SIMTEK CORP
Form 10QSB
November 13, 2003

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 September 30, 2003

[ ] 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 November 11, 2003
(Common Stock, $.01 par value)	56,666,715

SIMTEK CORPORATION

INDEX

For Quarter Ended September 30, 2003

SIMTEK CORPORATION

BALANCE SHEETS

ASSETS	September 30, 20
	(unaudited)

CURRENT ASSETS:	
Cash and cash equivalents	$ 1,769,200
Certificate of deposit, restricted	300,000
Accounts receivable - trade, net	1,637,304
Inventory, net	1,752,275
Prepaid expenses and other	130,776
Total current assets	5,589,555
EQUIPMENT AND FURNITURE, net	930,277
DEFERRED FINANCING COSTS	95,429
OTHER ASSETS	64,545
TOTAL ASSETS	$ 6,679,806
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 697,596
Accrued expenses	384,829
Accrued wages	73,692
Accrued vacation payable	189,920
Debentures	3,000,000
Line of Credit	250,000
Deferred Revenue	-
Obligation under capital leases	152,668
Total current liabilities	4,748,705
NOTES PAYABLE	5,000
DEBENTURES	-
OBLIGATION UNDER CAPITAL LEASES	78,245
Total liabilities	4,831,950
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, 54,918,209 and 54,382,273 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	549,182
Additional paid-in capital	37,740,219
Treasury Stock	(12,504)
Accumulated deficit	(36,429,041)
Shareholder's equity	1,847,856
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,679,806

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

SIMTEK CORPORATION

STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
NET SALES	$ 3,422,039	$ 3,146,887
Cost of sales	2,303,117	1,620,408
GROSS MARGIN	1,118,922	1,526,479
OPERATING EXPENSES:		
Design, research and development	985,755	980,108
Administrative	216,749	188,304
Marketing	380,105	353,000
Total Operating Expenses	1,582,609	1,521,412
NET LOSS FROM OPERATIONS	(463,687)	5,067
OTHER INCOME (EXPENSE):		
Interest income	5,177	16,443
Interest expense	(64,724)	(64,332)
Other income (expense), net	10,092	(24)
Total other income (expense)	(49,455)	(47,913)
LOSS BEFORE TAXES	(513,142)	(42,846)
Provision for income taxes	-	-
NET LOSS	$ (513,142)	$ (42,846)
NET LOSS PER COMMON SHARE:		
Basic and diluted EPS	$ (.01)	$ *
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	54,648,069	54,203,686

* Less Than $.01 per share

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

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months En
	2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss..	$(1,966,530)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization.................................	361,271
Net change in allowance accounts..............................	988
Deferred financing fees.......................................	12,447
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable.......................................	692,510
Inventory...	(166,239)
Prepaid expenses and other	113,320
Increase (decrease) in:	
Accounts payable..	(390,351)
Accrued expenses..	137,878
Deferred revenue..	(40,500)
Net cash used in operating activities.............................	(1,245,206)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment and furniture	(402,795)
Net cash used in investing activities.............................	(402,795)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings on notes payable and lines of credit...................	250,000
Payments on notes payable and lines of credit.....................	(47)
Payments on capital lease obligation..............................	(111,187)
Convertible debentures net of deferred financing fees.............	-
Exercise of stock options...	150,703
Net cash provided by financing activities.........................	289,469
NET DECREASE IN CASH AND CASH EQUIVALENTS..	(1,358,532)
CASH AND CASH EQUIVALENTS, beginning of period..........................	3,127,732
CASH AND CASH EQUIVALENTS, end of period................................	$ 1,769,200

SUPPLEMENTAL CASH FLOW INFORMATION:

Purchase of equipment through payables and capital leases	$ 144,160

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

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements included herein are presented in accordance with the requirements of Form 10-QSB and consequently do not include all of the disclosures normally made in the registrant's annual Form 10-KSB filing. These financial statements should be read in conjunction with the financial statements and notes thereto included in Simtek Corporation's Annual Report and Form 10-KSB filed on March 24, 2003 for fiscal year 2002.

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

The Company applies APB Opinion 25 and related interpretations in accounting for its stock options which are granted to its employees. Accordingly, no compensation cost has been recognized for grants of options to employees since the exercise prices were not less than the market value of the Company's common stock on the grant dates. Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net loss and EPS would have been adjusted to the pro forma amounts indicated below.

	Three Months Ended September 30,		Ni
	2003	2002	2003
Net loss as reported	$ (513,142)	$ (42,846)	$(1,966,
Add: stock based compensation included in reported net loss	-	-	
Deduct: Stock-based compensation cost under SFAS 123	(137,232)	(155,425)	(407,
Pro Forma net loss	$ (650,374)	$ (198,271)	$(2,374,

Pro forma basic and diluted net loss per share:

Pro forma shares used in the calculation of pro forma net loss per common share basic and diluted	54,648,069	54,203,686	54,510,
Reported net loss per common share basic and diluted	$ (.01)	$ *	$ (
Pro forma net loss per common share basic and diluted	$ (.01)	$ *	$ (

* Less Than $.01 per share

2. LINE OF CREDIT:

In April 2003, Simtek Corporation ("Simtek" or the "Company") renewed its revolving line of credit in the amount of $250,000. As of September 30, 2003, the Company owed $250,000 on this line of credit.

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBENTURES:

On July 1, 2002, the Company received $3,000,000 in a financing transaction with Renaissance Capital of Dallas, Texas ("Renaissance"). The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate. The debentures are convertible at the option of the holder into Simtek common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. Renaissance has exercised its right to appoint one member to the Simtek Board of Directors. Mr. Robert Pearson was appointed to Simtek's board of directors on July 25, 2002. At September 30, 2003, the Company was in non-compliance of two of the covenants set forth in the loan agreement. The Company has received a waiver from Renaissance through December 31, 2004 for one of the covenants and a modification to the loan agreement of the other covenant. The waiver and modification are effective through December 31, 2004. The Company is currently in compliance with the modification, however the Company cannot predict with certainty it will remain in compliance. Therefore, the Company is showing the note as a current liability as of September 30, 2003.

4. GEOGRAPHIC CONCENTRATION:

Sales of our semiconductor products by location for the three months and nine months ended September 30, 2003 and 2002 were as follows (as a percentage of semiconductor product sales only):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
United States	34%	68%	37%	55%
Europe	11%	11%	12%	11%

Far East	50%	16%	45%	25%
All others	5%	5%	6%	9%
	100%	100%	100%	100%

5. BUSINESS SEGMENTS:

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

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

SIMTEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended September 30,		Nine Months Ende September 30,	
	2003	2002	2003	
Description				
Net Sales:				
Semiconductor Devices	$ 2,858,818	$ 2,672,724	$ 9,191,114	$ 9
Government Contracts	563,221	474,163	1,586,025	1
Total	$ 3,422,039	$ 3,146,887	$ 10,777,139	$ 10
Net Income (Loss):				
Semiconductor Devices	$ (530,570)	$ (103,974)	$ (1,912,800)	$
Government Contracts	17,428	61,128	(53,730)	
Total	$ (513,142)	$ (42,846)	$ (1,966,530)	$

	September 30, 2003	December 31, 2002

Total Assets:		
Semiconductor Devices	$ 6,217,939	$ 7,931,831
Government Contracts	461,867	575,219
Total	$ 6,679,806	$ 8,507,050

6. On November 7, 2003, the Company closed a $1,500,000 equity financing with BFSUS Special Opportunities Trust Plc, Renaissance US Growth & Investment Trust Plc and Renaissance Capital Growth & Income Fund III, Inc (collectively, "Renaissance"). In exchange for the $1,500,000, the Company issued 550,661 shares of its common stock to each of the three investment funds. The purchase price was based on the average closing price of the Company's common stock as reported on the Over-the-Counter Bulletin Board over the five trading days before closing, which average closing price was $0.908 per share. In addition to the shares of common stock, each fund received warrants to acquire 250,000 shares of the Company's common stock. The warrants have a 5-year term with 125,000 shares being exercisable at $1.25 per share and 125,000 shares being exercisable at $1.50 per share.

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

OVERVIEW

Beginning in the fourth quarter 2001, the Company began to experience the downturn that has been occurring in the global semiconductor industry since late fourth quarter 2000, which gave rise to declining revenues in 2001 and 2002. The Company has seen an increase in unit shipments of its commercial products for the three and nine months ended September 30, 2003 as compared to the three and nine months ended September 30, 2002. The majority of the increase was for large production orders, with competitive bidding, which resulted in a decrease of average selling prices. The Company's net revenue was $10,777,000 for the first nine months of 2003 up from $10,671,000 for the comparable period of 2002. The Company's net revenue was $3,422,000 for the third quarter 2003 up from $3,147,000 for the comparable period of 2002. The increases in revenues for the three and nine month period ending September 30, 2003 as compared to the three and nine month period ended September 30, 2002 were primarily due to an increase in demand of our commercial products, an increase in the government contract portion of the Company's business and a reduction of revenue of our logic and high end industrial and military products. The reduction of revenues from our high end industrial and military products was due to a slow-down of production related to military systems. The reduction of revenues from our logic products was primarily due to the Company phasing out of this product line by December

31, 2003.

The reduction in revenue of our high-end industrial and military products for the three and nine months ended September 30, 2003 compared to the three and nine months ended September 30, 2002 had an impact on our profitability. This reduction along with increased administrative costs and research and development costs accounted for losses in the nine month period ending September 30, 2003.

RESULTS OF OPERATIONS:

REVENUES - SEMICONDUCTOR DEVICES.

The following table sets forth the Company's net revenues by product markets for the three and nine months ended September 30, 2003 and 2002 (in thousands):

	Three Months Ended September 30,			Nine Months E September 3	
	2003	2002	Variance	2003	2002
Commercial	$2,243	$1,359	$ 884	$7,344	$6,557
High-end industrial and military	$ 424	$1,052	$(628)	$1,240	$1,862
Logic products	$ 192	$ 262	$ (70)	$ 607	$ 859
Total Semiconductor Revenue	$2,859	$2,673	$ 186	$9,191	$9,278

Commercial revenues increased by $884,000 and $787,000 for the three and nine months ended September 30, 2003 when compared to the comparable periods in 2002. The increases for the three and nine month periods were due to an increase in unit demand of our commercial nonvolatile semiconductor memory products.

High-end industrial and military product revenues accounted for a decrease of $628,000 and $622,000 for the three and nine months ended September as compared to the previous periods in 2002. The decrease for the three and nine month period was due primarily to a slow-down of production related to military contracts.

Revenues from our logic products decreased by $70,000 and $252,000 for the three and nine months ended 2003 as compared to 2002, respectively. The decreases were due to a reduction in demand for this product and the Company's decision to eliminate this product line effective December 31, 2003.

Two distributors accounted for approximately 34% of the Company's semiconductor devices product sales for the quarter ended September 30, 2003.

Products sold to distributors are re-sold to various end customers.

COST OF SALES AND GROSS MARGIN - SEMICONDUCTOR DEVICES

The Company recorded cost of sales for semiconductor devices of $1,984,000 and $6,391,000 for the three and nine months ended September 30, 2003 as compared with the $1,391,000 and $5,608,000 for the three and nine months ended September 30, 2002. These costs reflect an approximate 17% and 9% decrease in gross margin percentages for the third quarter and nine months ended September 30, 2003 as compared to the third quarter and nine months ended September 30, 2002. Actual gross margin percentages for the third quarter and nine month periods ending September 30, 2003 were 31% and 30%, respectively. The decrease in gross margin percentages for the three and nine month period was due to a decrease in sales of our high-end industrial and military products and to lower average selling prices of our commercial products. The lower average selling prices were primarily due to increased price competition from our competitors.

During the first nine months of 2003, the Company purchased wafers built on 0.8 micron technology from Chartered Semiconductor Manufacturing Plc. ("Chartered") of Singapore 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.

In February 2003, the Company received notification from Chartered that it will close its wafer fabrication facility #1 by March 2004. The memory wafers purchased from Chartered are manufactured in facility #1. The Company and Chartered are in the process of transferring the manufacturing of our memory wafers to Chartered's manufacturing facility #2. Facility #2 is newer and more modern than facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet the Company's specifications, the Company anticipates the transfer to be completed in time to provide an uninterrupted supply of the Company's current 0.8 micron family of nonvolatile Static Random Access memory products. This would avoid any material impact on its ability to support customers. If the Company and Chartered cannot complete the transfer of manufacturing into facility #2 or if the Company cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

United Microelectronics and Chartered provide silicon wafers for the Company's programmed semiconductor logic products based on 0.5 micron and 0.35 micron product technology, respectively. In February 2003, the Company received notification from United Microelectronics that it will be unable to supply us with logic wafers after August 2003. The Company plans to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, the Company does not plan to support sales of 0.5 micron logic products to the market.

RESEARCH AND DEVELOPMENT - SEMICONDUCTOR DEVICES

The Company believes that continued investments into new product development are required for us to remain competitive in the markets we serve. Beginning in the fourth quarter 2001, the Company's research and development department has been focusing its efforts on the installation of our process at Anam Semiconductor for the development of a 1 megabit 3 volt nonvolatile semiconductor memory. During the second quarter 2003, the Company continued to see increased demand for its 3 volt 256 kilobit nonvolatile semiconductor memories. Development of the 1 megabit 3 volt nonvolatile semiconductor memory is continuing and the Company began shipping samples of its 1 megabit 3 volt nonvolatile semiconductor memory during the third quarter of 2003. As of October 27, 2003, the Company had shipped samples to 54 different customers.

Total research and development expenses related to the semiconductor portion of the Company's business were $917,000 and $3,037,000 for the three and nine months ended September 30, 2003 compared to $890,000 and $2,855,000 for the three and nine months ended September 30, 2002.

The $27,000 increase for the three month period was related to decreases in contract labor and professional services of $102,000 and supplies and travel of $11,000. These decreases were offset with increases of $119,000 in payroll and overhead costs, $14,000 in product development and qualification costs and a $7,000 increase in software leases and maintenance contacts. The increase of $182,000 for the nine month period was related to the difference between increases in payroll and payroll costs of $398,000, equipment leases, maintenance agreements for software and depreciation of $186,000 and reductions in contract engineering services and professional services of $142,000, new product development costs of $233,000 and other expenses of $27,000. The primary increase in payroll costs is related to an increase in employee headcount. Increased headcount and contract engineering services are required in order to meet production schedules of our new products. New product development costs are primarily due to the purchases of silicon wafers and reticles required to develop new products. Equipment leases, maintenance agreements for software and depreciation are related primarily to software licenses and hardware required to design our new products.

ADMINISTRATION - SEMICONDUCTOR DEVICES

Total administration expenses related to the semiconductor portion of the Company's business were $170,000 and $579,000 for the three and nine months ended September 30, 2003 as compared to the $162,000 and $501,000 for the three and nine months ended September 30, 2002.

The $8,000 and $78,000 increases for the three and nine months ended September 30, 2003 compared to September 30, 2002, respectively, were primarily due to an increase in professional services and an increase in payroll costs. Many of these additions were implemented to ensure ongoing compliance with newly enacted regulations resulting from the Sarbanes-Oxley Act.

MARKETING - SEMICONDUCTOR DEVICES

Total marketing expenses related to the semiconductor portion of the Company's business were $270,000 and $941,000 for the three and nine months ended September 30, 2003 as compared to the $286,000 and $1,063,000 for the three and nine months ended September 30, 2002.

The $16,000 decrease for the three month period ended September 30, 2003 as compared to September 30, 2002 was due primarily to decreases of $30,000 in payroll and payroll related costs. The decreases were offset by increases of $9,000 in advertising expenses and $5,000 in other miscellaneous expenses. The decrease of $122,000 for the nine month period ended September 30, 2003 as compared to September 30, 2002 was due to decreases in payroll and payroll related costs of $93,000, travel of $27,000 and miscellaneous expenses of

$2,000. The reduction in payroll and payroll related costs was a direct result of reduced headcount. The decrease of travel expenses was due to a reduction in travel within the sales organization.

TOTAL OTHER INCOME (EXPENSES) - SEMICONDUCTOR DEVICES

The increases of $2,000 and $105,000 in total other income (expense) for the three and nine month period ended September 30, 2003 as compared to September 30, 2002, respectively, were primarily due to an increase in interest expense, offset by an increase in interest income. These increases are a direct result of the $3,000,000 funding the Company received on July 1, 2002.

NET LOSS - SEMICONDUCTOR DEVICES

The Company recorded a net loss of $530,000 and $1,913,000 for the three and nine months ended September 30, 2003 as compared to a net loss of $104,000 and $801,000 for the three and nine months ended September 30, 2002. The increase in net loss for the three month period was due primarily to decreased gross margin percentages. The increase in net loss for the nine month period was due primarily to decreased gross margin percentages, increased operating expenses and increased other income (expenses).

REVENUES - GOVERNMENT CONTRACTS

The following table sets forth the company's net revenues from its government contracts portion of its business for the three and nine months ended September 30, 2003 and 2002 (in thousands):

	Three Months Ended September 30,			Nine Months E September 3	
	2003	2002	Variance	2003	2002
Government Contracts	$563	$474	$ 89	$1,586	$1,393

The increase of revenue for the three and nine month periods ending September 30, 2003 as compared to the same periods in 2002 was the result of increased direct labor costs and increased materials and services that were invoiced against development contracts. Direct labor costs increased due to the addition of employees needed for additional contracts.

COST OF SALES AND GROSS MARGIN - GOVERNMENT CONTRACTS

The cost of sales for the government contracts portion of the Company's business was $319,000 and $833,000 for the three and nine months ended September 30, 2003 as compared to the $229,000 and $629,000 for the same periods in 2002. This was equivalent to gross margin percentages of 43% and 47% for the three and nine months ended September 30, 2003 as compared to gross margin percentages of 52% and 55% for the same periods in 2002. The decreases in gross margin percentages were primarily due to an increase in non direct labor which could not be billed as revenue.

RESEARCH AND DEVELOPMENT - GOVERNMENT CONTRACTS

Total research and development expenses related to the government contracts portion of the Company's business were $69,000 and $432,000 for the three and nine months ended September 30, 2003 compared to $90,000 and $395,000 for the three and nine months ended September 30, 2002.

The $21,000 decrease for the three months ended September 30, 2003 as compared to the same period in 2002 was related to a $27,000 decrease in employment related expenses which was offset by an increase of $6,000 in software maintenance contracts, equipment leases and depreciation. The $37,000 increase for the nine month period ending September 30, 2003 as compared to the same period in 2002 was related to a decrease of $37,000 in employment related expenses which was offset by a $74,000 increase in software maintenance contracts.

ADMINISTRATION - GOVERNMENT CONTRACTS

Total administration expenses related to the government contracts portion of the Company's business were $47,000 and $114,000 for the three and nine months ended September 30, 2003 as compared to the $26,000 and $81,000 for the three and nine months ended September 30, 2002.

The $21,000 and $33,000 increases for the three and nine months ended September 30, 2003 compared to the same periods in 2002 was primarily due to a increase in indirect labor expenses.

MARKETING - GOVERNMENT CONTRACTS

Total marketing expenses related to the government contracts portion of the Company's business were $110,000 and $259,000 for the three and nine months ended September 30, 2003 as compared to the $67,000 and $196,000 for the three and nine months ended September 30, 2002.

The increases of $43,000 and $63,000 for the three and nine month periods ended September 30, 2003 as compared to September 30, 2002 were primarily due to increased bid and proposal activities.

NET INCOME (LOSS) - GOVERNMENT CONTRACTS

The Company recorded net income of $17,000 and a net loss of $54,000 for the three and nine months ended September 30, 2003 as compared to a net income of $61,000 and $90,000 for the three and nine months ended September 30, 2002. The decreases in net income were primarily due to indirect overhead costs that could not be billed to specific government contracts.

FUTURE RESULTS OF OPERATIONS

The Company's ability to be profitable will depend primarily on its ability to continue reducing manufacturing costs and increasing net product sales by increasing the availability of existing products, by the introduction of new products and by expanding its customer base. The Company is also dependent on the overall state of the semiconductor industry and the demand for semiconductor products by equipment manufacturers.

The Company is continuing its co-development program with Anam Semiconductor to develop a semiconductor process module that combines the Company's nonvolatile technology with Anam's advanced 0.25 micron digital Complimentary Metal Oxide Semiconductor ("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 began shipping samples of a 1 megabit 3.0 volt nonvolatile semiconductor memory during the third quarter of 2003. As of October 27, 2003, the Company had shipped samples to 54 different customers.

As of September 30, 2003, the Company had a backlog of unshipped customer orders of approximately $2,122,000 expected to be filled by March 31, 2004. Orders are cancelable without penalty at the option of the purchaser prior to 30 days before scheduled shipment and therefore are not necessarily a measure of future product revenue.

In February 2003, the Company received notification from Chartered that they will close their wafer fabrication facility #1 by March 2004. The memory wafers the Company purchases from Chartered are manufactured in facility #1. The Company and Chartered are in the process of transferring the manufacturing of our memory wafers to Chartered's manufacturing facility #2. Facility #2 is newer

and more modern than facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet the Company's specifications, the Company anticipates the transfer to be completed in time to provide an uninterrupted supply of the Company's current 0.8 micron family of nonvolatile Static Random Access memory products. This would avoid any material impact on its ability to support customers. If the Company and Chartered cannot complete the transfer of manufacturing into facility #2 or if the Company cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

United Microelectronics and Chartered provide silicon wafers for the Company's programmed semiconductor logic products based on 0.5 micron and 0.35 micron product technology, respectively. In February 2003, the Company received notification from United Microelectronics that it will be unable to supply us with logic wafers after August 2003. The Company plans to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, the Company does not plan to support sales of 0.5 micron logic products to the market.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2003, the Company had net working capital of $840,850 as compared to a net working capital of $6,017,270 as of September 30, 2002.

On November 7, 2003, the Company closed a $1,500,000 equity financing with BFSUS Special Opportunities Trust Plc, Renaissance US Growth & Investment Trust Plc and Renaissance Capital Growth & Income Fund III, Inc (collectively, "Renaissance"). In exchange for the $1,500,000, the Company issued 550,661 shares of its common stock to each of the three investment funds. The purchase price was based on the average closing price of the Company's common stock as reported on the Over-the-Counter Bulletin Board over the five trading days before closing, which average closing price was $0.908 per share. In addition to the shares of common stock, each fund received warrants to acquire 250,000 shares of the Company's common stock. The warrants have a 5-year term with 125,000 shares being exercisable at $1.25 per share and 125,000 shares being exercisable at $1.50 per share.

On July 1, 2002, the Company received funding of $3,000,000 in a financing transaction with Renaissance. The $3,000,000 funding consisted of convertible debentures with a 7-year term at a 7.5% per annum interest rate. The debentures are convertible at the option of the holder into Simtek common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. At September 30, 2003, the Company was in non-compliance of two of the covenants set forth in the loan agreement. The Company has received a waiver from Renaissance through December 31, 2004 for one of the covenants and a modification to the loan agreement of the other covenant. The waiver and modification are effective through December 31, 2004. The Company is currently in compliance with the modification; however the Company cannot predict with certainty it will remain in compliance. Therefore, the Company is showing the $3,000,000 as a current liability as of September 30, 2003.

The change in cash flows for the nine months ended September 30, 2003 provided by operating activities was primarily a result of a net loss of $1,966,530, which is offset by $361,271 in depreciation and amortization, decreases in accounts receivable, prepaid expenses, accounts payable and deferred revenue of $692,510, $113,320, $390,351 and $40,500, respectively and increases in inventory and accrued expenses of $166,239 and $137,878, respectively. The decrease of $692,510 in accounts receivable was directly related to certain customers paying invoices within the Company's terms at the end of third quarter 2003. The decrease in accounts payable of $390,351 was primarily due to the timing of payments for standard operating expenses. The increase in accrued expenses was due primarily to increased vacation payable and accrued wages. These increases have occurred due to certain employees foregoing their vacation time until later in 2003. The change in cash flows used in investing activities of $402,795 was primarily due to the purchase of equipment

required to test our nonvolatile semiconductor memory products and software acquired for research and development activities. The cash flows provided by financing activities of $289,469 was due to borrowings on a line of credit of $250,000, proceeds of $150,703 for the exercise of stock options by certain employees of the Company less payments on a capital lease obligation of $111,187.

The change in cash flows for the nine months ended September 30, 2002 used in operating activities was primarily a result of a net loss of $710,214, which is offset by $314,347 in depreciation and amortization, a decrease in accrued expenses of $101,263, increases in accounts receivable, allowance accounts, prepaid expenses and other and deferred revenue of $139,244, $40,087, $4,469, and $2,500, respectively. The $357,698 increase in inventory and the $581,027 decrease of accounts payable are primarily due to the timing of raw materials received within the period. Materials were received and paid for early in the period, but due to soft market demand, have not been fully consumed, resulting in larger inventory levels. The change in cash flows used in investing activities of $123,132 was 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 the $3,000,000, net of $116,175 in financing fees, received from Renaissance, borrowings and payments on notes payable and a capital lease obligation and the exercise of stock options by employees of the Company.

ACCOUNTING STATEMENTS

In April 2002, the FASB approved for issuance Statements of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds previous accounting guidance, which required all gains and losses from extinguishment of debt be classified as an extraordinary item. Under SFAS 145 classification of debt extinguishment depends on the facts and circumstances of the transaction. SFAS 145 is effective for fiscal years beginning after May 15, 2002 and adoption is not expected to have a material effect on the Company's financial position or results of its operations.

In July 2002, the FASB issued Statements of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material effect on the Company's financial position or results of its operations.

In December 2002, the FASB issued Statements of Financial Accounting Standards No.148, "Accounting for Stock-Based compensation - Transition and Disclosure - an amendment of FASB Statement 123" (SFAS 123). For entities that change their accounting for stock-based compensation from the intrinsic method to the fair value method under SFAS 123, the fair value method is to be applied prospectively to those awards granted after the beginning of the period of adoption (the prospective method). The amendment permits two additional transition methods for adoption of the fair value method. In addition to the prospective method, the entity can choose to either (i) restate all periods presented (retroactive restatement method) or (ii) recognize compensation cost from the beginning of the fiscal year of adoption as if the fair value method had been used to account for awards (modified prospective method). For fiscal years beginning December 15, 2003, the prospective method will no longer be allowed. The Company currently accounts for its stock-based compensation using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and plans on continuing using this method to account for stock options , therefore, it does not intend to adopt the transition requirements as specified in SFAS 148. The Company has adopted the new disclosure requirements of SFAS 148 in these financial statements.

In April 2003, the FASB issued Statements of Financial Accounting Standards No. 149, an amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Management does not believe that the adoption of SFAS No. 149 will have a material impact on its financial position or results of operations.

In May 2003, the FASB issued Statements of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Management believes the adoption of SFAS No. 150 will have no immediate impact on its financial position or results of operations.

The FASB issued Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, in November 2002 and FIN No. 46, Consolidation of variable Interest Entities, in January 2003. FIN No. 45 is applicable on a prospective basis for initial recognition and measurement provisions to guarantees issued after December 2002; however, disclosure requirements are effective immediately. FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee and expands the required disclosures to be made by the guarantor about its obligation under certain guarantees that it has issued. The adoption of FIN No. 45 did not have a material impact on the Company's financial position or results of operations. FIN No. 46 requires that a company that controls another entity through interest other than voting interest should consolidate such controlled entity in all cases for interim periods beginning after June 15, 2003. Management does not believe the adoption of FIN No. 46 will have a material impact on its financial position or results of operations.

ITEM 3: CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Douglas Mitchell, who serves as the Company's chief executive officer and chief financial officer (acting), after evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of September 30, 2003, the end of the period covered by this report (the "Evaluation Date"), concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by individuals within those entities, particularly during the period in which this quarterly report was being prepared.

(b) Changes in internal controls.

During the period covered by this report, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

SIMTEK CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Changes in Securities AND Use of Proceeds -

(a) None.

(b) None.

(c) Pursuant to a Convertible Loan Agreement, dated as of June 28, 2002, the Company issued convertible debentures to Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC on July 1, 2002. The Company received $3,000,000 in funding. The convertible debentures have 7-year terms at a 7.5% per annum interest rate; each fund equally invested $1,000,000. The holder of the debentures has the right, at any time, to convert all, or in multiples of $100,000, any part of the debenture into shares of our common stock. The debentures are convertible into the Company's common stock at $0.312 per share. Each purchaser of the debentures was an accredited investor. No general solicitation or advertising occurred and the issuance was exempt from registration pursuant to Section 4(2) of the Securities Act. The Company used the proceeds from this offering for general corporate purposes. Pursuant to the terms of the Convertible Loan Agreement, the Company filed a registration statement on Form SB-2 (SEC File No. 333-104854) on August 27, 2003 with respect to the resale of the common stock into which the debentures are convertible. The Company did not receive any proceeds from such resale Form SB-2 registration statement.

Item 3. Defaults upon Senior Securities - On July 1, 2002, the Company received $3,000,000 in a financing transaction with affiliates of Renaissance Capital of Dallas, Texas ("Renaissance"). The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate. At September

30, 2003, the Company was in non-compliance of two of the covenants set forth in the loan agreement. The Company has received a waiver from Renaissance through December 31, 2004 for one of the covenants and a modification to the loan agreement of the other covenant. The waiver and modification are effective through December 31, 2004. The Company is currently in compliance with the modification, however the Company cannot predict with certainty it will remain in compliance. Therefore, the Company is showing the entire $3,000,000 as a current liability as of September 30, 2003.

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

10.24	Securities Purchase Agreement between Simtek Corporation and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth and Income Trust, PLC and BFSUS Special Opportunities Trust, PLC(1)
10.25	Form of $1.25 Stock Purchase Warrant(1)

10.26	Form of $1.50 Stock Purchase Warrant(1)
Exhibit 31	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from the Current Report on Form 8-K filed by the Company with the SEC on November 12, 2003.

(b) Reports on Form 8-K -

During the three months ended September 30, 2003, the Company filed the following reports on Form 8-K:

Form 8-K filed August 14, 2003 - Item 5: Other information: "Press Release dated August 14, 2003 Simtek Updates Investors on New 1 MBIT nv SRAM Development", Item 7: Financial Statements and Exhibits and Item 12: Results of Operations and Financial Condition

Form 8-K filed September 8, 2003 - Item 5: Other information: "Press Release dated September 8, 2003 Simtek Moves to Sampling Stage for 1 MegaBit nvSRAM Initial Product Offering"

SIMTEK CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

November 13, 2003 By /s/Douglas Mitchell

DOUGLAS MITCHELL
Chief Executive Officer, President
and Chief Financial Officer (Acting)