SIMTEK CORP
Form 10-Q
August 02, 2007

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

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter ended June 30, 2007

OR

[ ] 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)

Delaware	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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-accelerated Filer [X]

The total number of shares of Common Stock issued and outstanding as of July 31, 2007, was 16,502,406.

SIMTEK CORPORATION

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For the Quarter Ended June 30, 2007

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SIMTEK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value and share amounts)

ASSETS

	June 30, 2007	D
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,147	
Restricted investments	1,775	
Accounts receivable - trade, net	4,910	
Inventory, net	7,537	
Prepaid expenses and other current assets	668	
Total current assets	18,037	
EQUIPMENT AND FURNITURE, net	1,445	
DEFERRED FINANCING COSTS AND DEBT ISSUANCE COSTS	31	
GOODWILL	992	
NON-COMPETITION AGREEMENT, NET	6,235	
OTHER ASSETS	113	
TOTAL ASSETS	$ 26,853	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,544	
Accrued expenses	1,748	
Accrued vacation payable	312	
Accrued wages	133	
Line of credit	798	
Debentures, current	480	
Total current liabilities	6,015	
DEBENTURES, NET OF CURRENT	1,620	
Total liabilities	7,635	
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.0001 par value; 200,000 shares authorized, none issued	--	
Common stock, $.0001 par value; 30,000,000 shares authorized, 16,500,656 and 16,499,656 shares issued and outstanding at June 30, 2007 and 16,146,679 and 16,145,679 shares issued and outstanding at December 31, 2006	2	
Additional paid-in capital	68,543	
Treasury stock, at cost; 1,000 shares	(1)	
Accumulated deficit	(49,505)	
Accumulated other comprehensive income:		
Cumulative translation adjustment	179	
Total shareholders' equity	19,218	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 26,853	

See accompanying notes to these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except share and per share amounts)

	Three Months Ended June 30,	
	2007	2006
REVENUE:		
Product sales, net	$ 8,082	$ 6,443
Royalty revenue	--	483
Total revenue	8,082	6,926
Cost of sales	3,859	4,567
GROSS PROFIT	4,223	2,359
OPERATING EXPENSES:		
Research and development costs	2,560	1,682
Sales and marketing	1,248	1,038
General and administrative	1,190	1,059
Total operating expenses	4,998	3,779
LOSS FROM OPERATIONS	(775)	(1,420)
OTHER INCOME (EXPENSE):		
Interest income	47	36
Interest expense	(89)	(74)
Foreign currency transaction gain	12	--
Other expense	2	5
Total other expense	(28)	(33)
LOSS BEFORE PROVISION FOR INCOME TAXES	(803)	(1,453)
Provision for income taxes	(13)	--
NET LOSS	$ (816)	$ (1,453)
NET LOSS PER COMMON SHARE:		
Basic and diluted	$ (.05)	$ (.10)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	16,386,770	14,716,609

See accompanying notes to these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in thousands)

	Six Months 2007
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(1,306)
Adjustments to reconcile net loss to net cash used in operating Activities:	
Depreciation	311
Amortization	33
Expense related to stock options	544
Issuance of common stock per compensation agreements	--
Amortization of non-competition agreement	890
Net change in allowance accounts	78
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	771
Inventory	(1,119)
Prepaid expenses and other	(375)
Increase (decrease) in:	
Accounts payable	(1,235)
Accrued expenses	288
Net cash used in operating activities	(1,120)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment and furniture, net	(513)
Patents	(14)
Purchase of certain assets from ZMD	--
Net cash used in investing activities	(527)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on capital lease obligation	--
Funds receiving from December 2005 equity financing, net	--
Warrants issued for license rights	--
Payments from restricted investment	--
Proceeds from warrant exercises	222
Exercise of stock options	3
Net cash provided by financing activities	225
Effect of exchange rate changes on cash	47
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,375)
CASH AND CASH EQUIVALENTS, beginning of period	4,522
CASH AND CASH EQUIVALENTS, end of period	$ 3,147
Cash paid for interest	$ 165

Warrants issued for debt issuance cost	$ --
Conversion of debentures	$ 600

See accompanying notes to these consolidated financial statements.

SIMTEK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated financial statements include the accounts of Simtek Corporation ("Simtek" or the "Company") and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated. The financial statements included herein are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally made in the registrant's annual Form 10-K filing. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report and Form 10-K, Annual Report and Form 10-K/A for Simtek filed on April 2, 2007 and April 30, 2007, respectively, for fiscal year 2006.

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

Stock-Based Compensation

Equity Incentive Plan.

At the annual meeting on June 14, 2007, the Company's shareholders approved a new Equity Incentive Plan that authorizes 2,800,000 shares that may be granted under either incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code") or nonqualified stock options. The Equity Incentive Plan became effective on June 15, 2007. With the approval of the Equity Incentive Plan, the Company does not intend to grant further options under the Non-Qualified Stock Option Plan described below; however, options outstanding under that plan remain outstanding until they are exercised or expire by their terms. The Equity Incentive Plan provides that the maximum number of shares with respect to which an individual can receive a grant of options in a calendar year is 500,000 shares. Options may be granted to key employees, consultants, and non-employee directors. The Equity Incentive Plan provides that an individual can receive grants of both incentive options and nonqualified options. However, only employees may be granted incentive options. The minimum exercise price for options is 100% of the fair market value of the Company's stock on the date of grant and a maximum term of 10 years. Generally, upon termination of employment or service, options expire three months after

termination. Incentive options granted to an employee who holds more than 10% of the Company's stock must have an exercise price of at least 110% of the fair market value of the Company's stock on the date of grant and a maximum term of no more than 5 years. No options were granted under the Equity Incentive Plan from June 15, 2007 through June 30, 2007.

Employee Stock Purchase Plan.

On July 1, 2007, the Simtek Corporation Employee Stock Purchase Plan ("ESPP"), which was approved by the shareholders at the annual meeting on June 14, 2007, became effective. Under the ESPP, a broad-based group of employees can have payroll deductions of up to 10% of their pay used to purchase shares of the Company's stock on a quarterly basis. However, employees whose customary employment is for less than 20 hours per week or for less than 5 months per calendar year and employees who own more than 5% of the Company's stock are not eligible to participate. There are 500,000 shares authorized for issuance under the ESPP. The purchase price for the stock is the lesser of (1) 85% of the fair

market value of the Company's stock on the first day of the calendar quarter or (2) 85% of the fair market value of the Company's stock on the last day of the calendar quarter. Employees can enroll in the ESPP as of the first day of a calendar quarter. On the first trading day after the end of the calendar quarter, shares are purchased with the payroll deductions accumulated during the calendar quarter. Upon termination of employment, the employee's participation in the ESPP will cease and amounts accumulated since the beginning of the calendar quarter and not used to purchase common stock will be refunded to the employee without interest. No shares were purchased under the ESPP during the quarter ended June 30, 2007. As of July 1, 2007, 13 employees had enrolled in the ESPP. The first purchase of shares is expected to occur on the first trading day after the close of the third quarter of 2007.

Non-Qualified Stock Option Plan.

The Company has a Non-Qualified Stock Option Plan that authorizes 2,060,000 non-qualified stock options that may be granted to directors, employees, and consultants. The plan permits the issuance of non-statutory options and provide for a minimum exercise price equal to 100% of the fair market value of the Company's common stock on the date of grant. The maximum term of options granted under the plan is 10 years and options granted to employees expire 90 days after the termination of employment. In 2004, the Non-Qualified Stock Option Plan was extended for 10 more years. All options granted prior to March 24, 2006, began vesting after six months after the date of grant, and would become fully vested after three years and expire seven years from date of grant. On March 24, 2006, the Board of Directors changed the vesting schedule of stock options granted after March 24, 2006 to be as follows:

- If an officer or employee has been employed for 12 months or more, stock options will vest over 48 months at 1/48th per month, and vesting will begin immediately at 1/48th per month for the four year

period.

- If an officer or employee has been employed for less than 12 months, no vesting will occur until the officer or employee has been employed for 12 months at which time the officer or employee will be caught up at 1/48th per month for each month since the option grant and then the options will continue to vest at 1/48th per month for the remaining portion of the four year period.

- If an officer or employee is a new hire, no vesting will occur until the officer or employee has been employed for 12 months at which time the officer or employee will receive 12/48th of the vesting and then the options will continue to vest at 1/48th per month for the remaining portion of the four year period.

- All options granted to outside directors of the Company will be 100% vested after six months from the grant date.

- All options will expire seven years from date of grant.

Total share-based compensation recognized in the Company's consolidated statements of operations for the three and six months ended June 30, 2007 and 2006 are as follows:

Income Statement Classifications

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
(In thousands)				
Research and development	$ 65	$ 47	$ 130	$ 86
Sales and marketing	25	23	51	39
General and administration	174	89	363	153
	$ 264	$ 159	$ 544	$ 278

As of June 30, 2007, there was approximately $1.9 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested options granted to the Company's employees and directors, which will be recognized through March 31, 2011. Total unrecognized compensation will be adjusted for future changes in estimated forfeitures.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option pricing model, which requires management to make certain assumptions. Expected volatility was based on the historical volatility of the Company's stock over the past 5 years. The Company based the risk-free interest rate that was used in the option valuation mode on U.S. Treasury notes.

The Company does not anticipate paying cash dividends in the foreseeable future and therefore uses an expected dividend yield of 0%.

During the quarter ended June 30, 2007, there were no stock options granted. The fair value of each option granted in the quarterly period ended June 30, 2006 and the six months ended June 30, 2007 and 2006 was estimated on the date of grant using the Black-Scholes option-pricing model with the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Expected volatility	-	79.05%	79.15%	80.97%
Risk-free interest rate	-	4.92%	4.79%	4.81%
Expected dividends	-	-	-	-
Expected terms (in years)	-	5 years	5 years	4.67 years

The weighted average fair value per share of options granted during the three months ended June 30, 2006 was $3.40. The weighted average per share fair value of stock options granted during the six months ended June 30, 2007 and 2006 were $3.90 and $3.20, respectively.

The following table summarizes stock options outstanding and changes during the quarterly period ended June 30, 2007.

	Outstanding Op	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2007	1,302,593	$5.24
Granted	90,000	5.83
Exercised	(2,000)	(1.70)
Cancelled or forfeited	(15,745)	(9.59)
Options outstanding at June 30, 2007	1,374,848	$5.25
Options exercisable at June 30, 2007	773,236	$5.83

1) Represents the difference between the exercise price and the value of Simtek stock at the time of exercise.

2) Represents the difference between the market value as of June 30, 2007 and the exercise price of the shares. The market value as of June 30, 2007 was $5.23 as reported by The NASDAQ Capital Market.

There were no stock option exercises for the quarter ended June 30, 2007.

Stock options outstanding and currently exercisable at June 30, 2007 are as follows:

Outstanding				Exercisab	
	Weighted Average				
Exercise Price	Number Outstanding	Remaining Contractual Life in Months	Weighted Average Exercise Price	Number Exercisable	W
$1.60-$3.50	359,430	53	$ 2.95	168,136	
$3.60-$6.00	703,273	58	$ 4.88	326,446	
$6.20-$9.00	218,911	44	$ 6.58	185,420	
$11.60-$15.30	78,234	37	$ 12.54	78,234	
$19.00	15,000	44	$ 19.00	15,000	

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1,374,848	773,236
=========	=======

Non-competition Agreement

In December 2005, the Company entered into a non-competition agreement with Zentrum Mikroelektronik Dresden AG ("ZMD") as part of the acquisition of ZMD's nvSRAM product line. The Company assigned a value of $8,910,000 to the non-competition agreement in December 2005. The value assigned to the

non-competition agreement is being amortized on a straight-line basis over its five-year life. The Company recorded an expense, for the amortization, of approximately $445,000 and $890,000 to sales and marketing for the three and six months ended June 30, 2007, respectively.

Goodwill

Goodwill represents the excess of the total amount paid to ZMD for the nvSRAM assets acquired on December 30, 2005 and the fair value assigned to specific assets. This amount will not be amortized, but will be reviewed for impairment on a periodic basis. As of June 30, 2007 no impairment of value has been recorded.

Accumulated other comprehensive income (loss)

The functional currency for Simtek GmbH is the local currency, the Euro. Assets and liabilities for this foreign operation are translated at the exchange rate in effect at the balance sheet date, and income and expenses are translated at average exchange rates prevailing during the period. Translation gains or losses are included within shareholders' equity as part of accumulated other comprehensive income (loss). As of June 30, 2007, the Company recorded approximately $179,000 in comprehensive income.

Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized no adjustments to liabilities or shareholders' equity.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of

the position that would be ultimately sustained. Under FIN 48, the benefit of an uncertain tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company files consolidated income tax returns in the U.S. federal jurisdiction and several state jurisdictions. The Company is not aware of any jurisdictions where they would be subject to U.S. federal or state income tax examinations by tax authorities for years before 2003.

Our policy is that we recognize interest and penalties accrued on any uncertain tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any uncertain tax benefits, nor was any interest expense recognized during the quarter.

2. Liquidity

During the three and six months ended June 30, 2007 and the twelve months ended December 31, 2006, the Company incurred a net loss of approximately $816,000, $1,306,000 and $2,007,000, respectively. The Company has an accumulated deficit of $49,505,000 as of June 30, 2007.

The Company operates in a volatile industry, whereby its average selling prices and product costs are influenced by competitive factors. Furthermore, the Company continues to incur significant research and development costs for product development. These factors create pressures on sales, costs, earnings and cash flows, which will impact liquidity.

If the Company is unable to generate positive cashflow from operations, it may result in increased liquidity pressure on the Company, whereby it might be required to enter into debt or equity arrangements that may not be as otherwise favorable to the Company.

3. Revenue Recognition

Revenue Recognition - Product sales revenue is recognized when a valid purchase order has been received with a fixed price and the products are shipped to customers FOB origin (Colorado Springs, Colorado or Dresden, Germany), including distributors. Based on historic business with the majority of the Company's customers and, in the case of new customers, based on credit checks, the Company is reasonably assured that collectibility on our shipments will occur. Customers receive a one-year product warranty and sales to distributors are subject to a limited product exchange program and a price protection in the event of changes in the Company's product prices. The Company provides a reserve for possible product returns, product price protection and warranty costs at the time the sale is recognized. The Company has a detailed procedure to ensure that its estimates for reserves are reasonable and reliable. The reserve for product returns is based on the actual inventory value of the Company's semiconductor products held by its distributors. The Company's distributors are permitted to rotate up to 5% of their stock every six months with the stipulation that they must submit a replacement order of equal dollar value to the stock that they are returning. The reserve for price protection is used when the Company authorizes special pricing to one of its distributors for a specific customer. To date, the estimates have not been materially different from the credits the Company has issued under these reserves.

Revenue from royalties related to non-refundable prepaid royalty payments is recognized upon receipt. Revenue from royalties related to sales of products by license partners is recognized upon the notification to us of shipment of product from the Company's technology license partners to direct customers.

4. Inventories

The Company records inventory using the lower of cost (first-in, first-out) or market. Inventory at June 30, 2007 and December 31, 2006 included:

	June 30, 2007	December 31, 2006
(In thousands)		
Raw Materials	$ 62	$ 21
Work in progress	5,323	4,603
Finished Goods	3,108	2,737
	8,493	7,361
Less reserves for excess inventory	(956)	(765)
	$ 7,537	$ 6,596

5. Line of Credit

On June 2, 2006, the Company secured a $3.6 million revolving line of

credit by entering into an Account Purchase Agreement (the "Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). Pursuant to the Agreement, the Company may sell, subject to recourse in the event of nonpayment, up to $3.6 million of eligible accounts receivable to Wells Fargo. Advances of the purchase price for the eligible receivables will be at an agreed upon discount to the face value of the eligible receivable. The amount actually collected on any receivable by Wells Fargo that is beyond the advance will be forwarded to the Company, less certain discounts and fees retained by Wells Fargo (including a minimum fee of $7,500 per month for the term of the Agreement). To secure the Company's obligations under the Agreement, the Company granted Wells Fargo a security interest in certain of the Company's property. The Agreement has a term of two years, but may be terminated at any time by the Company upon 60 days' written notice. As of June 30, 2007, the Company had financed receivables with Wells Fargo for approximately $798,000.

6. Convertible Debentures

On July 1, 2002, the Company received funding of $3,000,000 in a financing transaction with Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth Investment Trust PLC and US Special Opportunities Trust PLC. RENN Capital Group, Inc. is the agent for the RENN investment funds. One of the Company's directors holds the position of Senior Vice President of RENN Capital Group. The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate. Each fund equally invested $1,000,000. The holder of the debenture shall have the right, at any time, to convert all, or in multiples of $100,000, any part of the Debenture into fully paid and nonassessable shares of Simtek Corporation common stock. The debentures were originally convertible into Simtek common stock at $3.12 per share, which was in excess of the market price per share on July 1, 2002. The Convertible Debentures allows for an adjustment in the conversion price, if the Company issues Common Stock in connection with an equity financing, where the sale price is less than the conversion price of $3.12. This occurred in December 2005 in connection with the common stock sale of $11,000,000 at a price of $1.60 per share. Pursuant to the terms of the 2002 convertible debentures, the Company agreed with the RENN Capital Group that the conversion price would be reduced to $2.20 per share. Based on the conversion rate of $2.20 per share, each RENN investment fund is entitled to 318,182 shares upon conversion (assuming conversion of $700,000).

On June 28, 2005, the Company received a waiver from the debenture holders extending until July 1, 2006 the commencement date for principal payments of the $3 million aggregate principal amount, see Note 6 Shareholders' Equity in the Company's 10-K filed on April 2, 2007 for additional information. On May 9, 2007 and July 24, 2006, each of the debenture holders converted $200,000 and $100,000, respectively, of the principal amount into 90,909 and 45,455 shares of the Company's common stock, respectively, in lieu of the Company making the principal payments it was required to make for the period commencing July 1, 2006 through June 30, 2008.

At June 30, 2007, the Company was not in compliance with one of the covenants set forth in the loan agreement. This covenant relates to the interest coverage ratio. On May 4, 2007, the Company received a waiver from complying with this covenant through July, 2008. However, significant variances in future actual operations from the Company's current estimates could result in the reclassification of this note to current liabilities.

SIMTEK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Non-Refundable Prepaid Royalties

On March 24, 2006, the Company entered into a License and Development Agreement with Cypress Semiconductor Corporation ("Cypress") pursuant to which, among other things, Cypress agreed to license certain intellectual property from the Company to develop and manufacture standard, custom and embedded nvSRAM products and Cypress agreed to pay to the Company $4,000,000 in non-refundable pre-paid royalties of which $2 million was paid upon signing of the agreement, $1 million was paid on June 30, 2006 and $1 million was paid on December 18, 2006. In addition, the Company licensed rights to use certain intellectual property from Cypress for use in its products. As part of the License and Development Agreement, the Company agreed to issue Cypress warrants to purchase 2 million shares of the Company's common stock for $7.50 per share. The warrants have a ten year life. The warrants were issued upon receipt of each of the prepaid royalty amounts. The value of the warrants issued of $1,930,000 was determined using the Black Scholes option-pricing model and has been recorded as an increase in additional paid-in capital. The net balance of the non-refundable prepaid royalties of $2,070,000 were recognized as revenue at the time the payments were received.

8. Geographic Concentration

Sales of the Company's semiconductor products by location for the three months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
United States	18%	18%	18%	19%
Europe	21%	29%	29%	29%
Far East	45%	42%	40%	43%
All Others	16%	11%	13%	9%
Total	100%	100%	100%	100%

9. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) net of tax is as follows:

	Foreign Currency Translation Adjustment
Balance at January 1, 2007	$ 132
Current period change	47
Balance June 30, 2007	$ 179

SIMTEK CORPORATION

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

The following discussion and analysis in this quarterly report on Form 10-Q is intended to provide greater details of the results of operations and financial condition of our Company. The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto and other financial data included elsewhere herein. Certain statements under this caption constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The reader should not place undue reliance on these forward looking statements for many reasons including those risks discussed in this document. In addition, when used in this quarterly 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. 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosures. Our accounting policies are discussed in Note 1 of the Notes to Consolidated Financial Statements included in our 2006 Form 10-K filed with the Securities and Exchange Commission on April 2, 2007. The estimates used by us are based upon our historical experiences combined with our understanding of current facts and circumstances. Certain of our accounting polices are considered critical as they are both important to the portrayal of our financial condition and the results of our operations and require significant or complex judgments on our part. We believe that the following represent the critical accounting policies of Simtek as described in Financial Reporting Release No. 60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, which was issued by the Securities and Exchange Commission: inventories; deferred income taxes; allowance for doubtful accounts; and, allowance for sales returns.

The valuation of inventories involves complex judgments on our part. Excess finished goods inventories are a natural component of market demand for semiconductor devices. We continually evaluate and balance the levels of inventories based on sales projections, current orders scheduled for future delivery and historical product demand. While certain finished goods items will

sell out, quantities of other finished goods items will remain. These finished goods are reserved as excess inventory. We believe we have adequate controls with respect to the amount of finished goods inventories that are anticipated to become excess. While we believe this process produces a fair valuation of inventories, changes in general economic conditions of the semiconductor industry could materially affect valuation of our inventories.

The allowance for doubtful accounts reflects a reserve that reduces customer accounts receivable to the net amount estimated to be collectible. Estimating the credit worthiness of customers and the recoverability of customer accounts requires management to exercise considerable judgment. In estimating uncollectible amounts, we consider factors such as industry specific economic conditions, historical customer performance and anticipated customer performance. While we believe our processes to be adequate to effectively quantify our exposure to doubtful accounts, changes in industry or specific customer conditions may require us to adjust our allowance for doubtful accounts.

We record an allowance for sales returns as a net adjustment to revenue and customer accounts receivable. The allowance for sales returns consists of two separate segments, distributor stock rotation and distributor price reductions. When we record the allowance, the net method reduces customer accounts receivables and gross sales. Generally, we calculate the stock rotation portion of the allowance based upon actual reported distributor inventory levels. The agreements we have with certain of our distributors generally allow them to return to us a 5% percent of their inventory every 6 months, in exchange for inventory that better meets their demands. At times, with our approval, our distributors reduce the selling price of a specific device in order to meet competition related to a specific end customer program, which we support through a credit back to the distributor for that specific program. When this occurs, we record an allowance for potential credit that our distributors will be requesting. This allowance is based on approved pricing changes, inventory affected and historical data. We believe that our processes are adequate to reasonably predict and estimate the allowance for sales returns.

We record an allowance that directly relates to the warranty of our products for one year. The allowance for warranty return reduces our gross sales. This allowance is calculated by looking at annual revenue and historical rates of our products returned due to warranty issues. While we believe this process adequately predicts our allowance for warranty returns, changes in the manufacturing or design of our product could materially affect valuation of our warranties.

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of the business in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the

carrying amount of the assets to our estimate of the related future net cash flows. If the asset's carrying amount is not recoverable through the related future cash flows, the asset is considered to be impaired. The impairment is measured by the difference between the asset's carrying amount and its fair value, based on the best information available, including market prices or discounted cash flows.

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in the acquisition of the nvSRAM assets from ZMD. Goodwill is required to be tested for impairment. We performed goodwill impairment testing as of March 31, 2007, and determined that no impairment existed at that date. This assessment requires estimates of future revenue, operating results and cash flows, as well as estimates of critical valuation inputs such as discount rates, terminal values and similar data. We will continue to perform periodic and annual impairment analyses of goodwill. As a result of such impairment analyses, impairment charges may be recorded and may have a material adverse impact on our financial position and operating results. Additionally, we may make strategic business decisions in future periods which impact the fair value of goodwill, which could result in significant impairment charges. There can be no assurance that future goodwill impairments will not occur.

We have recorded a valuation allowance for the full amount deferred tax assets, which principally relate to future utilization of net operating losses. Future operations may change our estimate in connection with potential utilization of these assets.

Results of Operations:

Revenue

Total revenue for the three months ended June 30, 2007 was $8,082,000 compared to $6,926,000 for the same period in 2006. Total revenue for the six months ended June 30, 2007 was $15,949,000 compared to $12,704,000 for the same

period in 2006. The 2006 amount includes $483,000 and $1,518,000 of royalty revenue for the three and six months ended June 30, 2006, respectively. We earned no royalty revenue in the three and six months ended June 30, 2007. Product sales for the three month period ended June 30, 2007 were $8,082,000 compared to $6,443,000 for the same period in 2006, an increase of 25%. Product sales for the six month period ended June 30, 2007 were $15,949,000 compared to $11,186,000 for the same period in 2006, an increase of 43%.

The following table sets forth our net product revenue for semiconductor devices by product markets for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended	Six Months

	June 30,			June 3	
	2007	2006	Variance	2007	2006
Commercial	$ 7,179	$ 6,032	$ 1,147	$ 14,643	$ 9,9
High-end industrial and military	903	411	$ 492	$ 1,306	$ 1,2
Total Semiconductor Revenue	$ 8,082	$ 6,443	$ 1,639	$ 15,949	$ 11,1

Commercial revenue include revenue generated from our 0.8-micron products built from silicon wafers received from Chartered Semiconductor or purchased as finished units from ZMD, and from our 0.25-micron products built from silicon wafers received from Dongbu Electronics (DBE). Commercial revenue increased by $1,147,000 and $4,660,000 for the three and six months ended June 30, 2007, respectively, as compared to the three and six months ended June 30, 2006. This increase was due primarily to increased product demand for our legacy products and our 1 megabit products. In addition, revenue was also higher compared to the 2006 periods due to increased selling prices for our highest volume 256 kilobit devices. These increases took place in the second half of 2006 and held firm through the second quarter of 2007.

High-end industrial and military product revenue increased by $492,000 and $103,000 for the three and six months ended June 30, 2007, respectively, as compared to the same periods in 2006. Customer demand for these devices is generally not predictable and tends to be volatile from period to period.

One distributor and three direct customers together accounted for approximately 57% of our revenue for the quarter ended June 30, 2007 and one distributor and two direct customers accounted for approximately 38% of our revenue for the six months ended June 30, 2007. Products sold to distributors are sold without material recourse. Distributors sell our products to various end customers. If this distributor was to terminate its relationship with us, we believe that there would not be a material impact on our product sales, as we believe that we would be able to service these various end customers through other distributors.

Cost of Sales and Gross Profit

We recorded cost of sales of $3,859,000 and $8,294,000 for the three and six months ended June 30, 2007, respectively, as compared to $4,567,000 and $8,037,000 for the comparable periods in 2006. These costs reflect an approximate 23 and 20 percentage point improvement in gross margin percentage for our semiconductor products for the three and six months ended June 30, 2007, respectively, as compared to the same periods in 2006. Actual product gross margin percentages for the three and six months ended June 30, 2007 were 52% and 48%, respectively, as compared to 29% and 28% for the same periods in 2006. This increase reflects the higher average selling prices described above, higher unit

shipments of 1 megabit devices, increased sales of our high-end industrial and military products, reduced product costs due to lower wafer prices and increased efficiencies and yields.

Research and Development

Continued investments in new product development are required for us to remain competitive in the markets we serve and to grow our revenue. In 2007, our research and development department continued its efforts on the final development of our new product family in conjunction with Cypress. This new product family will be based on Cypress' 0.13-micron "S8" process and will include memory densities up to and beyond 4-megabits. In June 2007, we achieved certain milestones under the development agreement with Cypress and recognized $735,000 in expenses related to the agreement. During the three month and six months ended June 30, 2006, we recognized expenses of $328,000 and $642,000, respectively. In addition, in 2007, the Company began initial development of a new product initiative aimed at improving the performance of high density NAND Flash devices. As part of this new initiative, we opened a design center in San Diego, CA.

Total research and development expenses were $2,560,000 and $4,173,000 for the three and six months ended June 30, 2007, respectively, as compared to $1,682,000 and $3,227,000 for the comparable periods in 2006.

The increase of $878,000 for the three month period ended June 30, 2007 compared to the three month period ended June 30, 2006 was primarily related to the Cypress milestone payments which were $407,000 higher in such period and $248,000 in expenses related to the San Diego development effort, including payroll related expenses of $91,000 and contract design services of $140,000.

The increase of $946,000 for the six month period ended June 30, 2007 compared to the six month period ended June 30, 2006 was primarily related to $334,000 in expenses related to the San Diego development effort, including payroll related expenses of $172,000 and contract design services of $140,000. Excluding the San Diego initiative, payroll and related costs increased $378,000 for the six month period ended June 30, 2007 compared to the six month period ended June 30, 2006 due to increased headcount primarily in our Dresden Germany location. In addition, the Cypress milestone payments were $93,000 higher for the six month period ended June 30, 2007 compared to the same period in 2006.

Administration

Total administration expenses were $1,190,000 and $2,299,000 for the three and six months ended June 30, 2007, respectively, as compared to $1,059,000 and $1,757,000 for the same periods in 2006.

The $131,000 increase for the three month period ended June 30, 2007 compared to the three month period ended June 30, 2006 was due primarily to increases in payroll related costs of $20,000 and professional and consulting services of $160,000, these increases were offset by decreases in legal and accounting fees of $50,000.

The $542,000 increase for the six month period ended June 30, 2007 compared to the six month period ended June 30, 2006 was due primarily to increases in payroll related costs of $200,000, professional and consulting services of $315,000 and expenses related to our NASDAQ listing of $45,000, these increases

were offset by decreases in legal and accounting fees of $55,000.

The increases in payroll related costs for both periods were primarily due to expense related to stock options and the increase in professional and consulting services were primarily related to compliance with Section 404 of the Sarbanes-Oxley Act.

Sales and Marketing

Total sales and marketing expenses were $1,248,000 and $2,400,000 for the three and six months ended June 30, 2007, respectively, as compared to $1,038,000 and $1,983,000 for the same periods in 2006.

The $210,000 increase for the three month period ended June 30, 2007 compared to the three month period ended June 30, 2006 was primarily due to increases in payroll and related expenses of $70,000, sales commissions of $80,000 and travel expenses of $65,000.

The $417,000 increase for the six month period ended June 30, 2007 compared to the six month period ended June 30, 2006 was primarily due to increases in payroll related expenses of $135,000, sales commissions of $120,000, travel expenses of $85,000 and professional and consulting services of $75,000.

The increases in payroll related expenses, travel expenses and professional and consulting services were primarily due to changes in sales and marketing personnel. The increases in sales commission were a direct result of increased revenue.

Net Loss

We recorded a net loss of $816,000 and $1,306,000 for the three and six months ended June 30, 2007, respectively, as compared to net losses of $1,453,000 and $2,354,000 for the same periods in 2006. The reduction in net loss for both periods reflect the higher revenue and the improved gross margins and expense items discussed above.

Liquidity and Capital Resources

As of June 30, 2007, we had a net working capital of $12,022,000 as compared to a net working capital of $11,828,000 as of December 31, 2006.

Cash flows used in operating activities for the six months ended June 30, 2007 were $1,120,000 compared to $2,680,000 in the same period in 2006. While the cash flows used in operating activities is similar for the two periods, the details are significantly different. The following table shows the components of each item in operating activities (amounts in thousands):

	Six Months Ended June 3
	2007

Net loss	$ (1,306)	$
Depreciation and amortization	344	
Expense related to stock compensation	544	
Issuance of common stock per compensation agreements	-	
Amortization of non-competition agreement	890	
Net change in allowance accounts	78	
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	771	
Inventory	(1,119)	
Prepaid expenses and other	(375)	
Increase (decrease) in:		
Accounts payable	(1,235)	
Accrued expenses	288	
Net cash used in operating activities	(1,120)	

Excluding the effect of changes in assets and liabilities, cash generated by operating activities was $550,000 in the period ended June 30, 2007 compared to $461,000 in the period ended June 30, 2006, which cash was used to support the increased working capital, particularly the increase in inventory. The higher level of inventory is needed to support our anticipated revenue growth. The decrease in accounts receivable in the period ended June 30, 2007 is due to the lower sales volume in the second quarter of 2007 compared to the fourth quarter of 2006.

Cash flows used in investing activities decreased for the six months ended June 30, 2007 by approximately $37,000 as compared to the same period in 2006, principally due to the purchase of a new ERP software system and the purchase of certain assets from ZMD in the first six months of 2006 (which purchases were not repeated in the same period in 2007).

Cash flows provided by financing activities were $225,000 in the period ended June 30, 2007 compared to $3,692,000 in the period ended June 30, 2006. The decrease of $3,467,000 in cash flows provided by financing activities was primarily due to the receipt of funds related to the sale of common stock completed on December 30, 2005, for which some funds were received on January 3, 2006 and the value of the warrants issued to Cypress for the Development and License Agreement in the 2006 period, for which there were no comparable items in 2007.

Short-term liquidity.

Our unrestricted cash balance at June 30, 2007 was $3,147,000.

Our future liquidity will depend on continued revenue growth, continued improvement in gross margins and control of operating expenses. We expect

revenue to continue to increase in 2007. In addition, gross margins are expected to improve and we expect to be profitable before expenses related to employee stock options and amortization of the non-compete agreement with ZMD for 2007. Investment in research and development is also expected to increase in 2007. We believe that the cash generated by operations plus the available credit under our current credit facilities will be sufficient to fund our operations for the foreseeable future. However, if we fail to meet our revenue targets or choose to accelerate product development, it may be necessary for us to raise additional capital or incur additional debt.

Long-term liquidity.

We continue to evaluate our long-term liquidity. Our growth plans may require additional funding from outside sources. While we have no firm plans, we are in ongoing discussions with investment banking organizations and potential investors and lenders to ensure access to funds as required.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to our normal operating activities. We currently have no derivative financial instruments.

Interest payable on our convertible debentures is fixed at 7.5% over the term of the debentures. As such, changes in interest rates should not affect future expenses or cash flows.

Interest payable on our revolving line of credit entered into with Wells Fargo is a fixed amount of the face value of eligible receivables they purchase from us. As such, changes in interest rates should not affect future expenses or cash flows.

We manage interest income by investing our excess cash in cash equivalents bearing variable interest rates, which are tied to various market indices. We do

not believe that near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows.

We do not speculate in the foreign exchange market and do not manage exposures that arise in the normal course of business related to fluctuations in foreign currency exchange rates by entering into offsetting positions through the use of foreign exchange forward contracts.

Average selling prices of our products have not increased significantly as a result of inflation during the past several years, primarily due to intense competition within the semiconductor industry. The effect of inflation on our costs of production has been minimized through improvements in production efficiencies. We anticipate that these factors will continue to minimize the effects of any foreseeable inflation and other price pressures within the industry and markets in which we participate.

ITEM 4 CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Harold Blomquist, who serves as the Company's chief executive officer, and Brian Alleman, who serves as the Company's chief financial officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date") concluded that as of the Evaluation Date, the Company's disclosure controls and

procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms and to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in the Company's internal control over financial reporting during the three and six months ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings –None

Item 1A. Risk Factors – None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults upon Senior Securities – None

Item 4. Submission of Matters to a Vote of Security Holders

Item 4. Submission of Matters to a Vote of Security Holders

On June 14, 2007, the Company held its 2007 Annual Meeting of the Shareholders (the "Annual Meeting"). Set forth below are the results of the votes taken at the Annual Meeting. The Company's shareholders were voting on four matters at the Annual Meeting. Those four matters were the re-election of six directors, the approval of the new Simtek Corporation Employee Stock Purchase Plan, the approval of the Simtek Corporation 2007 Equity Incentive Plan and the ratification of the selection of Hein & Associates LLP as the Company's independent auditors for fiscal year 2007.

(i) The following individuals were elected directors of the Company for terms expiring in 2008:

Name of Director	For	Withheld
Harold Blomquist	14,101,610	221,274
Ronald Sartore	14,128,206	194,678
Robert Keeley	14,132,812	190,072
Alfred Stein	14,035,766	287,118
Robert Pearson	14,169,776	153,108
John Hillyard	14,171,427	151,457

(ii) Approval of the New Simtek Corporation Employee Stock Purchase Plan:

For	Against	Abstain	Broker Non-Votes
9,371,811	132,503	5,604	4,812,966

(iii) Approval of the Simtek Corporation 2007 Equity Incentive Plan:

For	Against	Abstain	Broker Non-Votes
9,300,134	179,105	30,679	4,812,966

(iv) Ratification of the Selection of Hein & Associates LLP as the Independent Auditors for Fiscal Year 2007:

For	Against	Abstain
14,255,269	62,719	4,896

Item 5. Other Information - None

Item 6. Exhibits

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer

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SIGNATURES

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

SIMTEK CORPORATION
(Registrant)

August 2, 2007 By: /s/ Harold Blomquist

HAROLD BLOMQUIST
Chief Executive Officer and President

August 2, 2007 By: /s/ Brian Alleman

BRIAN ALLEMAN
Chief Financial Officer

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