SIMTEK CORP
Form 10-Q
May 15, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 2008

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period from __________ to __________

Commission file number 0-19027

SIMTEK CORPORATION

(Exact name of registrant as specified in its charter)

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

4250 Buckingham Drive, Suite 100
Colorado Springs, Colorado 80907
(Address of principal executive offices) (Zip Code)

(719) 531-9444

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

(Do not check if smaller reporting company)

Indicated by check mark whether the registrant is a shell company (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 14, 2008, was 16,550,277.

SIMTEK CORPORATION

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PART I. FINANCIAL INFORMATION

SIMTEK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except par value and share amounts)

ASSETS

	March 31, 2008	December 31, 2007
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	$ 3,737	$ 4,387
Restricted investments	938	991
Accounts receivable - trade, net	4,289	5,222
Inventory, net	5,542	5,698
Prepaid expenses and other current assets	905	910

Total current assets	15,411	17,208
EQUIPMENT AND FURNITURE, net	2,266	1,987
DEFERRED FINANCING COSTS AND DEBT ISSUANCE COSTS	7	15
GOODWILL	992	992
NON-COMPETITION AGREEMENT, net	4,899	5,344
OTHER ASSETS	202	240
TOTAL ASSETS	$ 23,777	$ 25,786

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 2,514	$ 2,827
Accrued expenses	1,315	943
Accrued vacation payable	392	357
Accrued wages	101	179
Line of credit	413	543
Obligation under capital leases	12	21
Debentures, current	480	480
Total current liabilities	5,227	5,350
DEBENTURES, NET OF CURRENT	1,620	1,620
Total liabilities	6,847	6,970
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.0001 par value; 200,000 shares authorized, none issued	-	-
Common stock, $.0001 par value; 30,000,000 shares authorized, 16,533,719 and 16,532,719 shares issued and outstanding at March 31, 2008 and 16,516,419 and 16,515,419 shares issued and outstanding at December 31, 2007	2	2
Additional paid-in capital	69,880	69,453
Treasury stock, at cost; 1,000 shares	(1)	(1)
Accumulated deficit	(53,421)	(50,966)
Accumulated other comprehensive income:		
Cumulative translation adjustment	470	328
Total shareholders' equity	16,930	18,816

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 23,777	$ 25,786

See accompanying notes to these consolidated financial statements.

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SIMTEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	For the three months ended March 31,	
	2008	2007
REVENUE		
Product sales, net	$ 7,315	$ 7,867
Total Revenue	7,315	7,867
Cost of sales	4,165	4,435
GROSS PROFIT	3,150	3,432
OPERATING EXPENSES:		
Research and development costs	2,649	1,613
Sales and marketing	1,531	1,152
General and administrative	1,375	1,109
Total operating expenses	5,555	3,874

LOSS FROM OPERATIONS	(2,405)	(442)
OTHER INCOME (EXPENSE):		
Interest income	24	49
Interest expense	(91)	(98)
Exchange rate variance	(54)	12
Other expense	89	-
Total other expense	(32)	(37)
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,437)	(479)
Provision for income taxes	(18)	(11)
NET LOSS	$	$
	(2,455)	(490)
NET LOSS PER COMMON SHARE:		
Basic and diluted	$	$
	(.15)	(.03)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	16,533,529	16,211,671

See accompanying notes to these consolidated financial statements.

SIMTEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Amounts in thousands)

	Three Months Ended March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,455)	$ (490)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	200	159
Amortization	16	17
Loss on disposal of assets	3	-
Stock based compensation expense	392	279
Amortization of non-competition agreement	445	446
Net allowance accounts	(446)	392
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,054	322
Inventory	568	(1,635)
Prepaid expenses and other	56	(155)
Increase (decrease) in:		
Accounts payable	(317)	170
Accrued expenses	163	(1,079)
Net cash used in operating activities	(321)	(1,574)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and furniture, net	(449)	(311)
Patents	(6)	(14)
Transfers from restricted cash	54	-
Net cash used in investing activities	(401)	(325)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(9)	-
Proceeds from employee stock purchase plan	35	-
Proceeds from warrant exercises	-	222
Exercise of stock options	-	3
Net cash provided by financing activities	26	225

Effect of exchange rate changes on cash	46	28
NET CHANGE IN CASH AND CASH EQUIVALENTS	(650)	(1,646)
CASH AND CASH EQUIVALENTS, beginning of period	4,387	4,522
CASH AND CASH EQUIVALENTS, end of period	$ 3,737	$ 2,876
Cash paid for interest	$ 82	$ 86

See accompanying notes to these consolidated financial statements.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.

Basis of Presentation

The consolidated financial statements include the accounts of Simtek Corporation (Simtek or the Company) and its wholly-owned and majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated. The financial statements included herein are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally made in the registrant's annual Form 10-K filing. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report and Form 10-K for Simtek filed on March 26, 2008 for fiscal year 2007.

On February 19, 2008, the Company announced the formation of its majority owned subsidiary, AgigA Tech, Inc., a Delaware corporation (AgigA). AgigA plans to focus on the development and commercialization of low-cost, ultra-high density, nonvolatile random access memory (NVRAM) solutions.

Simtek owns all of the convertible preferred stock of AgigA, which gives it voting control of AgigA and substantially all of the economic interests in AgigA until the occurrence of certain liquidity events. The minority stockholders are certain employees of AgigA. In addition, as is customary for emerging growth companies, a total of 25% of the equity has been set aside for issuance to employees and others in connection with services to be rendered.

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

Stock-Based Compensation

Equity Incentive Plan.

At the annual meeting on June 14, 2007, the Company s shareholders approved a new Equity Incentive Plan (the 2007 EIP) that authorizes 2,800,000 shares that may be granted under either incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986 (the Code), nonqualified stock options, restricted stock awards or other stock grants. The 2007 EIP became effective on June 15, 2007. With the approval of the 2007 EIP, the Company does not intend to grant further options under the Non-Qualified Stock Option Plan described below; however, options outstanding under that plan remain outstanding until they are exercised or expire by their terms. The 2007 EIP provides that the maximum number of shares with respect to which an individual can receive a grant of options in a calendar year is 500,000 shares. Options may be granted to key employees, consultants, and non-employee directors. The 2007 EIP provides that an individual can receive grants of both incentive options and nonqualified options. However, only employees may be granted incentive options. The minimum exercise price for options is 100% of the fair market value of the Company s stock on the date of grant and a maximum term of 10 years. Generally, upon termination of employment or service, options expire three months after termination. Incentive options granted to an employee who holds more than 10% of the Company s stock must have an exercise price of at least 110% of the fair market value of the Company s stock on the date of grant and a maximum term of no more than 5 years.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Compensation Committee (the Committee) of the Board of Directors administers the 2007 EIP with respect to grants to employees, consultants and non-employee directors. With respect to grants to officers and directors, the Committee is constituted in a manner that satisfies applicable laws and regulations, including Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and Code section 162(m). The 2007 EIP also provides that the full board of directors can perform any function of the Committee, subject to the requirements of the NASDAQ rules and Code section 162(m). The Committee has the authority to delegate to specified officers of the Company the grants of stock options and other awards to specified employees of the Company, and the Committee has delegated such grant-making authority.

Each option granted under the 2007 EIP is evidenced by a written stock option agreement. Each option holder shall become vested in the shares underlying the option in such installments and over such period or periods of time, if any, or upon such events, as are determined by the Committee in its discretion and set forth in the option agreement. As of March 31, 2008, 1,149,825 non-qualified stock options had been granted under the 2007 EIP. All options granted under the 2007 EIP during the first quarter of 2008 will expire seven years from the grant date. Vesting of the options is as follows:

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

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

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

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

The Committee may grant a participant a number of shares of restricted stock as determined by the Committee in its sole discretion. Grants of restricted stock may be subject to such restrictions, including for example, continuous employment with the Company for a stated period of time or the attainment of performance goals and objectives, as determined by the Committee in its sole discretion. The restrictions may vary among awards and participants. As of March 31, 2008, no grants of restricted stock awards had occurred under the 2007 EIP.

From time to time, in its sole discretion, the Committee may grant awards under the 2007 EIP in connection with one or more incentive compensation arrangements under which participants may acquire shares of common stock by purchase, grant, or otherwise. All such awards are subject to the terms of the 2007 EIP. As of March 31, 2008, no such stock awards had occurred under the 2007 EIP.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Purchase Plan.

On July 1, 2007, the Simtek Corporation Employee Stock Purchase Plan (ESPP), which was approved by the shareholders at the annual meeting on June 14, 2007, became effective. Under the ESPP, a broad-based group of employees can have payroll deductions of up to 10% of their pay used to purchase shares of the Company s stock on a quarterly basis. However, employees whose customary employment is for less than 20 hours per week or for less than 5 months per calendar year and employees who own more than 5% of the Company s stock are not eligible to participate. There are 500,000 shares authorized for issuance under the ESPP. The purchase price for the stock is the lesser of (1) 85% of the fair market value of the Company s stock on the first day of the calendar quarter or (2) 85% of the fair market value of the Company s stock on the last day of the calendar quarter. Employees can enroll in the ESPP as of the first day of a calendar quarter. On the first trading day after the end of the calendar quarter, shares are purchased with the payroll deductions accumulated during the calendar quarter. Upon termination of employment, the employee s participation in the ESPP will cease and amounts accumulated since the beginning of the calendar quarter and not used to purchase common stock will be refunded to the employee without interest. As of January 1, 2008, 16 employees had enrolled in the ESPP. For the quarter ended March 31, 2008, 17,300 shares of common stock were issued pursuant to the ESPP.

Non-Qualified Stock Option Plan.

Through June 13, 2007, the Company granted options under the 1994 Non-Qualified Stock Option Plan (the 1994 Plan). The 1994 Plan authorizes 2,060,000 non-qualified stock options that may be granted to directors, employees, and consultants. The 1994 Plan permits the issuance of non-statutory options and provide for a minimum exercise price equal to 100% of the fair market value of the Company's common stock on the date of grant. The maximum term of options granted under the 1994 Plan is 10 years and options granted to employees expire 90 days after the termination of employment. In 2004, the 1994 Plan was extended for 10 more years. No further options have been granted under the 1994 Plan since the 2007 EIP became effective, and the Company does not intend to issue any more options under the 1994 Plan in the future. All terms and conditions of the options granted under the 1994 Plan will remain the same. All options granted prior to March 24, 2006, began vesting after six months after the date of grant, and would become fully vested after three years and expire seven years from date of grant. On March 24, 2006, the Board of Directors changed the vesting schedule of stock options granted after March 24, 2006 to be as follows:

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

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

.

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

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

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All options will expire seven years from date of grant.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below reflects options granted and outstanding under the 1994 Plan and the 2007 EIP. Total share-based compensation recognized in the Company s consolidated statements of operations for the three months ended March 31, 2008 and 2007 are as follows:

Income Statement Classifications

	2008	2007
	(in thousands)	
Research and development	$ 134	$ 66
Sales and marketing	50	26
General and administrative	208	187
Total	$ 392	$ 279

As of March 31, 2008, there was approximately $3.3 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested options granted to the Company s employees and directors, which will be recognized through March 31, 2012. Total unrecognized compensation will be adjusted for future changes in estimated forfeitures.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option pricing model, which requires management to make certain assumptions. Expected volatility was based on the historical volatility of the Company s stock over the past 5 years. The Company based the risk-free interest rate that was used in the option valuation mode on U.S. Treasury notes. The Company does not anticipate paying cash dividends in the foreseeable future and therefore uses an expected dividend yield of 0%.

The fair value of each option granted in quarterly periods ending March 31, 2008 and 2007 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Expected volatility	81.37%	79.15%

Risk-free interest rate	2.72%	4.79%
Expected dividends	-	-
Expected terms (in years)	5.0	5.0

The weighted average fair value per share of options granted during the three months ended March 31, 2008 and 2007 was $1.71 and $3.90, respectively.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes stock options outstanding and changes during the quarterly period ended March 31, 2008.

	Outstanding Options			
	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value**
Options outstanding at January 1, 2008	1,908,233	$4.90		
Granted	532,775	2.60		$ -
Exercised	-	-		
Cancelled or forfeited	(50,169)	(5.07)		
Options outstanding at March 31, 2008	2,390,839	$4.39	4.10	
Options exercisable at March 31, 2008	996,683	$5.31	4.10	$ 37,000(1)

1) Represents the difference between the market value as of March 31, 2008 and the exercise price of the shares. The market value as of March 31, 2008 was $2.70 as reported by The NASDAQ Capital Market.

Stock options outstanding and currently exercisable at March 31, 2008 are as follows:

	Outstanding			Exercisable	
		Weighted Average			
		Remaining Contractual Life in	Weighted Average	Number	Weighted Average
Exercise Price	Number Outstanding	Months	Exercise Price	Exercisable	Exercise Price
$1.60-$2.75	640,119	57	$ 2.55	87,275	$ 2.27
$3.00-$3.70	455,985	57	$ 3.44	203,647	$ 3.40
$4.10-$4.85	674,819	69	$ 4.63	194,012	$ 4.57
$5.00-$8.30	543,307	54	$ 5.93	435,140	$ 5.93
$9.00-$15.30	76,609	36	$ 12.20	76,609	$ 12.20
	2,390,839			996,683	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Non-competition Agreement

In December 2005, the Company entered into a non-competition agreement with Zentrum Mikroelektronik Dresden AG (ZMD) as part of the acquisition of ZMD s nvSRAM product line. The Company assigned a value of $8,910,000 to the non-competition agreement in December 2005. The value assigned to the non-competition agreement is being amortized on a straight-line basis over its five-year life. The Company recorded an expense, for the amortization, of approximately $445,000 to sales and marketing for the three months ended March 31, 2008.

Goodwill

Goodwill represents the excess of the total amount paid to ZMD for the nvSRAM assets acquired on December 30, 2005 and the fair value assigned to specific assets. This amount will not be amortized, but will be reviewed for impairment on a periodic basis. As of March 31, 2008 no impairment of value has been recorded.

Accumulated other comprehensive income (loss)

The functional currency for Simtek GmbH is the local currency, the Euro. Assets and liabilities for this foreign operation are translated at the exchange rate in effect at the balance sheet date, and income and expenses are translated at average exchange rates prevailing during the period. Translation gains or losses are included within shareholders equity as part of accumulated other comprehensive income (loss). As of March 31, 2008, the Company recorded approximately $470,000 in comprehensive income.

Income Taxes

The Financial Accounting Standards Board issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 ("FIN 48") which requires reporting of taxes based on tax positions which meet a more likely than not standard and which are measured at the amount that is more likely than not to be realized. Differences between financial and tax reporting which do not meet this threshold are required to be recorded as unrecognized tax benefits. FIN 48 also provides guidance on the presentation of tax matters and the recognition of potential IRS interest and penalties. The provisions of FIN 48 were adopted by the Company on January 1, 2007, and had no effect on the Company's financial position, cash flows or results of operations upon adoption as the Company does not have any unrecognized tax benefits. The Company also evaluated its tax positions as of March 31, 2008 and reached the same conclusion.

The Company classifies penalty and interest expense related to income tax liabilities as an income tax expense. There are no interest and penalties recognized in the statement of operations or accrued on the balance sheet.

The Company files tax returns in the US, in the states of California, Colorado, Georgia and Maine and Germany. The tax years 2004 through 2007 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption is prohibited. The Company will adopt this pronouncement in the first quarter of fiscal 2009 and is currently evaluating the potential impact of this pronouncement on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial St