SIMTEK CORP
Form 10QSB
May 14, 2002

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

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

SIMTEK CORPORATION

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

Colorado	84-1057605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(719) 531-9444

(issuer's telephone number)

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

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

Yes X No ___

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

Class	Outstanding at May 9, 2002
(Common Stock, $.01 par value)	54,160,273

SIMTEK CORPORATION

INDEX

For Quarter Ended March 31, 2002

SIMTEK CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2002

CURRENT ASSETS:	
Cash and cash equivalents	$ 1,380,284
Certificate of deposit, restricted	300,000
Accounts receivable - trade, net	2,100,936
Inventory, net	1,920,276
Prepaid expenses and other	125,485
Total current assets	5,826,981
EQUIPMENT AND FURNITURE, net	899,759
OTHER ASSETS	113,489
TOTAL ASSETS	$ 6,840,229
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 1,514,406
Accrued expenses	301,216
Accrued wages	144,117
Accrued vacation payable	170,830
Line of credit payable	100,168
Deferred Revenue	28,000
Obligations under capital lease	81,062
Total current liabilities	2,339,799
NOTES PAYABLE	18,564
OBLIGATIONS UNDER CAPITAL LEASES	145,165
Total liabilities	2,503,528
SHAREHOLDERS' EQUITY:	
Preferred stock, $1.00 par value, 2,000,000 shares authorized and none issued and outstanding	-
Common stock, $.01 par value, 80,000,000 shares authorized, 54,151,273 and 54,026,273 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	541,512
Additional paid-in capital	37,562,965
Treasury Stock	(12,504)
Accumulated deficit	(33,755,272)
Shareholder's equity	4,336,701
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,840,229

The accompanying notes are an integral part of these financial stateme

SIMTEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the quar
	2002
NET SALES	$ 3,973,300
Cost of sales	2,554,718
GROSS MARGIN	1,418,582
OPERATING EXPENSES:	
Design, research and development	993,374
Administrative	208,220
Marketing	470,934
Investor relations	-
Total Operating expenses	1,672,528
LOSS FROM OPERATIONS	(253,946)
OTHER INCOME (EXPENSE):	
Interest income (expense), net	(1,222)
Other expense, net	(460)
Total other income (expense)	(1,682)
NET LOSS BEFORE TAXES	(255,628)
Provision for income taxes	-
NET LOSS	$ (255,628)
NET LOSS PER COMMON SHARE:	
Basic and diluted EPS	$ (.00)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:	
Basic and diluted	54,069,329

The accompanying notes are an integral part of these financial stateme

SIMTEK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (255,628)
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation and amortization..............................	109,777
Common stock issued for investor relations expense.........	-
Net change in allowance accounts...........................	(32,588)
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable....................................	(393,766)
Inventory..	(84,448)
Prepaid expenses and other	(21,439)
Increase (decrease) in:	
Accounts payable.......................................	97,612
Accrued expenses.......................................	(17,918)
Deferred Revenue.......................................	13,000
Net cash provided by (used in) operating activities...........	(585,398)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment and furniture............................	(101,073)
Net cash used in investing activities.........................	(101,073)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on notes payable & lines of credit....................	(6,243)
Payments on capital lease obligation...........................	(19,330)
Cash to Q-DOT Acoustics..	-
Exercise of stock options......................................	16,624
Purchase of Simtek Common Stock................................	-
Net cash used in financing activities.........................	(8,949)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(695,420)
CASH AND CASH EQUIVALENTS, beginning of period	2,075,704
CASH AND CASH EQUIVALENTS, end of period	$1,380,284

The accompanying notes are an integral part of these financial stateme

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements included herein are presented in accordance with the requirements of Form 10-QSB and consequently do not include all of the disclosures normally made in the registrant's annual Form 10-KSB filing. These financial statements should be read in conjunction with the financial statements and notes thereto included in Simtek Corporation's Annual Report and Form 10-KSB filed on March 22, 2002 for fiscal year 2001.

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

2. LINE OF CREDIT:

In April 2002, Simtek Corporation ("Simtek" or the "Company") renewed its revolving line of credit in the amount of $250,000.

3. GEOGRAPHIC CONCENTRATION:

Sales of our semiconductor products by location for the three months ended March 31, 2002 and 2001 were as follows (as a percentage of semiconductor product sales only):

	2002	2001
United States	51%	31%
Europe	9%	22%
Far East	27%	46%
All others	13%	1%

	100%	100%

4. BUSINESS SEGMENTS:

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

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

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Description	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net Sales:		
Semiconductor Devices	$ 3,492,541	$ 3,975,104
Government Contracts	480,759	356,617
Total	$ 3,973,300	$ 4,331,721
Net Loss:		
Semiconductor Devices	$ (283,154)	$ (320,798)
Government Contracts	27,526	(193,765)
Total	$ (255,628)	$ (514,563)

	March 31, 2002	March 31, 2001
Total Assets:		
Semiconductor Devices	$ 6,405,435	$ 8,079,142
Government Contracts	434,794	557,126
Total	$ 6,840,229	8,636,268

SIMTEK CORPORATION

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

RESULTS OF OPERATIONS:

SEMICONDUCTOR DEVICES. Simtek Corporation recorded net product sales of its semiconductor devices of approximately $3,493,000 and $3,975,000 for the three months ended March 31, 2002 and 2001, respectively. Sales of its 16 kilobit and 64 kilobit nonvolatile semiconductor memory products saw a decrease of $1,580,000 while sales of its 256 kilobit, high end industrial and military nonvolatile semiconductor memory products and logic products saw an approximate increase of $1,097,000. The decrease of the Company's 16 kilobit and 64 kilobit nonvolatile semiconductor memory products was due to a decrease in product demand for this density of product, the increase of $874,000 for the Company's 256 kilobit nonvolatile semiconductor memory products was due to increased product demand due primarily to large customers, worldwide, placing production orders of our products. The increase of $144,000 for the Company's high end industrial and military nonvolatile semiconductor memory products was due to an increase in defense contracts. The increase of $79,000 for the Company's logic products was due primarily to increased demand for pre-existing production programs. Two distributors and one direct customer accounted for approximately 51% of the Company's semiconductor devices products sales for the first three months ended March 31, 2002. Products sold to distributors are re-sold to various end customers.

The Company saw an approximate 6% increase in its gross margin percentages for the first quarter 2002 as compared to the first quarter 2001. This increase was due to better pricing the Company received in March 2001 from its supplier who produces its silicon wafers and from its test subcontractor.

During the first quarter 2002, the Company purchased wafers built on 0.8 micron technology from Chartered Semiconductor Manufacturing Plc. of Singapore ("Chartered") to support sales of its nonvolatile semiconductor memory products. Sales of the Company's logic products were supported with 0.5 micron wafers purchased from United Microelectronics Corp. ("UMC") of Taiwan and 0.35 micron wafers purchased from Chartered.

Total other operating expenses related to the semiconductor portion of the Company's business saw an increase of approximately $21,000 in the three months ended March 31, 2002 as compared to the three months ended March 31, 2001. Research and development saw the largest increase of $351,000 which was related to an increase in payroll and related payroll costs of $171,000, an increase in subcontract engineering of $101,000, an increase in new product development costs of $44,000 and an increase of $35,000 in depreciation and maintenance contracts related to software required to develop the Company's products. The increase in payroll, related payroll costs and subcontract engineering was due to the costs in the first quarter of 2002 for additional employees who are working on the design and development of a 1 megabit, 3.0 volt nonvolatile semiconductor memory to be built by Amkor Technology ("Amkor") on their 0.25 micron digital complementary metal-oxide semiconductor or "CMOS" fabrication line. Sales and marketing saw an increase of $28,000 which was related to increased payroll and payroll related costs due to an additional employee in the first quarter of 2002 as compared to first quarter of 2001. Administration saw a decrease of $100,000, this decrease was related to a decrease in legal fees incurred in the first quarter of 2001 that were related to the acquisition of

Q-DOT that did not occur in the first quarter of 2002. Investor relations expense saw a decrease of $258,000 in the first quarter of 2002 as compared to the first quarter of 2001. This decrease was due to the amortization of the expense related to the issuance of 1,000,000 shares of stock to two investment banker firms which was completed in September 2001.

The Company recorded a net loss from the semiconductor portion of its business of $283,000 and $321,000 for the first quarter of 2002 and 2001, respectively. The decrease in net loss was due primarily to an increase in gross margins.

GOVERNMENT CONTRACTS. The Company recorded revenues from its government contracts portion of its business of $481,000 and $357,000 for the three months ended March 31, 2002 and 2001, respectively. The Company also saw an increase of approximately 16% in its gross margin percentages. The increase in revenues and gross margin percentages was primarily due to increased billings against government contracts which was a result of additional employees working directly on the contracts.. Revenue against government contracts is realized as labor is applied to the contract.

Operating expenses from the government contracts portion of the Company's business saw a decrease of $100,000. Administration saw a decrease of $140,000 which was primarily due to increased labor costs incurred in the first quarter of 2001 which were related to the merger with Simtek. The decrease in administration costs were offset by an increase in research and development costs of $15,000 and an increase in Sales and Marketing costs of $25,000. Both of these increases were due to resources being allocated to internal research and development and bid and proposal activity.

The Company recorded a net income of $28,000 for the three months ended March 31, 2002 and a net loss of $194,000 for the three months ended March 31, 2001 for its government contract portion of its business. The increase was due to increased gross margins and a decrease in operating spending.

FUTURE RESULTS OF OPERATIONS

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

The Company is continuing its co-development program with Amkor to develop a semiconductor process module that combines the Company's nonvolatile technology with Amkor's advanced 0.25 micron digital CMOS fabrication line. The module will incorporate silicon oxide nitride oxide silicon ("SONOS") technology, which will be used to manufacture both high density SONOS flash and nonvolatile static RAM memories, for stand alone and embedded products. The Company's current schedule is to have qualified samples of a 1 megabit 3.0 volt nonvolatile semiconductor memory available by the first quarter of 2003.

As of March 31, 2002, the Company had a backlog of unshipped customer orders of approximately $2,132,000 expected to be filled by September 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.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, the Company had net working capital of $3,487,182 as compared to a net working capital of $4,166,926 as of March 31, 2001. The Company may require additional capital to fund production and marketing of any new products it may develop. The Company does not have any commitments for such additional capital as of the date of this report.

The change in cash flows for the three months ended March 31, 2002 used in operating activities was primarily a result of a net loss of $255,628, which is offset by $109,777 in depreciation and amortization, a decrease of $21,439 in prepaid expenses and other, a decrease in accrued expenses of $17,918 and an increase in deferred revenue of $13,000. Increases in inventory of $84,448 and accounts payable of $97,612, were related to increased inventory levels, and the $393,766 increase in accounts receivable and $32,588 change in allowance accounts was due to increased sales in March 2002. The change in cash flows used in investing activities of $101,073 were primarily due to the purchase of

equipment required to manufacture our semiconductor devices at Chartered and UMC and hardware and software required for research and development activities. The cash flows provided by financing activities were due primarily to payments on notes payable and a capital lease obligation and the exercise of stock options by employees of the Company.

The change in cash flows for the three months ended March 31, 2001 provided by operating activities was $62,704, which is primarily due to a net loss of $514,563, which is offset by depreciation and amortization of $111,272, $257,800 in investor relations expense, a decrease of prepaid expenses and other of $47,808, and a decrease in accrued expenses of $86,970. Increases in accounts receivable, inventory and accounts payable of $347,824, $750,648 and $1,356,691, respectively were related to increased product demand. The change in cash flows from investing activities of $177,334 was primarily due to the purchases of equipment and furniture related to the testing of our 64 kilobit and 256 kilobit products built on 0.8 micron technology and the purchase of computer and software required for research and development. The change in cash flows from financing activities of $123,513 was due primarily to the payments on a line of credit, notes payable, the buyback of Simtek common stock and cash required to fund a subsidiary of Q-DOT.

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 prohibited. Accounting for the excess of the fair value of net assets of cost (negative goodwill), will be allocated to certain assets first with any remaining excess recognized as an extraordinary gain. SFAS No. 141 is effective for business combination completed afer June 30, 2001. Adoption of SFAS No. 141 is not expected to have a material impact on the accounting for business acquisitions prior to July 1, 2001. SFAS No. 142 addresses the accounting for all purchased intangible assets but not the accounting for internally developed intangible assets. Goodwill will no longer be amortized and will be reviewed for impairment in accordance with SFAS No. 142. Goodwill will be tested annually and on an interim basis if an event or circumstance occurs between the annual tests that might reduce the fair value of the reporting unit below its carrying value. SFAS No. 142 is effective for fiscal years beginning after December 31, 2001, with early adoption permitted 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 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.

SIMTEK CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings –None

Item 2. Changes in Securities - None

Item 3. Defaults upon Senior Securities - None

Item 4. Matters Submitted to a Vote of Securities Holders - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K - None

SIMTEK CORPORATION

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)

May 13, 2002

By /s/ Douglas Mitchell

DOUGLAS MITCHELL
Chief Executive Officer, President
And Chief Financial Officer (acting)