research and development which had an approximate \$180,000 decrease. Of the approximate \$180,000 decrease, approximately \$40,000 was due to a decrease in labor costs from employee attrition, \$60,000 was due to a decrease in wafer

21

foundry costs, \$120,000 decrease in lease payments and a \$40,000 increase in recruiting and relocation fees. General and administration saw an increase of approximately \$20,000. This increase was primarily due to a \$50,000 decrease in labor costs from employee attrition and a \$20,000 decrease in professional and consulting services. These decreases were offset by a one time charge of \$90,000 that occurred in 2000, which was related to a billing rate adjustment that we incurred.

Costs on contracts with the government (including allocable indirect costs) are subject to audit and adjustment by negotiations between the Company and Government representatives. Costs submitted for reimbursement are subject to Government audits for compliance with government costs accounting standards, federal acquisitions regulations and other contract terms. Negotiations for all of the years through March 31, 1997 have been completed without any material adjustments. Management does not believe the results of the March 31, 1998, March 31, 1999, March 31, 2000, December 31, 2000 and December 31, 2001 Government audits and subsequent negotiations will have a material effect on the

Edgar Filing: SIMTEK CORP - Form 10KSB40

accompanying financial statements.

Other income/expense, from the government contracts portion of our business, for the year ended December 31, 2001 decreased by approximately \$40,000 as compared to December 31, 2000. This decrease was primarily due to us paying off notes and leases that decrease our interest expense.

We had a net loss of \$1,120,350 for the year ended December 31, 2001 compared to a net loss of \$3,540,342 for the year ended December 31, 2000.

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.

In October 2001, we entered into an agreement with Amkor Technology to cooperate to develop a semiconductor process module that combines our nonvolatile technology with Amkor's advanced 0.25 micron digital complementary metal-oxide semiconductor, or "CMOS" fabrication line. CMOS is the semiconductor technology used in the transistors that are manufactured into most of today's computer microchips. The module will incorporate silicon oxide nitride oxide silicon technology, which will be used to manufacture both high density silicon oxide nitride oxide silicon flash and nonvolatile semiconductor memories, for stand alone and embedded products. The co-development program is scheduled to yield qualified shipments in approximately 12 months, with a 1 megabit 3.0 volt nonvolatile semiconductor memory as the primary development vehicle.

As of December 31, 2001, we had a backlog of unshipped customer orders of approximately \$1,444,000 expected to be filled by June 30, 2002. 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 for the year 2002 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 2001, we had approximately 27% more revenue for our semiconductor devices

measured in dollars than in the previous year. We cannot assure you that the growth in demand, or demand for our products will not decline in the future. 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. However, along with these increased volumes, we are beginning to see slight degradation in our average selling prices. We are currently reviewing additional cost reduction measures that we hope will result in improved earnings, provided that our customers' end markets remain robust.

In 2000 and 2001, we purchased all of our silicon wafers for our nonvolatile semiconductor memory products from a single supplier, Chartered

Edgar Filing: SIMTEK CORP - Form 10KSB40

Semiconductor Manufacturing. Approximately 94% of our semiconductor device sales for 2001 and 89% of our semiconductor product sales for 2000 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 signed agreement. In 2001, 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 Microelectronics and Chartered Semiconductor Manufacturing, respectively. Approximately 5% of our semiconductor device sales for 2001 were from finished units produced from these wafers. Currently, we do not have a current signed agreement 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 established volume production, Zentrum Mikroelektronik Dresden continues selling such nonvolatile semiconductor memory products. In the past year, we did 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, 2001, we have received approximately \$32,100,000 of gross proceeds from the sale of convertible debt and equity securities. From inception through December 31, 2001, we generated approximately

23

\$10,085,000 of gross revenue from the sale of product and technology licenses, approximately \$60,715,000 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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. We were not required to pay any cash as part of the purchase price in these transactions.

During 2000, we also issued a total of 5,150,000 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, 1,250,000 to WebGear in exchange for 1,875,000 shares of WebGear's common stock 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.

The change in cash flows for the year ended December 31, 2001, used in operating activities was primarily a result of a net loss of \$1,120,350 which is offset by \$462,083 in depreciation and amortization, \$730,433 in investor relations expense, loss of disposal of assets of \$58,699, and an increase in allowance accounts of \$23,883. The change in net loss was also offset by decreases in accounts receivable, prepaid expenses and other, an increase in accounts payable and increases in receipts from deferred revenue of \$48,084, \$62,349, \$331,424 and \$15,000, respectively. These amounts were offset by an increase in inventory, and a decrease in accrued expenses of \$798,972, and \$158,076, respectively. The increase in inventory was related to increased product availability and demand. The change in cash flows used in investing activities was due to the purchase of \$509,698 of equipment required to test our products and software required to design our programmed semiconductor logic products. The balance of the change in cash flows used in investing activities was primarily due to payments on a capital lease obligation of \$52,977 and borrowings on a capital lease obligations of \$97,520. The change in cash flows provided by financing activities of \$77,076 was due primarily to borrowings from a line of credit and the issuance of a note of \$100,163, payments on the line of credit and notes payable of \$84,050, borrowings on a capital lease of \$97,520 and payments on the capital lease of \$52,977, the exercise of stock options by our employees and directors and the buyback of our common stock.

The change in cash flows for the year ended December 31, 2000 provided by operating activities was primarily due to a net loss of \$3,540,342, depreciation of \$430,962, investor relations expense of \$300,767, contributed services of \$39,035, and the purchase of incomplete research and development of \$3,962,645. Net change of reserve accounts, accounts receivable, inventory, prepaid and other, and accrued expenses all had increases of \$186,080, \$142,037, \$85,270, \$126,456 and \$44,371, respectively. Accounts payable and customer deposits had

Edgar Filing: SIMTEK CORP - Form 10KSB40

decreases of \$39,689, and \$53,010, respectively. Cash flows used in investing activities were due primarily to the purchase of \$381,165 of equipment required to test our products and a decrease of \$100,000 in restricted cash. Cash flows used in financing activities of \$102,518 were due primarily to borrowings from a line of credit and issuance of a note of \$908,231, which was offset by payments on lines of credit and notes payable of \$1,269,135, payments on a capital lease obligation of \$40,644 and the purchase of stock options by the our employees of \$297,067.

SHORT-TERM LIQUIDITY.

Our cash balance at December 31, 2001 was \$2,075,704.

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 after 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 under certain circumstances. 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 we elect to adopt SFAS No. 142.

In June 2001, the FASB also approved for issuance SFAS 143 "Asset Retirement Obligations." SFAS 143 establishes accounting requirements for

retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the

Edgar Filing: SIMTEK CORP - Form 10KSB40

liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. We will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. We do not believe the adoption of this standard will have a material effect on our financial statements.

In October 2001, the FASB also approved SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 replaces SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. At this time, we do not believe adoption of this standard will have a material effect on our financial statements.

INFLATION

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

SIMTEK CORPORATION

INDEX TO FINANCIAL STATEMENTS

	PAGE

Independent Auditor's Report.....	28
Consolidated Balance Sheet - December 31, 2001.....	29
Consolidated Statements of Operations - For the Years Ended December 31, 2001 and 2000.....	30
Consolidated Statements of Changes in Shareholders' Equity - For the Years Ended December 31, 2001 and 2000.....	31
Consolidated Statements of Cash Flows - For the Years Ended	

Edgar Filing: SIMTEK CORP - Form 10KSB40

December 31, 2001 and 2000..... 32-33

Notes to Consolidated Financial Statements - For the Years Ended
December 31, 2001 and 2000..... 34-49

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Simtek Corporation
Colorado Springs, Colorado

We have audited the accompanying consolidated balance sheet of Simtek Corporation and subsidiary as of December 31, 2001 and the related statements of operations, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Simtek Corporation as of December 31, 2001, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Hein + Associates LLP
HEIN + ASSOCIATES LLP

Denver, Colorado
January 30, 2002

SIMTEK CORPORATION
 CONSOLIDATED BALANCE SHEET
 DECEMBER 31, 2001

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 2,075,704
Certificate of deposit, restricted	300,000
Accounts receivable - trade, net of allowance for doubtful accounts and return allowances of \$337,830	1,687,329
Inventory	1,827,082
Prepaid expenses and other	104,071

Total current assets	5,994,186
EQUIPMENT AND FURNITURE, net	902,213
OTHER ASSETS	119,714

TOTAL ASSETS	\$ 7,016,113
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	\$ 1,416,794
Accrued expenses	344,817
Accrued wages	155,243
Accrued vacation payable	138,022
Line of credit	100,163
Deferred Revenue	15,000
Obligation under capital leases	78,805

Total current liabilities	2,248,844
NOTES PAYABLE	24,813
OBLIGATIONS UNDER CAPITAL LEASES, NET OF CURRENT PORTION	166,752

Total liabilities	2,440,409
COMMITMENTS (Note 6)	
SHAREHOLDERS' EQUITY:	
Preferred stock, \$1.00 par value, 2,000,000 shares authorized; none issued	-
Common stock, \$.01 par value; 80,000,000 shares authorized; 54,026,273 shares issued and outstanding	540,262
Additional paid-in capital	37,547,590
Treasury Stock	(12,504)
Accumulated deficit	(33,499,644)

Total shareholders' equity	4,575,704

Edgar Filing: SIMTEK CORP - Form 10KSB40

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$ 7,016,113
=====

See accompanying notes to these consolidated financial statements.

29

SIMTEK CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,	
	2001	2000
NET SALES	\$ 16,950,487	\$ 14,467,8
Cost of sales	11,273,116	8,941,3
GROSS MARGIN	5,677,371	5,526,4
OPERATING EXPENSES:		
Research and development costs	3,155,360	6,277,6
Sales and marketing	1,672,301	1,327,3
General and administrative	1,239,568	1,057,4
Investor relations	730,433	300,7
Total operating expenses	6,797,662	8,963,2
LOSS FROM OPERATIONS	(1,120,291)	(3,436,8
OTHER INCOME (EXPENSE):		
Interest income	79,497	165,7
Interest expense	(22,565)	(77,2
Other income (expense)	(52,360)	2,6
Total other income (expense)	4,572	91,1
EQUITY IN LOSSES OF QDA AND WRITE-OFF OF RELATED ADVANCES	(4,631)	(194,6
LOSS BEFORE PROVISION FOR INCOME TAXES	\$ (1,120,350)	\$ (3,540,3

Edgar Filing: SIMTEK CORP - Form 10KSB40

Provision for income taxes	-	-----
NET LOSS	\$ (1,120,350)	\$ (3,540,3 -----
NET LOSS PER COMMON SHARE:		
Basic and diluted EPS	\$ (.02)	\$ (. -----
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING:		
Basic and diluted EPS	53,713,415	48,337,1 -----

See accompanying notes to these consolidated financial statements.

30

SIMTEK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	Common Stock		Additional	Treasury	Prepa
	Shares	Amount	Paid-in Capital	Stock	Inves Relat
	-----	-----	-----	-----	-----
BALANCES, January 1, 2000	38,376,957	\$383,769	\$30,621,850	\$ -	\$
Exercise of stock options	1,863,016	18,630	278,437	-	
Webgear purchase	4,150,000	41,500	4,046,146	-	
Conversion of debt	8,244,272	82,443	1,488,959	-	
Expense recorded for stock issuance	1,000,000	10,000	1,021,200	-	(1,03
Expense recorded for stock issuance	-	-	-	-	30
Contributions	-	-	16,103	-	
Sale of common stock	-	-	1,963	-	
Stock issued for directors fees	-	-	6,734	-	
Stock issued for compensation	-	-	16,198	-	
Adjustment for net income during the three month period ended March 31, 2000 (Note 2)	-	-	-	-	
Net loss	-	-	-	-	
BALANCES, December 31, 2000	53,634,245	536,342	37,497,590	-	(73
Exercise of stock options	392,028	3,920	50,000	-	
Purchase 10,000 shares of common stock	-	-	-	(12,504)	
Expense recorded for stock issuance	-	-	-	-	73
Net loss	-	-	-	-	

Edgar Filing: SIMTEK CORP - Form 10KSB40

BALANCES, December 31, 2001	54,026,273	\$540,262	\$37,547,590	\$ (12,504)	\$
	=====	=====	=====	=====	=====

See accompanying notes to these consolidated financial statements.

31

SIMTEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR

	2001

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (1,120,3
Adjustments to reconcile net loss to net cash from operating activities	
Depreciation and amortization	462,0
Common stock issued for investor relations expense	730,4
Contributed services	
Webgear purchase of incomplete research and development	
Loss on disposal of assets	58,6
Net change in allowance accounts	23,8
Deferred financing fees	
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	48,0
Inventory	(798,9
Prepaid expenses and other	62,3
Increase (Decrease) in:	
Accounts payable	331,4
Accrued expenses	(158,0
Customer deposits	
Deferred revenue	15,0
Net cash provided by (used in) operating activities	(345,4
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase/Sales of equipment and furniture, net	(509,6
Decrease (increase) in certificate of deposit, restricted	
Advances to equity investment	
Net cash used in investing activities	(509,6
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings from line-of-credit and the issuance of a note	100,1
Payments on lines of credit	(84,0
Payments on notes payable	(24,9
Payments on capital lease obligation	(52,9

Edgar Filing: SIMTEK CORP - Form 10KSB40

Borrowings on capital lease obligation	97,5
Exercise of stock options	53,9
Purchase of stock from market	(12,5
Sale of common stock	

Net cash provided by (used in) financing activities	77,0

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(778,0
CASH AND CASH EQUIVALENTS, beginning of year	2,853,7

CASH AND CASH EQUIVALENTS, end of year	\$ 2,075,7
	=====

See accompanying notes to these consolidated financial statements.

32

SIMTEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Cont.)

SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for interest	\$ 19,5
	=====
Cash paid (refund of) for income taxes	\$
	=====
NONCASH INVESTING AND FINANCING TRANSACTIONS:	
Conversion of debenture into shares of common stock, net of deferred Financing costs related to debenture	\$
	=====
Conversion of payable to ZMD into shares of common stock	\$
	=====
Purchase of equipment through payables and capital leases	\$ 97,5
	=====
Issuance of stock for prepaid services	\$
	=====
Issuance of stock for patents and trademarks	\$
	=====

See accompanying notes to these consolidated financial statements.

33

Edgar Filing: SIMTEK CORP - Form 10KSB40

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF BUSINESS OPERATIONS - Simtek Corporation (the "Company") designs, develops, markets and subcontracts the production of high performance nonvolatile semiconductor memories and programmed semiconductor logic products. The Company's operations have concentrated on the design and development of the 256 kilobit, 64 kilobit, and 16 kilobit nonvolatile semiconductor memory product families and associated products and technologies as well as the development of sources of supply and distribution channels. The Company also provides electronics engineering research and development contracts.

POOLING OF INTERESTS - On March 13, 2001, Simtek acquired 100% of the common stock of Q-DOT Group ("Q-DOT"). Q-DOT specializes in advanced technology, research, and development for data acquisition, signal processing, imaging and data communications. Shareholders of Q-DOT exchanged their shares in Q-DOT for shares in Simtek in a business combination that has been accounted for as a pooling of interests. The consolidated financial statements and the accompanying notes reflect Simtek's financial position and the results of operations as if Q-DOT was a wholly-owned subsidiary of Simtek since inception. Prior to the acquisition, Q-DOT had a fiscal year end of March 31. The adjustment for the change in the year-end is reflected in the prior period statement of stockholders' equity (see Note 2).

CONSOLIDATION POLICY - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Q-DOT. The Company holds 1% interest in Q-DOT Acoustics, LLC (QDA) but has effective control over it due to an operating agreement which gives the Company control of all operational decisions. In addition, all losses of QDA are allocated to the company and net profits are allocated first to the Company to the extent of any previous allocations of losses. Any additional profits of QDA are allocated prorata based on percentage of ownership. The other major shareholders of QDA are minor shareholders of the Company. QDA is accounted for by the equity method of accounting.

REVENUE RECOGNITION SEMICONDUCTOR PRODUCTS - Product sales revenue is recognized when a valid purchase order has been received and the products are shipped to customers, including distributors. Customers receive a one-year product warranty and sales to distributors are subject to a limited product exchange program and product pricing protection in the event of changes in the Company's product price. The Company provides a reserve for possible product returns, price changes and warranty costs at the time the sale is recognized.

REVENUE RECOGNITION GOVERNMENT CONTRACTS - Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned. Revenues from fixed-price contracts are recognized on the percentage-of-completion method. The percentage-of-completion is measured by the total costs incurred to date to estimated total costs for each contract. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Because of inherent uncertainties in estimating costs, it is reasonably possible that the estimates used will change within the near term.

Edgar Filing: SIMTEK CORP - Form 10KSB40

CONTRACT REVENUES AND RELATED COSTS - Substantially all of Q-DOT revenues result from contract services performed for the various agencies of United

34

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

States Government (the "Government") under a variety of contracts and subcontracts, some of which provide for reimbursement of costs-plus-fees, and others which are fixed-price. The majority of the contracts are for services performed in Colorado. For some services rendered on Government contracts which the time between providing the services and the final cash realization from the sale of such services may extend two or more years.

Costs on contracts with the government (including allocable indirect costs) are subject to audit and adjustment by negotiations between the Company and Government representatives. Costs submitted for reimbursement are subject to Government audits for compliance with government costs accounting standards, federal acquisitions regulations and other contract terms. Negotiations for all of the years through March 31, 1997 have been completed without any material adjustments. Management does not believe the results of the March 31, 1998, March 31, 1999, March 31, 2000, December 31, 2000 and December 31, 2001 Government audits and subsequent negotiations will have a material effect on the accompanying financial statements.

Direct costs of contracts include all direct labor, supplies, and equipment costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

At the time a loss on a contract becomes known, the entire amount of the estimated loss on both short and long-term contracts is accrued.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2001, substantially all of the Company's cash and cash equivalents were held by a single bank, of which approximately \$2,275,231 was in excess of Federally insured amounts.

INVENTORY - The Company records inventory using the lower of cost (first-in, first-out) or market. Inventory at December 31, 2001 includes:

Raw materials	\$ 107,370
Work in process	935,784
Finished goods	983,112

	2,026,266
Less reserves	(199,184)

	\$1,827,082
	=====

DEPRECIATION - Equipment and furniture are recorded at cost. Depreciation

Edgar Filing: SIMTEK CORP - Form 10KSB40

is provided over the assets' estimated useful lives of three to seven years using the straight-line and accelerated methods. The cost and accumulated depreciation of furniture and equipment sold or otherwise disposed of are removed from the accounts and the resulting gain or loss is included in operations. Maintenance and repairs are charged to operations as incurred and betterments are capitalized.

RESEARCH AND DEVELOPMENT COSTS - Research and development costs are charged to operations in the period incurred.

35

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ADVERTISING - The Company incurs advertising expense in connection with the marketing of its product. Advertising costs are expensed as advertising takes place. Advertising expense was \$70,705 and \$87,672 in 2001 and 2000, respectively.

LOSS PER SHARE - The loss per share is presented in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. Basic EPS is calculated by dividing the income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. As the Company incurred losses in 2000 and 2001, all common stock equivalents would be considered anti-dilutive. For purposes of calculating diluted EPS, 5,286,872 and 3,137,722 options for 2001 and 2000, respectively, were excluded from diluted EPS as they had an anti-dilutive effect.

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates. The Company's financial statements are based upon a number of significant estimates, including the allowance for doubtful accounts, technological obsolescence of inventories, the estimated useful lives selected for property and equipment, sales returns, warranty reserve, percentage of completion on projects in process at year-end, potential adjustments for government contracts and the valuation allowance on the deferred tax assets.

FINANCIAL INSTRUMENTS - The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of the accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short-term maturities of these instruments.

CONCENTRATION OF CREDIT RISK - Financial instruments that potentially subject the Company to significant considerations of credit risk consist primarily of accounts receivable. The Company has no significant off-balance sheet concentrations of credit risk. Accounts receivable are typically unsecured and are derived from transactions with and from

Edgar Filing: SIMTEK CORP - Form 10KSB40

customers located in the United States.

IMPAIRMENT OF LONG-LIVED ASSETS - In the event that facts and circumstances indicate that the cost of assets or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required.

STOCK-BASED COMPENSATION - As permitted under the SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for its stock-based compensation in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As such, compensation expense is recorded on the date of grant if the current market price of the underlying stock exceeds the exercise price. Certain pro forma net income and EPS disclosures for employee stock option grants

36

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

are also included in the notes to the financial statements as if the fair value method as defined in SFAS No. 123 had been applied. Transactions in equity instruments with non-employees for goods or services are accounted for by the fair value method. In fiscal 2000, the Company adopted the Financial Accounting Standards Board Interpretation No. 44 which requires that outside directors be considered employees for purposes of stock option accounting, if the Company is accounting for its employee stock-based compensation in accordance with APB 25. It also affects modifications to fixed stock options or awards that effects the life, exercise price, or the number of shares to be issued. The adoption of this interpretation did not have a material effect on the Company's consolidated financial statements.

INCOME TAXES - The Company accounts for income taxes under the liability method of SFAS No. 109, whereby current and deferred tax assets and liabilities are determined based on tax rates and laws enacted as of the balance sheet date. Deferred tax expense represents the change in the deferred tax asset/liability balance. Valuation allowances are recorded for deferred tax assets that are not expected to be realized.

BUSINESS SEGMENTS - The Company has adopted Statement of Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information ("SFAS 131"), which established standards for the way companies report information about their operating segments. Prior period amounts have been restated to conform to the requirements of this new statement.

RECLASSIFICATIONS - Certain reclassifications have been made to conform the December 31, 2000 financial statements to December 31, 2001 financial reporting. Such reclassifications had no effect on net loss for fiscal 2000.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - 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

Edgar Filing: SIMTEK CORP - Form 10KSB40

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 after 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 under certain circumstances. 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 we elect to adopt SFAS No. 142.

In June 2001, the FASB also approved for issuance SFAS 143 "Asset Retirement Obligations." SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that an asset retirement cost

37

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. We will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. We do not believe the adoption of this standard will have a material effect on our financial statements.

In October 2001, the FASB also approved SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 rep