SIMTEK CORP
Form 10-Q
May 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(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, 2005

[ ] Transition Report Under Section 13 or 15(d) of the Exchange Act

Commission file number 0-19027

SIMTEK CORPORATION
(Exact name of registrant as specified in its charter)

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

4250 Buckingham Dr. #100; Colorado Springs, CO 80907
(Address of principal executive offices)(Zip Code)

(719) 531-9444
(Registrant's telephone number)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _____ No X

The total number of shares of Common Stock issued and outstanding as of May 12, 2005 was 69,868,168.

SIMTEK CORPORATION

INDEX

For the Quarter Ended March 31, 2005

SIMTEK CORPORATION
CONSDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2005 (Unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,456,201
Accounts receivable - trade, net	1,661,737
Inventory, net	2,351,381
Prepaid expenses and other current assets	108,696
Total current assets	5,578,015
EQUIPMENT AND FURNITURE, net	1,025,901
DEFERRED FINANCING COSTS	70,535
OTHER ASSETS	27,180
TOTAL ASSETS	$ 6,701,631

LIABILITES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 1,839,206
Accrued expenses	479,544
Accrued vacation payable	225,856
Accrued wages	71,373
Obligation under capital leases	50,951
Debentures, current	286,854
Total current liabilities	2,953,784
DEBENTURES, NET OF CURRENT	2,713,146
OBLIGATIONS UNDER CAPITAL LEASES, NET OF CURRENT PORTION	--
Total liabilities	5,666,930
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Preferred stock, $1.00 par value; 2,000,000 shares authorized, none issued	--
Common stock, $.01 par value; 300,000,000 shares authorized, 63,057,936 and 62,881,679 shares issued and outstanding at March 31, 2005 and December 31, 2005, respectively	630,579
Additional paid-in capital	41,834,812
Treasury stock, at cost; 10,000 shares	(12,504)
Accumulated deficit	(41,418,186)
Total shareholders' equity	1,034,701
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,701,631

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

SIMTEK CORPORATION
CONDENDSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ende
	2005
NET SALES	$ 3,473,990
Cost of sales	2,334,689
GROSS MARGIN	1,139,301
OPERATING EXPENSES:	
Research and development costs	1,294,400
Sales and marketing	468,066
General and administrative	335,890
Total operating expenses	2,098,356
LOSS FROM OPERATIONS	(959,055)
OTHER INCOME (EXPENSE):	
Interest income	5,207
Interest expense	(58,032)
Other expense	(800)
Total other income (expense)	(53,625)
LOSS BEFORE PROVISION FOR INCOME TAXES	$ (1,012,680)
Provision for income taxes	--
NET LOSS	$ (1,012,680)
NET LOSS PER COMMON SHARE:	
Basic and diluted EPS	$ (.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:	
Basic and diluted	62,934,158

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

SIMTEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months En
	2005
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(1,012,680)
Adjustments to reconcile net loss to net cash used in operating Activities:	
Depreciation and amortization	132,031
Loss on disposal of assets	--
Net change in allowance accounts	49,425
Deferred financing fees	4,149
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	1,133,846
Inventory	(500,366)
Prepaid expenses and other	22,403
Increase (decrease) in:	
Accounts payable	(283,717)
Accrued expenses	(72,994)
Net cash used in operating activities	(527,903)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment and furniture, net	(208,872)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on notes payable and line of credit	--
Payments on capital lease obligation	(12,269)
Exercise of stock options	58,455
Net cash provided by financing activities	46,186
NET DECREASE IN CASH AND CASH EQUIVALENTS	(690,589)
CASH AND CASH EQUIVALENTS, beginning of period	2,146,790
CASH AND CASH EQUIVALENTS, end of period	$ 1,456,201
Cash paid for interest	$ 56,908

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

SIMTEK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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 or 10-KSB 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-KSB and Annual Report and Form 10-KSB/A for Simtek Corporation ("Simtek" or the "Company") filed on March 17, 2005 and May 11, 2005, respectively for fiscal year 2004.

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

As permitted under the SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for its stock-based compensation in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As such, compensation expense is recorded on the date of grant if the current market price of the underlying stock exceeds the exercise price. Certain pro forma net loss and EPS disclosures for employee stock option grants are included below as if the fair value method as defined in SFAS No. 123 had been applied. Transactions in equity instruments with non-employees for goods or services are accounted for by the fair value method.

Had compensation cost been determined based on the fair value at the grant dates for awards under employee stock based compensation plans consistent with the fair value method, the Company's net loss and EPS would have been increased to the pro forma amounts indicated below.

	Three Months Ended March	
	2005	2004
Net loss as reported	$ (1,012,680)	$ (1,037
Add: Stock based compensation included in reported Net loss	-	
Deduct: Fair value of stock based compensation	(140,853)	(177
Proforma net loss	$ (1,153,533)	$ (1,214
Net loss as reported - basic and diluted	$ (.02)	$
Proforma net loss - basic and diluted	$ (.02)	$

The fair value of each option granted in three months ending March 31, 2005 and 2004 were estimated on the date of grant using the Black-Scholes option-pricing model with the following:

	Three Months Ended March 31,	
	2005	2004
Expected volatility	82.93%	122.2%
Risk-free interest rate	3.39%	2.0%
Expected dividends	-	-
Expected terms (in years)	4.0	4.0

SIMTEK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. LIQUIDITY

During the three months ended March 31, 2005 and the twelve months ended December 31, 2004, the Company incurred a net loss of approximately $1,013,000 and $3,670,000, respectively and has an accumulated deficit of $41,418,000 as of March 31, 2005. The Company was also not in compliance with its debentures throughout 2004 and the first three months of 2005, but was successful in obtaining waivers through April 1, 2006 from the debenture holders. The Company has working capital of approximately $2,624,000 as of March 31, 2005.

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 achieve profitable operations in 2005 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. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) is effective for public companies for annual periods beginning after June 15, 2005, supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows.

SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The new standard will be effective for us beginning January 1, 2006. We have not yet completed our evaluation but expect the adoption to have an effect on the financial statements similar to the pro-forma effects reported above.

4. REVENUE RECOGNITION

Revenue Recognition, Semiconductor Products - 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), including distributors. Based on historic business with the majority of the Company's customers and, in the case of new customers, 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 price. 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 we have issued under these reserves.

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

5. Inventories

The Company records inventory using the lower of cost (first-in, first-out) or market. Inventory at March 31, 2005 and December 31, 2004 included:

	March 31, 2005	December 31, 2004
Raw Materials	$ 70,211	$ 68,955
Work in progress	1,831,113	1,765,044
Finished Goods	637,464	204,423
	2,538,788	2,038,422
Less reserves for excess inventory	(187,407)	(168,580)

	$ 2,351,381	$ 1,869,842

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 BFSUS Special Opportunities Trust PLC. RENN Capital Group, Inc. is the agent for these 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 common stock. The debentures are convertible into Simtek common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. Based on the conversion rate of $0.312 per share, it would entitle each fund to 3,205,128 shares of Simtek common stock. From March 1, 2003 through March 31, 2005, the Company was not in compliance with two of the covenants set forth in the loan agreement. These covenants relate to the interest coverage ratio and debt to equity ratio. On May 10, 2005, the Company received a waiver for the two covenants through April 1, 2006. However, significant variances in future actual operations from the Company's current estimates could result in the reclassification of this note to current liabilities. If the Company is in default of the covenants for a period of 30 days it is considered a default under the debenture agreement and the lender may declare the unpaid principal amount and all accrued interest thereon due and payable. In addition, if the Company defaults under the debenture agreement the lender may, among other things, foreclose on our collateral on which it has a security interest. The lender has a security interest in substantially all of our assets.

If the debentures are not redeemed prior to June 28, 2005, the Company is required to begin making principal installment payments on a monthly basis. The amount of each installment will be $10 per $1,000 of the remaining principal amount. We have classified the total amount of the expected payments to be made over the next twelve months as a current liability.

7. GEOGRAPHIC CONCENTRATION

Sales of the Company's semiconductor products by location for the three months ended March 31, 2005 and 2004 were as follows (as a percentage of semiconductor product sales only):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
United States	28%	41%
Europe	17%	10%

Far East	44%	43%
All Others	11%	6%
	100%	100%

8. BUSINESS SEGMENTS

The Company has two reportable segments. One segment designs and produces semiconductor devices for sale into the semiconductor market. The second segment, Q-DOT Group, Inc., which is operated as a wholly-owned subsidiary, 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 by segment. Substantially all of the Company's assets are located in the United States of America.

Description	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net Sales:		
Semiconductor Devices	$ 2,975,895	$ 2,935,669
Government Contracts	498,095	563,166
Total	$ 3,473,990	$ 3,498,835
Net Profit (Loss):		
Semiconductor Devices	$ (986,385)	$ (1,066,984)
Government Contracts	(26,295)	29,863
Total	$ (1,012,680)	$ (1,037,121)

9. SUBSEQUENT EVENTS

On May 5, 2005, the Company closed a Production and Development Agreement with Cypress Semiconductor Corporation, or Cypress, to jointly develop a 0.13-micron Silicon-Oxide-Nitride-Oxide-Silicon (SONOS) nonvolatile memory process. The Company and Cypress will work together to add the SONOS nonvolatile capability to Cypress's baseline CMOS process, which is in production at its

Minnesota wafer fabrication plant. The Company will use the technology to produce a family of 4-megabit nvSRAM and Value-Added-Memory products. In connection with the Production and Development Agreement, the Company and Cypress closed a Share Purchase Agreement on May 5, 2005, pursuant to which Cypress purchased 6,740,816 shares of the Company's common stock for $4,000,000 and acquired a warrant to purchase 5,055,612 shares of the Company's common stock at an exercise price of $0.7772. The warrant has a ten-year term. The Company and Cypress also entered into an Escrow Agreement pursuant to which the Company deposited $3 million into an escrow account in order to support and make certain payments for the 0.13-micron SONOS process and product developments.

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, among other factors. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

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, revenues and expenses and the related disclosures. Our accounting policies are discussed in Note 1 of the Notes to Consolidated Financial Statements included in our 2004 Form 10-KSB. 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 of 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 us 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.

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 distributor inventory levels. The contracts we have with our distributors allow them to return to us up to 5% of their inventory in exchange for inventory that better meets their demands. We believe that our processes to adequately predict our allowance for sales returns are effective in quantifying our exposures due to industry or specific customer conditions. At times, we are required to allow our distributors to lower the selling price of a specific device in order to meet competition. 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 to adequately predict our allowance for distributor price reductions are effective in quantifying our exposures due to industry or specific customer conditions.

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 revenues 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 have various government contracts that are subject to audit by the United States Government. However, audits for the periods ending December 31, 2003 and December 31, 2004 have not been completed. In addition, certain of these contracts are based on our estimate as to their percentage of completion as of the balance sheet date. Our historical experience has not resulted in a material adjustment to prior recorded revenue amounts.

We have recorded a valuation allowance on deferred tax assets. Future operations may change our estimate in connection with potential utilization of these assets.

Overview

Total unit shipments of our semiconductor memory products were essentially the same for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. Our net revenue was $3,474,000 for the three months ended March 31, 2005 down from the $3,499,000 for the comparable period of 2004. This decrease was due primarily to a decrease in revenue from the research and development contracts portion of our business.

Increased operating expenses had an impact on our profitability for the three months ended March 31, 2005 compared to the three months ended March 31, 2004 which were offset by higher gross profit margins.

Results of Operations:

Revenues - Semiconductor Devices.

The following table sets forth our net revenues for semiconductor devices by product markets for the three months ended March 31, 2005 and 2004 (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Variance
Commercial	$ 2,407	$ 2,500	$ (93)
High-end industrial and military	569	436	$ 133
Total Semiconductor Revenue	$ 2,976	$ 2,936	$ 40

Commercial revenues include revenue generated from our legacy products (products built on silicon wafers received from Chartered) and from our 25 micron products (products built on silicon wafers received from DongbuAnam). Commercial revenues decreased by $93,000 for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The decrease was primarily due to a decrease in average selling prices, which was primarily due to increased price competition at our largest, high-volume customers and their subcontractors.

High-end industrial and military product revenues accounted for an increase of approximately $133,000 for the three months ended March 31, 2005 as compared to the same period in 2004. The increase was due primarily to completing shipments of our nonvolatile semiconductor memory products against on-going military contracts.

Three distributors accounted for approximately 52% of our semiconductor devices product sales for the quarter ended March 31, 2005. Products sold to distributors are sold without material recourse. Distributors sell our products to various end customers. If one of these distributors was to terminate its relationship with us, we believe that there would not be a material impact on our product sales.

Cost of Sales and Gross Margin - Semiconductor devices

We recorded cost of sales for semiconductor devices of $2,071,000 and $2,113,000 for the three months ended March 31, 2005 and 2004, respectively. These costs reflect an approximate 5% increase in gross margin percentages for the three months ended March 31, 2005 as compared to the same period in 2004. Actual gross margin percentages for the three months ended March 31, 2005 and March 31, 2004 were 33% and 28% respectively. This increase was due primarily to increased sales of high-end industrial and military products and decreased production costs of our commercial products.

During the first three months of 2005, we purchased all of our silicon wafers to produce 0.8 micron nonvolatile static random access memory products from a single supplier, Chartered, to support sales of our nonvolatile semiconductor memory products. Sales of products built on these wafers accounted for approximately 92% of our semiconductor product revenue for the first three months of 2005. We purchased silicon wafers to produce our family of 1-megabit nonvolatile static random access memory products built on 0.25 micron technology from DongbuAnam. Sales of the 1-megabit semiconductor products built on these wafers accounted for approximately 8% of our semiconductor product revenue for the first three months of 2005.

Research and Development - Semiconductor devices

We believe 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, our research and development department has been focusing its efforts on developing a 3-volt 256-kilobit nonvolatile semiconductor memory

and the installation of our process at DongbuAnam for the development of a 1-megabit 3-volt nonvolatile semiconductor memory. Currently, our research and development department has been focusing on yield improvement and qualification of our 1-megabit 3-volt nonvolatile semiconductor memory product family. We are currently shipping our family of 1-megabit nonvolatile semiconductor memory products tested to production requirements on a provisional qualification and plan to have qualification complete in mid-2005.

Total research and development expenses related to the semiconductor portion of our business were $1,145,000 for the three months ended March 31, 2005 as compared to $1,204,000 for the same period in 2004.

The $59,000 decrease for the three month period was related to increases in payroll and payroll overhead costs of $52,000 and a $28,000 increase in equipment leases and maintenance agreements for software and depreciation. These increases were offset by decreases in product development costs of $137,000 and miscellaneous other expenses of $2,000. The $52,000 increase in payroll and payroll overhead costs and $28,000 increase in equipment leases and maintenance agreements was a direct result of increased headcount. The $137,000 decrease in product development costs was primarily due to the 1-megabit product family becoming suitable for production purposes and a decrease in product development costs related to our data-communication products

Administration - Semiconductor Devices

Total administration expenses related to the semiconductor portion of our business were $293,000 for the three months ended March 31, 2005 as compared to $247,000 for the same period in 2004.

The $46,000 increase was due primarily to an increase in professional services, director's compensation, and an increase in payroll costs. During this period an extensive market study was performed by our Chairman, Harold Blomquist, under contract to validate our nonvolatile memory market opportunity and product development direction

Marketing - Semiconductor Devices

Total marketing expenses related to the semiconductor portion of our business were $401,000 for the three months ended March 31, 2005 as compared to $385,000 for the same period in 2004.

The $16,000 increase was due primarily to an increase in payroll and payroll overhead costs of $52,000 and a decrease of $36,000 in sales commissions and miscellaneous other expenses. The increase in payroll was a direct result of headcount additions.

Net Loss - Semiconductor Devices

We recorded a net loss of approximately $1,013,000 and $1,037,000 for the three months ended March 31, 2005 and 2004, respectively, for semiconductor devices. The decrease of $24,000 was due primarily to the net effect of increased gross margins more than offsetting an increase in operating expenses.

Revenues - Government Contracts

The following table sets forth our net revenue from our government contracts portion of our business for the three months ended March 31, 2005 and 2004 (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Variance
Government Contracts	$ 498	$ 563	$ (65)

The decrease of revenue for the three-month period ending March 31, 2005 was the result of a decrease in allowable billable hours and a decrease in materials and services that were invoiced against development contracts.

Costs of Sales and Gross Margin - Government Contracts

The costs of sales for the government contracts portion of our business were $263,000 and $317,000 for the three months ended March 31, 2005 and March 31, 2004, respectively. These were equivalent to gross margin percentages of approximately 47 % and 43%, respectively. The increase in gross margin percentage was primarily due to a decrease in actual materials and services consumed that are related to certain contracts. Materials and services have a minimal profit margin.

Research and Development - Government Contracts

Total research and development expenses related to the government contracts portion of our business were $149,000 and $109,000 for the three months ended March 31, 2005 and 2004, respectively.

The $40,000 increase for the three-month period as compared to the same period in 2004 was related to increases in employee related expenses of $30,000 and $10,000 for maintenance agreements for software. The $30,000 increase in employee related expenses was due to training expense for new employees and less overhead that was transferred to the semiconductor portion of the business in the first three months of 2005 as compared to the first three months in 2004.

Administration - Government Contracts

Total administration expenses related to the government contracts portion of our business were $43,000 and $31,000 for the three months ended March 31, 2005 and 2004, respectively.

The $12,000 increase in administration costs related to the government contracts portion was primarily due to increased payroll and payroll related expenses. In the first three months of 2004, personnel from the government contract subsidiary performed more work for the semiconductor portion of the business, thus reducing its administration expenses in the three month period ending March 31, 2004.

Marketing - Government Contracts

Total marketing expenses related to the government contracts portion of our business were $67,000 and $72,000 for the three months ended March 31, 2005 and 2004, respectively. The $5,000 decrease was due to reduced labor being charged to marketing activities.

Net Income (Loss) - Government Contracts

We recorded a net loss of $27,000 for the three months ended March 31, 2005 as compared to a net income of $30,000 for the three months ended March 31, 2004

for the government contracts portion of our business. The increase in net loss was due primarily to decreased revenue and an increase in research and development costs.

Liquidity and Capital Resources

As of March 31, 2005, we had a net working capital of $2,624,231 as compared to a net working capital of $4,319,543 as of March 31, 2004.

On May 5, 2005, we closed a Production and Development Agreement with Cypress Semiconductor Corporation, or Cypress, to jointly develop a 0.13-micron Silicon-Oxide-Nitride-Oxide-Silicon (SONOS) nonvolatile memory process. We will work with Cypress to add the SONOS nonvolatile capability to Cypress's baseline CMOS process, which is in production at its Minnesota wafer fabrication plant. We will use the technology to produce a family of 4-megabit nvSRAM and Value-Added-Memory products. In connection with the Production and Development Agreement, we closed a Share Purchase Agreement with Cypress on May 5, 2005, pursuant to which Cypress purchased 6,740,816 shares of our common stock for $4,000,000 and acquired a warrant to purchase 5,055,612 shares of our common stock at an exercise price of $0.7772. The warrant has a ten-year term. We also entered into an Escrow Agreement with Cypress pursuant to which we deposited $3 million into an escrow account in order to support and make certain payments for the 0.13-micron SONOS process and product developments.

On October 12, 2004, we closed a $2,500,000 equity financing with three separate investment funds, SF Capital Partners, Ltd., Bluegrass Growth Fund LP and Bluegrass Growth Fund LTD. In exchange for the $2,500,000, we issued 4,127,967 shares of our common stock to SF Capital Partners, Ltd, 515,996 shares of our common stock to Bluegrass Growth Fund LP and 515,996 shares of our common stock to Bluegrass Growth Fund LTD. The purchase price was based on a 15% discount to the closing price of our common stock as reported on the Over-the-Counter Bulletin Board on October 11, 2004, resulting in a price of $0.4845 per share. In addition to the shares of common stock, SF Capital Partners Ltd., Bluegrass Growth Fund LP, and Bluegrass Growth Fund LTD received warrants to acquire 2,063,984, 257,998, and 257,998 shares of our common stock, respectively. The warrants have a 5-year term with an exercise price of $0.627 per share. Merriman Curhan Ford & Co., the placement agent for the $2,500,000 equity financing received a cash payment of $187,500 and warrants to acquire 386,997 shares of our common stock.

On November 7, 2003, we closed a $1,500,000 equity financing with RENN

Capital. In exchange for the $1,500,000, we issued 550,661 shares of our common stock to each of the three investment funds for a total of 1,651,982 shares of our common stock. The purchase price was based on the average closing price of our 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 our 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, we received $3,000,000 in a financing transaction with RENN Capital pursuant to a Convertible Loan Agreement. One of our directors holds the position of Senior Vice President of RENN Capital Group. From April 1, 2003 through March 31, 2005, we were not in compliance with two of the covenants set forth in the loan agreement, which covenants relate to the interest coverage ratio and debt to equity ratio. On May 10, 2005, we received a waiver for the two covenants through April 1, 2006. However, significant variances in future actual operations from our current estimates could result in the reclassification of this note to current liabilities.

Cash flows used in operating activities for the three months ended March 31, 2005 decreased approximately $475,000 as compared to the same period in 2004. The decrease was due primarily to inventory increases of $500,000 and

decreases in accounts payable and accrued expenses of $360,000 since the end of 2004. This compares to increases of $960,000 in inventory and $910,000 in accounts payable and accrued expenses for the same period in 2004. The increase in inventory for the three months ended March 31, 2005 was due primarily to increased purchases of raw materials to ramp production of our 1-megabit family of nonvolatile semiconductor memory products. Over the next six months, we expect to continue our effort to lower the inventory levels of our 0.8-micron family of nonvolatile semiconductor memory products. The increase in accounts payable and accrued expenses for the three months ended March 31, 2005 was a direct result of the increase in inventory levels.

Accounts receivable and prepaid expenses decreased approximately $1,155,000 since the end of 2004. This compares to decreases of $55,000 in accounts receivable and prepaid expenses for the same period in 2004. The decrease in accounts receivable was primarily the result of decreased revenue in the first three months of 2005 as compared to the last three months of 2004.

Cash flows used in investing activities increased by approximately $150,000 as compared to the same period in 2004. The increase was due to the purchase of equipment related to the testing of our nonvolatile semiconductor memory products.

Cash flows provided by financing activities increased approximately $45,000 as compared to the same period in 2004. The increase was due primarily to the completion of payments on a line of credit that occurred in the three-month period ending 2004 as compared to the three months ending 2005. Cash received from the exercise of employee stock options decreased $130,000 in the first three months of 2005 as compared to the same period in 2004.

Short-term liquidity.

Our cash balance at March 31, 2005 was $1,456,201.

Our future liquidity will depend on our revenue growth and our ability to sell our products at positive gross margins and control of our operating expenses. Through December 31, 2005, we expect to spend approximately $6,000,000 for operating expenses assuming revenue growth. We expect to meet these capital needs from sales revenues and, to the extent we do not have sufficient revenues, from our existing cash reserves.

Long-term liquidity.

The Company continues to evaluate its long term liquidity. The Company's growth plans may require additional funding from outside sources. The Company is in ongoing discussions with investment banking organizations 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% over the term of the debentures. As such, changes in interest rates will 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 chief financial officer (acting), 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 months ended March 31, 2005, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

SIMTEK CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - 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 - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

Form 8-K filed March 17, 2005 - Item 7.01: Other information: Press Release of Simtek Corporation, dated March 17, 2005, Simtek Reports 2004 Fourth Quarter and Year End Financial Results.

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, 2005

By: /s/ Harold Blomquist

HAROLD BLOMQUIST
Chief Executive Officer, President
and Chief Financial Officer (Acting)

21