Campus Crest Communities, Inc.
Form 4
June 10, 2013

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Kahlbaugh Richard S

(Last) (First) (Middle)

C/O CAMPUS CREST COMMUNITIES, INC., 2100 REXFORD ROAD, SUITE 414

(Street)

CHARLOTTE, NC 28211

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Campus Crest Communities, Inc. [CCG]

3. Date of Earliest Transaction (Month/Day/Year)
06/06/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/06/2013		S		2,000	D	$ 12.28	21,237	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Kahlbaugh Richard S C/O CAMPUS CREST COMMUNITIES, INC. 2100 REXFORD ROAD, SUITE 414 CHARLOTTE, NC 28211	X			

Signatures

/s/ Donald L. Bobbitt, Jr. Title: Attorney-in-Fact	06/10/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Simtek Corporation $100 $38 $286 $143 $ 69 $110 SOXX $100 $55 $ 97 $ 83 $ 92 $ 89 S&P SmallCap 600 $100 $85 $116 $142 $151 $172 25 Item 6: Selected Financial Data ------------------------------- The following selected financial data should be read in conjunction with, and are qualified in their entirety by, the consolidated financial statements and related notes thereto contained in "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. Years Ended December 31, 2006 2005 2004 2003 2002 ---- ---- ---- ---- ---- (in thousands, except per share data) Revenue $ 30,630 $ 10,385 $ 13,092 $ 12,263 $ 12,422 Gross margin 12,606 2,794 3,952 3,735 4,844 Loss from continuing Operations (2,007) (7,490) (3,731) (2,389) (1,028) Income (loss) from Discontinued operation - 1,704 60 116 65 Net loss $ (2,007) $ (5,786) $ (3,671) $ (2,273) (963) Loss per share from Continuing operations: Basic and diluted $ (.13) $ (1.09) $ (.64) $ (.41) $ (.18) Income per share from Discontinued operations: Basic and diluted $ .00 $ .25 $ .01 $ .00 $ .00 Total loss per share Basic and diluted $ (.13) $ (.84) $ (.63) $ (.41) $ (.18) Working capital 11,828 3,591 4,122 1,610 5,473 Total assets 28,242 18,758 7,976 7,303 7,932 Total long term debt 2,220 2,760 3,000 3,000 3,000 Shareholders' equity 19,108 11,319 1,989 2,523 3,253 Cash dividends per common Share (1) - - - - - (1) We have not declared any cash dividends on our common stock and do not expect to pay such dividends in the foreseeable future. 26 Item 7: Management's Discussion and Analysis of Financial

Condition and Results -- of Operations ------------- Overview of Recent Debt and Equity Transactions On March 24, 2006, we entered into a License and Development Agreement with Cypress, whereby, among other things, we received $4,000,000 in non-refundable prepaid royalties and we issued to Cypress 2,000,000 warrants. The warrants have a per share exercise price of $7.50 and have a 10 year term. Please read Note 11 to the Consolidated Financial Statements for a discussion of the accounting treatment for the transactions related to this agreement. On May 26, 2006, we issued a total of 25,000 warrants to the RENN Capital Group funds. 20,000 of the warrants were issued in consideration for the RENN Capital Group funds entering into a subordination agreement with Wells Fargo which was required for us to enter into a $3,600,000 revolving credit agreement with Wells Fargo Business Credit. The remaining 5,000 warrants were issued in consideration for the waiver letter we received from the RENN Capital Group funds for us being out of compliance with the covenants in the loan agreement at March 31, 2006. On July 24, 2006, each of the Renaissance Capital Growth & Income Fund III, Inc., Renaissance Growth Investment Trust PLC and US Special Opportunities Trust, PLC converted $100,000 of the principal amount of the 2002 7.5% convertible debentures into 45,455 shares of our common stock in lieu of us making the principal payment we were required to make beginning on July 1, 2006. On September 21, 2006, we completed a private placement in the amount of $4,555,000, whereby, among other things, we issued 1,153,171 shares of our common stock and 172,981 warrants to purchase common stock. The warrants have a per share exercise price of $5.40 and a five-year term. On October 11, 2006 and October 20, 2006, Bluegrass Growth Fund Ltd. and Bluegrass Growth Fund LP each exercised 25,800 warrants to purchase shares of our common stock. On October 20, 2006, C. E. Unterberg Towbin exercised 27,000 warrants to purchase shares of our common stock. We received a total of $212,000 from these warrant exercises. Results of Operations General. Simtek designs and markets high-speed, re-programmable, nonvolatile semiconductor memory products for use in a variety of systems including RAID servers, industrial automation, GPS navigational systems, robotics, medical instrumentation, and networking and telecommunications equipment. We are a fables semiconductor company, which means we outsource substantially all manufacturing processes. We concentrate on the design and development of our nvSRAM product families and technologies, marketing, distribution channels, and sources of supply. 27 In 2003, we received notification from Chartered that they would be closing their silicon wafer fabrication facility #1 in March 2004 and that they would transfer our 0.8-micron process technology to their silicon wafer fabrication facility #2. Through late 2003 and into 2004, we worked with Chartered to transfer the production of our 16-kilobit, 64-kilobit, 5 volt 256-kilobit and 3 volt 256-kilobit product from their facility #1 to their facility #2. During the third and fourth quarters of 2004 and first quarter of 2005, we completed the transfer and qualification of these products. The transfer from Chartered's facility #1 to Chartered's facility #2 accounted for lower production yields in 2004 as compared to the production yields we achieved in 2003. During the fourth quarter 2004, we began seeing production yields return to historic levels. Sales of our products manufactured from the silicon wafers we received from both of Chartered's facilities accounted for approximately 66%, 86% and 97% of our total revenue for the years ended December 31, 2006, December 31, 2005 and for December 31, 2004, respectively. In addition to Chartered, we purchase silicon wafers from Dongbu that are used to manufacture our 0.25 micron products including the 1 megabit and 256 kilobit devices with and without real time clock. In September 2005, we qualified our 1-megabit products for use in the commercial and industrial markets. Sales of our 0.25 micron products accounted for approximately 13%, 13% and 3% of our total revenue for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, respectively. As discussed previously, on December 30, 2005, we closed on the acquisition of certain assets related to ZMD's nvSRAM product line. This acquisition had no effect on the operating results for fiscal year 2005, as there were no operating activities related to those assets until January 2006. During 2006, approximately 20% of our net revenue was from inventory purchased from ZMD. We are near the finalization of converting the last of our customers from the products produced from ZMD to Simtek products produced on silicon received from Chartered or Dongbu. Review of 2006 Operations Total revenue for 2006 was approximately $30,600,000, consisting of $28,560,000 of product revenue and $2,070,000 of royalty revenue. We saw a significant increase in unit shipments and average selling prices of our commercial and industrial products. In 2006, management focused on integrating the nvSRAM business acquired from ZMD, setting up Simtek GmbH, our wholly-owned subsidiary in Dresden, Germany, and increasing gross margins. Margins were improved as a result of increased selling prices, reduced costs of our 0.25 micron products, transfer of test operations to Asia, and streamlining our product offering. Review of 2005 Operations Total revenue for 2005 was approximately $10,385,000. We saw a decrease in unit shipments and average selling prices of our commercial and industrial products. In 2005, management focused on realigning customer inventory and ordering patterns to more closely follow end user consumption patterns. This resulted in decreased revenue in 2005. Management believes that aligning customer unit consumption and ordering trends will ultimately allow both Simtek 28 and its customers to better forecast production and inventory requirements. Revenue and unit volumes were lowest in the second quarter 2005 and showed steady improvement in the third and fourth quarters of 2005. Results of Operations Revenues In 2006, total revenue was $30,630,000 which included net royalties in the amount of $2,070,000 from Cypress. There were no royalties received in 2005 or 2004. The following table sets forth our net product revenues for semiconductor devices by product markets for the years ended December 31, 2006, 2005 and 2004 (in thousands): 2006 2005 2004 ---- ---- ---- Commercial $ 26,145 $ 8,669 $ 10,314 High-end industrial and Military $ 2,415 $ 1,617 $ 2,778 Logic products $ - $ 99 $ - -------- -------- -------- Total Revenue $ 28,560 $ 10,385 $ 13,092 Revenues for the year ended December 31, 2006 as compared to 2005 Commercial revenues include revenue generated from our legacy products and from our 0.25 micron products. Commercial revenues increased by $17,476,000 for the year ending December 31, 2006 as compared to the same period in 2005. The increase was due to: (i) revenue associated with former ZMD customers; (ii) increased unit volume with our key RAID customers (iii) increased shipments for our .25 micron 1 megabit products; and (iv) higher average selling prices of our high volume legacy products. High-end industrial and military product revenue had an increase of $798,000 for the year ending December 31, 2006 as compared to the same period in 2005. We saw an approximate 29% increase in unit shipments and an approximate 16% increase in average selling prices in this product market. The increases in unit volume reflect our efforts to align customer inventory levels to their actual consumption of the products. Four distributors and one direct customer account for approximately 49% of our revenue for the year ended December 31, 2006 as compared to 57% for the same period in 2005. Products sold to distributors are sold without material recourse. Distributor contracts typically allow distributors to return up to 5% in value of product inventory in each six month period in exchange for a replacement order of equal value. This allows them to keep inventory current to market demand. Distributors sell our products to various end customers. If one of these distributors were to terminate its relationship with us, we believe that there would not be a material impact on our product sales, as other distributors would likely take their place. 29 During 2006, we saw an approximate 300% increase in unit shipments of our 0.25 micron product. We expect to see a continued increase in the revenue received from our 0.25 micron product family. Revenues for the year ended December 31, 2005 as compared to 2004 Commercial revenues include revenue generated from our legacy products and from our 0.25 micron products. Commercial revenues decreased by $1,645,000 for the year ending December 31, 2005 as compared to the same period in 2004. The decrease was due to: (i) lower average selling prices of our high volume legacy products due to competitive pricing; (ii) reduced unit volume with our key RAID customers due to competition; and, (iii) reduced unit volume due to a concerted effort to realign customer inventory and ordering patterns to more closely match actual consumption. The decrease in legacy unit shipments was partially offset by an increase in unit shipments of our 0.25 micron product family. High-end industrial and military product revenues had a decrease of $1,161,000 for the year ending December 31, 2005 as compared to the same period in 2004. We saw an approximate 47% decrease in unit shipments and an approximate 42% decrease in average selling prices. The decreases in unit volume reflect our efforts to align customer inventory levels to their actual consumption of the products. The $99,000 increase in logic revenues was due to a last time buy of one our discontinued logic products, which were discontinued in 2003. Four distributors account for approximately 51% of our revenue for the year ended December 31, 2005 as compared to 49% for the same period in 2004. Products sold to distributors are sold without material recourse. Distributor contracts typically allow distributors to return up to 5% in value of product inventory in each six month period in exchange for a replacement order of equal value. This allows them to keep inventory current to market demand. Distributors sell our products to various end customers. If one of these distributors were to terminate its relationship with us, we believe that there would not be a material impact on our product sales, as other distributors would likely take their place. Cost of Sales and Gross Margins for the year ended December 31, 2006 as compared to 2005 We recorded cost of sales of $18,024,000 and $7,591,000 for the years ended December 31, 2006 and December 31, 2005, respectively. Gross margin for 2006 was 37% compared to 27% in 2005. The approximate 10 percentage point increase in gross margin reflects higher average selling prices for our 3 volt 256 kilobit devices, increased unit shipments of 1 megabit devices, lower unit costs and higher overall sales volume. We expect gross margins on both our legacy and 0.25 micron products to improve during 2007. In 2006, we moved the final testing of our higher volume products to Amkor in the Philippines, which resulted in lower costs. In 2007 we expect to continue to transfer test operations, including wafer probe, to lower cost facilities in Asia. In addition, we expect shipments of our 1 megabit devices to continue to increase. These actions are expected to result in higher gross margins for 2007. 30 Cost of Sales and Gross Margins for the year ended December 31, 2005 as compared to 2004 We recorded cost of sales of $7,591,000 and $9,140,000 for the years ended December 31, 2005 and December 31, 2004, respectively. These costs reflect an approximate 3% decrease in gross margin percentage points for the year ended December 31, 2005 as compared to the same period in 2004. Actual gross margin percentages were 27% and 30% for the years ended December 31, 2005 and 2004, respectively. The decreases in gross margin percentages for the year ended December 31, 2005 were due primarily to decreased average selling prices and lower unit volume shipments of our high-end industrial and military products, which typically carry high gross margins. Research and Development for the year ended December 31, 2006 as compared to 2005 We believe that continued investments in new product development are required for us to grow and remain competitive in the markets we serve. In 2006, our research and development department continued development of the 4 megabit product based on the 0.13 micron process with Cypress and added an engineering team in our Dresden office. In November 2006, we qualified our 256-kilobit and 256-kilobit with real time clock built on the 0.25 micron base. In addition, we worked to increase the yields and reduce the amount of back-end testing on our 0.25 micron 1 megabit products. We anticipate providing customers with initial product samples of our 4 megabit product in the fourth quarter of 2007. Total research and development expenses were $5,855,000 for the year ended December 31, 2006 as compared to $6,369,000 for the year ended December 31, 2005. The $514,000 decrease for the year was due to several items, including: (i) charges in 2005 of $1,222,000 related to final development of our 0.25 micron product due to abnormally low yields and high scrap due to design and process issues with the silicon wafers; and (ii) a reduction of $598,000 in expenses related to the 4 megabit development with Cypress due to the timing of compensable milestones as defined in the 2005 agreement with Cypress. These decreases were partially offset by increases in payroll and payroll overhead costs of $776,000, product development costs of $165,000, stock compensation expense of $160,000, equipment related costs of $128,000 and travel of $100,000. The increase in payroll and payroll overhead costs was primarily due to the addition of the Dresden office. The increase in equipment related costs was primarily related to software licenses required for our Dresden office. The increase in product development costs were primarily related to the cost reductions made in our 0.25 micron 1 megabit product. We expect that investment in Research and Development will continue to increase as we complete the development of the 4 megabit product and derivative products based on that initial design. In addition, in November 2006, we hired Mr. Ronald 31 Sartore, one of our directors, as Executive Vice President of Technology. Mr. Sartore will be responsible for identifying new and innovative uses for our patented non-volatile memory technology. The first application he has identified is to use our technology to enable high density FLASH in such applications as solid state drives. This will require significant engineering effort and is expected to take at least two years to develop. We expect the development work will be done in our new design office in San Diego, California and in our Dresden, Germany design center. Research and Development for the year ended December 31, 2005 as compared to 2004 In 2005, our research and development department continued to work on the final development, testing and qualification of our 1-megabit 3-volt nvSRAM with Dongbu. In September 2005, we qualified our 1-megabit products for use in the commercial and industrial markets. Development of the smaller 256-kilobit and 256-kilobit with real time clock built on the 0.25-micron base continued in 2005. In addition, during the second half of 2005 we began development of our next generation nvSRAM product, in conjunction with Cypress, pursuant to the terms of the May 5, 2005 development agreement. This new product, based on Cypress' .13-micron process will include memory density of 4-megabits. Total research and development expenses were $6,369,000 for the year ended December 31, 2005 as compared to $4,942,000 for the year ended December 31, 2004. The $1,427,000 increase for the year was primarily due to a one-time charge of $1,222,000 related to the final development of our 0.25-micron product. The one-time charge related to our 0.25 micron product was due to abnormally low yields and high scrap due to design and process issues with the silicon wafers. We have implemented a significant new revision for the silicon wafers being produced at Dongbu and preliminary testing shows a significant improvement in both the initial silicon wafer probe yield as well as the final assembly and test yield. The improved yields resulted in a more cost effective product. This charge was partially offset by decreases in payroll and payroll overhead costs of $159,000, consulting services of $312,000, product development costs of $293,000 and equipment related costs of $13,000 which were in turn partially offset by increases in qualification costs of $60,000, and costs related to the joint development with Cypress of $919,000. The $159,000 decrease in payroll and payroll overhead costs was a direct result of reduced headcount. The $312,000 decrease in consulting services was due to a decrease in engineering work performed by our wholly-owned subsidiary, Q-DOT, for the development of our data-communication products. As reported elsewhere in this Form 10-K, we sold substantially all the assets of Q-DOT in August 2005. The $293,000 decrease in product development costs was related to wind down of development activities related to the 0.25 micron product. As discussed above, the one-time charge related to our 0.25 micron product was due to abnormally low yields and high scrap due to design and process issues with the silicon wafers. The issues were resolved and yields from the revised silicon wafers are significantly better and result in a cost effective product. In September 2005, we achieved full production qualification of the 1-megabit product family. 32 Sales and Marketing for the year ended December 31, 2006 as compared to 2005 Total sales and marketing expenses were $4,679,000 for the year ended December 31, 2006 as compared to $1,493,000 for the year ended December 31, 2005. The $3,186,000 increase was primarily due to $1,784,000 of amortization expense related to the non-competition agreement entered into with ZMD (see Note 10 of these Notes to Consolidated Financial Statements below). The balance of the increase was related to increases in payroll and payroll overhead costs of $844,000, sales commissions of $410,000, stock compensation expense of $78,000 and travel expenses of $93,000. The increases in payroll and payroll overhead costs and travel was primarily due to increased headcount and sales activity, worldwide. The increase in sales commissions is directly related to the increased sales. Sales and Marketing for the year ended December 31, 2005 as compared to 2004 Total sales and marketing expenses were $1,493,000 for the year ended December 31, 2005 as compared to $1,608,000 for the year ended December 31, 2004. The $115,000 decrease was primarily due to decreases in advertising of $15,000, sales commissions of $285,000 and other miscellaneous expenses of $11,000; these decreases were partially offset by an increase in payroll and overhead costs of $196,000. The $285,000 decrease in sales commission is a direct result of reduced revenue. The $196,000 increase in payroll and overhead costs was the result of personnel changes. Administration for the year ended December 31, 2006 as compared to 2005 Total administration expenses were $3,861,000 for the year ended December 31, 2006 as compared to $2,275,000 for the year ended December 31, 2005. 33 The $1,586,000 increase for the year was due to increases in accounting fees of $118,000, legal expenses of $340,000, $1,058,000 in payroll and payroll overhead costs, professional and consulting services of $258,000, stock compensation expenses of $304,000, software license of $88,000 and travel expenses of $141,000. The increases were partially offset by $730,000 in management reorganization costs that occurred in 2005 and not in 2006. The increase in payroll and payroll overhead costs were related to additional headcount and executive incentive compensation. The increase in professional and consulting expenses is related to work done to evaluate new strategic and alternative markets for Simtek's intellectual property and matters relating to corporate governance. The increase in legal fees was related to increased legal work required for the shareholders meeting, reverse split, reincorporation into Delaware and various Securities and Exchange Commission filings. Administration for the year ended December 31, 2005 as compared to 2004 Total administration expenses were $2,275,000 for the year ended December 31, 2005 as compared to $917,000 for the year ended December 31, 2004. The $1,358,000 increase for the year was due to increases in accounting and legal expenses of $123,000, $343,000 increase in payroll and payroll overhead costs, $713,000 in expenses related to separation and employment agreements and a $179,000 increase in board of director costs and contract services. The increases in payroll and payroll related costs and contract services were related to increases in headcount and increases in administrative services provided by our subsidiary Q-DOT. The increases in accounting and legal expenses were related to increased activity related to agreements with personnel and increased securities work. The $713,000 in expenses was related to costs associated with the terms of the employment agreement for our current Chief Executive Officer and the costs associated with the separation agreement entered into with our previous Chief Executive Officer. Total Other Income (Expense) for the year ended December 31, 2006 as compared to 2005 Total other expense (net) increased $38,000 for the year ended December 31, 2006 as compared to the year ended December 31, 2005 primarily due to an increase in interest expense primarily related to our revolving credit line with Wells Fargo, which was partially offset by an increase in interest income received from our restricted investments. Total Other Income (Expense) for the year ended December 31, 2005 as compared to 2004 Total other expense (net) decreased $69,000 for the year ended December 31, 2005 as compared to the year ended December 31, 2004 primarily due to an increase in interest income received from our restricted investments. Loss from Continuing Operations for the year ended December 31, 2006 as compared to 2005 We recorded a loss from continuing operations of $2,007,000 for the year ended December 31, 2005 as compared to a loss from continuing operations of $7,490,000 for the year ended December 31, 2005. The decrease of $5,483,000 in net loss for the year was due primarily to an the increased revenue and changes in expenses discussed above. Loss from Continuing Operations for the year ended December 31, 2005 as compared to 2004 We recorded a loss from continuing operations of $7,490,000 for the year ended December 31, 2005 as compared to a loss from continuing operations of $3,731,000 for the year ended December 31, 2004. The increase of $3,759,000 in net loss for the year was due primarily to an increase in operating expenses and decreased revenue discussed above. Future Results of Operations Our ability to be profitable will depend primarily on our ability to continue to increase revenue, reduce product costs, introduce new products and 34 expand our customer base. We are also dependent on the overall state of the semiconductor industry and the demand for semiconductor products by equipment manufacturers. In January 2006, we established Simtek GmbH to operate our new European design, customer service and support center in Dresden, Germany. Simtek GmbH will service all of our European customers and supplement our engineering capabilities. As of December 31, 2006, we had a backlog of unshipped customer orders of approximately $8,100,000, all of which we expect to ship by June 30, 2007. 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. We cannot assure you that the growth in demand, or demand for our products, will increase in the future. Through 2006, we were principally dependent on our legacy products for revenue. However, we expect to see a significant increase in customer orders for our 0.25 micron 1 megabit products in 2007. We continue to explore alternatives to further reduce the cost to manufacture our existing products built on 0.8-micron and 0.25 micron technologies. We are currently reviewing additional cost reduction measures that are expected to improve our gross margins. During the years ended December 31, 2006, 2005 and 2004, we purchased all of our silicon wafers to produce our legacy nvSRAM products from a single supplier, Chartered. Approximately 66%, 86% and 97% of our semiconductor device sales for 2006, 2005 and 2004, respectively, were from finished units produced from these silicon wafers. We believe that we maintain a very good relationship and that Chartered will continue to supply our wafer requirements for our legacy products. In addition, we purchased finished units from ZMD principally for sale to former ZMD customers; approximately 20% of our product revenue was from these units. In 2007, we expect to discontinue purchasing product from ZMD and to substitute that product with Simtek product. Dongbu provides silicon wafers for our 0.25-micron products. Approximately 13%, 13% and 3% of our semiconductor product sales for the years ended December 31, 2006, 2005 and 2004, respectively, were from finished units produced from these silicon wafers. We intend to continue designing, developing and subcontracting the production of our memory products. We also expect to continue to sell to existing and new customers through our normal sales and marketing channels. Liquidity and Capital Resources Cash flows used in operating activities from continuing operations for the year ended December 31, 2006 were $3,200,000 compared to $3,902,000 in the same period in 2005, a decrease of $702,000. The primary improvements include: (i) the reduction in the net loss from continuing operations of $5,453,000 ($2,007,000 in 2006 versus $7,490,000 in 2005); (ii) amortization of the ZMD non-compete agreement of $1,785,000; (iii) non-cash stock compensation of $542,000; (v) the amount allocated to the issuance of warrants to Cypress of $1,927,000; and, (vi) net change in allowance accounts of $746,000. These 35 improvements were partially offset by investment in working capital to support revenue growth. The key components of the changes in working capital items are as follows, in thousands of dollars: 2006 2005 Change ---- ---- ------ Accounts receivable $ (4,113) $ 1,011 $ (5,124) Inventory $ (5,128) $ 492 $ (5,620) Prepaid expenses $ 491 $ (622) $ 1,113 Cash flows used in investing activities decreased for the year ended December 31, 2006 by approximately $5,880,000 as compared to the same period in 2005. The decrease was primarily the result of the cash used in 2005 for the purchase of certain assets from ZMD. This decrease was partially offset by an increase in the purchase of equipment and furniture for our facility in Germany and test equipment for our research and development activities. The decrease of $3,491,000 in cash flows provided by financing activities was primarily due to a reduction in the amount raised from equity financing transactions in 2006. The change in cash flows for the year ended December 31, 2005 used in operating activities by continuing operations was primarily a result of a net loss of $5,785,315, which was partially offset by $433,181 in depreciation and amortization and a gain from discontinued operations of $1,687,403. The changes in cash flow used in operating activities also reflected increases in allowance accounts, loss on disposal of assets, prepaid expenses and other, accounts payable and accrued expenses of $22,650, $129,307, $622,004, $767,512, and $1,005,426 respectively. The increases were offset by decreases in accounts receivable of $1,011,028, inventory of $491,611 and customer deposits of $47,464. The increase of $622,004 in prepaid expenses and other was primarily due to a deposit put in place with a supplier. The $129,307 loss on disposal of assets, was primarily related to the write off of test development software. The increase of $1,005,426 in accrued expenses was primarily related to costs incurred with the December 30, 2005 stock transaction and expenses related to certain employment and separation agreements that had not been paid as of December 31, 2005. The $491,611 decrease in inventory was primarily due to timing of inventory purchases. The change in cash flows provided by investing activities by continuing operations of $1,526,233 was primarily due to the purchases of equipment required to test our nonvolatile semiconductor memory products and reticles required to produce our wafers, offset by the net proceeds of $1,868,593 received from the sale of the assets of Q-DOT. The change in cash flows provided by financing activities by continuing operations of $2,887,168 was primarily due to the equity financings, net of transaction related costs of $3,944,403 and $8,458,926 which we completed in May and December 2005, respectively. The proceeds of the equity financings were offset by the transfer of $3,200,000 to escrow accounts for the Cypress and Q-DOT transactions and the cash portion of the purchase of certain assets from ZMD of $7,685,416. Additional proceeds provided by financing activities included $190,350 received from the sale of our common stock per employment agreements and $310,501 received from the exercise of stock options by certain employees. The change in cash flows for the year ended December 31, 2004 used in operating activities by continuing operations was primarily a result of a net 36 loss of $3,670,354, which was partially offset by $442,245 in depreciation and amortization. The changes in cash flow used in operating activities also reflected increases in allowance accounts, loss on disposal of assets, accounts receivable, inventory, accounts payable, and accrued expenses of $122,691, $75,110, $1,060,206, $684,955, $1,053,165, and $81,972, respectively. The increase of $1,060,206 in accounts receivable was directly related to the increase in revenue for the fourth quarter of 2004. The $684,955 increase in inventory and $1,053,165 increase in accounts payable was due to the receipt of raw materials at the end of December 2004 required to support first quarter 2005 shipments. The $75,110 loss on disposal of assets, was primarily related to writing off the capital expenditures purchased for the installation of our process at X-FAB, terminated in August 2004. The change in cash flows used in investing activities by continuing operations of $134,886 was primarily due to the purchase of equipment required to test our nonvolatile semiconductor memory products and reticles required to produce our wafers, offset by a $300,000 release of restricted cash. The change in cash flows provided by financing activities by continuing operations of $2,335,121 was primarily due to the equity financing of $2,248,851 (net of transaction related costs) received in October 2004, payments on a line of credit of $150,000, payments on capital leases of $124,472 and $360,742 received from the exercise of stock options by certain employees. Short-term liquidity. Our unrestricted cash balance at December 31, 2006 was $4,522,000. Our future liquidity will depend on continued revenue growth, continued improvement in gross margins and control of operating expenses. We expect revenues to continue to increase in 2007. In addition, gross margins are expected to improve and we expect to be profitable for 2007. Investment in research and development is also expected to increase in 2007. We believe that the cash generated by operations plus the available credit under its current credit facilities will be sufficient to fund our operations for the foreseeable future. However, if we fail to meet our revenue targets, it may be necessary for us to raise additional capital or incur additional debt. Long-term liquidity. We continue to evaluate our long-term liquidity. Our growth plans may require additional funding from outside sources. While we have no firm plans, we are in ongoing discussions with investment banking organizations and potential investors and lenders to ensure access to funds as required. Critical Accounting Polices and Estimates Simtek's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. A summary of these significant accounting policies can be found in Simtek's Notes to Consolidated Financial Statements included in this Form 10-K. 37 The estimates used by management are based upon Simtek's historical experiences combined with managements understanding of current facts and circumstances. Certain of our accounting polices are considered critical as they are both important to the portrayal of our financial condition and the results of our operations and require significant or complex judgments on our part. We believe that the following represent the critical accounting policies of Simtek as described in Financial Reporting Release No. 60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, which was issued by the Securities and Exchange Commission: inventories; deferred income taxes; allowance for doubtful accounts; and, allowance for sales returns. The valuation of inventories involves complex judgments on our part. Excess finished goods inventories are a natural component of market demand of semiconductor devices. We continually evaluate and balance the levels of inventories based on sales projections, current orders scheduled for future delivery and historical product demand. While certain finished goods items will sell out, quantities of other finished goods items will remain. These finished goods are reserved as excess inventory. We believe we have adequate controls with respect to the amount of finished goods inventories that are anticipated to become excess. While we believe this process produces a fair valuation of inventories, changes in general economic conditions of the semiconductor industry could materially affect valuation of our inventories. The allowance for doubtful accounts reflects a reserve that reduces customer accounts receivable to the net amount estimated to be collectible. Estimating the credit worthiness of customers and the recoverability of customer accounts requires management to exercise considerable judgment. In estimating uncollectible amounts, we consider factors such as industry specific economic conditions, historical customer performance and anticipated customer performance. While we believe our processes to be adequate to effectively quantify our exposure to doubtful accounts, changes in industry or specific customer conditions may require us to adjust our allowance for doubtful accounts. We record an allowance for sales returns as a net adjustment to customer accounts receivable. The allowance for sales returns consists of two separate segments, distributor stock rotation and distributor price reductions. When we record the allowance, the net method reduces customer accounts receivables and gross sales. Generally, we calculate the stock rotation portion of the allowance based upon actual reported distributor inventory levels. The contracts we have with our distributors generally allow them to return to us a 5% percent of their inventory every 6 months, in exchange for inventory that better meets their demands. At times, our distributors reduce the selling price of a specific device in order to meet competition related to a specific end customer program, which we support through a credit back to the distributor for that specific program. When this occurs, we record an allowance for potential credit that our distributors will be requesting. This allowance is based on approved pricing changes, inventory affected and historical data. We believe that our processes to adequately predict our allowance for sales returns are effective in quantifying our exposures due to industry or specific customer conditions. We record an allowance that directly relates to the warranty of our products for one year. The allowance for warranty return reduces our gross sales. This allowance is calculated by looking at annual revenues and historical 38 rates of our products returned due to warranty issues. While we believe this process adequately predicts our allowance for warranty returns, changes in the manufacturing or design of our product could materially affect valuation of our warranties. We assess the impairment of long-lived assets, including the ZMD non-compete agreement, when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of the business in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the assets to our estimate of the related future net cash flows. As of December 31, 2006 we determined that no impairment existed as of that date. If the asset's carrying amount is not recoverable through the related cash flows, the asset is considered to be impaired. The impairment is measured by the difference between the asset's carrying amount and its fair value, based on the best information available, including market prices or discounted cash flows Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in the acquisition of the nvSRAM assets from ZMD. Goodwill is required to be tested for impairment. We performed goodwill impairment testing as of December 31, 2006, and determined that no impairment existed at that date. This assessment requires estimates of future revenue, operating results and cash flows, as well as estimates of critical valuation inputs such as discount rates, terminal values and similar data. We will continue to perform periodic and annual impairment analyses of goodwill. As a result of such impairment analyses, impairment charges may be recorded and may have a material adverse impact on our financial position and operating results. Additionally, we may make strategic business decisions in future periods which impact the fair value of goodwill, which could result in significant impairment charges. There can be no assurance that future goodwill impairments will not occur. We have recorded a valuation allowance on deferred tax assets. Future operations may change our estimate in connection with potential utilization of these assets. Accounting Pronouncements In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the requirements of FIN 48 and the potential impact on the Company's financial statements. 39 In February 2007, the FASB issued FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities ("FAS 159"). FAS 159 allows the Company to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 is effective for fiscal years beginning after November 15, 2007. Therefore, we are required to adopt FAS 159 by the first quarter of 2008. We are currently evaluating the requirements of FAS 159 and the potential impact on our financial statements. In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. FAS 157 is to be effective for our financial statements issued in 2008; however, earlier application is encouraged by the FASB. We are currently evaluating the timing of adoption and the impact that adoption might have on our financial position or results of operations. In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged by the FASB. We do not believe SAB 108 will have a material impact on our financial position or results of operations. Inflation The impact of inflation on our business has not been material. Off Balance-Sheet Arrangements We are party to a lease agreement with Baja Properties, LLC as landlord pursuant to which we lease approximately 16,000 square feet of space in Colorado Springs, Colorado. The lease is scheduled to expire on February 28, 2013. Our monthly rental payment obligation is approximately $17,000. We are party to a lease agreement with Buerohaus Elg-Florenz GmbH & Co. as landlord pursuant to which we lease approximately 1,394 square feet of space in Dresden, Germany. The lease is schedule to expire December 31, 2008. Our monthly rental payment obligation is approximately $5,200. Description of Property We do not own any property. 40 Contractual Obligations The following table summarizes our significant contractual obligations at December 31, 2006, which are expected to have an effect on our liquidity and cash flows in future periods: Payments Due by Period --- Less than More than Total 1 year 1-3 years 3-5 years 5 years ----- --------- --------- --------- ------- (in thousands) -------------- Operating lease obligations $ 1,479 $ 296 $ 725 $ 458 $ - Other purchase obligations and Commitments 1,481 877 604 - - Long-term debt obligations 2,700 480 2,220 - - ----------- -------- ---------- --------- --------- Total $ 5,660 $ 1,653 $ 3,549 $ 458 $ - =========== ======== =========== ========= ========= Item 7A. Quantitative and Qualitative Disclosures About Market Risk --- Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to our normal operating activities. We currently have no derivative financial instruments. Interest payable on our convertible debentures is fixed at 7.5% over the term of the debentures. As such, changes in interest rates will not affect future expenses or cash flows. Interest payable on our revolving line of credit entered into with Wells Fargo is a fixed amount of the face value of eligible receivables they purchase from us. As such, changes in interest rates will not affect future expenses or cash flows. We manage interest income by investing our excess cash in cash equivalents bearing variable interest rates, which are tied to various market indices. We do not believe that near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows. We do not speculate in the foreign exchange market and do not manage exposures that arise in the normal course of business related to fluctuations in foreign currency exchange rates by entering into offsetting positions through the use of foreign exchange forward contracts. Average selling prices of our products have not increased significantly as a result of inflation during the past several years, primarily due to intense competition within the semiconductor industry. The effect of inflation on our costs of production has been minimized through improvements in production efficiencies. We anticipate that these factors will continue to minimize the effects of any foreseeable inflation and other price pressures within the industry and markets in which we participate. 41 Interest payable on our revolving line of credit entered into with Wells Fargo Bank, National Association ("Wells Fargo") is a fixed amount of the face value of eligible receivables they purchase from us. As such, changes in interest rates will not affect future expenses or cash flows. On October 11, 2006 and October 20, 2006, the Bluegrass Growth Fund Ltd. and the Bluegrass Growth Fund Lp. each exercised 25,800 warrants into shares of our common stock. On October 20, 2006, C. E. Unterberg Towbin exercised 27,000 warrants into shares of our common stock. We received a total of $212,000 from these warrant exercises. 42 Item 8. Financial Statements and Supplementary Data -- SIMTEK CORPORATION INDEX TO FINANCIAL STATEMENTS 43 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors Simtek Corporation Colorado Springs, Colorado We have audited the consolidated balance sheets of Simtek Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, statements of changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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 and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. As discussed in Note 1 to the accompanying consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment. HEIN & ASSOCIATES LLP Denver, Colorado March 27, 2007 44 SIMTEK CORPORATION CONSOLIDATED BALANCE SHEETS (Amounts in thousands, except par value and share amounts) ASSETS ------ December 31, 2006 December 31, 2005 ----------------- ----------------- CURRENT ASSETS: Cash and cash equivalents $ 4,522 $ 1,766 Restricted investments 1,775 2,281 Accounts receivable - trade, net of allowance for doubtful accounts and return allowances of approximately $372 and $282 5,537 1,456 Inventory, net 6,596 2,068 Prepaid expenses and other current assets 312 99 Deposits - 600 -------- -------- Total current assets 18,742 8,270 EQUIPMENT AND FURNITURE, net 1,239 571 DEFERRED FINANCING COSTS AND DEBT ISSUANCE COSTS 54 111 GOODWILL 992 876 NON-COMPETITION AGREEMENT,NET 7,126 8,910 OTHER ASSETS 89 20 -------- -------- TOTAL ASSETS $ 28,242 $ 18,758 ======== ======== LIABILITIES AND SHAREHOLDERS' EQUITY ----------------------------------- CURRENT LIABILITIES: Accounts payable $ 3,771 $ 2,822 Accrued expenses 939 1,419 Accrued vacation payable 229 145 Accrued wages 814 40 Obligation under capital leases - 13 Line of credit 681 - Debentures, current 480 240 -------- -------- Total current liabilities 6,914 4,679 DEBENTURES, NET OF CURRENT 2,220 2,760 -------- -------- Total liabilities 9,134 7,439 COMMITMENTS AND CONTINGENCIES SHAREHOLDERS' EQUITY: Preferred stock, $0.0001 par value; 200,000 shares authorized, none issued - - Common stock, $.0001 par value; 30,000,000 shares authorized, 16,146,679 and 16,145,679 shares issued and outstanding at December 31, 2006 and 14,692,082 and 14,691,082 shares issued and outstanding at December 31, 2005 2 2 Additional paid-in capital 67,173 57,509 Treasury stock, at cost; 10,000 shares (1) (1) Accumulated deficit (48,198) (46,191) Accumulated other comprehensive income 132 - -------- -------- Total shareholders' equity 19,108 11,319 -------- -------- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 28,242 $ 18,758 ======== ======== See accompanying notes to these consolidated financial statements. 45 CONSOLIDATED STATEMENTS OF OPERATIONS (Amounts in thousands, except par value and share amounts) FOR THE YEARS ENDED DECEMBER 31, ------------ 2006 2005 2004 ---- ---- ---- REVENUE: Product sales, net $ 28,560 $ 10,385 $ 13,092 Royalty revenue 2,070 - -- ------------ ------------ ------------ Total revenue 30,630 10,385 13,092 Cost of sales 18,024 7,591 9,140 ------------ ------------ ------------ GROSS MARGIN 12,606 2,794 3,952 OPERATING EXPENSES: Research and development costs 5,855 6,369 4,942 Sales and marketing 4,679 1,493

1,608 General and administrative 3,861 2,275 917 ------------ ------------ ------------ Total operating expenses 14,395 10,137 7,467 ------------ ------------ ------------ LOSS FROM OPERATIONS (1,789) (7,343) (3,515) OTHER INCOME (EXPENSE): Interest income 162 92 26 Interest expense (370) (238) (241) Exchange rate variance (3) - -- Other expense 26 (1) (1) ------------ ------------ ------------ Total other expense (185) (147) (216) ------------ ------------ ------------ LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES (1,974) (7,490) (3,731) Provision for income taxes (33) - -- ------------ ------------ ------------ LOSS FROM CONTINUING OPERATIONS (2,007) (7,490) (3,731) INCOME FROM DISCONTINUED OPERATIONS (including gain on disposal of $1,687 in 2005) - 1,704 60 ------------ ------------ ------------ NET LOSS $ (2,007) $ (5,786) $ (3,671) ============ ============ ============ NET LOSS PER COMMON SHARE: Basic and diluted Loss from continuing operations $ (.13) $ (1.09) $ (.64) Income from discontinued operations $ .00 $ .25 $ .01 ------------ ------------ ------------ Total $ (.13) $ (.84) $ (.63) ============ ============ ============ WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: Basic and diluted 15,125,847 6,861,309 5,858,641 ============ ============ ============ See accompanying notes to these consolidated financial statements. 46 SIMTEK CORPORATION CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Amounts in thousands, except par value amounts) ACCUMULATED COMMON STOCK ADDITIONAL OTHER TOTAL ---------------- PAID-IN TREASURY ACCUMULATED COMPREHENSIVE SHAREHOLDERS' SHARES AMOUNT CAPITAL STOCK DEFICIT INCOME EQUITY ------ ------ --------- -------- ---------- -------------- ------------- BALANCES, December 1, 2004 5,671 $ 1 $ 39,784 $ (1) $ (36,734) $ - $ 3,050 Exercise of stock options 101 - 361 - - - 361 Equity financing October 12, 2004, net of $251 in costs 516 - 2,249 - - - 2,249 Net loss - - - - (3,671) - (3,671) ------- ------ -------- -------- --------- --------- --------- BALANCES, December 31, 2004 6,288 1 42,394 (1) (40,405) - 1,989 Exercise of stock options 114 - 311 - - - 311 Equity financing May 5, 2005, net of $55 in costs 674 - 3,944 - - - 3,944 Issuance of stock related to Employment/separation agreements 115 - 457 - - - 457 Issuance of stock related to December 30, 2005 equity financing, net of $641 in costs 6,875 1 8,458 - - - 8,459 Asset purchase, December 30, 2005 626 - 1,882 - - - 1,882 Interest expense related to issuance of warrants - - 63 - - - 63 Net loss - - - - (5,786) - (5,786) -------- ------ ------- -------- --------- --------- --------- BALANCES, December 31, 2005 14,692 2 57,509 (1) (46,191) - 11,319 Funds in transit at December 31, 2005 related to the December 30, 2005 equity financing - - 1,874 - - - 1,874 Stock-based compensation expense - - 542 - - - 542 Exercise of stock options 73 - 206 - - - 206 Exercise of warrants 79 - 212 - - - 212 Expense related to issuance of warrants - - 1,981 - - - 1,981 See accompanying notes to these consolidated financial statements. 47 SIMTEK CORPORATION CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Amounts in thousands, except par value amounts) (continued) ACCUMULATED COMMON STOCK ADDITIONAL OTHER TOTAL ---------------- PAID-IN TREASURY ACCUMULATED COMPREHENSIVE SHAREHOLDERS' SHARES AMOUNT CAPITAL STOCK DEFICIT INCOME EQUITY ------ ------ ---------- -------- ----------- ------------- ------------ Issuance of stock for services provided 14 - 52 - - - 52 Shares of common stock purchased from dissenters - - (6) - - (6) Conversion of debentures 136 - 300 - - - 300 Equity financing, September 21, 2006 net of $52 in costs 1,153 - 4,503 - - - 4,503 Cumulative foreign currency translation adjustments - - - - - 132 132 Net loss - - - - (2,007) - (2,007) -------- ------ ------- -------- --------- --------- --------- BALANCES, December 31, 2006 16,147 $ 2 $67,173 $ (1) $ (48,198) $ 132 $ 19,108 ======== ====== ======= ======== ========= ========= ========= See accompanying notes to these consolidated financial statements. 48 SIMTEK CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts in thousands, except par value and share amounts) FOR THE YEARS ENDED DECEMBER 31, 2006 2005 2004 ---- ---- ---- CASH FLOWS FROM OPERATING ACTIVITIES: Net loss $ (2,007) $ (5,786) $ (3,671) Income from discontinued operations - (17) (60) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization 494 433 442 Loss on disposal of assets - 129 75 Stock-based compensation expense 542 - - Issuance of common stock per separation and employment agreements and other compensation agreements 52 267 - Expense related to issuance of warrants 1,927 9 - Amortization of non-compete agreement 1,784 - - Gain from discontinued operations - (1,687) - Net change in allowance accounts 769 23 123 Deferred financing fees 53 16 16 Changes in assets and liabilities: (Increase) decrease in: Accounts receivable (4,113) 1,011 (1,060) Inventory (5,128) 492 (684) Prepaid expenses and other 491 (622) 21 Increase (decrease) in: Accounts payable 921 768 1,053 Accrued expenses 1,015 1005 82 Customer deposits - (47) - -------- -------- -------- Net cash used in operating activities of continuing operations (3,200) (4,006) (3,663) Net cash provided by operating activities of discontinued operations - 104 353 -------- -------- -------- Net cash used in operating activities (3,200) (3,902) (3,310) -------- -------- -------- CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of equipment and furniture, net (1,153) (342) (435) Transfers from restricted cash 506 919 300 Patents (66) - - Proceeds from discontinued operations, net - 1,868 Purchase of certain assets from ZMD (116) (8,542) - -------- -------- -------- Net cash used in investing activities of continuing operations (829) (6,097) (135) Net cash used in investing activities of discontinued operations - (36) (176) -------- -------- -------- Net cash used in investing activities (829) (6,133) (311) -------- -------- -------- CASH FLOWS FROM FINANCING ACTIVITIES: Payments on notes payable and line of credit - - (150) Payments on capital lease obligation (13) (50) (124) Equity financing, net 6,377 12,403 2,249 See accompanying notes to these consolidated financial statements. 49 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) FOR THE YEARS ENDED DECEMBER 31, 2006 2005 2004 ---- ---- ---- Transfers to restricted investment - (3,200) - Sale of common stock related to employment agreements - 190 - Proceeds from exercise of warrants 212 - - Shares purchased from dissenting shareholders (6) - - Exercise of stock options 206 311 361 ------- ------- ------- Net cash provided by financing activities 6,776 9,654 2,336 ------- ------- ------- Effect of exchange rate changes on cash 9 - - NET CHANGE IN CASH AND CASH EQUIVALENTS 2,756 (381) (1,285) CASH AND CASH EQUIVALENTS, beginning of period 1,766 2,147 3,432 ------- ------- ------- CASH AND CASH EQUIVALENTS, end of period $ 4,522 $ 1,766 $ 2,147 ======= ======= ======= Cash paid for interest $ 331 $ 242 $ 229 ======= ======= ======= Stock issued for purchase of certain assets from ZMD $ - $ 1,882 $ - ======= ======= ======= Warrants issued for debt issuance cost $ 54 $ 63 $ - ======= ======= ======= Conversion of debentures $ 300 $ - $ - ======= ======= ======= See accompanying notes to these consolidated financial statements. 50 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 1-megabit, 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. Reverse Stock Split and Reincorporation - On October 5, 2006, the Company completed a 1 for 10 reverse stock split. All share and per share amounts have been restated to reflect the effect of the reverse stock split as if it had occurred as of the balance sheet date or as of the beginning of each fiscal period presented. In addition, On October 5, 2006, the Company converted from a Colorado corporation to a Delaware corporation. This reincorporation had no effect on the consolidated financial statements. Liquidity - During 2006 the Company incurred a net loss of $2,007,000 and has accumulated deficits of $48,198,000 as of December 31, 2006. The Company was also not in compliance with its debentures throughout 2006, but was successful in obtaining waivers from the debenture holders. During the third quarter of 2006, the Company raised gross proceeds of $4,555,000 in a private placement. The Company issued 1,153,171 shares (post-split) of its common stock at a per share price of $3.95 and 172,981 warrants to purchase common stock. The warrants have a per share exercise price of $5.40 and a five-year term. The Company anticipates using the proceeds for general working capital and to produce silicon wafers to support revenue growth. The Company operates in a volatile industry, whereby its average selling prices and product costs are influenced by competitive factors. Furthermore, the Company continues to incur significant research and development costs for product development. These factors create pressures on sales, costs, earnings and cash flows, which will impact liquidity. If the Company is unable to achieve profitable operations in 2007 it may result in increased liquidity pressure on the Company, whereby it might be required to enter into debt or equity arrangements that may not be as otherwise favorable to the Company. Revenue Recognition - Product sales revenue is recognized when a valid purchase order has been received with a fixed price and the products are shipped to customers FOB origin (Colorado Springs, Colorado or Dresden, Germany), including distributors. Based on historic business with the majority of the Company's customers and, in the case of new customers, based on credit checks, the Company is reasonably assured that collectibility on our shipments will occur. Customers receive a one-year product warranty and sales to distributors are subject to a limited product exchange program and a price protection in the event of changes in the Company's product price. The Company provides a reserve for possible product returns, product price protection and warranty costs at the time the sale is recognized. The Company has a detailed procedure to ensure that its estimates for reserves are reasonable and reliable. The reserve for product returns is based on the actual inventory value of the Company's semiconductor products held by its distributors. The Company's distributors are permitted to rotate up to 5% of their stock every six months with the stipulation that they must submit a replacement order of equal dollar value to the stock that they are returning. The reserve for price protection is 51 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS used when the Company authorizes special pricing to one of its distributors for a specific customer. To date, the estimates have not been materially different from the credits the Company has issued under these reserves. Revenue from royalties related to non-refundable prepaid royalty payments is recognized upon receipt. Revenue from royalties related to sales of products by license partners is recognized upon the notification to us of shipment of product from the Company's technology license partners to direct customers. Fair Value of Financial instruments - The Company's short-term financial instruments consist of cash, accounts receivable, and accounts payable and accrued expenses. The carrying amounts of these financial instruments approximate fair value because of their short-term maturities. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company does not hold or issue financial instruments for trading purposes nor does it hold or issue interest rate or leveraged derivate financial instruments. 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, 2006, substantially all of the Company's cash and cash equivalents were held by three banks, of which approximately $4,002,000 was in excess of Federally insured amounts. Receivables and Credit Policies - Trade receivables consist of uncollateralized customer obligations due under normal trade terms, typically requiring payment within 30 days of the invoice date. Management reviews trade receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. Inventory - The Company records inventory using the lower of cost (first-in, first-out) or market. Inventories consist of (in thousands of dollars): December 31, ------------ 2006 2005 ---- ---- Raw materials $ 21 $ 33 Work in progress 4,603 1,096 Finished goods 2,737 1,055 ----------- ----------- 7,361 2,184 Less reserves for excess inventory (765) (116) ------------ ------------ $ 6,596 $ 2,068 =========== =========== Non-competition Agreement - On December 30, 2005, the Company entered into a non-competition agreement with ZMD as part of the acquisition of ZMD's nvSRAM product line. The Company assigned a value of $8,910,000 to the non-competition agreement in December 2005. The value assigned to the non-competition agreement is being amortized on a straight line basis over its five year life. During 2006, the Company expensed approximately $1,784,000 to sales and marketing for amortization of the non-competition agreement and will expense this same amount for each of the next four years. 52 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Goodwill - Goodwill represents the excess of the total amount paid to ZMD for the nvSRAM assets acquired on December 30, 2005 and the fair value assigned to specific assets. This amount will not be amortized, but will be reviewed for impairment on a periodic basis. As of December 31, 2006, no impairment of value has been recorded. 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 December 2006, the Company incurred expenses of approximately $70,000 related to the filing of 10 new patents with the United States Patent and Trademark Office in January 2007. The Company will amortize the expense related to these patents over the life of the patent. Research and Development Costs - Research and development costs are charged to operations in the period incurred. Total research and development costs for the years ending December 31, 2006, December 31, 2005 and December 31, 2004 were $5,855,000, $6,369,000 and $4,942,000, respectively. 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 $47,000, $66,000 and $83,000 in 2006, 2005 and 2004, respectively. Loss Per Share - Basic Earnings Per Share ("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 2006, 2005 and 2004, all common stock equivalents would be considered anti-dilutive. For purposes of calculating diluted EPS, 4,425,489, 1,800,446 and 970,707 options and warrants for 2006, 2005 and 2004, respectively, were excluded from diluted EPS as they had an anti-dilutive effect. Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, the valuation allowance on the deferred tax assets and possible impairment of goodwill. 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 53 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 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. As of December 31, 2006, the Company has incurred no such losses. Accumulated other comprehensive income (loss) - The functional currency for Simtek GmbH is the local currency, the Euro. Assets and liabilities for this foreign subsidiary are translated at the exchange rate in effect at the balance sheet date, and income and expenses are translated at average exchange rates prevailing during the period. Translation gains or losses are included within shareholders' equity as part of accumulated other comprehensive income (loss). As of December 31, 2006, the Company recorded approximately $132,000 in comprehensive income. Principles of Consolidation - The accompanying financial statements include the consolidation of accounts for the Company's wholly owned subsidiary, Simtek GmbH. All significant inter-company accounts and transactions have been eliminated in consolidation. Stock-Based Compensation - At December 31, 2006, the Company had one stock-based compensation plan, which are more fully described in Note 6 of these Notes to Consolidated Financial Statements below. Prior to January 1, 2006, the Company accounted for awards granted under this plan using the intrinsic method of expense recognition, which follows the recognition and measurement principles 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. Under the provisions of APB 25, there was no compensation expense resulting from the issuance of stock options by the Company as the exercise price was equivalent to the fair market value at the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard 123(R) "Share-Based Payment" ("SFAS 123(R)") using the modified prospective transition method. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 "Share-Based Payment" ("SAB 107") in March, 2005, which provides supplemental SFAS 123(R) application guidance based on the views of the SEC. Under the modified prospective transition method, compensation cost recognized in the twelve month period ending December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with the modified prospective transition method, results for prior periods have not been restated. The adoption of SFAS 123(R) resulted in stock compensation expense for the twelve months ended December 31, 2006 of $542,000 to loss from continuing operations and loss before income taxes. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not that the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized. The Company granted nonqualified stock options at an exercise price equal to the fair market value of the Company's common stock on the grant date. The Company applies the Black-Scholes valuation method to compute the 54 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS estimated fair value of the stock options and recognizes compensation expense, net of estimated forfeitures on a straight-line basis so that the award is fully expensed at the vesting date. Income Taxes - The Company recognizes deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets, liabilities and carryovers. Deferred tax expense represents the change in the deferred tax asset/liability balance. Valuation allowances are recorded for deferred tax assets which, more likely than not, are not expected to be realized. Recently

Issued Accounting Pronouncements - In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the requirements of FIN 48 and the potential impact on the Company's financial statements. In February 2007, the FASB issued FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities ("FAS 159"). FAS 159 allows companies to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 is effective for fiscal years beginning after November 15, 2007. Therefore, the Company is required to adopt FAS 159 by the first quarter of 2008. The Company is currently evaluating the requirements of FAS 159 and the potential impact on the Company's financial statements. In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. FAS 157 is to be effective for the Company's financial statements issued in 2008; however, earlier application is encouraged by the FASB. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations. In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company does not believe SAB 108 will have a material impact on its financial position or results of operations. 2. EQUIPMENT AND FURNITURE: ---------------------- Equipment and furniture at December 31, 2006 and 2005 consisted of the following: 55 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, ------------ 2006 2005 ---- ---- (in thousands of dollars) Leased equipment under capital leases $ - $ 148 Research and development equipment 2,399 1,937 Computer equipment and software 2,452 1,672 Office furniture 69 33 Other equipment 232 205 ---------- ---------- 5,152 3,995 Less accumulated depreciation and amortization (3,913) (3,425) ---------- ---------- $ 1,239 $ 571 ========== ========== 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 $494,000, $433,000 and $442,000 was charged to operations for the years ended December 31, 2006, 2005 and 2004, respectively. Included in the amortization expense for 2005 and 2004 was $91,000 and $142,000, respectively, of amortization of software and research and development equipment under capital leases. During 2006, there was no amortization expense related to software and research and development equipment under capital leases, as those leases terminated in 2005. 3. CONVERTIBLE DEBENTURES: On July 1, 2002, the Company received funding of $3,000,000 in a financing transaction with Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth Investment Trust PLC and US Special Opportunities Trust PLC. RENN Capital Group, Inc. is the agent for the RENN investment funds. One of the Company's directors holds the position of Senior Vice President of RENN Capital Group. The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate. Each fund equally invested $1,000,000. The holder of the debenture shall have the right, at any time, to convert all, or in multiples of $100,000, any part of the Debenture into fully paid and nonassessable shares of Simtek Corporation common stock. The debentures were originally convertible into Simtek common stock at $3.12 per share, which was in excess of the market price per share on July 1, 2002. At December 31, 2006, the Company was not in compliance with one of the covenants set forth in the loan agreement. This covenant relates to the interest coverage ratio. On February 20, 2007, the Company received a waiver for the covenant through January 1, 2008. However, significant variances in future actual operations from the Company's current estimates could result in the reclassification of this note to current liabilities. The Convertible Debentures allows for an adjustment in the conversion price, if the Company issues Common Stock in connection with an equity financing, where the sale price is less than the conversion price of $3.12. This occurred in December 2005 in connection with the common stock sale of $11,000,000 at a price of $1.60 per share. Pursuant to the terms of the 2002 convertible debentures, the Company agreed with the RENN Capital Group that the conversion price would be reduced to $2.20 per share. Based on the conversion rate of $2.20 per share, each RENN investment fund is entitled to 409,091 shares upon conversion (assuming conversion of $900,000). On June 28, 2005, the Company received a waiver from the debenture holders extending until July 1, 2006 the commencement date for principal payments 56 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS of the $3 million aggregate principal amount, see Note 6 Shareholders' Equity for additional information. On July 24, 2006, each of the debenture holders converted $100,000 of the principal amount into 45,455 shares of the Company's common stock in lieu of the Company making the principal payments it was required to make commencing on July 1, 2006. 4. Notes Payable ------------ On June 2, 2006, the Company secured a $3.6 million revolving line of credit by entering into an Account Purchase Agreement (the "Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). Pursuant to the Agreement, the Company may sell, subject to recourse in the event of nonpayment, up to $3.6 million of eligible accounts receivable to Wells Fargo. Advances of the purchase price for the eligible receivables will be at an agreed upon discount to the face value of the eligible receivable. The amount actually collected on any receivable by Wells Fargo that is beyond the advance will be forwarded to the Company, less certain discounts and fees retained by Wells Fargo (including a minimum fee of $7,500 per month for the term of the Agreement). To secure the Company's obligations under the Agreement, the Company granted Wells Fargo a security interest in certain of the Company's property. The Agreement has a term of two years, but may be terminated at any time by the Company upon 60 days' written notice. As of June 30, 2006, the Company had financed receivables with Wells Fargo for approximately $558,000. 5. COMMITMENTS: ----------- Offices Leases - The Company leases office space in Colorado Springs, Colorado and Simtek GMBH leases office space in Dresden, Germany under leases which expire on February 28, 2013 and December 31, 2008, respectively. Combined monthly lease payments are approximately $22,000. The Company also has various fixed term license agreements for computer software design tools. Future lease payments under the noncancellable equipment, software design tool license agreements and office leases described above are as follows: Years Ending December 31, (in thousands) ------------ 2007 $ 1,173 2008 740 2009 378 2010 211 2011 & After 458 --------- $ 2,960 Total expenses for office rent, equipment lease and software design tool license agreements totaled $884,000, $732,000 and $625,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Employment Agreements - Mr. Blomquist is employed as President and Chief Executive Officer pursuant to an employment agreement with the Company. Under the terms of the employment agreement, Mr. Blomquist receives an annual salary of $325,000 and such additional benefits that are generally 57 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS provided other employees. Mr. Blomquist will be eligible to receive a yearly cash bonus, based on performance, of up to 100% of his salary. In addition, Mr. Blomquist will receive a yearly bonus of options to purchase between 10,000 and 40,000 shares of the Company's common stock; the exact amount will be based on performance. Upon beginning employment, Mr. Blomquist received options to purchase 250,000 shares of the Company's common stock and a $50,000 bonus. Within four months of beginning employment, Mr. Blomquist was required to purchase 20,000 shares of common stock from the Company. For each share of common stock Mr. Blomquist purchased from the Company within six months of beginning employment, including the 20,000 shares he was required to purchase, the Company granted him an additional share. Mr. Blomquist purchased a total of 47,500 shares and the Company granted him 47,500 matching shares. The Company recorded a total expense of $190,350 for the matching shares, the expense has been included in general and administrative expenses during the year ended December 31, 2005. Upon termination, Mr. Blomquist will be restricted from competing against the Company for a period of 18 months. If Mr. Blomquist is terminated by the Company without cause, all of Mr. Blomquist's unvested stock options will immediately vest and he will continue to receive his base salary, benefits, and cash and stock bonuses for 18 months. If Mr. Blomquist terminates employment due to good cause or as a result of constructive termination relating to a change of control of the Company, all of Mr. Blomquist's unvested stock options will immediately vest and he will continue to receive his base salary, benefits and cash and stock bonuses for 18 months. Mr. Blomquist's employment agreement expires May 9, 2006 but is, automatically renewed for successive one-year terms unless the Company or Mr. Blomquist elects not to renew. 6. SHAREHOLDERS' EQUITY: -------------------- On October 5, 2006, Simtek completed a 1 for 10 reverse stock split of all of its outstanding common shares. All share and per share amounts have been restated to reflect the effect of the reverse stock split as if it had occurred as of the balance sheet date or as of the beginning of each fiscal period presented. On September 21, 2006, the Company raised gross proceeds of $4,555,000 in a private placement. The Company issued 1,153,171 shares of its common stock at a per share price of $3.95 and 172,981 warrants to purchase common stock. The warrants have a per share exercise price of $5.40 and a five-year term. The Company anticipates using the proceeds for general working capital to support revenue growth. On March 24, 2006, the Company entered into a License and Development Agreement with Cypress pursuant to which, among other things, Cypress has agreed to license certain intellectual property from the Company to develop and manufacture standard, custom, and embedded nvSRAM products. Cypress agreed to pay to Simtek royalties across all products they develop and sell which include intellectual property licensed from Simtek. The Company agreed to license from Cypress certain of their intellectual property for use in the Company's design efforts. The Company agreed with Cypress to co-develop certain nvSRAM products and Cypress agreed to pay the Company $4 million in nonrefundable prepaid royalties, $2 million of which was received at the time the contract was executed. On June 30, 2006, the Company received the second installment of $1 million in prepaid royalties and the remaining $1 million was paid on December 18, 2006. In addition, the Company agreed with Cypress to work together to develop new products and processes. As part of the agreement, the Company issued to Cypress, warrants to acquire 2 million shares of the Company's common stock for $7.50 per share. The warrants have a ten year life. The company allocated $1,930,000 of the $4 million prepayment to the value of the warrants issued. The value was determined using the Black Scholes option-pricing model. 58 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS On December 30, 2005, the Company closed the sale of 6,875,000 shares of its common stock for an aggregate purchase price of $11,000,000, pursuant to the terms of the Securities Purchase Agreement dated as of December 30, 2005, among Simtek and Crestview Capital Master LLC, as lead investor, Renaissance Capital Growth & Income Fund III, Inc., Renaissance US Growth Investment Trust PLC, US Special Opportunities Trust PLC, SF Capital Partners Ltd., Straus Partners, LP, Straus GEPT Partners, LP and various other individual and institutional investors. The Company used the majority of the proceeds of this offering to fund the ZMD Asset Acquisition. The Company also executed a registration rights agreement with the purchasers, pursuant to which the Company has agreed to register under the Securities Act the resale by the purchasers of the shares issued to them. The registration rights agreements contain cash penalties equal to 2% per month beginning in May 2006 in the event the Company fails to maintain an effective registration statement with the Securities and Exchange Commission. At December 31, 2005 there was an outstanding subscription in the amount of $1,900,000 related to the transaction. This amount plus $641,000 of transaction related costs have been deducted from the total amount of the transaction. The $1,900,000 was received by the Company on January 3, 2006. On December 30, 2005, the Company issued 626,072 shares of its common stock to ZMD, at a stated value of $2 million, based on the volume weighted average price of the common stock for the 60 trading days prior to the execution date of the Asset Purchase Agreement on December 7, 2005. For accounting and financial reporting purposes, the shares issued to ZMD have been valued at $3.00 per share, pursuant to Emerging Issues Task Force 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination", resulting in an accounting value of $1,882,000. The Company also executed a registration rights agreement with ZMD, pursuant to which it has agreed to register under the Securities Act the resale by ZMD of the shares issued to them. On May 5, 2005, the Company closed a Share Purchase Agreement for a $4 million private placement of 674,082 shares of its common stock with Cypress and a Development and Production Agreement with Cypress to jointly develop a 0.13-micron Silicon-Oxide-Nitride-Oxide-Silicon (SONOS) nonvolatile memory process. The Company and Cypress entered into an Escrow Agreement with Cypress pursuant to which the Company deposited $3 million into an escrow account in order to support and make certain payments for the 0.13-micron process and product developments. As of December 31, 2006, $1,775,000 remaining in the escrow account. Cypress also received a warrant to purchase 505,562 shares of our common stock at $7.772 per share with a term of 10 years. We have granted to Cypress certain registration rights with respect to the shares issued under the Share Purchase Agreement and the shares issuable upon exercise of the warrant. On June 28, 2005, the Company received a waiver from the debenture holders extending until July 1, 2006 the commencement date for principal payments of the $3 million aggregate principal amount 7.5% convertible debentures issued by the Company in 2002. The original terms of the debentures required the Company to make monthly principal payments of $10 per $1,000 of the then remaining principal amount, beginning on June 28, 2005. The Company will still be required to make interest payments. Under the terms of the waiver, monthly principal payments of $13.33 per $1,000 of the then remaining outstanding principal amount commenced on July 1, 2006. The final maturity date remains as June 28, 2009. As consideration for the extension, the Company has issued to the debenture holders warrants to purchase 20,000 shares of Simtek common stock at $5.00 per share, a premium to the market price on the date of the waiver. The Company estimated the value of the warrants at the time of grant, using the Black Scholes option-pricing 59 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS model, to be approximately $62,000. The Company recognized $16,000 as additional interest expense for the period ending December 31, 2006. On May 10, 2006, the Company received a waiver letter from the debenture holders, which was issued to the Company due to the Company not being in compliance with two of the covenants defined in the loan agreement. As consideration for the waiver letter, the Company has issued to the debenture holders warrants to purchase 5,000 shares of Simtek common stock at $3.30 per share. The Company estimated the value of the warrants at the time of grant, using the Black-Scholes option-pricing model, to be approximately $11,000. The Company recognized $8,000 as additional interest expense for the period ending December 31, 2006. In May 2006, the Company entered into a $3,600,000 revolving credit agreement with Wells Fargo Business Credit. As part of this credit agreement the debenture holders were required to enter into a subordination agreement with Wells Fargo. As consideration for the subordination agreement, the Company has issued to the debenture holders warrants to purchase 20,000 shares of Simtek common stock at $3.30 per share. The Company estimated the value of the warrants at the time of grant, using the Black-Scholes option-pricing model, to be approximately $43,000. The Company recognized $16,000 as additional interest expense for the period ending December 31, 2006. On May 26, 2006, the Company issued to the following individuals, who are directors of Simtek, as compensation for serving as directors of Simtek under Simtek's standard compensation arrangement for directors, the following amounts of shares of Simtek common stock: Robert Keeley (3,376); Alfred Stein (3,376); Ronald Sartore (3,376); Robert Pearson (3,376); and Harold Blomquist (371). The expense for these shares was recorded at the time the compensation was earned by the directors. On October 12, 2004, the Company closed a $2,500,000 equity financing with three separate investment funds, SF Capital Partners, Ltd., Bluegrass Growth Fund LP and Bluegrass Growth Fund LTD. In exchange for the $2,500,000, the Company issued 412,797 shares of its common stock to SF Capital Partners, Ltd, 51,600 shares of its common stock to Bluegrass Growth Fund LP and 51,600 shares of its common stock to Bluegrass Growth Fund LTD. The purchase price was based on a 15% discount to the closing price of the Company's common stock as reported on the Over-the-Counter Bulletin Board on October 11, 2004, resulting in a price of $4.85 per share. In addition to the shares of common stock, SF Capital Partners Ltd., Bluegrass Growth Fund LP, and Bluegrass Growth Fund LTD received warrants to acquire 206,399, 25,800 and 25,800 shares of the Company's common stock, respectively. The warrants have a 5-year term with an exercise price of $6.27 per share. Merriman Curhan Ford & Co., the placement agent for the $2,500,000 equity financing received a cash payment of $187,500 and warrants to acquire 38,700 shares of the Company's common stock. The terms of the $2,500,000 equity financing allowed for participation rights in certain of our future equity financings. In conjunction with the December 2005 $11,000,000 PIPE transaction, Bluegrass Growth Fund LP, Bluegrass Growth Fund LTD and SF Capital Partners Ltd., agreed to waive certain participation rights held by them in connection with the $11,000,000 common stock transaction in exchange for the Company agreeing to reprice the 257,999 warrants that they received in October 2004 from an exercise price of $6.27 to an exercise price of $2.65 per share. Warrants - A summary of the warrants outstanding as of December 31, 2006, is as follows: 60 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Per # of Warrant Extended Warrants Expiration Exercise Value of Warrant Holder Description Issue Date Outstanding Date Price Warrants ---------------------------------- ------------ ------------ ------------ ------------- ------------ ----------- US Special Opportunities Trust Plc. Warrants 11/7/2003 12,500 11/7/2008 $ 12.50 $ 156,250 US Special Opportunities Trust Plc. Warrants 11/7/2003 12,500 11/7/2008 $ 15.00 $ 187,500 Renaissance US Growth Investment Trust Plc. Warrants 11/7/2003 12,500 11/7/2008 $ 12.50 $ 156,250 Renaissance US Growth Investment Trust Plc. Warrants 11/7/2003 12,500 11/7/2008 $ 15.00 $ 187,500 Renaissance Capital Growth & Income Fund III Warrants 11/7/2003 12,500 11/7/2008 $ 12.50 $ 156,250 Renaissance Capital Growth & Income Fund III Warrants 11/7/2003 12,500 11/7/2008 $ 15.00 $ 187,500 SF Capital Partners Ltd. Warrants 10/12/2004 206,399 10/12/2009 $ 2.65 $ 546,957 Merriman Curhan Ford & Co. Warrants 10/12/2004 38,700 10/12/2009 $ 6.27 $ 242,649 Cypress Semiconductor Warrants 5/5/2005 505,562 5/5/2015 $ 7.772 $ 3,929,228 US Special Opportunities Trust Plc. Warrants 6/28/2005 6,667 6/28/2010 $ 5.00 $ 33,335 Renaissance US Growth Investment Trust Plc. Warrants 6/28/2005 6,667 6/28/2010 $ 5.00 $ 33,335 Renaissance Capital Growth & Income Fund III Warrants 6/28/2005 6,667 6/28/2010 $ 5.00 $ 33,335 C. E. Unterberg Towbin Warrants 12/30/05 79,250 12/30/2010 $ 2.80 $ 221,900

Cypress Semiconductor Warrants 3/24/2006 1,000,000 3/24/2016 $ 7.50 $ 7,500,000 Renaissance Capital Growth & Income Fund III Warrants 5/26/2006 6,871 5/26/2011 $ 3.30 $ 22,674 Renaissance US Growth Investment Trust Plc. Warrants 5/26/2006 6,871 5/26/2011 $ 3.30 $ 22,674 US Special Opportunities Trust Plc. Warrants 5/26/2006 6,260 5/26/2011 $ 3.30 $ 20,658 Renaissance Capital Growth & Income Fund III Warrants 5/26/2006 1,718 5/26/2011 $ 3.30 $ 5,669 Renaissance US Growth Investment Trust Plc. Warrants 5/26/2006 1,718 5/26/2011 $ 3.30 $ 5,669 US Special Opportunities Trust Plc. Warrants 5/26/2006 1,565 5/26/2011 $ 3.30 $ 5,165 Cypress Semiconductor Warrants 6/30/2006 500,000 6/30/2016 $ 7.50 $ 3,750,000 Premier RENN US Emerging Growth Fund Ltd. Warrants 9/21/2006 18,988 9/20/2011 $ 5.40 $ 102,535 US Special Opportunities Trust Plc. Warrants 9/21/2006 18,988 9/20/2011 $ 5.40 $ 102,535 Renaissance US Growth Investment Trust Plc. Warrants 9/21/2006 18,988 9/20/2011 $ 5.40 $ 102,535 61 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Renaissance Capital Growth & Income Fund III Warrants 9/21/2006 18,988 9/20/2011 $ 5.40 $ 102,535 Crestview Capital Master LLC Warrants 9/21/2006 32,279 9/20/2011 $ 5.40 $ 174,307 Big Bend XXVII Investments, L.P. Warrants 9/21/2006 15,190 9/20/2011 $ 5.40 $ 82,026 SF Capital Partners Ltd. Warrants 9/21/2006 7,595 9/20/2011 $ 5.40 $ 41,013 Straus GEPT Partners, LP Warrants 9/21/2006 7,595 9/20/2011 $ 5.40 $ 41,013 Straus Partners, LP Warrants 9/21/2006 7,595 9/20/2011 $ 5.40 $ 41,013 A. J. Stein Family Trust Warrants 9/21/2006 3,798 9/20/2011 $ 5.40 $ 20,509 A. J. Stein Family Partnership Warrants 9/21/2006 3,798 9/20/2011 $ 5.40 $ 20,509 Brian Stein Warrants 9/21/2006 3,798 9/20/2011 $ 5.40 $ 20,509 Toni Stein Warrants 9/21/2006 1,899 9/20/2011 $ 5.40 $ 10,255 Steven Hayes Warrants 9/21/2006 7,595 9/20/2011 $ 5.40 $ 41,013 Brian Alleman Warrants 9/21/2006 4,747 9/20/2011 $ 5.40 $ 25,634 John Christopher McComb Warrants 9/21/2006 1,140 9/20/2011 $ 5.40 $ 6,156 Cypress Semiconductor Warrants 12/18/2006 500,000 12/18/2016 $ 7.50 $ 3,750,000 --------- ---------- Total Warrants 3,122,896 $22,088,595 ========= =========== Stock Option Plans - The Company has approved a Non-Qualified Stock Option Plan that authorizes 2,060,000 non-qualified stock options that may be granted to directors, employees, and consultants. The plan permits the issuance of non-statutory options and provide for a minimum exercise price equal to 100% of the fair market value of the Company's common stock on the date of grant. The maximum term of options granted under the plan is 10 years and options granted to employees expire 90 days after the termination of employment. In 2004, the Non-Qualified Stock Option Plan was extended for 10 more years. All options granted prior to March 24, 2006, began vesting after six months after the date of grant, and would become fully vested after three years and expire seven years from date of grant. On March 24, 2006, the Board of Directors changed the vesting schedule of stock options granted after March 24, 2006 to be as follows: o If an officer or employee has been employed for 12 months or more, stock options will vest over 48 months at 1/48th per month, and vesting will begin immediately at 1/48th per month for the four year period. o If an officer or employee has been employed for less than 12 months, no vesting will occur until the officer or employee has been employed for 12 months at which time the officer or employee will be caught up at 1/48th per month for each month since the option grant and then the options will continue to vest at 1/48th per month for the remaining portion of the four year period. o If an officer or employee is a new hire, no vesting will occur until the officer or employee has been employed for 12 months at which time 62 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS the officer or employee will receive 12/48th of the vesting and then the options will continue to vest at 1/48th per month for the remaining portion of the four year period. o All options granted to outside directors of the Company will be 100% vested after six months from the grant date. o All options will expire seven years from date of grant. The following table summarizes the effects of the share-based compensation resulting from the application of SFAS No. 123(R) to options granted under the Company's stock option plan. Income Statement Classifications December 31, 2006 ----------------- (in thousands) Research and development $ 160 Sales and marketing 78 General and administration 304 ------------- Total $ 542 ============= As of December 31, 2006, there was approximately $2.0 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested options granted to the Company's employees and directors, which will be recognized through December 31, 2010. Total unrecognized compensation will be adjusted for future changes in estimated forfeitures. 63 The following table sets forth the pro forma amounts of net loss and net loss per share for the years ended December 31, 2005 and 2004 that would have resulted if we had accounted for the stock option plans under the fair value recognition provisions of SFAS 123R. December 31, ------------ 2005 2004 ---- ---- (in thousands, except per share amounts) Net loss as reported $ (5,786) $ (3,671) Add: Stock based compensation included in reported Net loss - - Deduct: Fair value of stock based compensation (1,294) (831) ----------- ---------- Pro forma net loss $ (7,080) $ (4,502) =========== ==========

Net loss as reported - basic and diluted $ (.84) $ (.63) Pro forma net loss - basic and diluted $ (1.03) $ (.77) The following table summarizes stock options outstanding and changes during the twelve months ended December 31, 2006: Outstanding Options -- Weighted Average Aggregate Remaining Intrinsic Weighted Contractual Value Average Term (in Number of Shares Exercise Price (in years) thousands) ---------------- -------------- ----------- ---------- Options outstanding at January 1, 2006................. 796,936 $ 6.20 Granted.. 619,085 4.00 Exercised.. (73,619) (2.80) $ 115 (1) Cancelled or forfeited.............................. (39,809) (8.79) --------- ------ Options outstanding at December 31, 2006................ 1,302,593 $ 5.24 4.383 ========= ====== ===== Options exercisable at December 31, 2006................ 576,420 $ 6.33 4.383 $ 336 (2) ========= ====== ===== ======== (1) Represents the difference between the exercise price and the value of Simtek stock at the time of exercise. (2) Represents the difference between the market value as of December 31, 2006 and the exercise price of the shares. The market value as of December 31, 2006 was $4.65 as reported by the NASDAQ Stock Market 64 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Stock options outstanding and currently exercisable at December 31, 2006 are as follows: Outstanding Exercisable --- -------------------------------- Weighted Average --- Remaining Contractual Weighted Number Life Average Number Weighted Average Exercise Price Outstanding in Months Exercise Price Exercisable Exercise Price -------------- ----------- ------------ ------------- ---------- ---------------- $1.60-$3.00 149,342 45 $ 2.44 100,731 $ 2.33 $3.10-$5.40 750,108 67 $ 4.18 197,357 $ 4.41 $6.00-$9.00 300,413 52 $ 6.42 175,598 $ 6.55 $11.25-$13.40 75,230 28 $ 12.21 75,234 $ 12.21 $15.00-$19.00 27,500 34 $ 17.26 27,500 $ 17.26 --------- ------- 1,302,593 576,398 ========= ======= For grants issued during 2006, the fair value for stock options was estimated at the date of grant using the Black-Scholes option pricing model, which requires management to make certain assumptions. Expected volatility was based on the historical volatility of the Company's stock over the past 5 years. The Company based the risk-free interest rate that was used in the option valuation mode on U.S. Treasury notes. The Company does not anticipate paying cash dividends in the foreseeable future and therefore use an expected dividend yield of 0%. The fair value of each option granted in 2006, 2005 and 2004 was estimated on the date of grant using the Black-Scholes option-pricing model with the following: December 31, ----------- 2006 2005 2004 ---- ---- ---- Expected volatility 79.81% 84.30% 108.26% Risk-free interest rate 5.11% 3.80% 2.40% Expected dividends - - - Expected terms (in years) 4.87 4.0 4.0 Cash received from option exercises for the year ended December 31, 2006 was $206,000. The option exercises provide a tax deduction of approximately $112,000. This tax benefit will be charge to "paid-in capital" when, and if, the tax deduction is utilized prior to expiration. Modifications of Stock Options Granted In May 2005, the Company accelerated vesting of certain unvested and out-of-the-money stock options previously awarded to employees and officers. Because the price of the Company's common stock was $5.70 on the 65 day of acceleration, the options, which are exercisable at $6.20 and above, had no economic value on the date of acceleration. As a result of the acceleration, options to purchase approximately 170,000 shares of Simtek common stock are now exercisable. Options held by non-employee directors were excluded from the vesting acceleration. Other - Preferred Stock may be issued in such series and preferences as determined by the Board of Directors. 7. SIGNIFICANT CONCENTRATION OF CREDIT RISK, MAJOR CUSTOMERS, AND OTHER RISKS -- AND UNCERTAINTIES: ----------------- Sales by location for the years ended December 31, 2006, 2005 and 2004 were as follows (as a percentage of sales): 2006 2005 2004 ---- ---- ---- United States 27% 26% 29% Europe 25% 18% 11% Far East 39% 46% 48% Other 9% 10% 12% ---- ---- ---- Total 100% 100% 100% Sales from the Company's military products accounted for approximately 8%, 15% and 21% of total sales for the years ended December 31, 2006, 2005 and 2004, respectively. Sales to unaffiliated customers which represent 10% or more of the Company's sales for the years ended December 31, 2006, 2005 and 2004 were as follows (as a percentage of sales) : Customer 2006 2005 2004 -------- ---- ---- ---- A 5% 11% 12% B 8% 11% 10% C 10% 12% 12% D 14% 17% 15% E 12% 6% 8% At December 31, 2006, the Company had gross accounts receivable totaling $3,004,000 due from the above five customers. In 2006, 2005 and 2004, the Company purchased all of its silicon wafers, based on 0.8 micron technology from a single supplier, Chartered. Approximately 66%, 86% and 97% of the Company's net revenue for 2006, 2005 and 2004, respectively, were from finished units produced from these wafers. In 2006, 2005 and 2004, the Company purchased all of its silicon wafers, based on 0.25 micron technology from a single supplier, Dongbu. Approximately 13%, 13% and 3% of the Company's net revenue for 2006, 2005 and 2004, respectively, were from finished units produced from these wafers. In addition, approximately 20% of the Company's net revenue was from finished units purchased from ZMD. 66 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 8. TAXES: ----- Deferred taxes result from temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The components of deferred taxes are as follows: Deferred Tax Assets (Liability) ----------------- (in thousands) 2006 2005 ---- ---- Current: Allowance for doubtful accounts $ 9 $ 3 Reserves 381 231 Accrued expenses 288 104 --------- ---------- Net current deferred tax before valuation allowance 678 338 Valuation allowance (678) (338) --------- ----------- Total current deferred tax $ - $ - ========= ========== Non-Current: Net operating losses $ 6,456 $ 15,369 Property and equipment 54 41 Tax credit 11 11 Intangibles 1,418 956 FAS 123R Accrual - Nonqualified Stock Options 201 - --------- ---------- Net non-current deferred tax asset before valuation allowance 8,140 16,377 Valuation allowance (8,140) (16,377) --------- ----------- 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 2006 decreased by $7,897,000 and increased by $2,043,000 in 2005. The primary reason for the decrease in 2006 relates to the expiration of net operating losses and the Company's assessment regarding the effects of section 382 discussed below. At the end of 2005, the Company underwent a change of ownership, as defined by the Internal Revenue Code, which has the effect of limiting the Company's ability to utilize its net operating losses in the future. As a result, approximately $15.8 million of net operating losses will expire and not be utilized. For purposes of reporting the Company's deferred tax asset related to net operating losses, the Company has not included the $15.8 million in the calculation of its deferred tax asset. Excluding the $15.8 million that will expire, the Company has approximately $17.4 million of available net operating loss carryforwards that may be utilized in the future and which begin to expire from 2007 to 2025. As a result of certain non-qualified stock options which have been exercised, approximately $4,544,000 of the net operating loss carryforwards will be charged to "paid-in-capital" when, and if, the losses are utilized. 67 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Total income tax expense for 2006, 2005 and 2004 differed from the amounts computed by applying the U. S. Federal statutory tax rates to the pre-tax loss as follows: 2006 2005 2004 ---- ---- ---- Statutory rate (34.0)% (34.0)% (34.0)% State income taxes, net of Federal income tax benefit (3.1)% (3.3)% (3.3)% Increase (reduction) in valuation allowance related to net operating loss carryforwards and change in temporary differences 37.1% 37.3% 37.3% ----- ----- ----- Income tax expense (benefit) - - - ===== ===== ==== 9. DISCONTINUED OPERATION: --------------------- On August 30, 2005, the Company, along with the Company's wholly-owned subsidiary, Q-DOT, Inc. ("Q-DOT"), entered into an Asset Purchase Agreement with Hittite Microwave Corporation ("Hittite") and a wholly-owned subsidiary of Hittite, HMC Acquisition Corporation ("HMC Acquisition"), whereby substantially all of the assets of Q-DOT were sold to HMC Acquisition in exchange for a cash payment of approximately $2.2 million. The Company realized a net gain of approximately $1,687,000. In addition, Hittite assumed certain future obligations of Q-DOT, including obligations related to Q-DOT's real estate lease and certain software license agreements. Incident to the Asset Purchase Agreement, the parties also entered an Escrow Agreement, whereby $200,000 of the purchase price was placed in escrow for one year to secure certain indemnification obligations of Simtek and Q-DOT. In addition, the parties entered into a Confidentiality, Non-Disclosure and Restrictive Covenant Agreement, whereby, among other things, Simtek and Q-DOT agreed not to compete against Hittite and HMC Acquisition for a period of four years with respect to certain businesses relating to Q-DOT's operations. On September 1, 2006, the Company received the $200,000 that was placed in the escrow account. In accordance with SFAS No. 144, the consolidated financial statements of the Company have been recast to present this business as a discontinued operation. Accordingly, the revenues, the costs and expenses of the discontinued operation have been excluded from the respective captions in the accompanying Consolidated Statements of Operations and have been reported under the caption "Income from discontinued operations" for all periods presented. In addition, certain of the Notes to the Consolidated Financial Statements have been recast for all periods to reflect the discontinuance of this operation. Summary results for the discontinued operation are as follows (in thousands): Description Years Ended December 31, ----------------------- 2005 2004 ---- ---- Operating Results: Revenue $ 1,398 $ 1,810 Costs and expenses 1,381 1,750 -------- -------- Income from discontinued Operation $ 17 $ 60 ========= ========= 68 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS There are no amounts included in the December 31, 2005 Consolidated Balance Sheet related to the discontinued operations. 10. ACQUISITION OF CERTAIN ASSETS FROM ZMD: ------------------------------------- On December 30, 2005, the Company purchased from Zentrum Mikroelektronik Dresden AG ("ZMD") certain assets related to ZMD's nvSRAM product line (the "ZMD Asset Acquisition"). Under the terms of various agreements between Simtek and ZMD beginning in 1994, ZMD used Simtek's proprietary technology to manufacture and sell products that directly competed with Simtek's products. Management believes that the ZMD Asset Acquisition provided several benefits, including consolidation of nvSRAM products in the marketplace, increased sales volume, and control of its proprietary technology. On that same date and in connection with the ZMD Asset Acquisition, which is described in more detail below, Simtek and ZMD entered into a number of agreements including a License Agreement (the "New License Agreement"). Pursuant to the New License Agreement, ZMD assigned its rights in certain patents devoted to nvSRAM to Simtek and Simtek licensed to ZMD the right to use Simtek's silicon-oxide-nitride-oxide- silicon (SONOS)-based nvSRAM technology for embedded functions in ZMD's non-competing products. The licenses granted pursuant to the New License Agreement are perpetual, non-exclusive, royalty-free and unlimited. No fees or payments are due to either party under the New License Agreement. The New License Agreement shall remain in effect on a country-by-country basis until all patents, trade secrets, and any other proprietary and legal rights subject thereto have expired or ended, unless terminated earlier by either party following a breach by the other party that remains uncured after 30 days' written notice. In addition, Simtek and ZMD executed a Non-Competition and Non-Solicitation Agreement (the "NC Agreement") whereby, for a period of five years from the closing, ZMD is prohibited from competing with certain of Simtek's products and from hiring employees of Simtek in certain situations. In 1994, the Company licensed certain intellectual property to ZMD, which permitted ZMD to produce nvSRAM products that directly competed with the products sold by the Company. During the past several years, the two companies have competed for market share with key customers, resulting in significant reductions in average unit selling prices. The Company believed that acquiring the assets from ZMD would result in more price stability in the marketplace and provide additional revenue to Simtek. The transaction with ZMD was completed on December 30, 2005. As such, the assets acquired are included in the accompanying Consolidated Balance Sheet as of December 31, 2005. However, there are no results of operations related to the assets acquired included in the Consolidated Statement of Operations for the Year Ended December 31, 2005 as there were no operating activities until January 2006. 69 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The purchase price consisted of $8 million of cash paid to ZMD, and 626,072 shares of Simtek common stock issued to ZMD, valued at $2 million, per the terms of the agreement based on the volume weighted average price of the common stock for the 60 trading days prior to the execution date of the Asset Purchase Agreement on December 7, 2005. For accounting and financial reporting purposes, the shares issued to ZMD have been valued at $3.00 per share, pursuant to Emerging Issues Task Force 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination", resulting in an accounting value of $1,882,000. The total purchase price including transaction related costs, amounted to $10,425,000. The transaction related costs include $272,000 investment banking costs, $240,000 legal fees, and $31,000 other. (in thousands of dollars) Finished goods inventory $ 639 Non-competition agreement 8,910 Goodwill 876 ----------- Total $ 10,425 ----------- Management determined the value assigned to each of the assets identified above based on several factors, including among other things, unit cost of products to be purchased from ZMD in the future, Simtek's relationship with former ZMD customers, Simtek's knowledge of the design and technology of ZMD's products, and an independent valuation of the non-competition agreement (which will be amortized over the five year term of the agreement). No value was assigned to the New License Agreement, because in management's opinion, the intellectual property subject to that license is derived from the Company's base technology and does not significantly enhance or change such technology. The following table sets forth certain information related to unaudited pro forma results of operations, as if the transaction were completed at the beginning of each period presented (in thousands of dollars, except per share amounts): 2005 2004 ---- ---- Revenue $ 18,136 $ 20,338 Loss from continuing operations (9,664) (5,627) Earnings per share $ (0.07) $ (.04) 11. Non-Refundable Prepaid Royalties On March 24, 2006, the Company entered into a License and Development Agreement with Cypress pursuant to which, among other things, Cypress agreed to license certain intellectual property from the Company to develop and manufacture standard, custom and embedded nvSRAM products and Cypress agreed to pay to the Company $4,000,000 in non-refundable pre-paid royalties of which $2 million was paid upon signing of the agreement, $1 million was paid on June 30, 2006 and $1 million was paid on December 18, 2006. In addition, the Company licensed rights to use certain intellectual property from Cypress for use in its products. As part of the License and Development Agreement, the Company agreed to issue Cypress warrants to purchase 2 million shares of the Company's common stock for $7.50 per share. The warrants have a ten year life. The warrants were issued upon receipt of each of the prepaid royalty amounts. The value of the warrants 70 SIMTEK CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS issued of $1,930,000 was determined using the Black Scholes option-pricing model and has been recorded as an increase in additional paid in capital. The net balance of the non-refundable prepaid royalties of $2,070,000 were recognized as revenue at the time the payments were received. Supplementary Financial Data (UNAUDITED) Following is unaudited quarterly selected financial data for the past eight quarters (in thousands of dollars, except per share amounts): Quarters Ended -- 3/31/06 6/30/06 9/30/06 12/31/06 ------- ------- ------- -------- Revenue $ 5,778 $ 6,926 $ 8,251 $ 9,675 Gross margin 2,308 2,359 3,272 4,667 Loss from continuing Operations (901) (1,453) (249) 596 Income (loss) from discontinued operations - - - - Net Loss (901) (1,453) (249) 596 Net Loss per Common Share: Basic and diluted: Loss from continuing Operations $ (.13) $ (.10) $ (.02) $ .04 Income (loss) from Discontinued operations $ .00 $ .00 $ .00 $ .00 Total $ (.13) $ (.10) $ (.02) $ .04 Quarters Ended -- 3/31/05 6/30/05 9/30/05 12/31/05 ------- ------- ------- -------- Revenue $ 2,976 $ 2,204 $ 2,412 $ 2,793 Gross margin 968 529 605 692 Loss from continuing Operations (986) (2,936) (1,718) (1,850) Income (loss) from discontinued operations (26) (36) 1,768 (2) Net Loss (1,012) (2,972) 50 (1,852) Net Loss per Common Share: Basic and diluted: Loss from continuing Operations $ (.16) $ (.45) $ (.24) $ (.25) Income (loss) from Discontinued operations $ .00 $ .01 $ .24 $ .00 Total $ (.16) $ (.46) $ (.00) $ (.25) 71 Item 9: Changes in and Disagreements with Accountants on Accounting and -- Financial Disclosure -------------------- None in 2006. Item 9A: Controls and Procedures ------------------------------- (a) Evaluation of disclosure controls and procedures. Harold Blomquist and Brian Alleman, who serve as the Company's chief executive officer and chief financial officer, respectively, after evaluating the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this annual report (the "Evaluation Date"), concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms and to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to our management to allow timely decisions regarding required disclosure. (b) Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. Item 9A(T): Controls and Procedures ---------------------------------- Not applicable. Item 9B: Other Information ------------------------- None in 2006. 72 PART III Item 10: Directors, Executive Officers and Corporate Governance --- Portions of our proxy statement to be filed pursuant to Regulation 14A with respect to our 2007 annual meeting of stockholders are incorporated by reference in this section. Item 11: Executive Compensation ------------------------------ Portions of our proxy statement to be filed pursuant to Regulation 14A with respect to our 2007 annual meeting of stockholders are incorporated by reference in this section. Item 12: Security Ownership of Certain Beneficial Owners and Management -- and Related Stockholder Matters ------------------------------ Portions of our proxy statement to be filed pursuant to Regulation 14A with respect to our 2007 annual meeting of stockholders are incorporated by reference in this section. Item 13: Certain Relationships and Related Transactions, and Director -- Independence ----------- Portions of our proxy statement to be filed pursuant to Regulation 14A with respect to our 2007 annual meeting of stockholders are incorporated by reference in this section. Item 14. Principal Accounting Fees and Services --- Portions of our proxy statement to be filed pursuant to Regulation 14A with respect to our 2007 annual meeting of stockholders are incorporated by reference in this section. 73 PART IV Item 15: Exhibits, Financial Statement Schedules 2.1 Plan of Conversion of Simtek Corporation, a Colorado corporation, into Simtek Corporation, a Delaware corporation, dated October 4, 2006.(1) 3.1 Certificate of Incorporation for Simtek Corporation, a Delaware corporation.(1) 3.2 Bylaws of Simtek Corporation, a Delaware corporation.(1) 4.1 1987-I Employee Restricted Stock Plan.(2) 4.2 Form of Restricted Stock Agreement between the Company and Participating Employees.(2) 4.3 Form of Common Stock Certificate of Simtek Corporation, a Delaware corporation.(1) 4.4 Simtek Corporation 1991 Stock Option Plan.(3) 4.5 Form of Incentive Stock Option Agreement between the Company and Eligible Employees.(3) 4.6 1994 Non-Qualified Stock Option Plan.(4) 4.7 Amendment to the 1994 Non-Qualified

Stock Option Plan.(5) 4.8 Q-DOT Group, Inc. Incentive Stock Option Plan of March 1994 adopted by Simtek.(7) 4.9 Form of Q-DOT Group, Inc. Incentive Stock Option Agreement between the Company and Eligible Employees.(7) 4.10 Amendment to the 1994 Non-Qualified Stock Option Plan.(7) 4.11 Amendment to the 1994 Non-Qualified Stock Option Plan.(15) 10.1 Form of Non-Competition and Non-Solicitation Agreement between the Company and certain of its employees.(2) 10.2 Form of Employee Invention and Patent Agreement between the Company and certain of its employees.(2) 10.3 Manufacturing Agreement between Chartered Semiconductor Manufacturing, PTE, LTD. and Simtek Corporation dated September 16, 1992.(5) 10.4 Separation Agreement, dated May 9, 2005, between Simtek Corporation and Douglas M. Mitchell.(6) 10.5 Technology Development, License and Product Agreement between Amkor Technology and Simtek.(8) 10.6 Manufacturing Services Agreement between Amkor Technology, Inc. and Simtek Corp.(8) 10.7 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.(9) 10.8 7.5% $1,000,000 Convertible Debenture between Simtek Corporation and BSFSUS Special Opportunities Trust, PLC.(9) 10.9 7.5% $1,000,000 Convertible Debenture between Simtek Corporation and Renaissance Capital Growth & Income Fund III, Inc.(9) 10.10 7.5% $1,000,000 Convertible Debenture between Simtek Corporation and Renaissance Capital US Growth & Income Trust, PLC.(9) 74 10.11 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.(9) 10.12 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.(9) 10.13 Technology Development, License and Product Agreement between Amkor Technology and Simtek - Amended September 2002.(10) 10.14 Assignment, dated February 21, 2003, of the Agreement(s) between Simtek Corporation and Amkor Technology, Inc.(11) 10.15 Securities Purchase Agreement between Simtek Corporation and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth Investment Trust, PLC and BFSUS Special Opportunities Trust, PLC.(12) 10.16 Form of $12.50 Stock Purchase Warrant.(12) 10.17 Form of $15.00 Stock Purchase Warrant.(12) 10.18 Amendment dated January 27, 2004 between Simtek Corporation and Baja Properties, LLC (Landlord) (together with amendment dated June 7, 2000 and underlying lease dated July 26, 2000).(13) 10.19 Securities Purchase Agreement, dated October 12, 2004, by and among the Company, SF Capital Partners Ltd., Bluegrass Growth Fund LP and Bluegrass Growth Fund LTD.(14) 10.20 Form of Warrant (attached as Exhibit A to Securities Purchase Agreement, dated October 12, 2004, by and among the Company, SF Capital Partners Ltd., Bluegrass Growth Fund LP and Bluegrass Growth Fund LTD).(14) 10.21 Form of Registration Rights Agreement (attached as Exhibit B to Securities Purchase Agreement, dated October 12, 2004, by and among the Company, SF Capital Partners Ltd., Bluegrass Growth Fund LP and Bluegrass Growth Fund LTD).(14) 10.22 Share Purchase Agreement, dated May 4, 2005, by and between the Company and Cypress Semiconductor Corporation.(16) 10.23 Development and Production Agreement, dated May 4, 2005, by and between the Company and Cypress Semiconductor Corporation.(16) 10.24 Escrow Agreement, dated May 4, 2005, by and among the Company, Cypress Semiconductor Corporation and U.S. Bank, National Association.(16) 10.25 Stock Purchase Warrant, dated May 4, 2005, from the Company to Cypress Semiconductor Corporation.(16) 10.26 Employment agreement by and between the Company and Harold Blomquist.(6) 10.27 Waiver letter agreement, dated June 28, 2005, by and between the Company, Q-DOT, Inc., Renaissance Capital Growth & Income Fund III, Inc., Renaissance US Growth Investment Trust PLC and BFS US Special Opportunities Trust PLC.(17) 10.28 Asset Purchase Agreement, dated August 30, 2005, by and among Hittite Microwave Corporation, HMC Acquisition Corporation, the Company and Q-DOT, Inc.(18) 10.29 Escrow Agreement, dated August 30, 2005, by and among the Company, Q-DOT, Inc., Hittite Microwave Corporation, HMC Acquisition Corporation, and U.S. Bank, National Association.(18) 10.30 Confidentiality, Non-Disclosure and Restrictive Covenant Agreement, dated August 30, 2005, by and among Hittite Microwave Corporation, HMC Acquisition Corporation, the Company and Q-DOT, Inc.(18) 10.31 Asset Purchase Agreement, dated December 7, 2005, by and between the Company and Zentrum Mikroelektronik Dresden AG.(19) 75 10.32 Form of License Agreement, dated December 30, 2005, by and between the Company and Zentrum Mikroelektronik Dresden AG.(19) 10.33 Form of Non-Competition and Non-Solicitation Agreement, dated December 30, 2005, by and between the Company and Zentrum Mikroelektronik Dresden AG.(19) 10.34 Form of Registration Rights Agreement, dated December 30, 2005, by and between the Company and Zentrum Mikroelektronik Dresden AG.(19) 10.35 Form of Securities Purchase Agreement, dated December 30, 2005, by and among the Company various purchasers.(20) 10.36 Form of Registration Rights Agreement, dated December 30, 2005, by and among the Company and various purchasers.(20) 10.37 License and Development Agreement, dated March 24, 2006, by and between the Company and Cypress Semiconductor Corporation.(21) 10.38 Amended and Restated Registration Rights Agreement, dated March 24, 2006, by and between the Company and Cypress Semiconductor Corporation.(21) 10.39 Employment Agreement, dated April 25, 2006, by and between the Company and Brian P. Alleman.(22) 10.40 Preliminary agreement between the Company and Ronald Sartore.(23) 10.41 Account Purchase Agreement, effective June 2, 2006, by and between the Company and Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit operating division.(24) 10.42 Form of Securities Purchase Agreement, dated September 21, 2006, by and among the Company and various purchasers.(25) 10.43 Form of Registration Rights Agreement, dated September 21, 2006, by and among the Company and various purchasers.(25) 10.44 Form of Stock Purchase Warrant, dated September 21, 2006, by and among the Company and various purchasers.(25) 10.45 Offer letter from the Company to Ronald Sartore, dated November 3, 2006.(26) 14.1 Code of Business Conduct and Ethics 21.1 Subsidiaries of the registrant 23.1 Consent of Hein & Associates LLP, Independent Registered Public Accounting Firm 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer (1) Incorporated by reference to the Company's Current Report on Form 8-K12G3 filed by the Company with the SEC on October 10, 2006 (2) Incorporated by reference to the Company's Form S-1 Registration Statement (Reg. No. 33-37874) filed with the Commission on November 19, 1990. 76 (3) Incorporated by reference to the Company's Form S-1 Registration Statement (Reg. No. 33-46225) filed with the Commission on March 6, 1992. (4) Incorporated by reference to the Company's Annual Report on Form 10-K filed with the Commission on March 25, 1995 (5) Incorporated by reference to the Company's Annual Report on Form 10-K filed with the Commission on March 27, 1996 (6) Incorporated by reference to the Form 8-K filed with the Commission on May 12, 2005 (7) Incorporated by reference to the Company's Form S-8 Registration Statement (Reg. No. 333-73794) filed with the Commission on November 20, 2001 (8) Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Commission on March 27, 2002 (9) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB filed with the Commission on August 13, 2002 (10) Incorporated be reference to the Company's Quarterly Report on Form 10-QSB filed with the Commission on November 8, 2002 (11) Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Commission on March 27, 2003 (12) Incorporated by reference from the Current Report on Form 8-K filed by the Company with the SEC on November 12, 2003 (13) Incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Commission on March 4, 2004 (14) Incorporated by reference from the Current Report on Form 8-K filed by the Company with the Commission on October 12, 2004 (15) Incorporated by reference to the Company's Form S-8 Registration Statement (Reg. No. 333-1210005) filed with the Commission on December 7, 2004 (16) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on May 10, 2005 (17) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on July 5, 2005 (18) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on September 6, 2005 (19) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on December 13, 2005 (20) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on January 3, 2006 (21) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on March 30, 2006 (22) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on May 1, 2006. (23) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on May 30, 2006. (24) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on June 8, 2006. (25) Incorporated by reference to the Company's Current Report on Form 8-K filed by the Company with the SEC on September 25, 2006 (26) Incorporated by reference to the Company's Current Report on Form 8-K/A filed by the Company with the SEC on November 9, 2006 77 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Colorado Springs, State of Colorado, United States of America, on April 2, 2007. SIMTEK CORPORATION /s/Harold Blomquist ------------------------------------ By: Harold

Blomquist Chief Executive Officer and President Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on April 2, 2007 by the following persons on behalf of the Registrant and in the capacities indicated. SIGNATURE TITLE /s/Harold Blomquist ------------------------------------ Harold Blomquist Chief Executive Officer and President /s/Brian Alleman ------------------------------------ Brian Alleman Chief Financial Officer /s/Harold Blomquist ------------------------------------ Harold Blomquist Chairman of the Board /s/Robert Keeley ------------------------------------ Robert H. Keeley Director /s/Alfred Stein ------------------------------------ Alfred Stein Director /s/Robert Pearson ------------------------------------ Robert Pearson Director /s/Ronald Sartore ------------------------------------ Ronald Sartore Director /s/John Hillyard ------------------------------------ John Hillyard Director 78 Exhibit 14.1 SIMTEK CORPORATION CODE OF BUSINESS CONDUCT AND ETHICS (Adopted November 6, 2006) PREAMBLE: Nothing in this Code of Business Conduct and Ethics, in any company policies and procedures, or in other related communications (verbal or written) creates or implies an employment contract or term of employment. I. INTRODUCTION This Code of Business Conduct and Ethics is intended to help ensure compliance with legal requirements and our standards of business conduct. All Company officers and employees are expected to read and understand this Code of Business Conduct and Ethics, uphold these standards in day-to-day activities, comply with all applicable policies and procedures, and ensure that all agents and contractors are aware of, understand, and adhere to these standards. Directors are held to the same standards of conduct except where this document restricts outside activities, so long as the director's activities are legal and not in conflict with Simtek's best interests. All officers, exempt employees and directors of the Company must sign the acknowledgment form at the end of this Code of Business Conduct and Ethics and return the form to the Human Resources Department indicating that you have received, read, understand, and agree to comply with the Code of Business Conduct and Ethics. The signed acknowledgment form will be held by Simtek's human resources department. II. YOUR RESPONSIBILITIES TO THE COMPANY AND ITS STOCKHOLDERS A. General Standards of Conduct The Company expects all employees, agents, directors, and contractors to engage in honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationship and exercise good judgment to ensure the safety and welfare of employees, agents and contractors and to maintain a cooperative, efficient, positive, harmonious, and productive work environment and business organization. These standards apply while working on our premises, at off-site locations where our business is being conducted, at Company-sponsored business and social events, or at any other place where you are a representative of the Company. Employees, agents, directors or contractors who engage in misconduct or whose performance is unsatisfactory may be subject to corrective action, up to and including termination. B. Applicable Laws All Company employees, agents, directors and contractors must comply with all applicable laws, regulations, rules and regulatory orders. Company employees located outside of the United States must comply with laws, regulations, rules and regulatory orders of the United States, including the Foreign Corrupt Practices Act and the U.S. Export Control Act, in addition to applicable local laws. Each employee, agent and contractor must acquire appropriate knowledge of the requirements relating to his or her duties sufficient to enable him or her to recognize potential dangers and to know when to seek advice from the Human Resources Department on specific Company policies and procedures. Violations of laws, regulations, rules and orders may subject the employee, agent or contractor to individual criminal or civil liability, as well as to discipline by the Company. Such individual violations may also subject the Company to civil or criminal liability or the loss of business. C. Conflicts of Interest Each of us has a responsibility to the Company, our stockholders and each other. Although this duty does not prevent us from engaging in personal transactions and investments, it does demand that we avoid situations where a conflict of interest might occur or appear to occur. The Company is subject to scrutiny from many different individuals and organizations. We should always strive to avoid even the appearance of impropriety. What constitutes conflict of interest? A conflict of interest exists where the interests or benefits of one person or entity may, or may appear to, conflict with the interests or benefits of the Company. Examples include: (i) Employment/Outside Employment. In consideration of your employment with the Company, you are expected to devote your full attention to the business interests of the Company. You are prohibited from engaging in any activity that interferes with your performance or responsibilities to the Company or is otherwise in conflict with or prejudicial to the Company. Our policies prohibit any employee from accepting simultaneous employment with a Company supplier, customer, developer or competitor, or from taking part in any activity that enhances or supports a competitor's position. Additionally, you must disclose to the Company any interest that you have that may conflict with the business of the Company. Exceptions to this policy will be considered for part time employment or other activities that do not conflict with the basic principals protecting the Company's interests. To apply for written exceptions or if you have any questions on this requirement, you should contact your supervisor or the Human Resources Department. (ii) Outside Directorships. It is a conflict of interest to serve as a director of any company that competes with the Company. Although you may serve as a director of a Company supplier, customer, developer or other business partner, our policy requires that you first obtain approval from the Chief Executive Officer before accepting a directorship for any company. Any compensation you receive should be commensurate to your responsibilities. Such approval may be conditioned upon the completion of specified actions. Serving as a director of a non-profit organization, charity or similar entity does not violate this policy and does not require approval. (iii) Business Interests. If you are considering investing in a Company customer, supplier, developer or competitor, and you are in a position to influence a decision relating to the Company customer, supplier, developer or competitor, you must first take great care to ensure that these investments do not compromise your responsibilities to the Company. Any exceptions to this policy require a written waiver from the Company's Chief Financial Officer. As a guideline, an investment in any one company should be no greater than 15% of your annual base compensation measured at the lower of your cost or market. Investments in funds are excluded. Investments in stocks of companies that merged into Simtek Corp that you held as a former employee of that company are excluded. Many factors should be considered in determining whether a conflict exists, including the size and nature of the investment; your ability to influence the Company's decisions; your access to confidential information of the Company or of the other company; and the nature of the relationship between the Company and the other company. (iv) Related Parties. As a general rule, you should avoid conducting Company business with a relative or significant other, or with a business in which a relative or significant other is associated in any significant role. Relatives include spouse, sister, brother, daughter, son, mother, father, grandparents, aunts, uncles, nieces, nephews, cousins, step relationships and in-laws. Significant others include persons living in a spousal or familial fashion with an employee. If such a related party transaction is unavoidable, you must fully disclose the nature of the related party transaction to the Company's Chief Financial Officer. If determined to be material to the Company by the Chief Financial Officer, the Company's Audit Committee must review and approve in writing in advance such related party transactions. The most significant related party transactions, particularly those involving the executive officers must be reviewed and approved in writing in advance by the Company's Board of Directors. The Company must report all such material related party transactions under applicable accounting rules, federal securities laws, Securities and Exchange Commission rules and regulations, and securities market rules. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to this business. You are expected to use your best efforts to make full, fair, accurate, timely, and understandable disclosure to the Company so that it can make the required disclosure in the reports and documents that it files with or submits to the Securities and Exchange Commission or in other public communications made by the Corporation. The Company prohibits the employment of relatives and significant others in positions or assignments that have a financial dependence or influence (e.g., an auditing or control relationship, or a supervisor/subordinate relationship). The purpose of this policy is to prevent the organizational impairment and conflicts that are a likely outcome of the employment of relatives or significant others, especially in a supervisor/subordinate relationship. If a question arises about whether a relationship is covered by this policy, the Human Resources Department is responsible for determining whether an applicant's or transferee's acknowledged relationship is covered by this policy. The Human Resources Department shall advise all affected applicants and transferees of this policy. Willful withholding of information regarding a prohibited relationship/reporting arrangement may be subject to corrective action, up to and including termination. If a prohibited relationship exists or develops between two employees, the employee in the senior position must bring this to the attention of his/her supervisor. The Company retains the prerogative to separate the individuals at the earliest possible time, either by reassignment or by termination, if necessary. (v) Other Situations. Because other conflicts of interest may arise, it would be impractical to attempt to list all possible situations. If a proposed transaction or situation raises any questions or doubts in your mind you should consult the Human Resources Department. D. Corporate Opportunities Employees and officers may not exploit for their own personal gain opportunities that are discovered through the use of corporate property, information or position unless the opportunity is disclosed fully in writing to the Company's Board of Directors and the Board of Directors declines to pursue such opportunity. E. Protecting the Company's Confidential Information The Company's confidential information is a valuable asset. The Company's confidential information includes product architectures, source codes, product plans and road maps, names and lists of customers, dealers and employees, and financial information. This information is the property of the Company and may be protected by patent, trademark, copyright and trade secret laws. All confidential information must be used for Company business purposes only. Every employee, agent and contractor must safeguard it. This responsibility also includes the safeguarding, securing and proper disposal of confidential information in accordance with the Company's policy on Maintaining and Managing Records set forth in Section II.I of this Code of Business Conduct and Ethics. This obligation extends to confidential information of third parties, which the Company has rightfully received under Non-Disclosure Agreements. See the Company's policy dealing with Handling Confidential Information of Others set forth in Section III.B of this Code of Business Conduct and Ethics. (i) Proprietary Information and Invention Agreement. When you joined the Company as an employee or director, you signed an agreement to protect and hold confidential the Company's proprietary information. This agreement remains in effect for as long as your relationship with the Company continues, and after you leave the Company. Under this agreement, you may not disclose the Company's confidential information to anyone or use it to benefit anyone other than the Company without the prior written consent of an authorized Company officer. (ii) Disclosure of Company Confidential Information. To further the Company's business, from time to time our confidential information may be disclosed to potential business partners. However, such disclosure should never be done without carefully considering its potential benefits and risks. If you determine in consultation with your manager and other appropriate Company management that disclosure of confidential information is necessary, you must then contact the appropriate corporate officer to ensure that an appropriate written nondisclosure agreement is signed prior to the disclosure. The Company has standard nondisclosure agreements suitable for most disclosures. (iii) Requests by Regulatory Authorities. The Company and its officers, employees, agents, directors and contractors must cooperate with appropriate government inquiries and investigations. In this context, however, it is important to protect the legal rights of the Company with respect to its confidential information. All government requests for information, documents or investigative interviews must be referred to the Company's Chief Financial Officer. No financial information may be disclosed without the prior approval of the Chief Financial Officer. (iv) Company Spokespeople. All inquiries or calls from the press and financial analysts should be referred to the Chief Financial Officer. The Company has designated its Chairman, Chief Executive Officer and Chief Financial Officer as Company Spokespeople. These designees and other individuals designated by them from time to time are the only people who may communicate with the press on behalf of the Company. F. Obligations Under Securities Laws - "Insider" Trading Obligations under the U.S. securities laws apply to everyone. In the normal course of business, officers, employees, agents, directors, contractors and consultants of the Company may come into possession of significant, sensitive information. This information is the property of the Company -- you have been entrusted with it. You may not profit from it by buying or selling securities yourself, or passing on the information to others to enable them to profit or for them to profit on your behalf. The purpose of this policy is both to inform you of your legal responsibilities and to make clear to you that the misuse of sensitive information is contrary to Company policy and U.S. securities laws. Insider trading is a crime, penalized by fines of up to $5,000,000 and 20 years in jail for individuals. In addition, the Securities and Exchange Commission may seek the imposition of a civil penalty of up to three times the profits made or losses avoided from the trading. Insider traders must also disgorge any profits made, and are often subjected to an injunction against future violations. Finally, insider traders may be subjected to civil liability in private lawsuits. Employers and other controlling persons (including supervisory personnel) are also at risk under U.S. securities laws. Controlling persons may, among other things, face penalties of the greater of $5,000,000 or three times the profits made or losses avoided by the trader if they recklessly fail to take preventive steps to control insider trading. Thus, it is important both to you and the Company that insider-trading violations not occur. You should be aware that stock market surveillance techniques are becoming increasingly sophisticated, and the chance that U.S. federal or other regulatory authorities will detect and prosecute even small-level trading is significant. Insider trading rules are strictly enforced, even in instances when the financial transactions seem small. You should contact the Company's Chief Financial Officer if you are unsure as to whether or not you are free to trade. The Company has imposed a trading blackout period on all officers and employees and certain designated consultants and contractors who, as a consequence of their position with the Company, are more likely to be exposed to material nonpublic information about the Company. These officers and employees and designated consultants and contractors may not trade in Company securities during the blackout period. For more details, you should review the Company's Procedures and Guidelines Governing Insider Trading. You can request a copy of this policy from the Human Resources Department. You should take a few minutes to read the Company's Procedures and Guidelines Governing Insider Trading carefully, paying particular attention to the specific policies and the potential criminal and civil liability and/or disciplinary action for insider trading violations. Employees, agents, directors and contractors of the Company who violate this Policy are also subject to disciplinary action by the Company, which may include termination of employment or of business relationship. G. Prohibition Against Short Selling of Company Stock No Company officer or other employee, agent or contractor may, directly or indirectly, sell any equity security, including derivatives, of the Company if he or she (1) does not own the security sold, or (2) if he or she owns the security, does not deliver it against such sale (a "short sale against the box") within twenty days thereafter, or does not within five days after such sale deposit it in the mails or other usual channels of transportation. No Company officer or other employee, agent or contractor may engage in short sales or any transaction involving a collar. A short sale, as defined in this policy, means any transaction whereby one may benefit from a decline in the Company's stock price. Transactions in put and call options for the Company's securities constitute a short sale for the purposes of this policy and are therefore prohibited. While employees who are not executive officers are not prohibited by law from engaging in short sales of Company's securities, the Company has adopted as policy that employees may not do so. H. Use of Company's Assets (i) General. Protecting the Company's assets is a key fiduciary responsibility of every employee, agent, consultant and contractor. Care should be taken to ensure that assets are not misappropriated, loaned to others, sold or donated, without appropriate authorization. All Company employees, agents, directors, consultants and contractors are responsible for the proper use of Company assets, and must safeguard such assets against loss, damage, misuse or theft. Employees, agents, directors, consultants or contractors who violate any aspect of this policy, are subject to disciplinary action including immediate termination of employment or the business relationship. Those employees who demonstrate poor judgment in the manner in which they use any Company asset may be subject to disciplinary action, up to and including termination of employment or business relationship at the Company's sole discretion. Company equipment and assets are to be used for Company business purposes only. Employees, agents, directors, consultants and contractors may not use Company assets for personal use, nor may they allow any other person to use Company assets. Employees who have any questions regarding this policy should bring them to the attention of the Company's Human Resources Department. (ii) Physical Access Control. The Company has and will continue to develop procedures covering physical access control to ensure privacy of communications, maintenance of the security of the Company communication equipment and safeguard Company assets from theft, misuse and destruction. You are personally responsible for complying with the level of access control that has been implemented in the facility where you work on a permanent or temporary basis. You must not defeat or cause to be defeated the purpose for which the access control was implemented. (iii) Company Funds. Every Company employee is personally responsible for all Company funds over which he or she exercises control. Company agents and contractors should not be allowed to exercise control over Company funds. Company funds must be used only for Company business purposes. Every Company employee, agent, consultant and contractor must take reasonable steps to ensure that the Company receives good value for Company funds spent, and must maintain accurate and timely records of each and every expenditure. Expense reports must be accurate and submitted in a timely manner. Company employees, agents, directors, consultants and contractors must not use Company funds or Company guaranteed credit cards for any personal purpose. (iv) Computers and Other Equipment. The Company strives to furnish employees with the equipment necessary to efficiently and effectively perform their jobs. Employees must care for that equipment and to use it responsibly primarily for Company business purposes. If Company equipment is used at your home or off site, take precautions to protect it from theft or damage, just as if it were your own. If the Company no longer employs you, you must immediately return all Company equipment. While computers and other electronic devices are made accessible to employees to assist them to perform their jobs and to promote Company's interests, all such computers and electronic devices, whether used entirely or partially on the Company's premises or with the aid of the Company's equipment or resources, must remain fully accessible to the Company and, to the maximum extent permitted by law, will remain the sole and exclusive property of the Company. Employees, agents, directors, and contractors should not maintain any expectation of privacy with respect to information transmitted over, received by or stored in any electronic communications device owned, leased or operated in whole or in part by or on behalf of the Company. To the extent permitted by applicable law, the Company retains the right to gain access to any information received by, transmitted by or stored in any such electronic communications device, by and through its employees, agents, directors, contractors or representatives, at any time, either with or without an employee's or third party's knowledge, consent or approval. (v) Electronic Media Usage. The purpose of this policy is to make certain that employees utilize electronic communication devices in a legal, ethical and appropriate manner. This policy addresses the Company's responsibilities and concerns regarding the fair and proper use of all electronic communications devices within the organization, including computers, e-mail, connections to the Internet, intranet and extranet and any other public or private networks, voice mail, video conferencing, facsimiles and telephones. Posting or discussing information concerning the Company's products or business on the Internet without the prior written consent of the Company's Chief Financial Officer is prohibited. Any other form of electronic communication used by employees currently or in the future is also intended to be encompassed under this policy. It is not possible to identify every standard and rule applicable to the use of electronic communications devices. Employees are therefore encouraged to use sound judgment whenever using any feature of our communications systems. I. Maintaining and Managing Records The purpose of this policy is to set forth and convey the Company's business and legal requirements in managing records, including all recorded information regardless of medium or characteristics. Records include paper documents, CDs, computer hard disks, email, floppy disks, microfiche, microfilm or all other media. The Company is required by local, state, federal, foreign and other applicable laws, rules and regulations to retain certain records and to follow specific guidelines in managing its records. Civil and criminal penalties for failure to comply with such guidelines can be severe for employees, agents, directors, contractors and the Company, and failure to comply with such guidelines may subject the employee, agent or contractor to disciplinary action up to and including termination of employment or business relationship at the Company's sole discretion and/or applicable civil or criminal claims under law. J. Records on Legal Hold A legal hold suspends all document destruction procedures in order to preserve appropriate records under special circumstances, such as litigation or government investigations. The Company's outside counsel determines and identifies what types of Company records or documents are required to be placed under a legal hold. Every Company employee, agent and contractor must comply with this policy. Failure to comply with this policy may subject the employee, agent or contractor to disciplinary action, up to and including termination of employment or business relationship at the Company's sole discretion, and potentially to criminal prosecution. The Company's Chief Financial Officer will notify you if a legal hold is placed on records for which you are responsible. You then must preserve and protect the necessary records in accordance with instructions from the Company's outside counsel. RECORDS OR SUPPORTING DOCUMENTS THAT HAVE BEEN PLACED UNDER A LEGAL HOLD MUST NOT BE DESTROYED, ALTERED OR MODIFIED UNDER ANY CIRCUMSTANCES. A legal hold remains effective until it is officially released in writing by the Company's outside counsel. If you are unsure whether a document has been placed under a legal hold, you should preserve and protect that document while you check with the Company's Chief Financial Officer. If you have any questions about this policy you should contact the Company's Chief Financial Officer. K. Payment Practices (i) Accounting Practices. The Company's responsibilities to its stockholders and the investing public require that all transactions be fully and accurately recorded in the Company's books and records in compliance with all applicable laws. False or misleading entries, unrecorded funds or assets, or payments without appropriate supporting documentation and approval are strictly prohibited and violate Company policy and the law. Additionally, all documentation supporting a transaction should fully and accurately describe the nature of the transaction and be processed in a timely fashion. (ii) Political Contributions. The Company reserves the right to communicate its position on important issues to elected representatives and other government officials. It is the Company's policy to comply fully with all local, state, federal, foreign and other applicable laws, rules and regulations regarding political contributions. The Company's funds or assets must not be used for, or be contributed to, political campaigns or political practices under any circumstances without the prior written approval of the Company's Chief Financial Officer and, if required, the Board of Directors. (iii) Prohibition of Inducements and Payments or Gifts from Others. Under no circumstances may employees, agents, directors, or contractors accept any offer, payment, promise to pay, or authorization to pay any money, gift, or anything of value to or from customers, vendors, consultants, etc. that is perceived as intended, directly or indirectly, to improperly influence any business decision, any act or failure to act, any commitment of fraud or opportunity for the commission of any fraud. Gifts with a value of less than $100, infrequent business meals, celebratory events and entertainment (such as tickets to sporting events), provided that they are not excessive or create an appearance of impropriety, or are accepted on behalf of the Company, do not violate this policy. Questions regarding whether a particular payment or gift violates this policy should be directed to the Human Resources Department. Gifts given by the Company to suppliers or customers or received from suppliers should always be appropriate to the circumstances and should never be of a kind that could create an appearance of impropriety. The nature and cost must always be accurately recorded in the Company's books and records. L. Foreign Corrupt Practices Act The Company requires full compliance with the Foreign Corrupt Practices Act of 1977 (FCPA) by all of its employees, agents, directors, and contractors. The FCPA was enacted to deter illegal corporate payments by prohibiting certain payments or promises to foreign officials (anti-bribery provisions), requiring corporations to keep adequate records of the disposition of their assets, and making corporations responsible for internal monitoring of their accounting practices. The use of Company funds or assets for any unlawful or improper purpose is strictly prohibited. No payment shall be made to, or for the benefit of, government employees for the purpose of, or otherwise in connection with, the securing of sales to or obtaining favorable action by a government agency. Gifts of substantial value or lavish entertainment of government employees are prohibited since they can be construed as attempts to influence government decisions in matters affecting the Company's operation. Any entertaining of public officials, or the furnishing of assistance in the form of transportation or other services should be of such nature that the official's integrity or reputation will not be compromised. The offer, payment or promise to transfer in the future company funds or assets or the delivery of gifts or anything else of value to foreign officials, foreign political parties or officials or candidates of foreign political parties is strictly prohibited for the purpose of influencing any act or decision of any such person in his or her official capacity, including the decision to fail to perform his or her official functions or to use such persons or party's influence with a foreign government or instrumentality in order to affect or to influence any act or decision of such government or instrumentality in order to assist the Company in obtaining or retaining business for or with, or directing business to any person or entity. All records must truly reflect the transactions they record. All assets and liabilities shall be recorded in the regular books of account. No undisclosed or unrecorded fund or asset shall be established for any purpose. No false or artificial entries shall be made in the books and records for any reason. No payment shall be approved or made with the intention or understanding that any part of such payment is to be used for any purpose other than that any part of such payment is to be used for any purpose other than that described by the document supporting the payment. No political contribution shall be made, directly or indirectly, with corporate funds or assets regardless of whether the contributions are legal under the laws of the county in which they are made. Laws in most countries outside of the United States also prohibit or restrict government officials or employees of government agencies from receiving payments, entertainment or gifts for the purpose of winning or keeping business. No contract or agreement may be made with any business in which a government official or employee holds a significant interest, without the prior approval of the Company's Chief Financial Officer. All Company employees, directors, agents and contractors whether located in the United States or abroad, are responsible for FCPA compliance and the procedures to ensure FCPA compliance. All managers and supervisory personnel are expected to monitor continued compliance with the FCPA to ensure compliance with the highest moral, ethical and professional standards of the Company. FCPA compliance includes the Company's policy on Maintaining and Managing Records in Section II.I of this Code of Business Conduct and Ethics. Any employee or director who learns of or suspects a violation of this policy should promptly report the matter to the Chief Executive Officer, the Chief Financial Officer or the human resources manager. All managers shall be responsible for the enforcement of and compliance with this policy, including the necessary distribution to insure employee knowledge and compliance. M. Export Controls A number of countries maintain controls on the destinations to which products or software may be exported. Some of the strictest export controls are maintained by the United States against countries that the U.S. government considers unfriendly or as supporting international terrorism. The U.S. regulations are complex and apply both to exports from the United States and to exports of products from other countries, when those products contain U.S.-origin components or technology. Software created in the United States is subject to these regulations even if duplicated and packaged abroad. In some circumstances, an oral presentation containing technical data made to foreign nationals in the United States may constitute a controlled export. The Company's outside counsel can provide guidance on which countries are prohibited destinations for Company products or whether a proposed technical presentation to foreign nationals may require a U.S. government license. III. RESPONSIBILITIES TO OUR CUSTOMERS AND OUR SUPPLIERS A. Customer Relationships If your job puts you in contact with any Company customers or potential customers, it is critical for you to remember that you represent the Company to the people with whom you are dealing. Act in a manner that creates value for our customers and helps to build a relationship based upon trust. The Company and its employees have provided products and services for many years and have built up significant goodwill over that time. This goodwill is one of our most important assets, and the Company employees, agents, directors and contractors must act to preserve and enhance our reputation. B. Handling the Confidential Information of Others The Company has many kinds of business relationships with many companies and individuals. Sometimes, they will volunteer confidential information about their products or business plans to induce the Company to enter into a business relationship. At other times, we may request that a third party provide confidential information to permit the Company to evaluate a potential business relationship with that party. Whatever the situation, we must take special care to handle the confidential information of others responsibly. We handle such confidential information in accordance with our agreements with such third parties. C. Selecting Suppliers The Company's suppliers make significant contributions to our success. To create an environment where our suppliers have an incentive to work with the Company, they must be confident that they will be treated lawfully and in an ethical manner. The Company's policy is to purchase supplies based on need, quality, service, price and terms and conditions. The Company's policy is to select significant suppliers or enter into significant supplier agreements though a competitive bid process where possible. Under no circumstances should any Company employee, agent or contractor attempt to coerce suppliers in any way. The confidential information of a supplier is entitled to the same protection as that of any other third party and must not be received before an appropriate nondisclosure agreement has been signed. A supplier to the Company is generally free to sell its products or services to any other party, including competitors of the Company. In some cases where the products or services have been designed, fabricated or developed to our specifications, the agreement between the parties may contain restrictions on sales. D. Government Relations It is the Company's policy to comply fully with all applicable laws and regulations governing contact and dealings with government employees and public officials, and to adhere to high ethical, moral and legal standards of business conduct. This policy includes strict compliance with all local, state, federal, foreign and other applicable laws, rules and regulations. E. Government Contracts It is the Company's policy to comply fully with all applicable laws and regulations that apply to government contracting. It is also necessary to strictly adhere to all terms and conditions of any contract with local, state, federal, foreign or other applicable governments. F. Free and Fair Competition Most countries have well-developed bodies of law designed to encourage and protect free and fair competition. The Company is committed to obeying both the letter and spirit of these laws. The consequences of not doing so can be severe for all of us. These laws often regulate the Company's relationships with its distributors, resellers, dealers and customers. Competition laws generally address the following areas: pricing practices (including price discrimination), discounting, terms of sale, credit terms, promotional allowances, secret rebates, exclusive dealerships or distributorships, product bundling, restrictions on carrying competing products, termination and many other practices. Competition laws also govern, usually quite strictly, relationships between the Company and its competitors. As a general rule, contacts with competitors should be limited and should always avoid subjects such as prices or other terms and conditions of sale, customers and suppliers. Employees, agents, directors, or contractors of the Company may not knowingly make false or misleading statements regarding its competitors or the products of its competitors, customers or suppliers. Participating with competitors in a trade association or in a standards creation body is acceptable when the association has been properly established, has a legitimate purpose and has limited its activities to that purpose. No employee, director, agent or contractor shall at any time or under any circumstances enter into an agreement or understanding, written or oral, express or implied, with any competitor concerning prices, discounts, other terms or conditions of sale, profits or profit margins, costs, allocation of product or geographic markets, allocation of customers, limitations on production, boycotts of customers or suppliers, bids or the intent to bid or even discuss or exchange information on these subjects. In some cases, legitimate joint ventures with competitors may permit exceptions to these rules as may bona fide purchases from or sales to competitors on non-competitive products, but the Company's Chief Executive Officer must review all such proposed ventures in advance. These prohibitions are absolute and strict observance is required. Collusion among competitors is illegal, and the consequences of a violation are severe and include disciplinary action up to termination and possible criminal prosecution. Although the spirit of these laws, known as "antitrust," "competition," or "consumer protection" or unfair competition laws, is straightforward, their application to particular situations can be quite complex. To ensure that the Company complies fully with these laws, each of us should have a basic knowledge of them and should involve our outside counsel early on when questionable situations arise. G. Industrial Espionage It is the Company's policy to lawfully compete in the marketplace. This commitment to fairness includes respecting the rights of our competitors and abiding by all applicable laws in the course of competing. The purpose of this policy is to maintain the Company's reputation as a lawful competitor and to help ensure the integrity of the competitive marketplace. The Company expects its competitors to respect our rights to compete lawfully in the marketplace, and we must respect their rights equally. Company employees, agents, directors and contractors may not steal or unlawfully use the information,

material, products, intellectual property or proprietary or confidential information of anyone including suppliers, customers, business partners or competitors. IV. WAIVERS Any waiver of any provision of this Code of Business Conduct and Ethics for a member of the Company's Board of Directors or an executive officer must be approved in writing by the Chairman of the Company's Board of Directors and promptly disclosed. Any waiver of any provision of this Code of Business Conduct and Ethics with respect any other employee, agent or contractor must be approved in writing by the Company's Chief Financial Officer or Chief Executive Officer. V. DISCIPLINARY ACTIONS The matters covered in this Code of Business Conduct and Ethics are of the utmost importance to the Company, its stockholders and its business partners, and are essential to the Company's ability to conduct its business in accordance with its stated values. We expect all of our officers, employees, directors, agents, directors contractors and consultants to adhere to these rules in carrying out their duties for the Company. The Company will take appropriate action against any officer, employee, director, agent, contractor or consultant whose actions are found to violate these policies or any other policies of the Company. Disciplinary actions may include immediate termination of employment or business relationship at the Company's sole discretion. Where the Company has suffered a loss, it may pursue its remedies against the individuals or entities responsible. Where laws have been violated, the Company will cooperate fully with the appropriate authorities. VI. ACKNOWLEDGMENT OF RECEIPT OF CODE OF BUSINESS CONDUCT AND ETHICS I have received and read the Company's Code of Business Conduct and Ethics. I understand the standards and policies contained in the Company Code of Business Conduct and Ethics and understand that there may be additional policies or laws specific to my job. I further agree to comply with the Company Code of Business Conduct and Ethics. If I have questions concerning the meaning or application of the Company Code of Business Conduct and Ethics, any Company policies, or the legal and regulatory requirements applicable to my job, I know I can consult my manager or the Human Resources Department, knowing that my questions or reports to these sources will be maintained in confidence.
-- ------------------------------------ Employee Name ------------------------------------ Signature ------------------------------------ Date All officers, directors and exempt employees must sign and return this form to the Human Resources Department. Exhibit 21.1 Subsidiary of the Registrant Simtek GmbH, a company organized under the laws of Germany and a wholly-owned subsidiary of the registrant. Exhibit 23.1 CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM We consent to the incorporation by reference in Registration Statement (No. 333-121005) on Form S-8 of Simtek Corporation of our report dated March 27, 2007 relating to our audit of the consolidated financial statements, which appear in this Annual Report on Form 10-K of Simtek Corporation for the year ended December 31, 2006. HEIN & ASSOCIATES LLP Denver, Colorado March 27, 2007 Exhibit 31.1 CERTIFICATIONS I, Harold Blomquist, certify that: 1. I have reviewed this Annual Report on Form 10-K of Simtek Corporation; 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions): (a) All significant deficiencies and material weaknesses in

the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting. Date: April 2, 2007 /s/Harold Blomquist ------------------------------------ Harold Blomquist Chief Executive Officer and President Exhibit 31.2 CERTIFICATIONS I, Brian Alleman, certify that: 1. I have reviewed this Annual Report on Form 10-K of Simtek Corporation; 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions): (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting. Date: April 2, 2007 /s/Brian Alleman -- Brian Alleman Chief Financial Officer (Principal Accounting Officer and Duly Authorized Officer of the Registrant) Exhibit 32.1 CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRESIDENT PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 I, Harold Blomquist, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Simtek Corporation on Form 10-K for the annual period ended December 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Simtek Corporation. /s/Harold Blomquist ------------------------------------ Harold Blomquist Chief Executive Officer and President April 2, 2007 Exhibit 32.2 CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRESIDENT PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 I, Brian Alleman, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Simtek Corporation on Form 10-K for the annual period ended December 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Simtek Corporation. /s/Brian Alleman --- Brian Alleman Chief Financial Officer (Principal Accounting Officer and Duly Authorized Officer of the Registrant) April 2, 2007