CAPITAL ONE FINANCIAL CORP
Form 8-K
March 15, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of

The Securities Exchange Act of 1934

March 12, 2010

Date of Report (Date of earliest event reported)

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its chapter)

Delaware	**1-13300**	**54-1719854**

(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1680 Capital One Drive, **McLean, Virginia**	**22102**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (703) 720-1000

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure.
The Company hereby furnishes the information in Exhibit 99.1 hereto, Monthly Charge-off and Delinquency Statistics February 2010, for the month ended February 28, 2010.

Note: Information in this report (including the exhibit) furnished pursuant to Item 7.01 shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section. This report will not be deemed an admission as to the materiality of any information in the report that is required to be disclosed solely by Regulation FD. Furthermore, the information provided in Exhibit 99.1 shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933.

Item 9.01 Financial Statements and Exhibits.
(c) Exhibits

Exhibit	**Description**
99.1	Monthly Charge-off and Delinquency Statistics February 2010

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

	CAPITAL ONE FINANCIAL CORPORATION
Dated: March 12, 2010	By: /s/ GARY L. PERLIN **Gary L. Perlin** **Chief Financial Officer**

EXHIBIT INDEX

99.1	Monthly Charge-off and Delinquency Statistics	February 2010

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t with our full line of products. Independent sales representatives typically sell a limited number of non-competing products to semiconductor users in particular geographic assigned territories. Distributors inventory and sell products from a larger number of product lines to a broader customer base. These sales channels are complementary, as representatives and distributors often work together to consummate a sale, with the representative receiving a commission from us and the distributor earning a markup on the sale of products. We supply sales materials to the sales representatives and distributors. For our marketing activities, we evaluate external marketing surveys and forecasts and perform internal studies based, in part, on inputs from our independent sales representative agencies. Marketing decisions are also based on forecasts and inputs from our current and prospective customers. We prepare brochures, data sheets , application notes, product collateral and product advertising with our internal marketing resources and contracted outside services. CUSTOMERS AND BACKLOG We have shipped qualified nonvolatile Static Random Access memory products to customers directly and through distributors since the September 1991 commercial product qualification. The majority of our sales are to Fortune 500 companies. Approximately 55% of our net product sales during 2002 were to customers in the United States, approximately 28% were to customers in the Pacific Rim, and approximately 11% were to customers in Europe. The remaining product sales were to customers in other locations. As of December 31, 2002, we had a backlog of unshipped customer orders of approximately $1,647,000, which is expected to be filled by June 30, 2003. Orders are cancelable without penalty at the option of the purchaser prior to 30 days before scheduled shipment and therefore are not necessarily a measure of future product revenue. 32 LICENSES ZENTRUM MIKROELEKTRONIK DRESDEN. In June of 1994, we signed a joint development agreement with Zentrum Mikroelektronik Dresden to install the 1.2 micron products for manufacture at Zentrum Mikroelektronik Dresden and to jointly develop the 0.8 micron technology at Chartered Semiconductor Manufacturing. The agreement was modified in August of 1994 by a Letter of Intent between us to bypass the installation of our nonvolatile Static Random Access memory products based on a 1.2 micron process technology at Zentrum Mikroelektronik Dresden and instead modify the 0.8 micron technology to run in the Zentrum Mikroelektronik Dresden factory. Zentrum Mikroelektronik Dresden has paid us all the monetary requirements under this agreement including any royalties we may receive from sales of these jointly developed products. FUTURE LICENSE SALES. We intend to sell product and technology licenses on a selective basis. We will continue to seek licensing partners who can contribute to the development of the nonvolatile Static Random Access memory market and provide a meaningful level of revenue to us while not posing an undue threat in the marketplace. COMPETITION Our products compete on the basis of several factors, including data access and programming speeds, density, data retention, reliability, testability, space savings, manufacturability, ease of use and price. Products that compete with our family of nonvolatile Static Random Access memories fall into three categories. The first category of products that compete with our nonvolatile Static Random Access memories are volatile and nonvolatile chips used in combination, such as fast Static Random Access Memories used with Erasable Programmable Read Only Memories, Electrically Erasable Programmable Read Only Memories, or Flash memory. We believe that we have advantages over these products because the nonvolatile static randon access memory allows data to be stored in milliseconds as compared to seconds for chips used in pairs. Our single chip solution provides a space savings and easier manufacturing. Our single chip solution generally provides increased reliability versus multiple chips. We believe it will be able to compete with many solutions requiring density up to 256 kilobits; however, in those instances where the density requirement is beyond 256 kilobits the nonvolatile Static Random Access memory does not compete. New systems designs tend to use larger memory densities greater than 256 kilobits, reducing the market available to us. We estimate that less than 10% of the market uses 256 kilobit or smaller memories. Competitors in the multiple chip category include Cypress Semiconductor Corp., Integrated Technology, Inc., Toshiba, Fujitsu, Advanced Micro Devices, Inc., Atmel and National Semiconductor Corp. We currently hold less than 1% market share this market category. The second category of products that compete with our nonvolatile Static Random Access memories are products that combine Static Random Access Memories with lithium batteries in specially adapted packages. These products generally are slower in access speeds than our nonvolatile Static Random Access memories due in part to limitations caused by life of the lithium battery when coupled with a faster Static Random Access Memory. Our nonvolatile Static Random Access memories are offered in standard, smaller, less expensive packages, and do not have the limitation on lifetime imposed on the Static Random Access Memory/battery solutions by the lithium battery. Our nonvolatile Static Random Access memories can also be used for wave soldered automatic insertion circuit board assembly since they do not have the temperature limitations of lithium batteries. However, lithium battery-backed Static Random Access Memory products are available in densities of 1 megabit and greater per package. Companies currently supplying products with lithium batteries include Dallas Semiconductor Corp., ST Microelectronics and Texas Instruments. We currently hold approximately 10% of this market category. The third category consists of Nonvolatile random access memories that combine Static Random Access Memory cells and Electrically Erasable Programmable Read Only Memory memory cells on a monolithic chip of silicon. Our current product offerings are of higher density, faster access times and we believe can be manufactured at lower costs per bit than competitor's Nonvolatile random access memories. We believe that traditional manufacturers of Nonvolatile random access memories have discontinued manufacturing their products. Zentrum Mikroelektronik Dresden, through their license agreement with us, has the worldwide right to sell under the Zentrum Mikroelektronik Dresden label 33 nonvolatile Static Random Access memories developed jointly by Zentrum Mikroelektronik Dresden and us. With volume production established at Zentrum Mikroelektronik Dresden, Zentrum Mikroelektronik Dresden is selling such nonvolatile Static Random Access memories. This has had a positive impact for us by creating a second source, which is required by many larger companies, for our nonvolatile Static Random Access memory products. However, in 2001 and 2002, we were required to reduce prices to specific markets due to the increased competition from Zentrum Mikroelektronik Dresden. We believe that the competition from Zentrum Mikroelektronik Dresden has increased the number of companies using nonvolatile Static Random Access memories, but may have put downward pressure on average selling prices. We are aware of other semiconductor technologies for nonvolatile memory products. These technologies include ferroelectric memory and thin film magnetic memory. Each of these requires a newly developed process technology which has processing risk, but may deliver performance characteristics superior to our technology if perfected. Each of these processes integrates materials into the silicon processing steps which are not commonly used for semiconductor memory products today. If successful, these products could perform the same functions in a system that our products currently perform, but may be manufactured in higher density or lower cost products. Ramtron, Raytheon, Symetrix, and others are developing ferroelectric products. IBM, Motorola and Cypress Semiconductor are developing magnetic film products. Programmed semiconductor logic-type solutions are supported by semiconductor companies such as AMI Semiconductor, NEC, Flextronics, and Temic. These competitors provide a wide variety of solutions using semiconductor processes ranging from 0.8 micron process technology to 0.25 micron process technology. The business of converting customers' programmable logic products to non-programmable logic products is highly dependent on the customers' designs and system performance requirements. Each competitor's process technology and software tools will affect its ability to support any particular requirement. PATENTS AND INTELLECTUAL PROPERTY We undertake to protect our product designs and technologies under the relevant intellectual property laws as well as by utilizing internal disclosure safeguards. Under our licensing programs, we exercise control over the use of our protected intellectual property and have not permitted our licensees to sublicense our nonvolatile Static Random Access memory products or technology. It is common in the semiconductor industry for companies to obtain copyright, trademark, trade secret and patent protection of their intellectual property. We believe that patents are significant in our industry, and we are seeking to build a patent portfolio. We expect to enter into patent license and cross-license agreements with other companies. We have been issued twenty six patents in the United States on our nonvolatile Static Random Access memory cell and other circuit designs. These patents relate to circuit implementations used to design our nonvolatile memory products. The use of these patents allows us to design circuits with lower power consumption and faster store timing than would be possible otherwise giving us a competitive advantage over other technologies. These patents have terms that expire through 2008 to 2013. We have also taken steps to obtain European patents in the large European countries, including Germany, France, the United

Kingdom and Sweden on the nonvolatile memory patents that would have potential value in international markets. We have four applications that have been allowed and intend to prepare patent applications on additional circuit designs we have developed. However, as with many companies in the semiconductor industry, it may become necessary or desirable in the future for us to obtain licenses from others relating to our products. Many of our product designs are not protected by patents. We have one patent on our logic product technology but protect most of our logic product technology as trade secrets. Our logic products accounted for approximately 7% of our sales for the year ended December 31, 2002. We also protect aspects of our technology that relate to our semiconductor memory products as trade secrets. There are disadvantages to protecting intellectual property as trade secrets rather than patents. Unlike patents, trade secrets must remain confidential in order to retain protection as proprietary intellectual property. We cannot assure you that our trade secrets will remain confidential. If we lose trade secret protection, our business could suffer. We have received federal registration of the term "Novcel" a term we use to describe our technology. We have not sought federal registration of any other trademarks, including "Simtek" and "QuantumTrapTM" or our logo. 34 Late in 2002, we were contacted by Syndia Corporation regarding possible infringement on certain patents. Syndia Corporation informed us that it had acquired a portfolio patents issued to Jerome Lemelson. This patent portfolio was not included in the portfolio owned by Lemelson Foundation Partnership, an entity with which we reached a licensing agreement in 1999. We are currently reviewing any potential infringements. If there are any infringements, we believe that we can reach a reasonable licensing agreement with Syndia Corporation. EMPLOYEES As of the date of this prospectus we had 54 full-time employees. PROPERTIES We lease approximately 16,000 square feet of space in Colorado Springs, Colorado. This space includes a product engineering test floor of approximately 3,000 square feet. The lease expires on February 28, 2008. We lease approximately 17,000 square feet of space in Colorado Springs which is occupied by Q-DOT, our wholly-owned subsidiary. This space includes a research and development lab facility of approximately 2,500 square feet. The lease expires on April 30, 2005. Through May 31, 2002, approximately 2,400 square feet of the space was subleased and the tenants' did not renew the lease. LEGAL PROCEEDINGS We are not aware of any legal proceedings as of the date of this prospectus. 35 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS Our directors and executive officers are as follows: Name Age Position ---- --- -------- Douglas M. Mitchell.......... 54 Director, Chief Executive Officer, President and Chief Financial Officer (acting) and Chairman of the Board of Q-DOT Subsidiary Thomas Linnenbrink........... 59 Director, President, Chief Executive Officer, and Technical Director of Q-DOT Subsidiary Donald G. Carrigan........... 55 Vice President Sales and Marketing, Corporate Secretary David W. Still.............. 47 Vice President of Engineering Klaus C. Wiemer.............. 65 Director Robert H. Keeley............. 62 Director Harold Blomquist............. 51 Director John Heightley............... 67 Director Robert C. Pearson........... 67 Director DOUGLAS M. MITCHELL, served as our Chief Operating Officer from July 1, 1997 until January 1, 1998 at which time he became Chief Executive Officer, President and a director. Mr. Mitchell is also the Chairman of the Board of our subsidiary, Q-DOT. Mr. Mitchell has over 20 years of experience in the semiconductor and electronics systems industry holding various marketing and sales management positions. Prior to joining us, he was President and Chief Executive Officer of a wireless communications company, Momentum Microsystems. Prior to this Mr. Mitchell was Vice President of Marketing with SGS-Thomson Microelectronics, responsible for marketing and applications engineering of Digital Signal Processing, transputer, microcontroller and graphics products in North America. SGS- Thomson had acquired Inmos Corporation where Mr. Mitchell had been Manager, US Marketing and Sales. Mr. Mitchell has held management positions at Texas Instruments and Motorola and has been responsible for various product definition and product development. Mr. Mitchell holds a Bachelors degree in electrical engineering from the University of Texas and a Masters of Business Administration degree from National University. THOMAS E. LINNENBRINK, has served as President, Chief Executive Officer, Technical Director and a director of Q-DOT, Inc. since he co-founded it in 1977. Mr. Linnenbrink also founded Q-DOT Group, in 1990 and served as its President, Chief Executive Officer, and a director until it was acquired by Simtek in March, 2001. Mr. Linnenbrink has served in various technical management and marketing positions for more than 35 years while advancing the state-of-the-art in data acquisition and signal processing. He pioneered high-speed charge-coupled device (CCD) and silicon germanium (SiGe) technology and applications. Mr. Linnenbrink has published numerous technical papers and holds more than a dozen patents. He currently chairs IEEE Technical Committee 10 which writes and promotes standards for ADCs, DACs, digital waveform recorders, and pulse technology. Mr. Linnenbrink holds a Bachelors degree in electrical engineering from the Illinois Institute of Technology and a Masters of Science degree in engineering science with emphasis on automatic control from Rensselaer Polytechnic Institute. DONALD G. CARRIGAN, has served as Vice President of Sales and Marketing and Corporate Secretary since joining Simtek in September of 2001. Mr. Carrigan has over 29 years experience in the semiconductor industry. Prior to joining Simtek he was vice president of sales for Ramtron International Corporation and an 36 executive officer of the company. During his 12 years at Ramtron, Mr. Carrigan held various marketing and sales positions as well as General Manager of the ferroelectric product business unit. Prior to joining Ramtron, Mr. Carrigan was with Inmos Corporation for 8 years where he held various positions in engineering and marketing management including the Director of Marketing position. Mr. Carrigan also held positions in engineering management and R & D with NCR Microelectronics and Texas Instruments. Mr. Carrigan holds a Bachelors degree in Electrical Engineering from the University of Tennessee, Knoxville, Tennessee and a Masters degree in Electrical Engineering from Southern Methodist University, Dallas, Texas. DAVID W. STILL has served as the Vice President of Engineering at Simtek since December of 2001. Mr. Still has over 24 years experience in various corporate, management, and technical positions within the semiconductor industry, where he has successfully managed engineering teams developing products in CMOS, bipolar, and GaAs processes, as well as associated CAD software. Prior to his work at Simtek, he served as Vice President of IC engineering for Comsilica, developing SOC WLAN products for 802.11a and b wireless networks. Previously, he served as manager of the Colorado Design Center for Lattice Semiconductor (formerly Minc), an FGPA / CPLD CAD software company. Mr. Still was also a Vice President of Engineering at Array Microsystems, a digital video product company, where he managed the CMOS IC design and software development groups. He has also held engineering management positions with Prisma and Honeywell. At Honeywell, he received two technical excellence awards for his contributions to PLA designs. Mr. Still has published over 18 technical papers and has received 2 patents. Mr. Still holds a Masters degree in Electrical Engineering from Arizona State University and a Bachelors degree in Electrical Engineering from the University of Nebraska. KLAUS C. WIEMER, has served as a director since May 1993. He also serves on the boards of InterFET Corp of Garland, TX, UTAC of Singapore and Scientific Systems of Dublin, Ireland. From July 1993 to May 1994, Dr. Wiemer served as President and Chief Executive Officer of our company. Dr. Wiemer is the founder of Communicant Semiconductor Technologies AG, an integrated circuit foundry start-up company located in Frankfurt/Oder, Germany, and served as its CEO until May 2002. Since May 1994, Dr. Wiemer has been an independent consultant. From April 1991 to April 1993, Dr. Wiemer was President and Chief Executive Officer of Chartered Semiconductor Manufacturing Pte., Ltd. in Singapore, and from July 1987 to March 1991, Dr. Wiemer was President and Chief Operating Officer of Taiwan Semiconductor Manufacturing Company. Prior to 1987, Dr. Wiemer was a consultant for the Thomas Group specializing in the area of integrated circuit manufacturing and previously worked for fifteen years with Texas Instruments. Dr. Wiemer holds a Bachelors degree in physics from Texas Western College, a Masters degree in physics from the University of Texas and a Ph.D. in physics from Virginia Polytechnic Institute. ROBERT H. KEELEY, has served as a director since May 1993. He is currently the El Pomar Professor of Business Finance at the University of Colorado at Colorado Springs. From 1986 until he joined the faculty at the University of Colorado at Colorado Springs in 1992, Dr. Keeley was a professor in the Department of Industrial Engineering and Engineering Management at Stanford University. Prior to joining Stanford, he was a general partner of Hill and Carmen (formerly Hill, Keeley and Kirby), a venture capital firm. Dr. Keeley holds a Bachelors degree in electrical engineering from Stanford University, an M.B.A. from Harvard University and a Ph.D. in business administration from Stanford University. Dr. Keeley is also a director of two private companies. HAROLD A. BLOMQUIST, was originally appointed as a director in May 1998, resigned from the Board in July 2001 and was re-appointed in January 2002. Mr. Blomquist is currently employed as Sr. Vice President of Tower Semiconductor, Ltd, and Chief Executive Officer of Tower's US subsidiary, Tower Semiconductor USA, Inc. He has served as a Director on the Board of Microsemi, Inc. since February 2003 and as a consultant to venture investors and early stage technology companies particularly in the semiconductor and electronic components areas. In the past, he was employed as President and CEO of ZMD America, Inc. Before ZMD America, Inc., Mr. Blomquist served as Sr. Vice President of AMI Semiconductor as well as in several other executive capacities within AMIS' foreign subsidiaries. Before joining AMI in April 1990, Mr. Blomquist held a series of increasingly responsible positions in engineering, sales, and marketing for several semiconductor firms, including Texas Instruments, Inmos Corporation and General Semiconductor. Mr. Blomquist was granted a BSEE degree from the University of Utah and also attended the University of Houston, where he pursued a joint Juris Doctor/MBA course of study. 37 JOHN HEIGHTLEY, was appointed as a director in September 1998. Mr. Heightley is currently executive vice president, chief technology officer and a director for United Memories of Colorado Springs. From 1990 to 1996, Mr. Heightley was president and chief executive officer of Adaptive Solutions, Inc. In 1986 and 1987, he held the position of president and chief executive officer of Gigabit Logic, Inc.; in 1987 he was appointed chairman of Gigabit along with his responsibilities as president and chief executive officer. Mr. Heightley held these positions until 1990. Prior to Gigabit, Mr. Heightley served as president and chief executive officer of Ramtron Corporation from 1985 to 1986 and from 1978 to 1985 he served as a member of the board of directors, president, chief operating officer and vice president of memory products for Inmos International, plc. Mr. Heightley was granted a B.S. degree in Engineering Science from Penn State University and earned a M.S. degree in Electrical Engineering from M.I.T. ROBERT C. PEARSON, has served as a director since July 2002. He joined Renaissance Capital Group, Inc. in April 1997 and is Senior Vice President-Investments. From May 1994 to May 1997, Mr. Pearson was an independent financial management consultant primarily engaged by Renaissance. From May 1990 to May 1994, he served as Chief Financial Officer and Executive Vice President of Thomas Group, Inc., a management consulting firm, where he was instrumental in moving a small privately held company from a start-up to a public company with over $40 million in revenues. Prior to 1990, Mr. Pearson spent 25 years at Texas Instruments Incorporated where he served in several positions including Vice President-Controller and later as Vice President-Finance. Mr. Pearson holds a BS in Business from the University of Maryland and was a W.A. Paton Scholar with an MBA from the University of Michigan. He is currently a Director of Poore Brothers, Inc., CaminoSoft, Inc., Advanced Power Technology, Inc., and Simtek, all publicly held. He is also a Director of eOriginal, Inc., a privately held company. Subject to the requirement that the board of directors be classified if it consists of six or more persons, directors serve until the next annual meeting or until their successors are elected and have qualified. Officers serve at the discretion of the board of directors. Vacancies on the board of directors are filled by the existing directors. In 1994, we entered into a Product License Development and Support Agreement, with Zentrum Mikroelektronik Dresden. This agreement, modified later in 1994 and again in 1995, provides Zentrum Mikroelektronik Dresden the right to appoint two members to our board of directors which members must be acceptable to, and approved by, our board of directors. Although this agreement and its modifications do not have a set termination date, Zentrum Mikroelektronik Dresden's two nominees to our board of directors resigned in April 1998 and Zentrum Mikroelektronik Dresden has not attempted to nominate anyone to our board since then. Zentrum Mikroelektronik Dresden currently holds a competitive position to us in the marketplace. Furthermore, Zentrum Mikroelektronik Dresden's right to appoint two members to our board of directors was subject to Zentrum Mikroelektronik Dresden's compliance with the terms of the Product License Development and Support Agreement and its amendments. We cannot assure you that Zentrum Mikroelektronik Dresden will not claim that it has the right to appoint two members to our board of directors in the future, again acceptable to and approved by our board of directors, or that Zentrum Mikroelektronik Dresden will not succeed in securing such appointment. SPECIAL PROVISIONS IN ARTICLES OF INCORPORATION Our articles of incorporation contain a provision limiting the liability of directors to the fullest extent permitted under the Colorado Business Corporation Act. The Colorado Business Corporation Act allows a corporation to limit the personal liability of a director to the corporation or its shareholders for monetary damages for breaches of fiduciary duty as a director except: o breaches of the director's duty of loyalty to the corporation or to its shareholders; o acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; o other acts specified in the Colorado Business Corporation Act, such as acts involving voting for or assenting to a distribution made in violation of the Colorado Business Corporation Act or our articles of incorporation; o transactions from which the director derived an improper personal benefit. 38 The provisions of the Colorado Business Corporation Act will not impair our ability to seek injunctive relief for breaches of fiduciary duty. Such relief, however, may not always be available as a practical matter. Our articles of incorporation also contain a provision that requires us to indemnify, to the fullest extent permitted under the Act, directors and officers against all costs and expenses reasonably incurred in connection with the defense of any claim, action, suit or proceeding, whether civil, criminal, administrative, investigative or other, in which such person may be involved by virtue of being or having been a director, officer or employee. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of Simtek pursuant to the foregoing provisions, or otherwise, Simtek has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. EXECUTIVE COMPENSATION The following table sets forth information for each of our last three fiscal years with respect to the annual and long-term compensation of the only individual acting as the Chief Executive Officer during the fiscal year ended December 31, 2002 and each other executive officer of the Company as of December 31, 2002 whose annual salary and bonus for the fiscal year ended December 31, 2002 exceeded $100,000. Summary Compensation Table Long Term Compensation --------------------- Annual Compensation Awards --- Name Other and Annual Principal Compen- Options/ Position Year Salary($) Bonus($) sation($) SARs(#) --------- --- Douglas M. Mitchell(1) 2002 $175,000 -- -- -- Chief Executive Officer 2001 $167,708 $34,375 -- 300,000 Chief Financial Officer 2000 $150,000 $62,500 -- 40,000 (acting) and President Thomas Linnenbrink(2) 2002 $135,408 -- -- 30,000 Chief Executive Officer 2001 $111,447 $13,520(3) $5,700(4) 150,000 President and Technical Director of Q-DOT Subsidiary Donald G. Carrigan(5) 2002 $130,000 $42,228(6) -- -- Vice President of Sales 2001 $ 40,625 -- -- 250,000 and Marketing David W. Still(7) 2002 $130,000 -- -- -- Vice President of 2001 $ 20,417 -- -- 250,000 Engineering (1) Mr. Mitchell became our Chief Executive Officer and President on January 1, 1998. (2) Simtek acquired Q-DOT on March 14, 2001 and these payments reflect what he was paid after that date in his capacity as President of our Q-DOT subsidiary. (3) Mr. Linnenbrink personally secured bank loans used in the operations of Q-DOT. Mr. Linnenbrink was guaranteed compensation for personally securing these loans. The loans were paid off on March 14, 2002 and Mr. Linnenbrink will receive no further compensation related to these loans. 39 (4) At the time of the Q-DOT acquisition, Mr. Linnenbrink was paid for vacation hours that were in excess of Simtek's vacation policy. (5) Mr. Carrigan became our Vice President of Sales and Marketing on August 31, 2001. (6) Mr. Carrigan is on a bonus plan that is directly related to net revenue and department spending. (7) Mr. Still became our Vice President of Engineering on December 3, 2001. OPTION GRANT TABLE The following table sets forth certain information with respect to options granted by us during the fiscal year ended December 31, 2002 to the individuals named in the summary compensation table above. Shares Potential subject to Market Realizable Value Options/SAR's Price at Assumed Shares Granted to Exercise per Annual Rate of subject to Employees in Price Share on Stock Price Options/SAR's Fiscal Year Per Date of Expiration Appreciation for Name Granted % of Total Share Grant Date Option Term --------------------- ---------------- -------------- ------------- ------------ ----------- ---------------------- 5% 10% ----------------------- Thomas Linnenbrink 30,000(1) 3.83% $0.41 $0.41 1/01/2009 $5,007 $11,669 (1) 30,000 options were granted to Mr. Linnenbrink in his capacity as Chief Executive Officer, President and Technical Director of our Q-DOT subsidiary; these options vest at 1/36th per month over 3 years. YEAR-END OPTION TABLE The following table sets forth, as of December 31, 2002, the number of shares subject to unexercised options held by the individuals named in the summary compensation table above. 1,094,723 options had an exercise price greater than the last sale price of our common stock underlying the options as reported by the OTC Electronic Bulletin Board on the last trading day of the fiscal year ended December 31, 2002. 40 Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values Value of Unexercised Number of Unexercised in-the-money Options/SARs at Fiscal Options/SARs Shares Value Year-End at Fiscal Year-End Acquired on Realized Exercisable Unexercisable Exercisable Unexercisable Name Exercise (#) ($) (#) (#) ($) ($) -- Douglas Mitchell - - 810,556 109,444 - - Thomas Linnenbrink - - 96,667 83,333 - - Donald G. Carrigan - - 104,167 145,833 - - David W. Still - - 83,333 166,667 - - Employment Agreements EQUITY COMPENSATION PLAN INFORMATION Number of securities remaining available for future issuance under Number of securities to be Weighted-average exercise equity compensation plans issued upon exercise of price of outstanding (excluding securities outstanding options, options, warrants and reflected in column) Plan Category warrants and rights rights ------------- -------------------------- ------------------------- ------------------------ Equity compensation plans approved by security holders -- -- -- Equity compensation plans not approved by security holders 5,539,386 $0.47 1,726,757 Total 5,539,386 $0.47 1,726,757 EMPLOYMENT AGREEMENTS Mr. Mitchell is employed as President and Chief Executive Officer pursuant to an employment agreement with us. Under the terms of the employment agreement, Mr. Mitchell receives an annual salary of $175,000 and such additional benefits that are generally provided other employees. Mr. Mitchell's employment agreement expired June 1, 2001 but was, and is, automatically renewed for successive one-year terms unless we or Mr. Mitchell elects not to renew. If we terminate the employment of Mr. Mitchell without cause, Mr. Mitchell is entitled to continuation of his base salary and benefits, mitigated by income Mr. Mitchell may earn, for the remainder of the term of the agreement. Mr. Mitchell is subject to a noncompetition covenant for a period of one year from the date of termination. CONFIDENTIALITY AND NONDISCLOSURE AGREEMENTS We generally require our employees to execute confidentiality and nondisclosure agreements upon the commencement of employment with us. The agreements generally provide that all inventions or discoveries by the employee related to our business and all confidential information developed or made known to the employee during the term of employment shall be the exclusive property of us and shall not be disclosed to third parties without the prior approval of us. 41 DIRECTORS' COMPENSATION Each director who is not also an employee receives $1,000 for each meeting of the Board, attended in person, and $500 for each meeting of a committee of the Board. Directors are also reimbursed for their reasonable out-of-pocket expenses incurred in connection with their duties to us. During the fiscal year ended December 31, 2002, 15,000 stock options were granted, at the market price on date of grant, to Dr. Klaus Wiemer, Dr. Robert Keeley, and Mr. John Heightley which market price was $0.41 per share. During 2002, Mr. Harold Blomquist was granted 55,000 stock options at the market price on date of grant which market price was $0.41 per share. SECURITY OWNERSHIP The table below sets forth information regarding ownership of our common stock as of February 28, 2003, by each person who is known by us to beneficially own more than five percent of our common stock, by each director, by each executive officer named in the summary compensation table and by all directors and executive officers as a group. Shares issuable within sixty days after March 31, 2003 upon the exercise of options and are deemed outstanding for the purpose of computing the percentage ownership of persons beneficially owning such options or holding such notes but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Shares issuable upon the conversion of the debentures have been included for the purpose of computing the percentage ownership. To the best of our knowledge, the persons listed below have sole voting and investment power with respect to the shares indicated as owned by them subject to community property laws where applicable and the information contained in the notes to the table. Name and Amount and Nature Address of of Beneficial Percent of Beneficial Owner Ownership Class -- Hugh Norman Chapman 3,150,767 (1) 4.79% 4250 Buckingham Dr. #100 Colorado Springs, CO 80907 Douglas M. Mitchell 907,719 (2) 1.38% 205 Ridge Dr. Woodland Park, CO 80863 Klaus C. Wiemer 150,000 (3) * 5705 Archer Court Dallas, TX 75252 Robert H. Keeley 85,000 (4) * P. O. Box 25599 Silverthorne, CO 80497 John D. Heightley 85,000 (5) * 1275 Log Hollow Point Colorado Springs, CO 80906 Thomas E. Linnenbrink 1,015,795 (6) 1.54% 1457 Smoochers Circle Colorado Springs, CO 80904 Harold A. Blomquist 55,000 (7) * 13625 Antelope Station Poway, CA 92064 42 Donald G. Carrigan 139,389 (8) * 425 Scrub Oak Circle Monument, CO 80132 David W. Still 118,056 (9) * 4250 Buckingham Dr. Suite 100 Colorado Springs, CO 80907 Renaissance Capital Group (10) 11,615,384 (11) 17.65% 8080 N. Central Expressway, Suite 210-LB59 Dallas, TX 75203 All officers and directors as a group (9 persons) 14,171,343 (12) 21.54% ---------------------- * Less than one percent. (1) Represents 2,924,100 shares of our common stock that Mr. Chapman received upon our acquiring Integrated Logic Systems and includes 226,667 shares issuable upon exercise of options. (2) Represents 44,386 shares of our common stock that Mr. Mitchell acquired through our acquisition of Q-DOT, 10,000 shares of our common stock that Mr. Mitchell personally owns and includes 853,333 shares issuable upon exercise of options. (3) Represents 75,000 shares of our common stock that Mr. Wiemer acquired upon the exercise of 75,000 options and includes 75,000 shares issuable upon exercise of options. (4) Includes 75,000 shares issuable upon exercise of options. Includes 10,000 shares of our common stock held by Mr. Keeley's wife, Sandra D. Keeley. Mr. Keeley disclaims beneficial ownership of these shares. (5) Includes 85,000 shares issuable upon exercise of options. (6) Represents 894,128 shares of our common stock that Mr. Linnenbrink acquired through our acquisition of Q-DOT and includes 121,667 shares issuable upon exercise of options. (7) Includes 55,000 shares issuable upon exercise of options. (8) Represents 500 shares of our common stock that Mr. Carrigan personally owns and includes 138,889 shares issuable upon exercise of options. (9) Includes 118,056 shares issuable upon exercise of options. (10) Pursuant to the Convertible Loan Agreement, dated as of June 28, 2002, by and among Simtek, Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC., and Renaissance Capital Group, Inc., Renaissance Capital Group, Inc. has the right to designate a nominee to serve as a member of the board of directors. Mr. Robert C. Pearson currently serves on Simtek's board of directors as such nominee. (11) Assumes conversion, at a conversion price of $.0312 per share, of all debentures issued to affiliates of Renaissance Capital Group, Inc. (12) Includes 1,521,945 shares issuable upon exercise of options. 43 SELLING SHAREHOLDERS The following table sets forth information about the selling shareholders. Number of Number of Percentage Shares Beneficially Number of Shares of Class Owned Before Shares Following Following Name and Address of Selling Shareholder Offering Offered the Offering the Offering

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On July 1, 2002, we received $3,000,000 in a financing transaction with Renaissance Capital Group. Renaissance Capital Group is the agent for the selling securityholders. 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 has 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 our common stock. The debentures are convertible into our common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. Based on the conversion rate of $0.312 per share, it would entitle each fund to 3,205,128 shares, totalling approximately 18% post-conversion for the three funds, of our common stock. The selling securityholders and its affiliates beneficially own 11,615,384 shares of our common stock (assuming conversion of all debentures issued to the selling securityholders and their affiliates). Mr. Robert Pearson is an Executive Vice President of Renaissance Capital Group, an officer of Renaissance Capital Growth & Income Fund III, Inc. and an investment advisor to all three selling securityholders. Mr. Pearson also holds the position of a director of Simtek's Board of Directors. SPECIFIC RELATIONSHIPS AND RELATED TRANSACTIONS Our president and director, Douglas Mitchell was also a director of Q-DOT Group prior to our acquisition of Q-DOT Group. Mr. Mitchell disclosed all material facts as to his conflict of interest in the acquisition. The board of directors determined that the acquisition was fair to us and in our best interest. Mr. Mitchell abstained from the vote of the Q-DOT Group and Simtek board of directors decision to approve the acquisition. At the time of acquisition, Mr. Mitchell owned approximately 1% of the Q-DOT Group shares and he received 44,386 shares of our common stock in connection with our acquisition of Q-DOT Group, pro rata with the terms that all of the other Q-DOT Group shareholders. On May 9, 2000, we entered into a stock exchange agreement with Mr. Hugh N. Chapman pursuant to which we acquired Integrated Logic Systems. At the time of 44 the acquisition, Mr. Chapman was not a holder of 5% of our stock. As a result of the acquisition, however, Mr. Chapman became a holder of 5% of our outstanding stock and as of the date of this prospectus holds approximately 5.61% of our stock. Incident to the acquisition, we entered into an "at will" employment agreement with Mr. Chapman, terminable by either party at any time with or without cause. We believe that the terms of our transactions with Mr. Chapman were no less favorable to us than we could have obtained from unrelated parties. On July 1, 2002, we received funding of $3,000,000 in a convertible debenture financing transaction with Renaissance Capital Group. Renaissance Capital Group is the agent for the selling securityholders. Mr. Robert Pearson, a Senior Vice President of Renaissance Capital Group, an officer of Renaissance Capital Growth & Income Fund III, Inc. and an investment advisor to all three selling securityholders, became a Simtek director following such transaction. Renaissance Capital Group, or its affiliates, owns 2,000,000 shares of our common stock in addition to the shares offered through this prospectus. DESCRIPTION OF SECURITIES COMMON STOCK We are authorized to issue 80,000,000 shares of common stock, par value $0.01 per share. Each share of common stock entitles the holder thereof to one vote on all matters submitted to a vote of the shareholders. Holders of common stock do not have preemptive rights or rights to convert their common stock into other securities. Holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, holders of the common stock have the right to a ratable portion of the assets remaining after payment of liabilities. PREFERRED STOCK Our Articles of Incorporation authorize 2,000,000 shares of $1.00 par value preferred stock. The board of directors has the authority to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series and the designation of such series, without further vote or action by the shareholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the shareholders and may adversely affect the voting power and other rights of the holders of common stock, including the loss of voting control to others. As of the date of this prospectus, there are not shares of preferred stock outstanding. PLAN OF DISTRIBUTION These shares are being offered hereby for sale by the selling securityholders who received these shares in a private transaction. These shares will be offered by the selling shareholders from time to time (i) on the over-the-counter market, where the common stock is traded, or elsewhere, at fixed prices which may be changed, at market prices prevailing at the time of offer and sale, at prices related to such prevailing market prices or at negotiated prices and (ii) in negotiated transactions, through the writing of options on the shares, or a combination of such methods of sale. The selling shareholders may effect such transactions by offering and selling the shares directly or to or through securities broker-dealers, and such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling shareholders and/or the purchasers of the shares for whom such broker-dealers may act as agent or to whom the selling shareholders may sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customer commissions). The selling shareholders and any broker-dealers who are in connection with the sale of the shares hereunder may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, and any commissions received by them and profit on any resale of the shares as principal might be deemed to be underwriting discounts and commissions under the Securities Act. 45 LEGAL MATTERS The validity of the shares offered hereby will be passed upon by Holme Roberts & Owen LLP, Denver, Colorado. EXPERTS Our financial statements as of December 31, 2002 and for the years ended December 31, 2002 and December 31, 2001 included within this prospectus have been so included in reliance on the report of Hein + Associates LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting. 46 AVAILABLE INFORMATION We are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, we file reports, proxy statements and other information with the Securities and Exchange Commission. You may inspect our reports, proxy statements and other information without charge at the public reference facilities of the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, NY 10048. You may also obtain copies there at the prescribed rates. You may obtain information on the operation of the Commission's public reference facilities by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. We have filed with the Commission, a registration statement on Form SB-2 under the Securities Act of 1933, as amended (the"Securities Act"), with respect to the common stock we are offering (the "registration statement"). This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. For further information about us and the common stock offered, you should refer to the registration statement, including the exhibits and schedules thereto, which may be inspected at, and copies thereof may be obtained at prescribed rates from, the public reference facilities of the Commission at the addresses set forth above. 47 SIMTEK CORPORATION INDEX TO FINANCIAL STATEMENTS PAGE ---- F-1 INDEPENDENT AUDITOR'S REPORT Board of Directors and Shareholders Simtek Corporation Colorado Springs, Colorado We have audited the accompanying consolidated balance sheet of Simtek Corporation and subsidiary as of December 31, 2002 and the related statements of operations, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Simtek Corporation as of December 31, 2002, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. /s/ Hein + Associates LLP HEIN + ASSOCIATES LLP Denver, Colorado January 28, 2003 F-2 SIMTEK CORPORATION CONSOLIDATED BALANCE SHEET DECEMBER 31, 2002 ASSETS ------ CURRENT ASSETS: Cash and cash equivalents $ 3,127,732 Certificate of deposit, restricted 300,000 Accounts receiveable - trade, net of allowance for doubtful accounts and return allowances of $259,262 2,309,965 Inventory 1,608,242 Prepaid expenses and other 239,507 ----------- Total current assets 7,585,446 EQUIPMENT AND FURNITURE, net 725,888 DEFERRED FINANCING COSTS 107,877 OTHER ASSETS 87,839 ----------- TOTAL ASSETS $ 8,507,050 =========== LIABILITIES AND SHAREHOLDERS' EQUITY ----------------------------------- CURRENT LIABILITIES: Accounts payable $ 1,087,947 Accrued expenses 313,460 Accrued wages 26,830 Accrued vacation payable 155,633 Deferred Revenue 40,500 Obligation under capital leases 132,485 ----------- Total current liabilities 1,756,855 NOTES PAYABLE 10,000 DEBENTURES 3,000,000 OBLIGATIONS UNDER CAPITAL LEASES, NET OF CURRENT PORTION 76,512 ----------- Total liabilities 4,843,367 COMMITMENTS (Note 6) SHAREHOLDERS' EQUITY: Preferred stock, $1.00 par value; 2,000,000 shares authorized, none issued - Common stock, $.01 par value; 80,000,000 shares authorized, 54,382,273 shares issued and outstanding 543,823 Additional paid-in capital 37,594,875 Treasury Stock (12,504) Accumulated deficit (34,462,511) ----------- Total shareholders' equity 3,663,683 ----------- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 8,507,050 =========== See accompanying notes to these consolidated financial statements. F-3 SIMTEK CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, ------------------------------------ 2002 2001 ---------------- ----------------- NET SALES $14,326,705 $16,950,487 Cost of sales 8,481,262 11,273,116 ----------- ----------- GROSS MARGIN 5,845,443 5,677,371 OPERATING EXPENSES: Research and development costs 4,308,499 3,155,360 Sales and marketing 1,641,508 1,672,301 General and administrative 754,676 1,239,568 Investor relations - 730,433 ----------- ----------- Total operating expenses 6,704,683 6,797,662 ----------- ----------- LOSS FROM OPERATIONS (859,240) (1,120,291) ----------- ------------ OTHER INCOME (EXPENSE): Interest income 42,447 79,497 Interest expense (147,921) (22,565) Other income (expense) 1,847 (52,360) ----------- ------------ Total other income (expense) (103,627) 4,572 ------------ ----------- EQUITY IN LOSSES OF QDA AND WRITE-OFF OF RELATED ADVANCES - (4,631) ----------- ------------ LOSS BEFORE PROVISION FOR INCOME TAXES $ (962,867) $(1,120,350) Provision for income taxes - - ----------- ----------- NET LOSS $ (962,867) $(1,120,350) ============ ============ NET LOSS PER COMMON SHARE: Basic and diluted EPS $ (.02) $ (.02) =========== =========== WEIGHTED AVERAGE COMMON SHARE OUTSTANDING: Basic and diluted EPS 54,204,525 53,713,415 =========== =========== See accompanying notes to these consolidated financial statements. F-4 SIMTEK CORPORATION CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 Common Stock Additional Prepaid Total ----------------------- Paid-in Treasury Investor Accumulated Shareholders' Shares Amount Capital Stock Relations Deficit Equity ---------- ---------- ----------- -------- --------- ------------ ------------- BALANCES, January 1, 2001 53,634,245 $536,342 $37,497,590 $ - $(730,433) $(32,379,294) $ 4,924,205 Exercise of stock options 392,028 3,920 50,000 - - - 53,920 Purchase 10,000 shares of common stock - - - (12,504) - - (12,504) Expenses recorded for stock issuance - - - - 730,433 - 730,433 Net loss - - - - - (1,120,350) (1,120,350) ---------- --------- ----------- -------- --------- ------------ ---------- BALANCES, December 31, 2001 54,026,273 540,262 37,547,590 (12,504) - (33,499,644) 4,575,704 ---------- --------- ----------- -------- --------- ----------- ---------- Exercise of stock options 356,000 3,561 47,285 - - - 50,846 Net loss - - - - - (962,867) (962,867) ---------- -------- ---------- -------- --------- ------------ ----------- BALANCES, December 31, 2002 54,382,273 $543,823 $37,594,875 $(12,504) $ - $(34,462,511) $ 3,663,683 ========= ======== =========== ======== ========= =========== ========== See accompanying notes to these consolidated financial statements. F-5 SIMTEK CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, --------------------------------- 2002 2001 ---------------- ----------------- CASH FLOWS FROM OPERATING ACTIVITIES: Net loss $ (962,867) $(1,120,350) Adjustments to reconcile net loss to net cash used in operating activities Depreciation and amortization 443,146 462,083 Common stock issued for investor relations expense - 730,433 Loss on disposal of assets 5,705

58,699 Net change in allowance accounts (71,150) 23,883 Deferred financing fees 8,298 - Changes in assets and liabilities: (Increase) decrease in: Accounts receivable (618,653) 48,084 Inventory 261,442 (798,972) Prepaid expenses and other (123,972) 62,349 Increase (Decrease) in: Accounts payable (328,848) 331,424 Accrued expenses (122,594) (158,076) Deferred revenue 25,500 15,000 ----------- ----------- Net cash used in operating activities (1,483,993) (345,443) ----------- ----------- CASH FLOWS FROM INVESTING ACTIVITIES: Purchase/Sales of equipment and furniture, net (163,657) (509,698) ----------- ----------- Net cash used in investing activities (163,657) (509,698) ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES: Borrowings from line-of-credit and the issuance of a note - 100,163 Payments on lines of credit - (84,050) Payments on notes payable (109,976) (24,996) Payments on capital lease obligation (125,017) (52,977) Borrowings on capital lease obligation - 97,520 Convertible debentures, net of deferred financing fees 2,883,825 - Exercise of stock options 50,846 53,920 Purchase of stock from market - (12,504) ----------- ----------- Net cash provided by financing activities 2,699,678 77,076 ----------- ----------- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 1,052,028 (778,065) CASH AND CASH EQUIVALENTS, beginning of year 2,075,704 2,853,769 ----------- ----------- CASH AND CASH EQUIVALENTS, end of year $ 3,127,732 $ 2,075,704 =========== =========== SUPPLEMENTAL CASH FLOW INFORMATION: Purchase of equipment through payables and capital leases $ 88,457 $ 97,520 =========== =========== Cash paid for interest $ 146,804 $ 19,586 =========== =========== See accompanying notes to these consolidated financial statements. F-6 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES: --- NATURE OF BUSINESS OPERATIONS - Simtek Corporation (the "Company") designs, develops, markets and subcontracts the production of high performance nonvolatile semiconductor memories and programmed semiconductor logic products. The Company's operations have concentrated on the design and development of the 256 kilobit, 64 kilobit, and 16 kilobit nonvolatile semiconductor memory product families and associated products and technologies as well as the development of sources of supply and distribution channels. The Company also provides electronics engineering research and development contracts. POOLING OF INTERESTS - On March 13, 2001, Simtek acquired 100% of the common stock of Q-DOT Group ("Q- DOT"). Q-DOT specializes in advanced technology, research, and development for data acquisition, signal processing, imaging and data communications. Shareholders of Q-DOT exchanged their shares in Q-DOT for shares in Simtek in a business combination that has been accounted for as a pooling of interests. The consolidated financial statements and the accompanying notes reflect Simtek's financial position and the results of operations as if Q-DOT was a wholly-owned subsidiary of Simtek since inception. CONSOLIDATION POLICY - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Q-DOT. The Company holds 1% interest in Q-DOT Acoustics, LLC (QDA) but has effective control over it due to an operating agreement which gives the Company control of all operational decisions. In addition, all losses of QDA are allocated to the company and net profits are allocated first to the Company to the extent of any previous allocations of losses. Any additional profits of QDA are allocated prorata based on percentage of ownership. The other major shareholders of QDA are minor shareholders of the Company. QDA is accounted for by the equity method of accounting. REVENUE RECOGNITION SEMICONDUCTOR PRODUCTS - Product sales revenue is recognized when a valid purchase order has been received and the products are shipped to customers, including distributors. Customers receive a one- year product warranty and sales to distributors are subject to a limited product exchange program and product pricing protection in the event of changes in the Company's product price. The Company provides a reserve for possible product returns, price changes and warranty costs at the time the sale is recognized. REVENUE RECOGNITION GOVERNMENT CONTRACTS - Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned. Revenues from fixed-price contracts are recognized on the percentage-of-completion method. The percentage-of-completion is measured by the total costs incurred to date to estimated total costs for each contract. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Because of inherent uncertainties in estimating costs, it is reasonably possible that the estimates used will change within the near term. CONTRACT REVENUES AND RELATED COSTS - Substantially all of Q-DOT revenues result from contract services performed for the various agencies of United States Government (the "Government") under a variety of contracts and subcontracts, some of which provide for reimbursement of costs-plus-fees, and others which are fixed-price. The majority of the contracts are for services performed in Colorado. For some services rendered on Government contracts, the time between providing the services and the final cash realization from the sale of such services may extend two or more years. Costs on contracts with the government (including allocable indirect costs) are subject to audit and adjustment by negotiations between the Company and F-7 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Government representatives. Costs submitted for reimbursement are subject to Government audits for compliance with government cost accounting standards, federal acquisitions regulations and other contract terms. Negotiations for all of the years through March 31, 1999 have been completed without any material adjustments. Management does not believe the results of the March 31, 2000, December 31, 2000, December 31, 2001 and December 31, 2002 Government audits and subsequent negotiations will have a material effect on the accompanying financial statements. Direct costs of contracts include all direct labor, supplies, and equipment costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. At the time a loss on a contract becomes known, the entire amount of the estimated loss on both short and long- term contracts is accrued. CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2002, substantially all of the Company's cash and cash equivalents were held by a single bank, of which approximately $3,320,980 was in excess of Federally insured amounts. INVENTORY - The Company records inventory using the lower of cost (first-in, first-out) or market. Inventory at December 31, 2002 includes: Raw materials $ 65,169 Work in process 1,169,669 Finished goods 529,987 ---------- 1,764,825 Less reserves (156,583) ---------- $1,608,242 ========== DEPRECIATION & Amortization - Equipment and furniture are recorded at cost. Depreciation is provided over the assets' estimated useful lives of three to seven years using the straight-line and accelerated methods. The cost and accumulated depreciation of furniture and equipment sold or otherwise disposed of are removed from the accounts and the resulting gain or loss is included in operations. Maintenance and repairs are charged to operations as incurred and betterments are capitalized. In September 2000, the Company purchased incomplete research and development, patents and certain trademarks from WebGear, Inc. The incomplete research and development consists of hardware and software developed for wireless data communications that needs to be modified for use with the Bluetooth technology standard. The Company has valued the purchased patents and trademarks at $125,000, which was capitalized and recorded as intangible assets, the Company is currently amortizing the patents and trademarks over a five year life. RESEARCH AND DEVELOPMENT COSTS - Research and development costs are charged to operations in the period incurred. F-8 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ADVERTISING - The Company incurs advertising expense in connection with the marketing of its product. Advertising costs are expensed as advertising takes place. Advertising expense was $15,162 and $70,705 in 2002 and 2001, respectively. LOSS PER SHARE - The loss per share is presented in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. Basic EPS is calculated by dividing the income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. As the Company incurred losses in 2001 and 2002, all common stock equivalents would be considered anti-dilutive. For purposes of calculating diluted EPS, 5,539,386 and 5,286,872 options for 2002 and 2001, respectively, were excluded from diluted EPS as they had an anti-dilutive effect. ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates. The Company's financial statements are based upon a number of significant estimates, including the allowance for doubtful accounts, technological obsolescence of inventories, the estimated useful lives selected for property and equipment, sales returns, warranty reserve, percentage of completion on projects in process at year-end, potential adjustments for government contracts and the valuation allowance on the deferred tax assets. FINANCIAL INSTRUMENTS - The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of the accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short-term maturities of these instruments. CONCENTRATION OF CREDIT RISK - Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of accounts receivable. The Company has no significant off-balance sheet concentrations of credit risk. Accounts receivable are typically unsecured and are derived from transactions with and from customers located worldwide. IMPAIRMENT OF LONG-LIVED ASSETS - In the event that facts and circumstances indicate that the cost of assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. STOCK-BASED COMPENSATION - As permitted under the SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for its stock-based compensation in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As such, compensation expense is recorded on the date of grant if the current market price of the underlying stock exceeds the exercise price. Certain pro forma net income and EPS disclosures for employee stock option grants are also included in the notes to the financial statements as if the fair value method as defined in SFAS No. 123 had been applied. Transactions in equity instruments with non-employees for goods or services are accounted for by the fair value method. In fiscal 2000, the Company adopted the Financial Accounting Standards Board Interpretation No. 44 which requires that outside directors be considered employees for purposes of stock option accounting, if the Company is accounting for its employee stock-based F-9 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS compensation in accordance with APB 25. It also affects modifications to fixed stock options or awards that effects the life, exercise price, or the number of shares to be issued. The adoption of this interpretation did not have a material effect on the Company's consolidated financial statements. INCOME TAXES - The Company accounts for income taxes under the liability method of SFAS No. 109, whereby current and deferred tax assets and liabilities are determined based on tax rates and laws enacted as of the balance sheet date. Deferred tax expense represents the change in the deferred tax asset/liability balance. Valuation allowances are recorded for deferred tax assets that are not expected to be realized. BUSINESS SEGMENTS - The Company has adopted Statement of Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information ("SFAS 131"), which established standards for the way companies report information about their operating segments. Prior period amounts have been restated to conform to the requirements of this new statement. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In October 2001, the FASB approved SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 replaces SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. At this time, we do not believe adoption of this standard has a material effect on our financial statements. In April 2002, the FASB approved for issuance Statements of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds previous accounting guidance, which required all gains and losses from extinguishment of debt be classified as an extraordinary item. Under SFAS 145 classification of debt extinguishment depends on the facts and circumstances of the transaction. SFAS 145 is effective for fiscal years beginning after May 15, 2002 and adoption is not expected to have a material effect on the Company's financial position or results of its operations. In July 2002, the FASB issued Statements of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material effect on the Company's financial position or results of its operations. F-10 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS In December 2002, the FASB issued Statements of Financial Accounting Standards No.148, "Accounting for Stock-Based compensation - Transition and Disclosure - an amendment of FASB Statement 123" (SFAS 123). For entities that change their accounting for stock-based compensation from the intrinsic method to the fair value method under SFAS 123, the fair value method is to be applied prospectively to those awards granted after the beginning of the period of adoption (the prospective method). The amendment permits two additional transition methods for adoption of the fair value method. In addition to the prospective method, the entity can choose to either (i) restate all periods presented (retroactive restatement method) or (ii) recognize compensation cost from the beginning of the fiscal year of adoption as if the fair value method had been used to account for awards (modified prospective method). For fiscal years beginning December 15, 2003, the prospective method will no longer be allowed. The Company currently accounts for its stock-based compensation using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and plans on continuing using this method to account for stock options , therefore, it does not intend to adopt the transition requirements as specified in SFAS 148. The Company has adopted the new disclosure requirements of SFAS 148 in these financial statements. 2. ACQUISITIONS: ------------ On March 13, 2001, the Company acquired Q-DOT in exchange for approximately 5,172,000 shares of our Common Stock. Q-DOT specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications. Q-DOT will be operated as a wholly owned subsidiary of Simtek for its government contract research and development operations. The acquisition has been accounted for as a pooling of interests, and the results of Q-DOT have been consolidated with those of Simtek as if the two businesses had been merged throughout the periods presented. Separate revenues and net income of the Company and Q-DOT Group, Inc. are presented in the following table: 2002 2001 ---- ---- Revenue: Simtek Corporation $12,422,087 $15,449,981 Q-DOT 1,904,618 1,500,506 ----------- ----------- Revenue, as reported $14,326,705 $16,950,487 =========== =========== Net Income (Loss): Simtek Corporation $(1,027,908) $ (925,098) Q-DOT 65,041 (195,252) ----------- ----------- Net (loss) as reported $ (962,867) $(1,120,350) =========== =========== 3. EQUIPMENT AND FURNITURE: ----------------------- Equipment and furniture at December 31, 2002 consists of the following: F-11 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Leased software under capital leases $ 441,550 Research and development equipment 1,442,388 Computer equipment and software 1,620,056 Office furniture 235,135 Other equipment 257,604 ----------- 3,996,733 Less accumulated depreciation and amortization (3,270,845) ----------- $ 725,888 =========== The cost of equipment and furniture acquired for research and development activities that has alternative future use is capitalized and depreciated over its estimated useful life. Depreciation and amortization expense of $422,736 and $462,083 was charged to operations for the years ended December 31, 2002 and 2001 respectively. Included in the amortization expense for 2002 and 2001 was $83,886 and $55,991, respectively, of amortization of software under capital leases. At December 31, 2002, accumulated amortization for software under capital leases was $208,031. 4. REVOLVING LINE-OF-CREDIT AND LETTER-OF-CREDIT: -- As of December 31, 2002, the Company had a $250,000 revolving line-of-credit (LOC). The LOC bears interest at prime plus .75% (5.00% at December 31, 2002), matures in April 2003, and is collateralized by the assets of the Company. No amounts were outstanding as of December 31, 2002. When the Company acquired Integrated Logic Systems, they also acquired a note payable related to a reorganization plan that Integrated Logic Systems went through. The reorganization plan required that annual payments of $5,000, with no interest, be made to a legal entity serving as a trustee for these creditors, payments started on September 15, 1995. The legal entity serving as the trustee for these creditors was dissolved in 1995 and all payments made to the trustee by the Company have been returned. Based on the statue of limitations for the State of Colorado, the Company may begin writing off $5,000 for each of the next two years. At December 31, 2002, the note payable was $10,000. The Company has a letter of credit arrangement with one of the Company's suppliers which requires the Company to maintain a $300,000 certificate of deposit as collateral, which is reflected as restricted cash. 5. CONVERTIBLE DEBENTURES: ---------------------- On July 1, 2002, the Company received funding of $3,000,000 in a financing transaction with Renaissance Capital Group, Inc. ("Renaissance"). Renaissance is the agent for three investment funds, Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC. 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 are convertible into Simtek common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. Based on the conversion rate of $0.312 per share, it would entitle each fund to 3,205,128 shares of Simtek common stock. F-12 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 6. COMMITMENTS: ------------ Offices Leases - The Company leases office space under a lease, which expires on February 28, 2008. Monthly lease payments are approximately $15,000. Through the acquisition of Q-DOT, the Company has non-cancelable long-term lease agreements for office space, office furnishings and equipment that expire at various dates through December 2005. A facility lease and the equipment leases contain an option to extend the leases for an additional one-year period. The Company leases furniture, equipment, and its office under operating leases, which expire over the next seven years. Future minimum lease payments under the equipment, furniture and office leases described above are approximately as follows: Year ------------ 2003 $ 703,038 2004 522,672 2005 327,969 2006 208,184 2007 & After 252,829 ---------- $2,014,692 ========== Office rent and equipment lease expense totaled $603,344 and $450,747 for the years ended December 31, 2002 and 2001, respectively. In addition, the Company leases research and development software under three capital leases, which will expire over the next two years. At December 31, 2002, future minimum lease payments under the lease described above is approximately as follows: Year ------------ 2003 $ 176,752 2004 98,053 --------- Total net minimum lease payments 274,805 Less interest and taxes (65,808) --------- Present value of net minimum lease payments 208,997 Less current portion of capital leases (132,485) --------- $ 76,512 ========= Accrued Salary - Due to limited working capital of the Company, the Company's former CFO agreed with the Company's Board of Directors to defer his salary from April 1, 1994 through December 31, 1996. In July 2001, the Company entered into an agreement to begin paying the former CFO's accrued salary and accrued vacation over an 18 month period. The Company made the first payment in July 2001 and made the last payment in December 2002. As of December 31, 2002, all amounts due were paid in full. F-13 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 7. SHAREHOLDERS' EQUITY: --------------------- On September 14, 2000, the Company entered into a one-year contract with two investment bankers, E.B.M. Associates, Inc. and World Trade Partners. Each company has received 500,000 shares of common stock, which were nonforfeitable and fully vested upon issuance on September 14, 2000, the grant date. Both companies assisted the Company in broadening our financial market presence and establishing new relationships within the industry, investment community and financial media, by arranging meetings for our management with industry analysts, presenting company profiles to analysts and brokerage firms, mailings and constant personal communication with investors. E.B.M. Associates Inc. supported these activities primarily in retail investment markets, while World Trade Partners supported these activities primarily in institutional markets. E.B.M. Associates and World Trade Partners cooperated to coordinate their activities. On September 14, 2000, the closing share price for the Company's common stock was $1.0312 per share and accordingly $1,031,200 was assigned to prepaid investor relations. The cost associated with this transaction was amortized over the life of the contract. At December 31, 2002 this transaction was fully amortized. On March 13, 2001, the Company acquired Q-DOT in exchange for approximately 5,172,000 shares of Simtek's common stock. Q-DOT specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications. Q-DOT's projects have been supported by conventional government and commercial contracts in addition to government contacts sponsored by the Small Business Innovation Research (SBIR) contracts. Q-DOT is operated as a wholly owned subsidiary of Simtek for its government contract research and development operations. The acquisition was accounted for as a pooling of interest, and the results of Q-DOT will be consolidated with Simtek's as if they had been merged throughout the periods. STOCK OPTION PLANS - The Company has approved two stock option plans that authorize 600,000 incentive stock options and 9,900,000 non-qualified stock options that may be granted to directors, employees, and consultants. On September 26, 2001, the Incentive Stock Option Plan terminated. All options outstanding at the time of the plan termination may be exercised in accordance with their terms. The Non-Qualified Stock Option Plan which was adopted in 1994 remains in effect. The plans permitted the issuance of incentive and 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 plans are 10 years and options granted to employees expire three months after the termination of employment. None of the options may be exercised during the first six months of the option term. No options may be granted after 10 years from the adoption date of each plan. Following is a summary of activity under these stock option plans for the years ended December 31, 2002 and 2001: F-14 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 2002 2001 ----------------------------- ------------------------------ Weighted Weighted Average Average Number Exercise Number Exercise of Shares Price of Shares Price ------------ --------------- -------------- ---------------- Outstanding, beginning of year 5,286,872 $ .46 3,137,722 $ .47 Granted 912,500 .35 2,643,750 .41 Expired (153,986) .14 - Exercised (356,000) (.14) (387,100) (.14) Canceled (150,000) (.31) (107,500) (.87) --------- --------- Outstanding, end of year 5,539,386 $ .47 5,286,872 $ .46 ========= ========= All options granted during 2002 and 2001, were at the current market price and the weighted average fair value was $0.29 and $0.35, respectively. At December 31, 2002, options for 3,635,983 shares were exercisable and of the remaining options of 1,215,382, 606,979, and 81,042 shares will become exercisable in 2003, 2004, and 2005, respectively. The following information summarizes stock options outstanding at December 31, 2002: Outstanding Exercisable --- ---------------------------- Weighted Average -- Remaining Weighted Exercise Number Contractual Exercise Number Average Price Outstanding Life in Months Price Exercisable Exercise Price ----- ----------- ------------- --------- ----------- ------------- $0.13 - 0.19 633,677 42 $0.17 468,677 $0.17 $0.22 - 0.32 1,330,055 48 $0.27 749,395 $0.26 $0.35 - 0.50 2,150,654 50 $0.40 1,391,800 $0.40 $0.60 - 0.80 820,000 62 $0.63 511,389 $0.63 $1.13 - 1.50 605,000 53 $1.28 514,722 $1.28 -------- -------- 5,539,386 3,635,983 ========= ========= INCENTIVE STOCK OPTION PLAN - At the time of the acquisition of Q-DOT, Q-DOT had an Incentive Stock Option Plan for the benefit of its employees. At December 31, 2000, Q-DOT had outstanding options to purchase 5,356 shares of its stock. At the time of closing, these options converted into 94,601 options to purchase Simtek Common Stock. No further options will be issued under this plan and all options outstanding will continue to vest per their original vesting schedule. These options have not been included in the above tables. PRO FORMA STOCK-BASED COMPENSATION DISCLOSURES - The Company applies APB Opinion 25 and related interpretations in accounting for its stock options and warrants which are granted to employees. Accordingly, no compensation cost has been recognized for grants of options and warrants to employees since the exercise prices were not less than the market value of the Company's common stock on the grant dates. Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income and EPS would have been reduced to the pro forma amounts indicated below. F-15 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, ----------------------------- 2002 2001 ------------ ------------ Net loss applicable to common shareholders: As reported $ (962,867) $(1,120,350) Pro forma (1,584,568) (1,623,545) Net loss per common shareholders: As reported - basic and diluted $ (.02) $ (.02) Pro forma - basic and diluted $ (.03) $ (.03) The fair value of each option granted in 2002 and 2001 was estimated on the date of grant, using the Black-Scholes option-pricing model with the following: Options Granted During ----------------------------- 2002 2001 -------------- ------------- Expected volatility 132.9% 138.7% Risk-free interest rate 3.2% 3.9% Expected dividends - - Expected terms (in years) 4.0 4.0 OTHER - Preferred Stock may be issued in such series and preferences as determined by the Board of Directors. 8. SIGNIFICANT CONCENTRATION OF CREDIT RISK, MAJOR CUSTOMERS, AND OTHER RISKS -- AND UNCERTAINTIES: ----------------- Sales by location for the year ended December 31, 2002 and 2001 were as follows (as a percentage of sales): 2002 2001 ---- ---- United States 61% 53% Europe 9% 13% Far East 24% 27% All Others 6% 7% ---- ---- Total 100% 100% Sales from government contracts accounted for approximately 13% and 9% of total sales for the years ended December 31, 2002 and 2001, respectively. Sales from our military products accounted for approximately 17% and 9% of total sales for the years ended December 31, 2002 and 2001, respectively. Sales to unaffiliated customers which represent 10% or more of the Company's sales for the years ended December 31, 2002 and 2001 were as follows (as a percentage of sales): F-16 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Customer 2002 2001 -------- ------ ------ A 12% 19% B 16% 16% C - 10% All customers identified above are from the semiconductor segment of the Company's business. At December 31, 2002, the Company had gross trade receivables totaling $699,037 due from the above two customers. In 2002 and 2001, the Company purchased all of its memory wafers, based on 0.8 micron technology from a single supplier Chartered Semiconductor Manufacturing. Approximately 80% and 86% of the Company's net revenue for 2002 and 2001, respectively, were from finished units produced from these wafers. The Company had an agreement with Chartered Semiconductor Manufacturing to provide wafers, which expired in September 1998. This agreement has not been extended or terminated, however, this supplier still provides wafers to the Company. In February 2003, we received notification from Chartered Semiconductor Manufacturing that they will close their wafer fabrication facility #1 by March 2004. We currently purchase memory wafers manufactured in this facility #1, and we are currently in discussion to move manufacturing to Chartered Semiconductor's Manufacturing facility #2. In addition, the Company purchased all of its logic wafers from two suppliers located in Singapore and Taiwan. Approximately 7% and 5% of its net revenue for 2002 and 2001, respectively, were from finished units produced from these wafers. The Company does not have an agreement with either supplier, however, the Company has not seen any disruption in wafer deliveries. In February 2003, the Company received notification from its supplier of logic wafers in Taiwan that they will be unable to supply the Company with logic wafers after August 2003. Facility #2 is newer and more modern than facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming acceptable terms are reached to move our process into facility #2 we expect the project will take nine to twelve months to complete. This would provide uninterrupted supply of our current 0.8 micron family of nonvolatile Static Random Access memory products, and would have no material impact on our ability to support our customers. If we cannot reach acceptable terms with Chartered Semiconductor Manufacturing or another supplier, this will have a material negative impact on our future revenues and earnings. Based on discussions with Chartered Semiconductor Manufacturing, we believe that we will be able to reach an acceptable agreement. 9. TAXES ----- Under SFAS No. 109, deferred taxes result from temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The components of deferred taxes are as follows: F-17 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Deferred Tax Assets (Liability) ------------------ Current: Allowance for doubtful accounts $ 4,000 Reserves 86,000 Warranty reserve 39,000 Accrued expenses 103,000 ------------- Net current deferred tax before valuation allowance 232,000 Valuation allowance (232,000) ------------- Total current deferred tax $ - ============= Non-Current: Net operating losses $ 10,772,000 Property and equipment (85,000) R&D credit carryforward 36,000 AMT credit 8,000 ------------- Net non-current deferred tax asset before valuation allowance 10,731,000 Valuation allowance (10,731,000) -------------- Total non-current deferred tax asset $ - ============= The net current and non-current deferred tax assets have a 100% valuation allowance resulting from the inability to predict sufficient future taxable income to utilize the assets. The valuation allowance for 2002 decreased $2,213,000 and $109,000 in 2001. At December 31, 2002, the Company has approximately $29,000,000 available in net operating loss carryforwards which begins to expire from 2004 to 2016. As a result of certain non-qualified stock options which have been exercised, approximately $3,280,000 of the net operating loss carryforward will be charged to "paid in capital," when, and if, the losses are utilized. Also, a substantial portion of the net operating loss may be subject to Internal Revenue Code Section 382 limitations. Total income tax expense for 2002 and 2001 differed from the amounts computed by applying the U.S. Federal statutory tax rates to pre-tax income as follows: 2002 2001 --------- -------- Statutory rate (34.0)% (34.0)% State income taxes, net of Federal income tax benefit (3.3)% (3.3)% Increase (reduction) in valuation allowance related to of net operating loss carryforwards and change in temporary differences 37.3% 37.3% ------- ------- $ - $ - ======= ======= F-18 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 10. BUSINESS SEGMENTS ----------------- The Company has two reportable segments. One segment designs and produces semiconductor devices for sale into the semiconductor market. The second segment specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications that is supported by government and commercial contracts. Although both segments are managed as part of an integrated enterprise, they are reported herein in a manner consistent with the internal reports prepared for management. Transactions between reportable segments are recorded at cost. Substantially all operating expenses are identified per each segment. Substantially all of the Company's assets are located in the United States of America. Description Year Semiconductor Government Total Devices Contracts Net Sales 2002 $ 12,422,087 $1,904,618 $14,326,705 2001 15,449,981 1,500,506 16,950,487 Loss from Operations 2002 $ (1,027,908) $ 65,041 $ (962,867) 2001 (925,098) (195,252) (1,120,350) Interest income 2002 $ 42,447 $ - $ 42,477 2001 79,420 77 79,497 Interest expense 2002 $ (146,176) $ (1,745) $ (147,921) 2001 (20,214) (2,351) (22,565) Depreciation and amortization 2002 $ 407,193 $ 35,953 $ 443,146 2001 389,405 72,678 462,083 Total Assets 2002 $ 7,931,832 $ 575,218 $ 8,507,050 2001 6,587,283 428,830 7,016,113 F-19 PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 24. INDEMNIFICATION OF OFFICERS AND DIRECTORS The Colorado Business Corporation Act provides that a corporation may indemnify a person made a party to a proceeding because the person is or was a director against liability incurred in the proceeding if (a) the person conducted himself or herself in good faith, (b) the person reasonably believed (1) in the case of conduct in an official capacity with the corporation, that his or her conduct was in the corporation's best interests; and (2) in all other cases, that his or her conduct was at least not opposed to the corporation's best interests and (c) in the case of any criminal proceeding, the person had no reasonable cause to believe his or her conduct was unlawful. Such indemnification is permitted in connection with a proceeding by or in the right of the corporation only to the extent of reasonable expenses incurred in connection with the proceeding. A corporation may not indemnify a director (a) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or (b) in connection with any other proceeding charging that the director derived an improper personal benefit, whether or not involving action in an official capacity, in which proceeding the director was adjudged liable on the basis that he or she derived an improper personal benefit. The Colorado Business Corporation Act further provides that a corporation, unless limited by its articles of incorporation, shall indemnify a person who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which the person was a party because the person is or was a director, against reasonable expenses incurred by him or her in connection with the proceeding. Our articles of incorporation contain a provision that requires us to indemnify, to the fullest extent permitted under the Securities Act of 1933, as amended (the "Act"), directors and officers against all costs and expenses reasonably incurred in connection with the defense of any claim, action, suit or proceeding, whether civil, criminal, administrative, investigative or other, in which such person may be involved by virtue of being or having been a director, officer or employee. Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of Simtek pursuant to the foregoing provisions, or otherwise, Simtek has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION The following table sets forth the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby, all of which expenses, except for the Commission registration fee are estimated: Securities and Exchange Commission registration fee............. $ 200 Legal fees and expenses... 7,500 Accounting fees... 3,500 Miscellaneous... 2,500 -------- Total... $ 13,700 ======== The above expenses will be borne by us. ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES During April 2000, Zentrum Mikroelektronik Dresden converted a $130,153 liability into 551,964 shares of our common stock. The conversion price was at $0.2358 per share. The price was based upon the Cooperation Agreement entered into with Zentrum Mikroelektronik Dresden in September 1995. Zentrum Mikroelektronik Dresden was financially sophisticated and had access to the same type of information about us as a registration statement would disclose. No general solicitation occurred. In May 2000, we issued 3,000,000 shares of our common stock to Hugh Norman Chapman as consideration for our acquisition of 100% of the issued and outstanding stock of Integrated Logic Systems, one of the companies that house our semiconductor logic business. No advertising or general solicitation II-1 occurred. We only offered to issue, and did issue, stock to one person--Mr. Chapman. Mr. Chapman had substantial business dealings with us prior to this transaction. Mr. Chapman received or had access to the same type of information about us as a registration statement would disclose. We reasonably believed that Mr. Chapman was financially sophisticated. In June 2000, we issued 1,250,000 shares of our common stock to WebGear, as consideration for our acquisition of 1,875,000 shares of WebGear common stock. In September, we issued 2,900,000 shares of our common stock to WebGear as consideration, together with 1,250,000 shares of WebGear common stock, for our acquisition of intellectual property assets of WebGear. These assets primarily relate to the wireless data communications industry. No advertising or general solicitation occurred with respect to these transactions involving WebGear. WebGear received or had access to the same type of information about us as a registration statement would disclose. WebGear was financially sophisticated and an "accredited investor." In July 2000, we issued 625,000 shares of our common stock to each of Jaskarn Johal and Kashmira S. Johal as consideration for our acquisition of 100% of the stock of Macrotech Semiconductor, one of the companies that house our semiconductor logic business. No advertising or general solicitation occurred with respect to the Macrotech Semiconductor transaction. We only offered to issue, and did issue, stock to Messrs. J. Johal and K. Johal. Messrs. J. Johal and K. Johal had substantial business dealings with us prior to this transaction. Messrs. J. Johal and K. Johal received or had access to the same type of information about us as a registration statement would disclose. We reasonably believed that Messrs. J. Johal and K. Johal were financially sophisticated. In September 2000, we issued 500,000 shares of our common stock each to both E.B.M. Associates and World Trade Partners in consideration for their agreement to provide financial advisory services. No advertising or general solicitation occurred with respect to our issuance of stock to E.B.M. Associates or World Trade Partners. We only offered to issue, and did issue, stock to E.B.M. Associates and World Trade Partners. E.B.M. Associates and World Trade Partners received or had access to the same type of information about us as a registration statement would disclose. We reasonably believed that E.B.M. Associates and World Trade Partners were financially sophisticated. On March 14, 2001, we completed the merger of Q-DOT Group, Inc. with and into us in exchange for approximately 5,172,000 shares of our common stock, valued at $4,000,000. Although duly notified of their appraisal rights, no Q-DOT Group stockholder exercised appraisal rights. Q-DOT Group's 30 stockholders received, on a pro rata basis, a total of approximately 5,172,000 shares of our common stock. The transaction was a private placement exempt from registration pursuant to Rule 506 of Regulation D promulgated by the SEC. There were fewer than 35 purchasers of our securities accredited investors. We provided each purchaser with the information required under Regulation D. We reasonably believed that each purchaser who was not an accredited investor, either alone or with such person's purchaser representative, was capable of evaluating the risks and merits of investing in our stock. No general solicitation or advertising occurred. Following the merger, we filed a Form D with the SEC as required by Regulation D. Pursuant to a Convertible Loan Agreement, dated as of June 28, 2002, we issued convertible debentures to Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC on July 1, 2002. We received $3,000,000 in funding. The convertible debentures have 7-year terms at a 7.5% per annum interest rate; each fund equally invested $1,000,000. The holder of the debentures has the right, at any time, to convert all, or in multiples of $100,000, any part of the debenture into shares of our common stock. The debentures are convertible into our common stock at $0.312 per share. Each purchaser of the debentures was an accredited investor. No general solicitation or advertising occurred. With respect to our acquisition of Q-DOT Group, we issued securities in reliance upon Rule 506 of Regulation D. The other issuances described above were deemed to be exempt from registration under the Act, in reliance on Section 4(2) of the Act as transactions by an issuer not involving a public offering. II-2 ITEM 27. EXHIBITS All exhibits listed below are incorporated herein by reference, except Exhibits -- 5.1, 23.1 and 23.2. ------------------- 3.1 Amended and Restated Articles of Incorporation.(2) 3.2 Amended and Restated Articles of Incorporation November 1997.(7) 3.3 Bylaws.(2) 4.1 1987-I Employee Restricted Stock Plan.(1) 4.2 Form of Restricted Stock Agreement between the Company and Participating Employees.(1) 4.3 Form of Common Stock Certificate.(3) 4.4 Simtek Corporation 1991 Stock Option Plan.(4) 4.5 Form of Incentive Stock Option Agreement between the Company and Eligible Employees.(4) 4.6 1994 Non-Qualified Stock Option Plan.(5) 4.7 Amendment to the 1994 Non-Qualified Stock Option Plan.(6) 4.8 Q-DOT Group, Inc. Incentive Stock Option Plan of March 1994 adopted by Simtek (15) 4.9 Form of Q-DOT Group, Inc. Incentive Stock Option Agreement between the Company and Eligible Employees.(15) 4.10 Amendment to the 1994 Non-Qualified Stock Option Plan.(15) 5.1 Opinion of Holme Roberts & Owen LLP 10.1 Form of Non-Competition and Non-Solicitation Agreement between the Company and certain of its employees.(1) 10.2 Form of Employee Invention and Patent Agreement between the Company and certain of its employees.(1) 10.3 Product License Development and Support Agreement between Simtek Corporation and Zentrum Mikroelektronik Dresden GmbH dated June 1, 1994(5) 10.4 Cooperation Agreement between Simtek Corporation and Zentrum Mikroelektronik Dresden GmbH dated September 14, 1995(6) 10.5 Manufacturing Agreement between Chartered Semiconductor Manufacturing, PTE, LTD. and Simtek Corporation dated September 16, 1992(6) 10.6 Employment agreement between the Simtek Corporation and Douglas M. Mitchell(8) 10.7 Share Exchange Agreement dated May 9, 2000 between Simtek Corporation and Hugh N. Chapman (9) 10.8 Share Exchange Agreement dated June 16, 2000 between Simtek Corporation and WebGear Inc. (9) 10.9 Share Exchange Agreement dated July 31, 2000 between Simtek Corporation and Jaskarn Johal and Kashmira S. Johal (10) 10.10 Asset Purchase Agreement between Simtek Corporation and WebGear, Inc. (11) 10.11 Amendment to Asset Purchase Agreement between Simtek Corporation and WebGear, Inc. (12) 10.12 Agreement and Plan of Merger among Simtek Corporation, W-DOT Group, Inc. and Q-DOT, Inc. (13) 10.13 Employment Agreement between Simtek Corporation and Hugh N. Chapman (14) 10.14 Technology Development, License and Product Agreement between Amkor Technology and Simtek (16) 10.15 Manufacturing Services Agreement between Amkor Technology, Inc. and Simtek Corp (16) 10.16 Convertible Loan Agreement between Simtek Corporation as borrower and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth and Income Trust, PLC and BFSUS Special Opportunities Trust, PLC as lenders (17) 10.17 7.5% $1,000,000 Convertible Debenture between Simtek Corporation and BSFSUS Special Opportunities Trust, PLC

(17) 10.18 7.5% $1,000,000 Convertible Debenture between Simtek Corporation and Renaissance Capital Growth & Income Fund III, Inc. (17) 10.19 7.5% $1,000,000 Convertible Debenture between Simtek Corporation and Renaissance Capital US Growth & Income Trust, PLC (17) 10.20 Borrowers Security Agreement between Simtek Corporation as borrower and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth and Income Trust, PLC and BFSUS Special Opportunities Trust, PLC as lenders (17) 10.21 Pledge Agreement between Simtek Corporation as borrower and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth and Income Trust, PLC and BFSUS Special Opportunities Trust, PLC as lenders (17) II-3 10.22 Technology Development, License and Product Agreement between Amkor Technology and Simtek - Amended September 2002 (18) 10.23 Assignment, dated February 21, 2003, of the Agreement(s) between Simtek Corporation and Amkor Technology, Inc.(19) 23.1 Consent of Independent Public Accountants 23.2 Consent of Holme Roberts & Owen LLP is included in Exhibit 5.1 --------------------- (1) Incorporated by reference to the Company's Form S-1 Registration Statement (Reg. No. 33-37874) filed with the Commission on November 19, 1990. (2) Incorporated by reference to the Company's Amendment No.1 to Form S-1 Registration Statement (Reg. No. 33-37874) filed with the Commission on February 4, 1991. (3) Incorporated by reference to the Company's Amendment No.2 to Form S-1 Registration Statement (Reg. No. 33-37874) filed with the Commission on March 4, 1991. (4) Incorporated by reference to the Company's Form S-1 Registration Statement (Reg. No. 33-46225) filed with the Commission on March 6, 1992. (5) Incorporated by reference to the Company's Annual Report on Form 10-K filed with the Commission on March 25, 1995 (6) Incorporated by reference to the Company's Annual Report on Form 10-K filed with the Commission on March 27, 1996 (7) Incorporated by reference to the Company's Annual Report on Form 10-K filed with the Commission on March 24, 1998 (8) Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Commission on March 12, 1999 (9) Incorporated by reference to the Form SB-2 Registration Statement (Reg. No. 333-40988) filed with the Commission on July 7, 2000 (10) Incorporated by reference to the Form 8-K filed with the Commission on August 14, 2000 (11) Incorporated by reference to the Form 8-K filed with the Commission on October 13, 2000 (12) Incorporated by reference to the Company's Amendment No. 2 to From SB-2 Registration Statement (Reg. No. 333-40988) (13) Incorporated by reference to the Company's Form 8-K filed with the March 23, 2001 (14) Incorporated by reference to the Form SB-2 Registration Statement Amendment #3 (Reg. No. 333-60492) filed with the Commission on September 4, 2001 (15) Incorporated by reference to the Company's Form S-8 Registration Statement (Reg. No. 333-73794) filed with the Commission on November 20, 2001 (16) Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Commission on March 27, 2002 (17) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB filed with the Commission on August 13, 2002 (18) Incorporated be reference to the Company's Quarterly Report on Form 10-QSB filed with the Commission on November 8, 2002 (19) Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Commission on March 27, 2003 ITEM 28. UNDERTAKINGS Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer of controlling person of the registrant in the II-4 successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. The undersigned registrant hereby undertakes: (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement: (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933; (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the

maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement. (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement. (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. II-5 SIGNATURES In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Colorado Springs, State of Colorado on April 30, 2003. Simtek Corporation, a Colorado corporation By: /s/ Douglas M. Mitchell -- Douglas M. Mitchell Chief Executive Officer and President In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates stated. SIGNATURE /s/ Douglas M. Mitchell -- Douglas M. Mitchell Director, Chief Executive Officer, President and Chief Financial Officer (acting) April 30, 2003 /s/ Robert H. Keeley* -- Robert H. Keeley Director April 30, 2003 /s/ Harold Blomquist* -- Harold Blomquist Director April 30, 2003 /s/ Klaus Wiemer* -- Klaus Wiemer Director April 30, 2003 /s/ Kimberley Carothers -- Kimberley Carothers Controller (Principal Accounting Officer) April 30, 2003 * By /s/ Douglas M. Mitchell, Attorney in Fact II-6