SIMTEK CORP
Form 10-Q
August 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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(Mark One)

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

For the Quarterly Period Ended June 30, 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 August 12, 2008, was 16,580,886 and 16,579,886, respectively.

SIMTEK CORPORATION

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SIMTEK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

ASSETS

	June 30,2008 (Unaudited)	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,649	$ 4,387
Restricted investments	937	991
Accounts receivable - trade, net	4,639	5,222
Inventory, net	4,811	5,698
Prepaid expenses and other current assets	769	910
Total current assets	13,805	17,208
EQUIPMENT AND FURNITURE, NET	2,342	1,987
DEFERRED FINANCING COSTS AND DEBT ISSUANCE COSTS	-	15
GOODWILL	992	992
NON-COMPETITION AGREEMENT, NET	4,454	5,344

OTHER ASSETS		209		240
TOTAL ASSETS	$	21,802	$	25,786

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:				
Accounts payable	$	2,528	$	2,827
Accrued expenses		1,478		943
Accrued vacation payable		369		357
Accrued wages		133		179
Line of credit		493		543
Obligation under capital leases		3		21
Debentures, current		2,100		480
Total current liabilities		7,104		5,350
DEBENTURES, NET OF CURRENT		-		1,620
Total liabilities		7,104		6,970
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY:				
Preferred stock, $0.0001 par value; 200,000 shares authorized, none issued		-		-
Common Stock, $0.0001 par value 30,000,000 shares authorized, 16,555,277 and 16,554,277 shares issued and outstanding at June 30, 2008 and 16,516,419 and 16,515,419 shares issued and outstanding at December 31, 2007		2		2
Additional paid-in capital		70,332		69,453
Treasury stock, at cost; 1,000 shares		(1)		(1)
Accumulated deficit		(56,090)		(50,966)
Accumulated other comprehensive income:		455		328
Total shareholders' equity		14,698		18,816
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	21,802	$	25,786

See accompanying notes to these consolidated financial statements.

SIMTEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
REVENUE				
Product sales, net	$ 7,519	$ 8,082	$ 14,834	$ 15,949
Total revenue	7,519	8,082	14,834	15,949
Cost of sales	4,075	3,859	8,240	8,294
GROSS PROFIT	3,444	4,223	6,594	7,655
OPERATING EXPENSES:				
Research and development costs	3,254	2,560	5,903	4,173
Sales and marketing	1,292	1,248	2,822	2,400
General and administrative	1,515	1,190	2,890	2,299
Total operating expenses	6,061	4,998	11,615	8,872
LOSS FROM OPERATIONS	(2,617)	(775)	(5,021)	(1,217)
OTHER INCOME (EXPENSE):				
Interest income	9	47	33	96
Interest expense	(79)	(89)	(170)	(187)
Foreign currency transaction gain (loss)	30	12	(23)	24
Other income	6	2	95	1
Total other expense	(34)	(28)	(65)	(66)
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,651)	(803)	(5,086)	(1,283)
Provision for income taxes	(20)	(13)	(38)	(23)
NET LOSS	$ (2,671)	$ (816)	$ (5,124)	$ (1,306)
NET LOSS PER COMMON SHARE:				
Basic and diluted	$ (0.16)	$ (0.05)	$ (0.31)	$ (0.08)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	16,553,973	16,386,770	16,543,625	16,299,925

See accompanying notes to these consolidated financial statements.

SIMTEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FlOWS
(Unaudited)
(Amounts in thousands)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,124)	$ (1,306)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	396	311
Amortization	29	33
Stock based compensation	803	544
Amortization of non-competition agreement	890	890
Net change in allowance accounts	(82)	78
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	550	771
Inventory	1,113	(1,119)
Prepaid expenses and other	192	(375)
Increase (decrease) in:		
Accounts payable	(301)	(1,235)
Accrued expenses	415	288
Net cash used in operating activities	(1,119)	(1,120)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and furniture, net	(718)	(513)
Patents	(17)	(14)
Net cash used in investing activities	(735)	(527)
CASH FLOWS FROM FINANCING ACTIVITIES:		

Payments on capital lease obligation		(18)		-
Proceeds from warrant exercises		-		222
Transfers from restricted cash		54		-
Proceeds from employee stock purchase plan		74		-
Proceeds from exercise of stock options		6		3
Net cash provided by financing activities		116		225
Effect of exchange rate changes on cash		0		47
NET CHANGE IN CASH AND CASH EQUIVALENTS		(1,738)		(1,375)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		4,387		4,522
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	2,649	$	3,147
Cash paid for interest	$	155	$	165
Conversion of debentures	$	-	$	600

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, who own common stock 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. As of June 30, 2008, AgigA has issued 1,052,500 shares of its common stock to its employees, which shares will vest over five years with 20% of the vesting occurring on the employee s first anniversary date and the remaining 80% vesting over 48 months. The shares of common stock issued to employees represent approximately 53% of the total equity reserved for issuance to the employees and approximately 15% of the total equity of AgigA. The expense related to the issuance of these shares is included below.

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 June 30, 2008, 1,585,535 non-qualified stock options had been granted under the 2007 EIP. All options granted under the 2007 EIP 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 June 30, 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 June 30, 2008, no such stock awards had occurred under the 2007 EIP.

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 six months ended June 30, 2008, 34,858 shares of common stock were issued pursuant to the ESPP. The ESPP was temporarily suspended at the beginning of the third quarter of 2008 in light of a pending transaction with Cypress Semiconductor Corporation.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below reflects the expense related to options granted and outstanding under the 1994 Plan, the 2007 EIP and the shares of AgigA common stock issued to the AgigA employees. Total share-based compensation recognized in the Company s consolidated statements of operations for the three and six months ended June 30, 2008 and 2007 are as follows:

Income Statement Classifications

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Research and development	$ 164	$ 65	$ 286	$ 130
Sales and marketing	57	25	105	51
General and administration	180	174	392	363
	$ 401	$ 264	$ 783	$ 544

As of June 30, 2008, there was approximately $2.9 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested options granted to the Company s employees and directors, which will be recognized through April, 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 three and six months ended June 30, 2008 and 2007 were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions. There were no stock options granted for the three months ended June 30, 2007.

	Three months ended June 30,	Six months ended June 30,

	2008	2007	2008	2007
Expected volatility	81.16%	-	81.30%	79.15%
Risk-free interest rate	3.11%	-	2.80%	4.79%
Expected dividends	-	-	-	-
Expected terms (in years)	5 years	-	5 years	5 years

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average fair value per share of options granted during the three months ended June 30, 2008 was $1.52. The weighted average fair value per share of options granted during the six months ended June 30, 2008 and 2007 was $1.70 and $3.90, respectively.

The following table summarizes stock options outstanding and changes during the six months ended June 30, 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	542,775	2.60		$ -
Exercised	(4,000)	1.60		
Cancelled or forfeited	(178,794)	(4.13)		

Options outstanding at June 30, 2008	2,268,214	$4.42	4.00		
Options exercisable at June 30, 2008	1,101,909	$5.19	4.00	$	6,610[1]

1) Represents the difference between the market value as of June 30, 2008 and the exercise price of the shares. The market value as of June 30, 2008 was $1.90 as reported by The NASDAQ Capital Market.

Stock options outstanding and currently exercisable at June 30, 2008 are as follows:

	Outstanding			Exercisable	
		Weighted Average Remaining Contractual Life in	Weighted Average		Weighted Average
Exercise Price	Number Outstanding	Months	Exercise Price	Number Exercisable	Exercise Price
$1.60-$2.75	633,375	56	$ 2.57	116,643	$ 2.40
$3.00-$3.70	363,485	56	$ 3.39	223,876	$ 3.40
$4.10-$4.85	654,694	66	$ 4.63	230,563	$ 4.58
$5.00-$8.30	541,301	56	$ 5.93	455,468	$ 5.93
$9.00-$15.30	75,359	33	$12.21	75,359	$ 12.21
	2,268,214			1,101,909	

Non-competition Agreement

In December 2005, the Company entered into a non-competition agreement with Zentrum Mikroelektronik Dresden AG (ZMD) as part of the acquisition of ZMD s nvSRAM product line. The Company assigned a value of $8,910,000 to the non-competition agreement in December 2005. The value assigned to the non-competition agreement is being amortized on a straight-line basis over its five-year life. The Company recorded an expense, for the amortization, of approximately $445,000 and $890,000 to sales and marketing for the three and six months ended June 30, 2008, respectively.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Goodwill

Goodwill represents the excess of the total amount paid to ZMD for the nvSRAM assets acquired on December 30, 2005 and the fair value assigned to specific assets. This amount will not be amortized, but will be reviewed for impairment on a periodic basis. As of June 30, 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 June 30, 2008, the Company recorded approximately $455,000 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 June 30, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51" ("SFAS No. 160"), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent's ownership interest in a subsidiary and the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years 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 results of operations and financial condition.

On March 19, 2008, The Financial Accounting Standards Board issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities.* The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is reviewing the applicability of this Statement and will adopt this pronouncement in the first quarter of fiscal 2009 if it is applicable.

In November 2007, the EITF issued Issue No. 07-1 Accounting for Collaboration Arrangements Related to the Development and Commercialization of Intellectual Property (EITF 07-1). EITF 07-1 is focused on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how sharing payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure questions. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. The Company will adopt this pronouncement in the first quarter of fiscal 2009 and is currently evaluating the potential impact of this Issue on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use a fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. The Company has adopted SFAS 159 effective January 1, 2008, and elected not to measure any of its currently eligible financial assets and liabilities at fair value.

Effective January 1, 2008, the beginning of the Company's 2008 fiscal year, The Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and

expands disclosure about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority ("Level 1") to unadjusted quoted prices in active markets for identical assets and liabilities, and gives the lowest priority ("Level 3") to unobservable inputs. The adoption of SFAS No. 157 did not have a significant effect on the Company's consolidated financial statements.

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 requires that the two-class method earnings per share calculation include unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether the dividend or dividend equivalents are paid or not paid. The guidance in FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The company does not believe FSP EITF 03-6-1 will be material to its results of operations, statement of position or cash flows.

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2.

Liquidity

During the three and six months ended June 30, 2008 and the twelve months ended December 31, 2007, the Company incurred a net loss of approximately $4,042,000, $6,495,000 and $2,768,000, respectively, and has an accumulated deficit of $57,461,000 as of June 30, 2008.

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 sufficient cash flow in 2008 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.

As discussed in footnote 10, the Company has entered into the Merger Agreement with Cypress and Merger Sub. In the event that the transactions contemplated by the Merger Agreement are not consummated, it is likely that the Company would need to raise capital to pay for the costs incurred related to the transaction as well as to fund ongoing product development (including the high density RAM initiative). However, the Company cannot assure you that it will be able to raise sufficient capital.

3.

Revenue Recognition

Product sales revenue is recognized when a valid purchase order has been received with a fixed price and the products are shipped to customers FOB origin (Colorado Springs, Colorado, Manilla, Philipines or Dresden, Germany), including distributors. Based on historic business with the majority of the Company's customers and, in the case of new customers, based on credit checks, the Company is reasonably assured that collectability 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 price protection in the event of changes in the Company's product prices. The Company provides a reserve for possible product returns, product price protection and warranty costs at the time the sale is recognized. The Company has a detailed procedure to ensure that its estimates for reserves are reasonable and reliable. The reserve for product returns is based upon historical credits issued for actual stock rotation returns from the Company s distributors. The majority of 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. Certain distributors have negotiated special terms where they may exchange product that has not moved in six months on a quarterly basis. However, the maximum dollar amount of the return may not exceed 30% of their total purchases from the Company over the past six months. The reserve for price protection is used when the Company authorizes special pricing to one of its distributors for a specific customer. To date, the estimates have not been materially different from the credits the Company has issued under these reserves.

4.

Inventories

The Company records inventory using the lower of cost (first-in, first-out) or market. Inventory at June 30, 2008 and December 31, 2007 included:

(In thousands)	June 30, 2008	December 31, 2007
Raw Materials	$ 32	$ 39
Work in progress	2,554	4,447
Finished Goods	2,324	1,535
	4,910	6,021
Less reserves for excess inventory	(99)	(323)
	$ 4,811	$ 5,698

SIMTEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5.

Line of Credit

On June 2, 2006, the Company secured a $3.6 million revolving line of credit by entering into an Account Purchase Agreement (the Agreement) with Wells Fargo Bank, National Association (Wells Fargo). Pursuant to the Agreement, the Company may sell, subject to recourse in the event of nonpayment, up to $3.6 million of eligible accounts receivable to Wells Fargo. Advances of the purchase price for the eligible receivables will be at an agreed upon discount to the face value of the eligible receivable. The amount actually collected on any receivable by Wells Fargo that is beyond the advance will be forwarded to the Company, less certain discounts and fees retained by Wells Fargo (including a minimum fee of $7,500 per month for the term of the Agreement). To secure the Company s obligations under the Agreement, the Company granted Wells Fargo a security interest in certain of the Company s property. The Agreement was renewed in June 2008, but may be terminated at any time by the Company upon 60 days written notice. As of June 30, 2008, the Company had financed receivables with Wells Fargo for approximately $493,000.

6.

Convertible Debentures

On July 1, 2002, the Company received funding of $3,000,000 in a financing transaction with Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth Investment Trust PLC and US Special Opportunities Trust PLC. RENN Capital Group, Inc. is the agent for the RENN investment funds. One of the Company s directors holds the position of Senior Vice President of RENN Capital Group. The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate. Each fund equally invested $1,000,000. The holder of the debenture shall have the right, at any time, to convert all, or in multiples of $100,000, any part of the Debenture into fully paid and nonassessable shares of Simtek Corporation common stock. The debentures were originally convertible into Simtek common stock at $3.12 per share, which was in excess of the market price per share on July 1, 2002. At June 30, 2008, the Company was not in compliance with one of the covenants set forth in the loan agreement. This covenant relates to the interest coverage ratio. On April 16, 2008, the Company received a waiver for the covenant through April 1, 2009. The Convertible Debentures allow for an adjustment in the conversion price, if the Company issues Common Stock in connection with an equity financing, where the sale price is less than the conversion price of $3.12. This occurred in December 2005 in connection with the common stock sale of $11,000,000 at a price of $1.60 per share. Pursuant to the terms of the 2002 convertible debentures, the Company agreed with the RENN Capital Group that the conversion price would be reduced to $2.20 per share. At June 30, 2008, based on the conversion rate of $2.20 per share, each RENN investment fund is entitled to 318,182 shares upon conversion (assuming conversion of $700,000 by each fund).

On June 28, 2005, the Company received a waiver from the debenture holders extending until July 1, 2006 the commencement date for principal payments of the $3 million aggregate principal amount. On May 9, 2007 and July 24, 2006, each of the debenture holders converted $200,000 and $100,000, respectively, of the principal amount into 90,910 and 45,455, respectively, shares of the Company s common stock in lieu of the Company making the principal payments it was required to make commencing on July 1, 2006. The final maturity date of the debentures is June 28, 2009. As such, the entire outstanding balance of the debentures is included in current liabilities in the accompanying condensed consolidated balance sheet as of June 30, 2008.

7.

Non-Refundable Prepaid Royalties

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

8.

Geographic Concentration

Sales by geographic area, based on customer receiving locations for the three and six months ended June 30, 2008 and 2007 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
United States	28%	18%	25%	18%
Europe	19%	21%	17%	29%
Far East	51%	45%	57%	40%
All Others	2%	16%	1%	13%
	100%	100%	100%	100%

9.

Accumulated Other Comprehensive Income (Loss)

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

(In thousands)	Foreign Currency Translation Adjustment
Balance at January 1, 2008	$ 328
Current period change	127
Balance June 30, 2008	$ 455

10.

Subsequent Event

On August 1, 2008, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Cypress, and Copper Acquisition Corporation, a wholly-owned subsidiary of Cypress (Merger Sub). Pursuant to the Merger Agreement, Cypress has agreed to promptly commence a tender offer to purchase all outstanding shares of the Company s common stock, par value $0.0001 per share (the Shares), in exchange for $2.60 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in an Offer to Purchase and a related Letter of Transmittal that will be distributed to the Company s stockholders by Cypress.

In connection with the Merger Agreement, the Company has incurred expenses directly associated with the potential transaction of approximately $706,000 and $760,000 in the three and six month periods ended June 30, 2008, respectively. The expenses include costs incurred for legal, investment banking and other advisors. In addition, the

Company may incur expenses of approximately $1,371,000 related to costs associated with potential severance and other payments to certain officers and employees due to a possible change in control.

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 simil expressions are intended to identify forward-looking statements. Forward-looking statements and statements of expectations, plans and intent are subject to a number of risks and uncertainties. Actual results in the future could differ materially from those described in the forward-looking statements, as a result, among other things, of changes in technology, customer requirements and needs. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and judgments that affect the reported amounts of

assets, liabilities, revenue and expenses and the related disclosures. Our accounting policies are discussed in Note 1 of the Notes to Consolidated Financial Statements included in our 2007 Form 10-K filed with the Securities and Exchange Commission on March 26, 2008. 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; stock based compensation; and allowance for sales returns.

The valuation of inventories involves complex judgments on our part. Excess finished goods inventories are a natural component of market demand for semiconductor devices. We continually evaluate and balance the levels of inventories based on sales projections, current orders scheduled for future delivery and historical product demand. While certain finished goods items will sell out, quantities of other finished goods items will remain. These finished goods are reserved as excess inventory. We believe we have adequate controls with respect to the amount of finished goods inventories that are anticipated to become excess. While we believe this process produces a fair valuation of inventories, changes in general economic conditions of the semiconductor industry could materially affect valuation of our inventories.

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

We record an allowance for sales returns as a net adjustment to revenue and customer accounts receivable. The allowance for sales returns consists of two separate segments, distributor stock rotation and distributor price reductions. When we record the allowance, the net method reduces customer accounts receivables and gross sales. Generally, we calculate the stock rotation portion of the allowance based upon historical credits issued for actual

stock rotation returns from our distributors. The agreements we have with certain of our distributors generally allow them to return inventory to us up to 5% percent of their purchases every 6 months, in exchange for inventory that better meets their demands. At times, with our approval, our distributors reduce the selling price of a specific device in order to meet competition related to a specific end customer program, which we support through a credit back to the distributor for that specific program. The actual amount of the credit issued is based on historical credits issued to distributors. This allowance is based on approved pricing changes, inventory affected and historical data. We believe that our processes are adequate to reasonably predict and estimate the allowance for sales returns.

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

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of the business in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the assets to our estimate of the related future net cash flows. If the asset s carrying amount is not recoverable through the related future cash flows, the asset is considered to be impaired. The impairment is measured by the difference between the asset s carrying amount and its fair value, based on the best information available, including market prices or discounted cash flows.

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in the acquisition of the nvSRAM assets from ZMD. Goodwill is required to be tested for impairment annually. We performed goodwill impairment testing as of December 31, 2007 and as of June 30, 2008 we determined that no impairment existed at that date. This assessment requires estimates of future revenue, operating results and cash flows, as well as estimates of critical valuation inputs such as discount rates, terminal values and similar data. We will continue to perform annual impairment analyses of goodwill. As a result of such impairment analyses, impairment charges may be recorded and may have a material adverse impact on our financial position and operating results. Additionally, we may make strategic business decisions in future periods which impact the fair value of goodwill, which could result in significant impairment charges. There can be no assurance that future goodwill impairments will not occur.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payments." Under the fair value recognition provisions of SFAS No. 123(R), we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest over the requisite service period of the awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is

materially different from our estimate, our future stock-based compensation expense could be significantly different from what we have recorded.

SIMTEK CORPORATION

We have recorded a valuation allowance for the full amount $9,227,000 for deferred tax assets, which principally relate to future utilization of net operating losses. Future operations may change our estimate in connection with potential utilization of these assets.

Results of Operations:

Revenues

Total revenue for the three and six months ended June 30, 2008 was $7,519,000 and $14,834,000, respectively, as compared to $8,082,000 and $15,949,000 for the same periods in 2007.

The following table sets forth our net product revenues for semiconductor devices by product markets for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	Variance	2008	2007	Variance
Commercial	$ 6,936	$ 7,179	$ (243)	$ 13,702	$ 14,643	$ (941)
High-end industrial and military	$ 583	$ 903	$ (320)	$ 1,132	$ 1,306	$ (174)
Total Semiconductor Revenue	$ 7,519	$ 8,082	$ (563)	$ 14,834	$ 15,949	$ (1,115)

Commercial revenues include revenue generated from our 0.8-micron products built from silicon wafers received from Chartered Semiconductor or purchased as finished units from ZMD, and from our 0.25-micron products built from silicon wafers received from Dongbu HiTek (DBH). Commercial revenues decreased by $243,000 for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007. Commercial revenues decreased by $941,000 for the six months ended June 30, 2008 as compared to the same period in 2007. The decreases in the 2008 period primarily reflect the impact of final shipments in 2007 of parts formerly purchased from ZMD that are no longer supported by Simtek. These parts were manufactured to automotive industry certifications that Simtek does not have and therefore Simtek could not service that customer demand.

High-end industrial and military product revenues accounted for decreases of $320,000 and $174,000 for the three and six months ended June 30, 2008, respectively, as compared to the same period in 2008. The decrease reflects a lower demand for these products. Customer demand for these devices is generally not predictable and tends to be volatile from period to period.

One distributor and two direct customers together accounted for approximately 56% of our revenue for the three months ended June 30, 2008 and one distributor and two direct customers accounted for approximately 58% of our revenue for the six months ended June 30, 2008. Our customers often include Contract Manufacturers (CMs), principally located in Asia, who contract with Original Equipment Manufacturers (OEMs) to implement our products into systems designed by the OEMs. In many cases, we negotiate prices directly with the OEMs, but actually receive orders from, and ship parts to, the CMs. Generally, the CMs contract with multiple OEMs. Thus, sales to any one CM may represent eventual implementation of our products with multiple OEMs. Products sold to distributors are sold without material recourse. Distributors sell our products to various end customers. If our leading distributor were to terminate its relationship with us, we believe that there would not be a material impact on our product sales, as we believe that we would be able to service the various end customers through other distributors.

SIMTEK CORPORATION

Cost of Sales and Gross Profit

We recorded cost of sales of $4,075,000 and $8,240,000 for the three and six months ended June 30, 2008, respectively as compared to $3,859,000 and $8,294,000 for the comparable periods in 2007. Actual product gross margin percentages for the three and six months ended June 30, 2008 were 46% and 44%, respectively, as compared to gross margin percentages of 52% and 48% for the same periods in 2007. This decrease reflects higher costs related to lower yields on certain silicon wafers used to produce our 1 megabit products in the 2008 periods as well as lower sales volume of high-end industrial and military parts which typically have much higher gross margins.

Research and Development

Continued investments in new product development are required for us to remain competitive in the markets we serve and to grow our revenue. In the first six months of 2008, our research and development department continued its efforts on the final development of our new nvSRAM product family in conjunction with Cypress. This new product family is based on Cypress 0.13-micron S8 process and includes memory densities up to and beyond 4-megabits. In addition, in 2007, we began initial development of a new product initiative to develop very high density nvRAM devices in our AgigA majority-owned subsidiary. As part of this new initiative, we opened a design center in Poway, California. Expenses incurred for the high density nvRAM initiave were $766,000 and $1,377,000 for the three and six months ended June 30, 2008, respectively, as compared to $248,000 and $334,000 for the three and six months ended June 30, 2007, respectively.

Total research and development expenses were $3,254,000 and $5,903,000 for the three and six months ended June 30, 2008, respectively, as compared to $2,560,000 and $4,173,000 for the comparable periods in 2007.

The increase of $694,000 for the three month period ended June 30, 2008 compared to the three month period ended June 30, 2007 was primarily due to (i) an increase of expenses of $518,000 related to the high density nvRAM development initiative; and, (ii) write-off of $550,000 for .25 micron silicon wafers used for the 256 kilo-bit product which were not usable because of design changes that were required. These increases were partially offset by lower milestone payments to Cypress related to the 130 nanometer process development of $386,000.

The increase of $1,730,000 for the six months ended June 30, 2008 compared to the same period in 2007 was due to several items, including (i) an increase of expenses of $1,043,000 related to the high density nvRAM development initiative; (ii) write-off of $550,000 for .25 micron silicon wafers discussed above; (iii) increases in equipment related costs of $57,000, (iv) increases in travel expenses of $100,000, (v) increases in legal expenses of $68,000 and (vi) increases in stock compensation expenses of approximately $150,000. These increases were partially offset by the lower milestone payments to Cypress of $386,000 discussed above.

SIMTEK CORPORATION

Administration

Total administration expenses were $1,515,000 and $2,890,000 for the three and six months ended June 30, 2008, respectively, as compared to $1,190,000 and $2,299,000 for the same periods in 2007.

On August 1, 2008, we entered into the Merger Agreement with Cypress and Merger Sub. Pursuant to the Merger Agreement, Cypress has agreed to promptly commence a tender offer to purchase all outstanding Shares, in exchange for $2.60 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in an Offer to Purchase and a related Letter of Transmittal that will be distributed to our stockholders by Cypress. In connection with the Merger Agreement, we have incurred expenses directly associated with the potential transaction of approximately $706,000 and $760,000 in the three and six month periods ended June 30, 2008, respectively. The expenses include costs incurred for legal, investment banking and other advisors and these costs are included in administration expenses. On August 4, 2008, we filed a Current Report on Form 8-K with the Securities and Exchange Commission which includes the details of the proposed transaction.

The $325,000 increase for the three month period ended June 30, 2008 compared to the three month period ended June 30, 2007 was due primarily to the costs recorded related to the transaction with Cypress discussed above. These increases were partially offset by decreases in professional and consulting services of $100,000. The increase in legal fees were directly related to the potential acquisition of us by Cypress as discussed in Note 10 to the financial statements.

The $590,000 increase for the six month period ended June 30, 2008 compared to the six month period ended June 30, 2007 was due primarily to the costs recorded related to the potential transaction with Cypress discussed above.

Sales and Marketing

Total sales and marketing expenses were $1,292,000 and $2,822,000 for the three and six months ended June 30, 2008, respectively, as compared to $1,248,000 and $2,400,000 for the same periods in 2007.

The $44,000 increase for the three month period ended June 30, 2008 compared to the three month period ended June 30, 2007 was primarily due to increases in payroll and related expenses of $109,000, advertising expenses of $45,000 and stock compensation expense of $31,000. These increases were partially offset by decreases in sales commissions of $88,000, travel expenses of $31,000 and miscellaneous other expense of $22,000.

The $422,000 increase for the six month period ended June 30, 2008 compared to the six month period ended June 30, 2007 was primarily due to increases in payroll related expenses of $297,000, advertising expenses of $74,000, contact services of $78,000 and stock compensation expense of $52,000. These increases were partially offset by a decrease in sales commissions of $36,000 and other miscellaneous expenses of $43,000.

The increases in payroll related expenses and contract services were primarily due to changes in sales and marketing personnel. The decreases in sales commission were a direct result of lower sales.

Net Loss

We recorded net losses of $2,671,000 and $5,124,000 for the three and six months ended June 30, 2008, respectively, as compared to net losses of $816,000 and $1,306,000 for the same periods in 2007. The increase of $1,855,000 and $3,818,000 for the three and six month periods reflects a decrease in revenue and expense items discussed above.

Liquidity and Capital Resources

As of June 30, 2008, we had net working capital of $6,701,000 as compared to net working capital of $11,858,000 as of December 31, 2007. In the condensed consolidated balance sheet as of June 30, 2008, the entire outstanding

balance of $2,100,000 for the convertible debentures was classified as a current liability based on the final maturity date of June 28, 2009.

Cash flows used in operating activities for the six months ended June 30, 2008 were $1,119,000 compared to $1,120,000 in the same period in 2007. While the cash flows used in operating activities is similar for the two periods, the details are significantly different. The following table shows the components of each item in operating activities (amounts in thousands):

	Six months ended	
	2008	2007
Net loss	$ (5,124)	$ (1,306)
Depreciation and amortization	425	344
Expense related to stock compensation	803	544
Amortization of non-competition agreement	890	890
Net allowance accounts	(82)	78
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	550	771
Inventory	1,113	(1,119)
Prepaid expenses and other	192	(375)
Increase (decrease) in:		
Accounts payable	(301)	(1,235)
Accrued expenses	415	288
Net cash used in operating activities	$ (1,119)	$ (1,120)

Excluding the effect of changes in assets and liabilities, cash used in operating activities was $3,087,000 in the six-month period ended June 30, 2008 compared to cash generated by operating activities of $550,000 in the same period in 2007. This increase was primarily due to the higher net loss in the six-month period ending June 30, 2008 compared to same period in 2007. The decrease in accounts receivable for the six-months ending June 30, 2008 and 2007 is due to lower seasonal revenue in the first six months of each fiscal year compared to the fourth quarter of each previous year. The decrease in inventory for the six months ended June 30, 2008 is primarily due to lower inventory balances resulting from our continuing efforts improve inventory management and the write-off of the .25 micron wafers discussed above.

Cash flows used in investing activities increased for the six months ended June 30, 2008 by approximately $208,000 as compared to the same period in 2007. The increase was primarily due to the purchase of test equipment.

The decrease of $109,000 in cash flows provided by financing activities for the six months ended June 30, 2008 as compared to the same period in 2007 was primarily due to the receipt of funds related to the exercise of warrants that occurred in the six months ending June 30, 2007, for which there were no comparable items in the same period in 2008.

Short-term liquidity.

Our unrestricted cash balance at June 30, 2008 was $2,649,000.

As discussed above, we have entered into the Merger Agreement with Cypress and Merger Sub. In the event that the transactions contemplated by the Merger Agreement are not consummated, it is likely that we will need to raise capital to pay for the costs incurred related to the transaction as well as to fund ongoing product development (including the high density RAM initiative). However, we cannot assure you that we would be able to raise sufficient capital.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4 CONTROLS AND PROCEDURES

Not applicable.

ITEM 4T CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting.

There were no material changes in our internal control over financial reporting that occurred during the second quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

SIMTEK CORPORATION

PART II. OTHER INFORMATION

Item 1.

Legal Proceedings None

Item 1A. Risk Factors None

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds None

Item 3.

Defaults upon Senior Securities - None

Item 4.

Submission of Matters to a Vote of Security Holders

On June 19, 2008, the Company held its 2008 Annual Meeting of the Shareholders (the Annual Meeting). Set forth below are the results of the votes taken at the Annual Meeting. The Company s shareholders voted on two matters at the Annual Meeting. Those two matters were the re-election of five directors and the ratification of the selection of Hein & Associates LLP as the Company s independent auditors for fiscal year 2008.

(i) The following individuals were elected directors of the Company for terms expiring in 2009:

Name of Director	For	Withheld
Harold Blomquist	11,318,500	1,418,373
Robert Pearson	12,403,956	332,917
Alfred Stein	12,400,440	336,433
John Hillyard	12,416,421	320,452
Phillip Black	12,416,421	320,452

(ii) Ratification of the Selection of Hein & Associates LLP as the Independent Auditors for Fiscal Year 2008:

For	Against	Abstain
12,586,111	33,121	117,641

Item 5.

Other Information - None

Item 6.

Exhibits

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer

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

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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)

Date: August 14, 2008

By: */s/ Harold Blomquist*

HAROLD BLOMQUIST
Chief Executive Officer and President

Date:	August 14, 2008	By:	*/s/ Brian Alleman*
			BRIAN ALLEMAN Chief Financial Officer