SIMTEK CORP
Form POS AM
August 27, 2003

As filed with the Securities and Exchange Commission on August 27, 2003
Registration 333-104854

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Post Effective Amendment No. 2 to Form SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

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

4250 Buckingham Dr. #100
Colorado Springs, Colorado 80907
(719) 531-9444
(Address, including zip code, and telephone number, including area code, of Principal Executive Offices)

Douglas M. Mitchell
Chief Executive Officer, President and Chief Financial Officer (acting)
Simtek Corporation
4250 Buckingham Dr. #100
Colorado Springs, CO 80907
(719) 531-9444
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:
Garth B. Jensen, Esq.
Holme Roberts & Owen LLP
1700 Lincoln, Suite 4100
Denver, CO 80203
(303) 861-7000

Approximate Date of Commencement of Proposed Sale to the Public: From time to time after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462 (d) under the Securities Act, check the following box and list the Securities Act

registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(1)	Amou registrat
Common stock, $.01 par value per share(1)	9,615,384 shares	$0.255	$2,451,923	$19

(1) Issuable upon conversion of convertible debentures issued to the selling securityholders.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c).

(3) A registration fee of $198.36 was previously paid; accordingly, no additional registration fee is due at this time.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8 (A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (SUBJECT TO COMPLETION) DATED AUGUST 27, 2003

9,615,384 Shares

SIMTEK CORPORATION

Common stock

This prospectus is being used to register 9,615,384 shares of Simtek Corporation's common stock being offered by Renaissance Capital Group, Inc. as agent for three investment funds, Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC. These shares are issuable upon conversion of debentures issued to the investment funds.

Our common stock is traded on the OTC Bulletin Board under the symbol "SRAM." On August 25, 2003, 2003, the closing sale price of our common stock was $0.77 per share.

SEE "RISK FACTORS" BEGINNING ON PAGE 5 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING OUR STOCK.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is August 27, 2003.

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SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that may be important to you. Please carefully read the entire prospectus and the documents incorporated by reference.

OUR COMPANY

We develop, market and subcontract the production of nonvolatile semiconductor memories and programmed semiconductor logic products. Nonvolatility prevents loss of programs and data when electrical power is removed from the semiconductor. Our memory products feature fast data access and programming speeds. Our logic products route electronic signals to perform tasks in electronic systems that use our products. All of our products are targeted for use in commercial or military electronic equipment markets. These markets are industrial control systems, office automation, medical instrumentation, telecommunication systems, cable television, and numerous military systems, including communications, radar, sonar and smart weapons. Our wholly owned subsidiary, Q-DOT Group, Inc., specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications.

Our principal executive office is located at 4250 Buckingham Dr. #100; Colorado Springs, Colorado 80907. Our telephone number is 719-531-9444.

THE OFFERING

We are registering 9,615,384 shares of our common stock that may be offered for resale by Renaissance Capital Group, Inc. as agent for three investment funds, Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC. We refer to these investment funds as the "selling securityholders."

On July 1, 2002, we received $3,000,000 from the selling securityholders in return for issuing 7.5% convertible debentures with an aggregate principal amount of $3,000,000. The convertible debentures have a conversion rate of $0.312 and a maturity date of June 28, 2009.

SUMMARY FINANCIAL INFORMATION

In the table below, we provide you with our summary financial information. The summary financial information presented below is not necessarily comparable from period to period and you should read it together with our historical financial statements and related notes.

	Year Ended December 31,		Six Months Ended Jun	
	2002	2001	2003	
			(Unaudited)	(Una
Statement of Operations Data:				
Net revenues	$14,326,705	$16,950,487	$ 7,355,100	$ 7,
Total expenses	15,289,572	18,066,206	8,808,489	8,
Operating loss	(859,240)	(1,120,291)	(1,453,389)	(
Loss before taxes	(962,867)	(1,120,350)	(1,453,389)	(
Net loss	$ (962,867)	$(1,120,350)	$(1,453,389)	$ (
Net loss per share:				
Basic and diluted	$ (.02)	$ (.02)	$ (.03)	$

	Year Ended December 31,2002	Six Months Ended June 30, 2003 (Unaudited)
Balance Sheet Data:		
Cash and cash equivalents.....	$3,127,732	$2,325,672
Working capital.....	5,828,591	1,241,933
Total assets.....	8,507,050	7,462,894
Shareholders' equity.....	3,663,683	2,221,764

RISK FACTORS

You should consider carefully the following risk factors, as well as the other information in this prospectus before buying our shares. The semiconductor industry is changing rapidly. Therefore, the forward-looking statements and statements of expectations, plans and intent in this prospectus are subject to a greater degree of risk than similar statements regarding some other industries.

OUR LIMITED OPERATING CAPITAL AND OUR ABILITY TO RAISE ADDITIONAL MONEY MAY HARM OUR ABILITY TO DEVELOP AND MARKET OUR PRODUCTS

To date, we have required significant capital for product development, subcontracted production and marketing. We have funded this from the sale of products, the sale of product and technology licenses and from royalties as well as from the sale of our convertible debt and equity securities.

We have not seen an increase in our product sales in the past year and our gross margins are not what we have anticipated. Therefore, our cash requirements for the development, subcontracted production and marketing of our existing product families have been difficult to maintain. We are not sure, however, whether we will be able to achieve this increase in product sales and gross margins. We may need more capital in the next year and after that to develop new products. We are not sure that we will be able to raise more capital on reasonable terms, if at all. If we cannot, then we may not be able to develop and market new products. The development, subcontracted production and marketing of our existing products may also suffer, causing our financial position and stock price to deteriorate.

WE MAY EXPERIENCE OPERATING LOSSES IN THE NEXT SEVERAL YEARS

We began business in 1987. Through June 30, 2003, we had accumulated losses of approximately $36.0 million. We realized net income for the first time for the year ended December 31, 1997 and continued to realize net income through June 30, 2000. Subsequent to June 30, 2000 and through June 30, 2003, we realized net losses primarily as a result of accounting charges from the purchase of incomplete research and development in September 2000, decreased revenue, decreased gross margins and increased research and development costs related to new product development. We may continue to experience net operating losses for the foreseeable future. Continuing net operating losses could materially harm our results of operations, increase our need for additional capital in the future, and hurt our stock price. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Net Loss -Semiconductor Devices, Net (Loss) -- Government Contracts."

WE MIGHT NOT BE ABLE TO RE-GAIN COMPLIANCE WITH CERTAIN COVENANTS SET FORTH IN OUR LOAN AGREEMENT WITH RENAISSANCE CAPITAL GROUP; IF WE ARE UNABLE TO DO SO, RENAISSANCE CAPITAL GROUP COULD ACCELERATE THE $3 MILLION LOAN AND FORECLOSE ON THE COLLATERAL THAT WE GRANTED TO IT

Our loan agreement with Renaissance Capital Group contains various financial covenants. Currently, we are not in compliance with all of the financial covenants. Renaissance Capital Group has granted us a waiver through October 1, 2003 with respect to such covenants. Although we are attempting to reach compliance by October 1, 2003, we cannot assure you that we will be able to achieve such compliance. If we do not regain compliance, Renaissance Capital Group has the right to accelerate our payment obligation for the entire $3 million at any time and to foreclose on the security interest it holds in all of our accounts, property, licenses, intellectual property and other assets. Such acceleration or foreclosure could harm our business and our stock price.

BECAUSE OUR COMMON STOCK IS LISTED ONLY ON THE OTC ELECTRONIC BULLETIN BOARD, IT WILL BE MORE DIFFICULT TO SELL OUR COMMON STOCK

Our common stock is listed on the OTC Electronic Bulletin Board under the symbol "SRAM." Our common stock was listed on the Nasdaq Small-Cap Market until July 18, 1995, but, because we no longer met Nasdaq's listing requirements,

our common stock transferred to the OTC Electronic Bulletin Board as mandated by Nasdaq rules. We may not be able to meet the requirements for relisting our

common stock on Nasdaq in the near future or in the longer term.

Securities that are not listed on the Nasdaq Small-Cap Market are subject to a Securities and Exchange Commission rule that imposes special requirements on broker-dealers who sell those securities to persons other than their established customers and accredited investors. The broker-dealer must determine that the security is suitable for the purchaser and must obtain the purchaser's written consent prior to the sale. These requirements may make it more difficult for our security holders to sell their securities and may affect our ability to raise more capital. It may also make it harder for you to sell our stock than the stock of some other companies.

IF WE CANNOT REACH AN ACCEPTABLE AGREEMENT WITH CHARTERED SEMICONDUCTOR MANUFACTURING ABOUT MOVING THE PRODUCTION OF SOME OF OUR MEMORY PRODUCTS TO ANOTHER FABRICATION FACILITY, OUR REVENUES, EARNINGS AND STOCK PRICE COULD SUFFER

We received notification from Chartered Semiconductor Manufacturing that they will close their wafer fabrication facility #1 by March 2004. We currently purchase silicon wafers, the raw materials used to produce our nonvolatile semiconductor memory products, from fabrication facility #1. We are working with Chartered Semiconductor Manufacturing to transfer the manufacturing process of our memory wafers to Chartered Semiconductor Manufacturing's facility #2. Chartered Semiconductor Manufacturing's facility #2 is newer and more modern than its facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet our specifications, we anticipate the transfer to be completed in nine to 12 months. This would provide uninterrupted supply of our current 0.8 micron family of nonvolatile Static Random Access memory products, and would have no material impact on our ability to support our customers. If we cannot complete the transfer of manufacturing into Chartered Semiconductor Manufacturing's facility #2 or if we cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

BECAUSE UNITED MICROELECTRONICS WILL BE UNABLE TO SUPPLY US WITH OUR SILICON WAFERS AFTER AUGUST 2003, OUR REVENUES MAY DECREASE AND OUR STOCK PRICE MAY FALL

We received notification from United Microelectronics that it will be unable to supply us with the silicon wafers that we use to produce our programmed semiconductor logic products after August 2003. We plan to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, we do not plan to support sales of 0.5 micron logic products to the market. These products accounted for approximately 7% of our revenues in 2002. If revenues from our other products do not increase, our total revenues and stock price may fall.

SINCE WE DEPEND GREATLY ON SUBCONTRACTORS, THEIR POOR PERFORMANCE COULD HURT OUR OPERATIONS

We subcontract the silicon wafer processing, product assembly, and product testing portions of our business to independent companies. Our operating results depend on these subcontractors' ability to supply us with silicon wafers that meet our specifications and to assemble and test enough of our products to meet our customers' needs.

Currently, we depend on Chartered Semiconductor Manufacturing to manufacture all of our silicon wafers for our 0.8 micron memory products and

0.35 micron logic products, which account for collectively approximately 80% of our total revenue for 2002. We depend on United Microelectronics Group of Taiwan to manufacture all of our silicon wafers for our 0.5 micron logic products, which account for approximately 7% of our total revenue for 2002. These wafers are the raw materials required to manufacture our semiconductor products. Without these wafers, we would be unable to sell our products. If Chartered Semiconductor Manufacturing or United Microelectronics Group is unable to meet our silicon wafer needs on time and at a price that we find acceptable, we would have to find other wafer manufacturers. If we cannot find other suppliers, manufacturers or assemblers on acceptable terms, we may not be profitable. In addition, our subcontractors must be audited and recertified by us on a regular basis for us to continue to produce military-qualified products. We cannot assure you that we will be able to complete this recertification successfully or in a timely manner.

THE UNCERTAINTY INVOLVED IN MANUFACTURING SEMICONDUCTORS MAY INCREASE THE COSTS AND DECREASE THE PRODUCTION OF OUR PRODUCTS

In order for us to be profitable, we must keep our manufacturing costs down and secure the production of sufficient product. Semiconductor manufacturing depends on many factors that are very complex and beyond our control and often beyond the control of our subcontractors. These factors include contaminates in the manufacturing environment, impurities in the raw materials used and equipment malfunctions. Under our arrangements with our subcontractors, our subcontractors pass on to us substantially all of their costs that are unique to the manufacture of our products. Accordingly, these factors could increase the cost of manufacturing our products and decrease our profits. These factors could also reduce the number of semiconductors that our subcontractors are able to make in a production run. If our subcontractors produce fewer of our products, our revenues may decline.

DELAYS IN MANUFACTURING MAY NEGATIVELY IMPACT OUR REVENUE AND NET INCOME

It takes approximately three months for us to manufacture our semiconductors. Any delays in receiving silicon wafers from our subcontractors will delay our ability to deliver our products to customers. This would delay sales revenue and could cause our customers to cancel existing orders or not place future orders. In addition, if we are not able to make all of our planned semiconductors in a production run this could delay delivery of our products. These delays could occur at any time and would affect our net income.

WE DEPEND ON INDEPENDENT SALES REPRESENTATIVES AND DISTRIBUTORS TO SELL OUR PRODUCTS AND THE TERMINATION OF ANY OF THESE RELATIONSHIPS MAY HARM OUR REVENUE

We use independent sales representatives and distributors to sell the majority of our products. The agreements with these sales representatives and distributors can be terminated without cause by either party with only 30 to 90 days written notice. If one or more of our sales representatives or distributors terminates our relationship, we may not be able to find replacement sales representatives and distributors on acceptable terms or at all. This would affect our profitability. In addition, during 2002 approximately 12 % of our product sales were to one distributor and during the first six months of 2003, approximately 29% of our product sales were to two distributors. We are not sure that we will be able to maintain our relationship with these distributors.

DELAYS IN OR FAILURE OF PRODUCT QUALIFICATION MAY HARM OUR BUSINESS

Prior to selling a product, we must establish that it meets expected performance and reliability standards. As part of this testing process, known as product qualification, we subject representative samples of products to a variety of tests to ensure that performance in accordance with commercial, industrial and military specifications, as applicable. If we are unable to successfully accomplish product qualification for our future products, we will be unable to sell these future products. Even with successful initial product qualifications, we cannot be assured that we will be able to maintain product qualification or achieve sufficient sales to meet our operating requirements.

SINCE THE SEMICONDUCTOR INDUSTRY IS FAST CHANGING, OUR SUCCESS DEPENDS ON OUR ABILITY TO INTRODUCE NEW PRODUCTS

The semiconductor industry is characterized by rapid changes in technology and product obsolescence. Our success in the semiconductor industry depends in part upon our ability to expand our existing product families and to develop and market new products. The technology we currently use may be made obsolete by other competing or newly developed memory or other technologies. The development of new semiconductor designs and technologies typically requires substantial costs for research and development. Even if we are able to develop new products, the success of each new product depends on several factors including whether we selected the proper product and our ability to introduce it at the right time, whether the product is able to achieve acceptable production yields and whether the market accepts the new product. We cannot guarantee you that we will be successful in developing new products or whether any products that we do develop will satisfy the above factors. In August 2003, we reported that we received the first complete processed silicon from this development, and that positive initial test results indicate that samples of a new 1 megabit 3 volt nonvolatile semiconductor memory product are on schedule for shipment to prospective customers in the middle of the third quarter of 2003. We cannot assure you that

we will not discover technical problems or manufacturing concerns with this new product, that demand will develop for the new product or that we will be able to sell this new product at a profit.

THE CYCLICALITY OF THE SEMICONDUCTOR INDUSTRY MAY PREVENT US FROM MAINTAINING A CONSISTENT REVENUE STREAM AND MAY HARM OUR STOCK PRICE

The semiconductor industry has historically experienced significant peaks and valleys in sales volumes resulting in large variations of revenues and resulting profits or losses. We do not have direct influence on the nature of the broad semiconductor market. Variations in the revenues and profits within the semiconductor industry may cause us significant losses in the future. If the stock prices of many semiconductor companies decrease, our stock price may also suffer. Recently, the semiconductor industry has experienced increased losses and the stock prices of many semiconductor companies, including us, have fluctuated.

OUR AGREEMENT WITH ANAM SEMICONDUCTOR TO CO-DEVELOP A SEMICONDUCTOR PROCESS MODULE THAT COMBINES OUR NONVOLATILE TECHNOLOGY WITH THEIR ADVANCED 0.25 MICRON

DIGITAL COMPLEMENTARY METAL-OXIDE SEMICONDUCTOR FABRICATION WILL RESULT IN SIGNIFICANT EXPENDITURES

We entered into an agreement with Amkor Technology to cooperate to develop a semiconductor process module that combines our nonvolatile technology with Amkor's advanced 0.25 micron digital complementary metal-oxide semiconductor, or "CMOS," fabrication line. The module will incorporate silicon oxide nitride oxide silicon technology, which will be used to manufacture both high density silicon oxide nitride oxide silicon flash and nonvolatile Static Random Access memories, for stand alone and embedded products. During 2002, our research and development team along with Amkor's research and development team worked aggressively on the co-development program. The co-development program is scheduled to yield a qualified 1 megabit 3.0 volt nonvolatile Static Random Access memory as the primary development vehicle. In February 2003, Amkor Technology sold a controlling interest of their wafer fabrication facility to Anam Semiconductor. All contractual obligations were transferred to Anam U.S.A., a wholly-owned subsidiary of Anam Semiconductor. Our co- development program has not been affected by the change in ownership and we do not expect any material changes in the support required to complete the program. There could, however, be changes made by the newly combined management team that could postpone or cancel this co-development project.

Since entering into the agreement with Amkor Technology we estimate that we have spent approximately $3,100,000 in development costs. These costs include increases in headcount, contract engineering services, equipment leases, maintenance agreements for software and wafer fabrication costs. If Anam Semiconductor terminates our agreement there is no guarantee that we could find a suitable replacement. If we cannot find a replacement, a significant delay and cost increase in the introduction of new products could result.

THE INTENSE COMPETITION IN THE SEMICONDUCTOR INDUSTRY MAY CAUSE US TO LOSE SALES REVENUE TO OTHER SUPPLIERS

There is intense competition in the semiconductor industry. We experience competition from a number of domestic and foreign companies, most of which have significantly greater financial, technical, manufacturing and marketing resources than we have. Our competitors include major corporations with worldwide silicon wafer fabrication facilities and circuit production facilities and diverse, established product lines. We also compete with emerging companies attempting to obtain a share of the market for our product families. If any of our new products achieve market acceptance, other companies may sell competitive products at prices below ours. This would have an adverse effect on our operating results. We have sold product and technology licenses to Zentrum Mikroelektronik Dresden. We have granted this company unlimited rights to much of our technology through its license agreements with us. Zentrum Mikroelektronik Dresden has entered the market and has become one of our significant competitors.

GIVEN THE SCARCITY OF TRAINED PERSONNEL IN THE SEMICONDUCTOR INDUSTRY, THE LOSS OF KEY EMPLOYEES COULD MATERIALLY AFFECT OUR FINANCIAL RESULTS

Our success depends in large part on our ability to attract and retain qualified technical and management personnel. There are limited personnel trained in the semiconductor industry resulting in intense competition for these personnel. If we lose any of our key personnel, this could have a material adverse affect on our ability to conduct our business and on our financial results.

OUR PATENTS MAY NOT PROVIDE US EFFECTIVE INTELLECTUAL PROPERTY PROTECTION; THIS COULD HARM OUR BUSINESS

We have been issued 26 U.S. patents relating to specific aspects of our current products and we have four applications pending. We have also applied outside the United States for patents on our technology. We plan to continue to protect our intellectual property. We are not sure that any of the patents for which we have applied will be issued or, even if they are issued, will provide us with meaningful protection from competition. We may also not have the money required to maintain or enforce our patent rights. Notwithstanding our patents, other companies may obtain patents similar or relating to our patents.

We seek to protect a significant portion of our intellectual property as trade secrets, rather than patents. Unlike patents, trade secrets must remain confidential in order to retain protection as proprietary intellectual property. We cannot assure you that our trade secrets will remain confidential. If we lose trade secret protection, our business could suffer.

IF OUR PRODUCTS AND TECHNOLOGY INFRINGE ON THIRD PARTY PATENTS, OUR PRODUCT SALES MAY SUFFER

We have not determined whether our products are free from infringement of others' patents. If patent infringement claims are asserted against us and are upheld, we will try to modify our products so that they are non-infringing. If we are unable to do so, we will have to obtain a license to sell those products or stop selling the products for which the claims are asserted. We may not be able to obtain the required licenses. Any successful infringement claim against us, our failure to obtain any required license or requirement for us to stop selling any of our products, may force us to discontinue production and shipment of these products. This may result in reduced product sales and harm our revenues.

We were notified of possible patent infringement by one company in December 1989. After reviewing the related patents we responded in the same month with a position that our products were still under development, but that the analysis revealed no infringement. There was no further response from this company. In January of 1991 a second company sent us a package of nonvolatile memory and other memory patents for review to evaluate for any possible infringement and to seek licenses as appropriate. Our internal evaluation determined that there were no obvious infringements requiring the pursuit of licenses from this company. In both cases we believe that there are no definitive claims for infringement against our products, so no further actions have been taken, although there has not been direct recognition of this position by the other parties. However, we cannot assure you that these companies will not assert patent infringement claims against us in the future.

In 1998, we received notice of a claim for an unspecified amount from a foundation that owns approximately 180 patents and 70 pending applications. The foundation claimed that some of the machines and processes used in the building of our semiconductor devices infringe on the foundation's patents. In April 1999, we reached an agreement with the foundation for us to purchase a nonexclusive license of the foundation's patents, based on our product offerings and sales forecast at that time. If our products or actual sales revenue vary significantly from the time of the agreement, we may be subject to additional payments.

In late 2002, we received notice of possible patent infringement from a corporation that has acquired a portfolio of patents. We are currently reviewing any potential infringements. If there are any infringements, we believe we will need to enter into a licensing agreement with such company without any material impact on us.

FOREIGN CURRENCY EXCHANGE RATE FLUCTUATIONS MAY INCREASE OUR COSTS, LOWER OUR REVENUES AND CAUSE LOSS OF CUSTOMERS TO OUR COMPETITORS

We purchase materials, including silicon wafers, from outside the United States. In 2002, over 45% of our sales were to customers located outside of the United States. We operate using United States dollars as the functional currency. Changes in foreign currency exchange rates can reduce our revenues and increase our costs. For example, our subcontractors may increase the prices they charge us, on a per purchase order basis, for silicon wafers if the United States dollar weakens. Any large exchange rate fluctuation could affect our ability to compete with manufacturers who operate using foreign currencies. We do not try to reduce our exposure to these exchange rate risks by using hedging transactions. Although we have not had any material losses due to exchange rate fluctuations over the last three years, we cannot assure you that we will not incur significant losses in the future.

BECAUSE WE DO NOT INTEND TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE, YOUR INVESTMENT RETURN MAY BE LIMITED

We have never paid cash dividends on our common stock. We do not expect to pay dividends in the foreseeable future. We intend to use any earnings to finance growth. You should not expect to receive dividends on your shares of common stock.

IF OUR BOARD OF DIRECTORS AUTHORIZES THE ISSUANCE OF PREFERRED STOCK, HOLDERS OF OUR COMMON STOCK COULD BE DILUTED AND HARMED

Our board of directors has the authority to issue up to 2,000,000 shares of preferred stock in one or more series and to establish the preferred stock's voting powers, preferences and other rights and qualifications without any further vote or action by the shareholders. The issuance of preferred stock by our board of directors could dilute and harm the rights of the holders of our common stock. It could potentially be used to discourage attempts by others to obtain control of us through merger, tender offer, proxy contest or otherwise by making such attempts more difficult to achieve or more costly. Our board of directors has no specific intention to issue shares of preferred stock, but given our present capital requirements, it is possible that we may need to raise capital through the sale of preferred stock in the future.

OUR FAILURE TO HOLD ANNUAL SHAREHOLDERS' MEETINGS TO RE-ELECT OFFICERS LIMITS OUR SHAREHOLDERS' CONTROL OVER MANAGEMENT

Since 1991, we have held only four annual shareholders' meetings at which shareholders elect directors. We have had some special shareholders meetings at which shareholders have voted on matters other than the election of directors.

We last held a shareholders meeting on November 16, 2000. We have not held more meetings to elect directors primarily due to the costs associated with having the meetings. If we want to hold a meeting to elect directors, we must print and mail to each shareholder prior to the meeting an annual report. Based on the number of our shareholders, the printing and mailing cost would be approximately $30,000. If you would like to nominate directors for election, you would have to solicit proxy materials for an annual meeting we hold or request that we hold a special shareholders meeting. Under our bylaws, special meetings of our shareholders must be called by our president at the request of holders of not less than one-tenth of all of our outstanding shares entitled to vote at the meeting. Since we currently have outstanding 54,653,731 shares of common stock, holders of at least 5,465,373 shares of our common stock must request a special meeting in order for such shareholders to effect a meeting. At this time, we are unsure of when we will hold our next annual meeting to elect directors. The infrequent annual shareholders' meetings limits the ability of shareholders to elect new members to the board of directors and to change our management.

USE OF PROCEEDS

9,615,384 shares are covered by this prospectus. These shares are issuable upon conversion of the convertible debentures that we issued to the selling securityholders on July 1, 2002. We will not receive any proceeds from the sale of the shares.

CAPITALIZATION

The following table shows our capitalization at June 30, 2003.

Treasury stock, 10,000 shares	$ (12,504)
Preferred stock, $1.00 par value, 2,000,000 shares authorized, none issued and outstanding	0
Common stock, $0.01 par value, 80,000,000 shares authorized, 54,461,023 issued and outstanding	544,611
Additional paid in capital	37,605,557
Accumulated deficit as of June 30, 2003	(35,915,900)
Shareholders' equity	$ 2,221,764

MARKET FOR OUR COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Our common stock is listed on the OTC Electronic Bulletin Board under the symbol "SRAM". Securities not included in the Nasdaq Small-CAP Market are covered by the Securities and Exchange Commission rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities, which will have an adverse effect on the ability of our security holders to sell their securities and our ability to raise additional capital.

Shown below is the closing high bid and the closing low offer for our common stock as reported by the OTC Electronic Bulletin Board on the last day of the quarter.

	Common Stock	
	High Bid	Low Bid
2001		
First Quarter	$.7344	$.6562
Second Quarter	.55	.49
Third Quarter	.37	.33
Fourth Quarter	.43	.38
2002		
First Quarter	.41	.33
Second Quarter	.26	.24
Third Quarter	.18	.15
Fourth Quarter	.17	.16
2003		
First Quarter	.16	.14
Second Quarter	.43	.36
Third Quarter (August 25, 2003)	.79	.73

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

As of August 14, 2003, we had 477 shareholders of record. This number does not reflect shareholders who beneficially own common stock held in nominee or "street name."

We have not paid any dividends on our common stock since inception and we do not intend to pay any dividends on our common stock in the foreseeable future.

Pursuant to a Convertible Loan Agreement, dated as of June 28, 2002, we issued convertible debentures to the selling security holders. We received $3,000,000 in funding. The convertible debentures have 7-year terms at a 7.5% per annum interest rate; each selling securityholder invested $1,000,000. The holder of the debentures has the right, at any time, to convert all, or in multiples of $100,000, any part of the debenture into shares of our common stock. The debentures are convertible into our common stock at $0.312 per share.

There is no public trading market for the debentures. We have agreed to register for resale all of the common stock issuable upon conversion of the debentures.

SELECTED FINANCIAL DATA

The statements of operations for the years ended December 31, 2002 and 2001 and the balance sheet data as of December 31, 2002 have been derived from the financial statements that have been audited by Hein + Associates LLP, independent auditors. The balance sheet as of June 30, 2003 and the statements of operations for the six months ended June 30, 2003 and 2002 are unaudited. In our opinion, these financial statements include all adjustments necessary for the fair presentation of the financial position as of June 30, 2003 and statements of operations for the six months ended June 30, 2003 and 2002. The balance sheet as of June 30, 2003 and the statements of operations for the six months ended June 30, 2003 and 2002 were prepared on a consistent basis with our year end financial information. The balance sheet as of December 31, 2002 has been audited by Hein + Associates LLP. This financial data should be read in conjunction with our financial statements and the notes thereto included elsewhere in this prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

	For the Year Ended December 31,	
	2002	2001
Statement of Operations Data:		
Net Sales	$14,326,705	$ 16,950,487
Cost of Sales	8,481,262	11,273,116
Gross Margin	5,845,443	5,677,371
Operating Expenses:		
Research and development	4,308,499	3,155,360
General and administrative	754,676	1,239,568
Sales and Marketing	1,641,508	1,672,301
Investor relations	-	730,433
Total Operating Expenses	6,704,683	6,797,662
Other income (expense), net	(103,627)	4,572
Equity in losses of QDA and write off of related advances	-	(4,631)
Net loss before taxes	(962,867)	(1,120,350)
Provision for income taxes	-	-
Net loss	$ (962,867)	$(1,120,350)
Net loss per common share:		
Basic and diluted EPS	$ (.02)	$ (.02)

Weighted average common shares outstanding:		
Basic and diluted	54,204,525	53,713,415

	Year Ended December 31, 2002	Six Months Ended June 30, 2003
Balance Sheet Data:		(Unaudited)
Working capital	$ 5,828,591	$ 1,241,933
Total assets	8,507,050	7,462,894
Shareholders' equity	$ 3,663,683	$ 2,221,764

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW OF CERTAIN ACQUISITIONS AND OTHER TRANSACTIONS

On July 1, 2002, we received $3,000,000 in a financing transaction with Renaissance Capital Group, Inc. Renaissance Capital Group is the agent for the selling securityholders. The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate; each of three funds equally invested $1,000,000. The holders of the debentures has the right, at any time, to convert all, or in multiples of $100,000, any part of the debenture into fully paid and nonassessable shares of our common stock. The debentures are convertible into our common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. Based on the conversion rate of $0.312 per share, it would entitle each fund to 3,205,128 shares, totalling approximately 18% post-conversion for the three funds, of our common stock.

In March 2001, we acquired Q-DOT Group in exchange for approximately 5,172,000 shares of our common stock. One of the Q-DOT Group subsidiaries specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications. Q-DOT Group's projects have been supported by "conventional" government and commercial contracts in addition to government contracts sponsored by the Small Business Innovation Research program. Independent government agencies, such as the Department of the Army, Department of the Navy and Department of the Air Force may award contracts directly, or "conventionally," or may award contracts through the Small Business Innovation Research program. The Small Business Innovation Research program is a Department of Defense program that funds early-stage research projects at small technology companies. We operate Q-DOT Group's government contract research and development operations as our wholly owned subsidiary. The acquisition was accounted for as a pooling of interest, and the results of Q-DOT Group are consolidated with ours in our financials as if we have been merged throughout the periods. Q-DOT Group held a 1% membership interest in QD Acoustics, LLC. QD Acoustics specializes in high performance semiconductor applications for sonar and medical imaging products such as ultrasound equipment. We do not expect that our ownership interest in QD Acoustics will be material to our business.

RESULTS OF OPERATIONS

GENERAL. We have designed and developed nonvolatile Static Random Access products since we commenced business operations in May 1987. We have concentrated on the design and development of our nonvolatile Static Random Access memory product families and technologies, marketing, distribution channels, and sources of supply, including production at subcontractors. During 2000, we added the capability to design, develop and produce gate array integrated circuits, or our logic products.

Our business was founded on a specialized technology that supports development of nonvolatile Static Random Access memories. We developed our current memory products out of this technology. This single product family does not allow growth into a broad range of applications. Therefore, in an effort to expand our products, we acquired from WebGear incomplete research and development of Bluetooth technology. "Bluetooth" is an industry standard, short range wireless communications technology designed to allow a variety of electronic devices, such as wireless telephones, Personal Digital Assistants, notebook computers, desktop computers, peripheral input-output devices, television set-top boxes and Internet appliances to exchange data without the use of physical cabling. During the twelve month period ending December 31, 2002, we spent approximately $123,000 on the development of our Bluetooth technology. Due to a poor semiconductor market and delays related to widespread adoption of Bluetooth technology, we have decided to stop further development of our Bluetooth technology until the semiconductor market recovers and the Bluetooth technology becomes generally accepted.

We anticipate that our acquisition of Q-DOT Group will enable us to enter the high speed data communications market, addressing both wired and wireless applications, based on advanced "Silicon Germanium" process technology. Silicon Germanium is rapidly becoming the technology of choice for many analog, mixed signal and high speed digital circuits.

In September 1991, we began the sale of our commercially qualified 64 kilobit nonvolatile Static Random Access memory products based on a 1.2 micron

process technology. A 1 micron process technology is manufactured with spacing between design elements of approximately one millionth of one meter. Generally speaking, the smaller the spacing between design elements, the less expensive the production cost of our memory products. Accordingly, we generally try to design with lower micron technology. Kilobits are a measure of the amount of data that can be stored. More kilobits imply more storage.

After initial qualification of our first product in 1991, we began expanding the 64 kilobit nonvolatile Static Random Access memory product family. By the end of 1993, we had qualified the complete product family for commercial, industrial and military markets and had commenced sales of these products. When we say we "qualify" a product, we mean that our internal quality organization confirms the product's performance to the product's data sheet and accepted industry standards. Commercial products operate from 0 degrees to 70 degrees Centigrade, industrial products from -40 degrees to 85 degrees Centigrade and military products from -55 degrees to 125 degrees Centigrade. Specific customers require operation over different temperatures for their applications. During

1995, we developed our 64 kilobit nonvolatile Static Random Access memory products based on a 0.8 micron process technology. Qualification of this product occurred in 1996. In late 1996 and into 1997, we, along with assistance from Zentrum Mikroelektronik Dresden, completed the design, installation and qualification of our 256 kilobit nonvolatile Static Random Access memory product based on 0.8 micron process technology into Zentrum Mikroelektronik Dresden's silicon wafer fabrication facility. In 1997, we installed the 256 kilobit nonvolatile Static Random Access memory product built on 0.8 micron process technology in Chartered Semiconductor Manufacturing's silicon wafer fabrication facility. Qualification of this product for use in the commercial and industrial market occurred in 1997 and qualification for use in the military market occurred in the second quarter of 1998. In the fourth quarter 1997, we qualified the 64 kilobit nonvolatile Static Random Access memory product built on 0.8 micron process technology for sale in the commercial and industrial markets. In 2002, we developed and qualified for sale, into the commercial and industrial markets, a 3 volt version of our 256 kilobit nonvolatile Static Random Access memory product built on 0.8 micron process technology in Chartered Semiconductor Manufacturing's silicon wafer fabrication facility.

In February 2003, we received notification from Chartered Semiconductor Manufacturing that it will close its wafer fabrication facility #1 by March 2004. The memory wafers we purchase from Chartered Semiconductor Manufacturing are manufactured in facility #1. We are working with Chartered Semiconductor Manufacturing to transfer the process of manufacturing our memory wafers to Chartered Semiconductor Manufacturing's facility #2. Facility #2 is newer and more modern than facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet our specifications, we anticipate the transfer to be completed in nine to twelve months. This would provide uninterrupted supply of our current 0.8 micron family of nonvolatile Static Random Access memory products, and would have no material impact on our ability to support our customers. If we cannot complete the transfer of manufacturing into facility #2 or if we cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

Our programmed semiconductor logic products are supported with silicon wafers, built on 0.5 micron process technology, purchased from United Microelectronics and silicon wafers purchased from Chartered Semiconductor Manufacturing built on a 0.35 micron process technology. Products manufactured with smaller spacing generally support lower product costs by reducing the amount of raw material required for the product. In February 2003, we received notification from United Microelectronics that they will be unable to supply us with logic wafers after August 2003. We plan to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, we do not plan to support sales of 0.5 micron logic products to the market.

Sales of products built on wafers purchased from Chartered Semiconductor Manufacturing and United Microelectronics accounted for all of our semiconductor product sales revenue for 2001 and 2002.

REVIEW OF OPERATIONS TWELVE MONTHS ENDED DECEMBER 31, 2002 - SEMICONDUCTOR DEVICES

Total product sales of our semiconductor devices for 2002 were approximately $12,400,000. We saw a decrease in volume production orders in 2002, which caused a decrease in unit shipments and a slightly lower average selling price as compared to 2001. Revenues from our 4/16 kilobit, 64 kilobit

and 256 kilobit commercial products saw decreases in 2002 by approximately 30%, 55% and 13%, respectively. These decreases were due to the depressed semiconductor market in 2002. Sales of our 64 kilobit and 256 kilobit high-end industrial and military market saw increases of approximately 29% and 142%, respectively. These increases were due to increased government spending on existing and newer, state-of-the-art, military systems. Sales of our logic products saw an increase of approximately 24% in 2002 as compared to 2001. This increase was due primarily to an increase in new customer requirements for these products.

Due to the increase in high-end industrial and military product revenues and reduced product costs, we had an approximate 6% increase in our gross margins for 2002 as compared to 2001.

REVIEW OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2003 - SEMICONDUCTOR DEVICES

Beginning in the fourth quarter 2001, we began to experience the downturn that has been occurring in the global semiconductor industry since late fourth quarter 2000, which gave rise to declining revenues in 2001 and 2002. We have seen an increase in unit shipments for the six months ended June 30, 2003 as compared to the six months ended June 30, 2002. The majority of the increase was for large production orders, with competitive bidding, which resulted in a decrease of average selling prices. Our net revenue for the semiconductor portion of our business was $6,332,296 for the first six months of 2003 down from $6,604,905 for the comparable period of 2002. The decrease in revenues for the six month period ending June 30, 2003 as compared to the same period in 2002 was primarily due to lower average selling prices of our commercial nonvolatile semiconductor memory products and a decrease in demand of our logic products.

The decline in revenue, along with higher manufacturing costs, for the six months ended June 30, 2003 compared to the six months ended June 30, 2002 had an impact on our profitability. This decline along with research and development costs related to our 1 megabit product development accounted for losses in the six month period ending June 30, 2003.

REVIEW OF OPERATIONS TWELVE MONTHS ENDED DECEMBER 31, 2002 - GOVERNMENT CONTRACTS

Total revenue received from our research and development contracts for 2002 was approximately $1,900,000 up from the $1,500,000 in 2001. This was equal to 13% of our total revenue in 2002.

REVIEW OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2003 - GOVERNMENT CONTRACTS

Total revenue received from our research and development contracts for the first six months of 2003 was approximately $1,023,000 up from the $919,000 for the same period in 2002. This was equal to 14% of our total revenue for the first six months of 2003.

RESULTS OF OPERATIONS - YEARS ENDED DECEMBER 31, 2002 AND 2001 AND THREE MONTHS ENDED MARCH 31, 2003 AND 2002

REVENUES TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001- SEMICONDUCTOR

DEVICES

The following table sets forth our net revenues for semiconductor devices by product markets for the twelve months ended December 31, 2002 and 2001 (in thousands):

	2002	2001	Variance
Commercial	$ 8,892	$13,070	$(4,178)
High-end industrial and military	$ 2,433	$ 1,494	$ 939
Logic products	$ 1,097	$ 886	$ 211
Total Semiconductor Revenue	$12,422	$15,450	$(3,028)

Commercial product revenues decreased by $4,178,000 for the twelve month period ending December 31, 2002 as compared to the same period in 2001. The decrease was primarily due to a depressed semiconductor market which resulted in lower product demand and lower average selling prices.

High-end industrial and military product revenues accounted for an increase of $939,000 for the twelve month period ending December 31, 2002 as compared with the same period in 2001. The increase in revenue was due to an increase in defense contracts.

Revenues from our logic products increased by $211,000 for the twelve month period ending December 31, 2002 as compared to the same period in 2001. The increase was due primarily to non-recurring engineering charges received from new customers and the shipment of production orders to new customers and pre-existing customers.

One distributor and one direct customer accounted for approximately 33% of our semiconductor device product sales for the twelve months ended December 31, 2002. Products sold to distributors are sold without significant recourse. Distributor contracts allow distributors to return up to 5% in value of product inventory in each six month period. This allows them to keep inventory current to market demand. Distributors resell our products to various end customers. If one of these distributors was to terminate its relationship with us, we believe that there would not be a material impact on our semiconductor device product sales.

REVENUES SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - SEMICONDUCTOR DEVICES

The following table sets forth our net revenues for semiconductor devices by product markets for the six months ended June 30, 2003 and 2002 (in thousands):

	Six Months Ended
	June 30,

	2003	2002	Variance
Commercial	$5,101	$5,198	$ (97)
High-end industrial and military	816	810	6
Logic products	415	597	(182)
Total Semiconductor Revenue	$6,332	$6,605	$(273)

Commercial revenues decreased by $97,000 for the six months ended June 30, 2003 period when compared to the comparable period in 2002. The $97,000 decrease for the six month period was due primarily to a decrease in average selling prices of our commercial nonvolatile semiconductor memory products.

High-end industrial and military product revenues accounted an increase of $6,000 for the six months ended June 30, 2003 as compared to the comparable period in 2002.

Revenues from our logic products decreased by $182,000 for the six months ended 2003 as compared to the same period in 2002. The decreases were due to a reduction in demand for this product and our decision to eliminate this product line effective December 31, 2003.

Two distributors and two direct customers accounted for approximately 55% of our semiconductor devices product sales for the six months ended June 30, 2003. Products sold to distributors are re-sold to various end customers.

COST OF SALES AND GROSS MARGINS TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - SEMICONDUCTOR DEVICES

We recorded costs of sales for semiconductor devices of $7,578,000 and $10,458,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively. These costs reflect an approximate 6% improvement in gross margin percentages for twelve months ended December 31, 2002 as compared to the twelve months ended December 31, 2001. Actual gross margin percentages were 39% and 33% for the twelve months ended December 31, 2002 and 2001, respectively. The increases were due primarily to increased sales of higher margin semiconductor

products, logic products and high-end industrial and military products. The increases in gross margin percentages were partially due to lower material and test costs of our commercial product.

During 2002, we purchased silicon wafers built on 0.8 micron technology from Chartered Semiconductor Manufacturing to support sales of our nonvolatile Static Random Access memory products. Sales of our logic products were supported with 0.5 micron silicon wafers purchased from United Microelectronics Corp. of Taiwan and 0.35 micron silicon wafers purchased from Chartered Semiconductor Manufacturing.

COST OF SALES AND GROSS MARGINS SIX MONTHS ENDED JUNE 30, 2003 AND 2002- SEMICONDUCTOR DEVICES

We recorded cost of sales for semiconductor devices of $4,407,000 for the six months ended June 30, 2003 as compared with the $4,217,000 for the six months ended June 30, 2002. These costs reflect an approximate 6% decrease in gross margin percentages for the six months ended June 30, 2003 as compared to the six months ended June 30, 2002. Actual gross margin percentages for the six month periods ending June 30, 2003 were 30%. The decrease in gross margin percentages for the six month period was also affected by decreased average selling prices.

During the first six months of 2003, we purchased wafers built on 0.8 micron technology from Chartered Semiconductor Manufacturing Plc. of Singapore to support sales of our nonvolatile semiconductor memory products. Sales of our logic products were supported with 0.5 micron wafers purchased from United Microelectronics Corp. of Taiwan and 0.35 micron wafers purchased from Chartered Semiconductor Manufacturing.

In February 2003, we received notification from Chartered Semiconductor Manufacturing that it will close its wafer fabrication facility #1 by March 2004. The memory wafers we purchase from Chartered Semiconductor Manufacturing are manufactured in facility #1. We are working with Chartered Semiconductor Manufacturing to transfer the process of manufacturing our memory wafers to Chartered Semiconductor Manufacturing's facility #2. Facility #2 is newer and more modern than facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet our specifications, we anticipate the transfer to be completed in nine to twelve months. This would provide uninterrupted supply of our current 0.8 micron family of nonvolatile Static Random Access memory products, and would have no material impact on our ability to support our customers. If we cannot complete the transfer of manufacturing into facility #2 or if we cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

United Microelectronics and Chartered Semiconductor Manufacturing provide silicon wafers for our programmed semiconductor logic products based on 0.5 micron and 0.35 micron product technology, respectively. In February 2003, we received notification from United Microelectronics that it will be unable to supply us with logic wafers after August 2003. We plan to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, we do not plan to support sales of 0.5 micron logic products to the market.

RESEARCH AND DEVELOPMENT TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - SEMICONDUCTOR DEVICES

We believe that continued investments in new product development are required for us to remain competitive in the markets we serve. Beginning in the fourth quarter 2001, our research and development department has been focusing its efforts on developing a 3 volt version of our 256 kilobit nonvolatile Static Random Access memory device and the installation of our process at Amkor Technology for the development of a 1 megabit 3 volt nonvolatile Static Random Access memory. During 2002, we qualified our 3 volt 256 kilobit nonvolatile Static Random Access memories for sales into commercial and industrial applications. Development of the 1 megabit 3 volt nonvolatile Static Random Access memory is continuing and we are anticipating the arrival of samples during the second quarter of 2003.

Total research and development expenses related to the semiconductor portion of our business were $3,795,000 and $2,695,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively.

The $1,100,000 increase for the twelve month period was related to increases in payroll and payroll overhead costs of $478,000, contract

engineering services of $199,000, new product development costs of $290,000, equipment leases, maintenance agreements for software and depreciation of $294,000 and a reduction in miscellaneous other expenses of $161,000 which were related primarily to reduced costs of our logic development. The primary increase in payroll costs is related to an increase in employee headcount. Increased headcount and contract engineering services are required in order to meet production schedules of our new products. New product development costs are primarily due to the purchases of silicon wafers and reticles required to develop new products. Equipment leases, maintenance agreements for software and depreciation are related primarily to software licenses and hardware required to design our new products.

RESEARCH AND DEVELOPMENT SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - SEMICONDUCTOR DEVICES

We believe that continued investments into new product development are required for us to remain competitive in the markets we serve. Beginning in the fourth quarter 2001, our research and development department has been focusing its efforts on the installation of our process at Anam Semiconductor for the development of a 1 megabit 3 volt nonvolatile semiconductor memory. During the first six months of 2003, we continued to see increased demand for our 3 volt 256 kilobit nonvolatile semiconductor memories. Development of the 1 megabit 3 volt nonvolatile semiconductor memory is continuing and we anticipate delivering samples to customers during the third quarter of 2003.

Total research and development expenses related to the semiconductor portion of our business were $2,120,000 for the six months ended June 30, 2003 compared to $1,965,000 for the six months ended June 30, 2002.

The increase of $155,000 for the six month period was related to the net between increases in payroll and payroll costs of $278,000, equipment leases, maintenance agreements for software and depreciation of $179,000 and reductions in contract engineering services of $42,000, new product development costs of $252,000 and other expenses of $8,000. The primary increase in payroll costs is related to an increase in employee headcount. Increased headcount and contract engineering services are required in order to meet production schedules of our new products. New product development costs are primarily due to the purchases of silicon wafers and reticles required to develop new products. Equipment leases, maintenance agreements for software and depreciation are related primarily to software licenses and hardware required to design our new products.

SALES AND MARKETING TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - SEMICONDUCTOR DEVICES

Total marketing expenses related to the semiconductor portion of our

business were $1,336,000 and $1,510,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively.

The $174,000 decrease for the twelve month period was related to decreases in advertising, contract services and sales commissions of $58,000, $81,000 and $61,000, respectively. The decrease in sales commissions is a direct result of decreased revenue. These decreases were offset by an increase in travel expenses of $26,000.

SALES AND MARKETING SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - SEMICONDUCTOR DEVICES

Total marketing expenses related to the semiconductor portion of our business were $671,000 for the six months ended June 30, 2003 as compared to the$777,000 for the six months ended June 30, 2002.

The decrease of $106,000 for the six month period ended June 30, 2003 as compared to June 30, 2002 was due to decreases in payroll and payroll related costs of $67,000, travel of $29,000 and miscellaneous expenses of $10,000. The reduction in payroll and payroll related costs was a direct result of reduced headcount. The decrease of travel expenses was due to a reduction in travel within the sales organization.

ADMINISTRATION AND INVESTOR RELATIONS TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - SEMICONDUCTOR DEVICES

Total administration expenses related to the semiconductor portion of our business were $639,000 and $989,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively.

The $350,000 decrease was due primarily to decreased legal costs, audit fees and contract services of $186,000, $100,000 and $94,000, respectively. These decreases were directly related to costs associated with the acquisition

of Q-DOT in March 2001 and an overall decrease in legal and audit fees related to filings with the Securities and Exchange Commission. The decreases were offset by an increase of $30,000 in payroll costs which were a direct result of headcount increases.

The decrease of $730,000 in investor relations expense, for the twelve month period ending December 31, 2002 as compared to December 31, 2001 was related to the completion of the amortization of the issuance of stock to two investment banking firms in September 2000 for services they performed.

ADMINISTRATION SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - SEMICONDUCTOR DEVICES

Total administration expenses related to the semiconductor portion of our business were $409,000 for the six months ended June 30, 2003 as compared to the $338,000 for the six months ended June 30, 2002.

The $71,000 increase for the six months ended June 30, 2003 compared to

June 30, 2002, respectively, were primarily due to an increase in professional services and an increase in payroll costs. Many of these additions were implemented to ensure ongoing compliance with newly enacted regulations resulting from the Sarbanes-Oxley Act.

TOTAL OTHER INCOME (EXPENSE) TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - SEMICONDUCTOR DEVICES

The $109,000 decrease in total other income (expense) for the twelve month period ending December 31, 2002 as compared to the twelve month period ending December 31, 2001 was primarily related to an increase of interest expense and an increase in interest income which was a direct result of the $3,000,000 funding we received on July 1, 2002 from Renaissance Capital Group.

TOTAL OTHER INCOME (EXPENSE) SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - SEMICONDUCTOR DEVICES

The increases of $104,000 in total other income (expense) for the six month period ended June 30, 2003 as compared to June 30, 2002, respectively, was primarily due to an increase in interest expense, offset by an increase in interest income. This increase was a direct result of the $3,000,000 funding we received on July 1, 2002.

NET LOSS TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - SEMICONDUCTOR DEVICES

We recorded a net loss of $1,028,000 and $925,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively. The increase of $103,000 in net loss for the twelve month period was due primarily to increased research and development costs and decreased sales.

NET LOSS SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - SEMICONDUCTOR DEVICES

We recorded a net loss of $1,382,000 for the six months ended June 30, 2003 as compared to a net loss of $697,000 for the six months ended June 30, 2002. The increase in net loss for the six month period was due primarily to increased research and development costs, decreased sales and decreased gross margin percentages.

REVENUES TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - GOVERNMENT CONTRACTS

The following table sets forth our net revenues from the government contracts portion of our business for the twelve months ended December 31, 2002 and December 31, 2001 (in thousands):

	2002	2001	Variance
Government Contracts	$1,905	$1,500	$ 405

The increase of revenue for the twelve months ended December 31, 2002 as compared to the twelve months ended December 31, 2001 was the result of increased direct labor costs and increased materials and services that were invoiced against development contracts. Direct labor increased due to the addition of employees.

Costs on contracts with the government (including allocable indirect costs) are subject to audit and adjustment by negotiations between Q-DOT and government representatives. Costs submitted for reimbursement are subject to government audits for compliance with government cost accounting standards, federal acquisitions regulations and other contract terms. Negotiations for all of the years through March 31, 1999 have been completed without any material adjustments. Management does not believe the results of the March 31, 2000, December 31, 2000, December 31, 2001 and December 31, 2002 government audits and subsequent negotiations will have a material effect on the accompanying financial statements.

REVENUES SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - GOVERNMENT CONTRACTS

The following table sets forth our net revenues from our government contracts portion of our business for the three months ended June 30, 2003 and 2002 (in thousands):

	Six Months Ended June 30,		
	2003	2002	Variance
Government Contracts	$1,023	$ 919	$ 104

The increase of revenue for the six month period ending June 30, 2003 as compared to the same period in 2002 was the result of increased direct labor costs and increased materials and services that were invoiced against development contracts. Direct labor increased due to the addition of employees needed for additional contracts.

COST OF SALES AND GROSS MARGIN TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - GOVERNMENT CONTRACTS

We recorded cost of sales for government contracts of $903,000 and $815,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively. These costs reflect a 7% improvement in gross margin percentages for the twelve months ended December 31, 2002 as compared to twelve months ended December 31, 2001. The improvement in gross margin percentages was primarily due to a one time adjustment of costs from research and development to costs of sales that occurred in twelve month period ending December 31, 2001. Actual gross margin percentages for the twelve months ending December 31, 2002 and December 31, 2001 were 53% and 46%, respectively.

COST OF SALES AND GROSS MARGIN SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - GOVERNMENT CONTRACTS

The cost of sales for the government contracts portion of our business was $513,000 for the six months ended June 30, 2003 as compared to the $400,000 for the same periods in 2002. This was equivalent to gross margin percentages of 50% for the six months ended June 30, 2003 as compared to gross margin percentages

of 56% for the same period in 2002. The decrease in gross margin percentages were primarily due to an increase in non direct labor which could not be billed as revenue.

RESEARCH AND DEVELOPMENT TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - GOVERNMENT CONTRACTS

Total research and development expenses related to the government contracts portion of our business were $514,000 and $460,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively.

The $54,000 increase for the twelve month period was related to increases in payroll and payroll overhead costs of $32,000 and external wafer foundry costs of $22,000.

RESEARCH AND DEVELOPMENT SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - GOVERNMENT CONTRACTS

Total research and development expenses related to the government contracts portion of our business were $363,000 for the six months ended June 30, 2003 compared to $305,000 for the six months ended June 30, 2002.

The $58,000 increase for the six month period ending June 30, 2003 as compared to the same period in 2002 was related to a decrease of $5,000 in employment related expenses which was offset by a $63,000 increase in software maintenance contracts.

MARKETING TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - GOVERNMENT CONTRACTS

Total marketing expenses related to the government contracts portion of our business were $306,000 and $162,000 for the twelve months ended December 31, 2002 and December 31, 2001, respectively.

The increase of $144,000 for the twelve months ended December 31, 2002 as compared to December 31, 2001 was primarily due to an increase of $133,000 in bid and proposal activities required to complete small business innovative research proposals requiring engineering and administrative support and an $11,000 increase in travel expenses.

MARKETING SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - GOVERNMENT CONTRACTS

Total marketing expenses related to the government contracts portion of our business were $149,000 for the six months ended June 30, 2003 as compared to the $128,000 for the six months ended June 30, 2002.

The increases of $21,000 for the six month periods ended June 30, 2003 as compared to June 30, 2002 were primarily due to increased bid and proposal activities.

ADMINISTRATION TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - GOVERNMENT CONTRACTS

Total administration expenses related to the government contracts portion of our business were $116,000 and $251,000 for the twelve month period ended December 31, 2002 and December 31, 2001, respectively.

The $135,000 decrease for the twelve months ended December 31, 2002 as compared to December 31, 2001 was due to decreased legal, audit fees and payroll costs that were primarily related to our acquisition of Q-DOT.

ADMINISTRATION SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - GOVERNMENT CONTRACTS

Total administration expenses related to the government contracts portion of our business were $67,000 for the six months ended June 30, 2003 as compared to the $55,000 for the six months ended June 30, 2002.

The increase of $12,000 for the six months ended June 30, 2003 as compared to the same period in 2002 was primarily due to a $8,000 decrease in outside consulting work which was offset by a $20,000 increase in payroll related expenses.

NET INCOME (LOSS) TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001 - GOVERNMENT CONTRACTS

We recorded a net income of $65,000 and a net loss of $195,000 for twelve months ended December 31, 2002 and December 31, 2001, respectively, for the government contracts portion of our business. The increase in net income from a net loss for the twelve month period was due primarily to the elimination of costs related to our acquisition of Q-DOT and increased revenue.

NET INCOME (LOSS) SIX MONTHS ENDED JUNE 30, 2003 AND 2002 - GOVERNMENT CONTRACTS

We recorded a net loss of $71,000 for the six months ended June 30, 2003 as compared to a net income of $29,000 for the six months ended June 30, 2002. The decrease in net income was primarily due to indirect overhead costs that could not be billed to specific government contracts.

FUTURE RESULTS OF OPERATIONS

Our ability to achieve profitability will depend primarily on our ability to continue reducing our manufacturing costs and increasing net product sales by

improving the availability of existing products, by the introduction of new products and by expanding our customer base. We are also dependent on the overall state of the semiconductor industry and the demand for semiconductor products by equipment manufacturers.

We are continuing our co-development program with Amkor technology to develop a semiconductor process module that combines our nonvolatile technology with Amkor's advanced 0.25 micron digital complementary metal-oxide semiconductor, or "CMOS," fabrication line. CMOS is the semiconductor technology used in the transistors that are manufactured into most of today's computer microchips. The module will incorporate silicon oxide nitride oxide silicon technology, which will be used to manufacture both high density silicon oxide nitride oxide silicon flash and nonvolatile Static Random Access memories, for stand alone and embedded products. The co-development program is scheduled to yield qualified shipments in the second quarter of 2003, with a 1 megabit 3.0 volt nonvolatile Static Random Access memory as the primary development vehicle. In February 2003, Amkor Technology sold controlling interest of their wafer fabrication facility to Anam Semiconductor. All contractual obligations were transferred to Anam U.S.A., a wholly owned subsidiary of Anam Semiconductor. Our co-development program has not been affected by the change in ownership and we do not expect any material changes in the support required to complete the program. Please see "Risk Factors - Since the semiconductor industry is fast changing, our success depends on our ability to introduce new products."

As of June 30, 2003, we had a backlog of unshipped customer orders of approximately $1,754,000 expected to be filled by December 31, 2003. Orders are cancelable without penalty at the option of the purchaser prior to 30 days before scheduled shipment and therefore are not necessarily a measure of future product revenue.

We cannot assure you that the growth in demand, or demand for our products, will increase in the future. We continue to explore alternatives to further reduce our cost to manufacture our existing products built on 0.8 micron technology. In 2001, we received reduced pricing from our packaging supplier and our silicon wafer supplier and we also implemented test time reduction programs that have further reduced our test costs. In 2002, we continued to focus on yield improvement of our products built on our 0.8 micron technology with the hopes of further reducing costs. We are currently reviewing additional cost reduction measures that may have the potential to improve our earnings.

In 2001 and 2002, we purchased all of our silicon wafers for our nonvolatile Static Random Access memory products from a single supplier, Chartered Semiconductor Manufacturing. Approximately 80% of our semiconductor device sales for 2002 and 86% of our semiconductor product sales for 2001 were from finished units produced from these silicon wafers. We had an agreement with Chartered Semiconductor Manufacturing to provide wafers through September 1998. Although Chartered Semiconductor Manufacturing continues to provide us wafers under the terms defined in this contract we do not have a current signed agreement. In February 2003, we received notification from Chartered Semiconductor Manufacturing that it will close its wafer fabrication facility #1 by March 2004. The memory wafers we purchase from Chartered Semiconductor Manufacturing are manufactured in facility #1. We are working with Chartered Semiconductor Manufacturing to transfer the manufacturing process of our memory wafers to Chartered Semiconductor Manufacturing's facility #2. Facility #2 is newer and more modern than facility #1, processing 8 inch wafers rather than the older 6 inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet our specifications, we anticipate the transfer to be completed in nine to twelve months. This would provide uninterrupted supply of our current 0.8 micron family of nonvolatile Static Random Access memory products, and would have no material impact on our ability to support our customers. If we cannot complete the transfer of manufacturing into Chartered Semiconductor Manufacturing's facility #2 or if we cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

In 2001 and 2002, we purchased all of our silicon wafers built on a 0.5

micron process technology and our silicon wafers built on a 0.35 micron process technology for our programmed semiconductor logic products from United Microelectronics and Chartered Semiconductor Manufacturing, respectively. Approximately 7% of our logic semiconductor device sales for 2002 and 5% of our logic semiconductor device sales for 2001 were from finished units produced from these wafers. Currently, we do not have a current signed agreement for either of these companies to furnish us wafers, however, we have seen no disruption in their supply to us. In February 2003, we received notification from our supplier of logic wafers, United Microelectronics in Taiwan, that they will be unable to supply us with our logic wafers after August 2003. We plan to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, we do not plan to support sales of 0.5 micron logic products to the market.

Zentrum Mikroelektronik Dresden, through their license agreement with us, has the worldwide right to sell nonvolatile Static Random Access memory products developed jointly by us and Zentrum Mikroelektronik Dresden. As it has established volume production, Zentrum Mikroelektronik Dresden continues selling such nonvolatile Static Random Access memory products. In the past year, we did see increased competition with Zentrum Mikroelektronik Dresden as compared to the previous year. However, due to Zentrum Mikroelektronik Dresden creating a second source for nonvolatile Static Random Access memory products, we believe that its presence may have a positive impact because many large manufacturers require two sources from which to purchase product. We will not be receiving any further license payments from our contract with Zentrum Mikroelektronik Dresden.

We intend to continue designing, developing and subcontracting the production of our memory products. We also propose to continue to sell to existing and new customers through our normal sales and marketing efforts. We will also begin development of high performance data communications products based on Silicon Germanium process expertise gained through our acquisition of Q-DOT Group. We believe that the addition of data communication products will allow us to expand our product offering into new applications and additional customers. We anticipate that this will reduce our dependence on any single product line and provide additional potential sources of revenue.

LIQUIDITY AND CAPITAL RESOURCES

On July 1, 2002, we received $3,000,000 in a financing transaction with Renaissance Capital Group, Inc. Renaissance Capital Group is the agent for three investment funds, Renaissance Capital Growth and Income Fund III, Inc., Renaissance US Growth & Income Trust, PLC and BFS US Special Opportunities Trust, PLC. The $3,000,000 funding consists of convertible debentures with a 7-year term at a 7.5% per annum interest rate; each fund equally invested $1,000,000. The holder of the debenture has the right, at any time, to convert all, or in multiples of $100,000, any part of the debenture into fully paid and nonassessable shares of our common stock. The debentures are convertible into our common stock at $0.312 per share, which was in excess of the market price per share on July 1, 2002. Based on the conversion rate of $0.312 per share, it would entitle each fund to 3,205,128 shares, totalling approximately 18% for the three funds, of our common stock. At June 30, 2003, we were in non-compliance of certain covenants set forth in the loan agreement. We have received a waiver from Renaissance through October 1, 2003 with respect to such covenants. We are

attempting to reach compliance with the stipulated covenant requirements by the end of the waiver period, but cannot be sure that it will achieve such compliance. Therefore, we have reclassified the note as a current liability as of June 30, 2003. We have a long term relationship with Renaissance and believe that we will be able to revise our current covenant requirements prior to October 1, 2003. We cannot, however, provide assurances that we will be able to meet the covenant requirements by October 1, 2003 or that such covenants will be revised. Please see "Risk Factors-We might not be able to re-gain compliance of certain covenants set forth in our loan agreement with Renaissance; if we are unable to do so, Renaissance could accelerate the $3 million loan and foreclose on the collateral that we granted to it."

The change in cash flows for the six months ended June 30, 2003 provided by operating activities was primarily a result of a net loss of $1,453,389, which is offset by $245,575 in depreciation and amortization, decreases in accounts receivable, inventory, prepaid expenses and deferred revenue of $313,731, $2,451, $103,737 and $40,500, respectively and increases in accounts payable, accrued expenses and customer deposits of $152,530, $188,765 and $33,075, respectively. The decrease of $313,731 in accounts receivable was directly related to certain customers paying invoices within our payment terms at the end of second quarter 2003. The increase in accounts payable of $152,530 was primarily due to the timing of payments for standard operating expenses. The increase in accrued expenses was due primarily to increased vacation payable and accrued wages. These increases have occurred due to certain employees foregoing their vacation time until later in 2003. The change in cash flows used in investing activities of $292,527 was primarily due to the purchase of equipment required to test our nonvolatile semiconductor memory products and software acquired for research and development activities. The cash flows used in financing activities of $65,611 were due primarily to payments on a capital lease obligation.

The change in cash flows for the year ended December 31, 2002 used in operating activities was primarily a result of a net loss of $962,867, which is offset by $443,146 in depreciation and amortization and an increase in deferred revenue of $25,500. These increases were offset by a decrease in allowance accounts, inventory, accounts payable and accrued expenses of $71,150, $261,442,

$328,848 and $122,594, respectively and increases in accounts receivable and prepaid expenses of $618,653 and $123,972. The $261,442 decrease in inventory and the $618,653 increase in accounts receivable, were due to an increase in customer demand in the late fourth quarter of 2002, this increase allowed us to dispose of inventory on hand. The $328,848 decrease in accounts payable was primarily due to the timing of raw materials received within the period. Materials were received and paid for late in 2001, but due to soft market demand, had not been fully consumed, resulting in larger inventory levels at December 31, 2001. The $122,594 decrease in accrued expenses was due to our completing payments of accrued salary and vacation payments to our former Chief Financial Officer. The $123,972 increase in prepaid expenses and other was directly related to in increase in software licensing and maintenance agreements that are required to be paid in advance. These software licensing agreements are required for us to design our 1 megabit nonvolatile Static Random Access memory product. The change in cash flows used in investing activities of $163,657 was primarily due to the purchase of hardware and software required for research and development activities and equipment required to manufacture our semiconductor devices at Chartered Semiconductor Manufacturing and United Microelectronics

Corp. The cash flows provided by financing activities of $2,699,678 were due primarily to the $3,000,000, net of $116,175 in financing fees, received from Renaissance Capital Group, borrowings and payments on notes payable and a capital lease obligation and the exercise of stock options by our employees.

The change in cash flows for the year ended December 31, 2001, used in operating activities was primarily a result of a net loss of $1,120,350 which is offset by $462,083 in depreciation and amortization, $730,433 in investor relations expense, loss of disposal of assets of $58,699, and an increase in allowance accounts of $23,883. The change in net loss was also offset by decreases in accounts receivable, prepaid expenses and other, an increase in accounts payable and increases in receipts from deferred revenue of $48,084, $62,349, $331,424 and $15,000, respectively. These amounts were offset by an increase in inventory, and a decrease in accrued expenses of $798,972, and $158,076, respectively. The increase in inventory was related to increased product availability and demand. The change in cash flows used in investing activities was due to the purchase of $509,698 of equipment required to test our products and software required to design our programmed semiconductor logic products. The change in cash flows provided by financing activities of $77,076 was due primarily to borrowings from a line of credit and the issuance of a note of $100,163, payments on the line of credit and notes payable of $84,050, borrowings on a capital lease of $97,520 and payments on the capital lease of $52,977, the exercise of stock options by our employees and directors and the buyback of our common stock.

Short-term liquidity.

Our cash balance at June 30, 2003 was $2,325,672.

Our future liquidity will depend on our revenue growth and our ability to sell our products at positive gross margins and control of our operating expenses. Over the coming year, we expect to spend approximately $8,000,000 for operating expenses. We expect to meet these capital needs from sales revenues and, to the extent we do not have sufficient revenues, from our existing cash reserves.

Long-term liquidity.

We will continue to evaluate our long term liquidity. We currently do not have any material plan of financing for the medium or long term or out of the ordinary demands of our cash. We expect to continue to meet our capital needs from sales revenues.

CRITICAL ACCOUNTING POLICIES 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 SB-2. 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 distributor inventory levels. The contracts we have with our distributors allow them to return to us a 5% percent of their inventory in exchange for inventory which better meets their demands. At times, we are required to allow our distributors to lower the selling price of a specific device in order to meet competition. When this occurs, we record an allowance for potential credit that our distributor's 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 rates of our products returned due to warranty issues. While we believe this process adequately predicts our allowance for warranty returns, changes in the manufacturing or design of our product could materially affect valuation of our warranties.

We have various government contracts which are subject to audit by the government. However, audits for the periods ending March 31, 2000, December 31, 2000, December 31, 2001 and December 31, 2002 have not been completed. In addition, certain of these contracts are based on our estimate as to their

percentage of completion as of the balance sheet date. Our historical experience has not resulted in a material adjustment to prior recorded revenue amounts.

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

ACCOUNTING STATEMENTS

In April 2002, the FASB approved for issuance Statements of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds previous accounting guidance, which required all gains and losses from extinguishment of debt be classified as an extraordinary item. Under SFAS 145 classification of debt extinguishment depends on the facts and circumstances of the transaction. SFAS 145 is effective for fiscal years beginning after May 15, 2002 and adoption is not expected to have a material effect on the Company's financial position or results of its operations.

In July 2002, the FASB issued Statements of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material effect on the Company's financial position or results of its operations.

In December 2002, the FASB issued Statements of Financial Accounting Standards No.148, "Accounting for Stock- Based compensation - Transition and Disclosure - an amendment of FASB Statement 123" (SFAS 123). For entities that change their accounting for stock-based compensation from the intrinsic method to the fair value method under SFAS 123, the fair value method is to be applied prospectively to those awards granted after the beginning of the period of adoption (the prospective method). The amendment permits two additional transition methods for adoption of the fair value method. In addition to the prospective method, the entity can choose to either (i) restate all periods presented (retroactive restatement method) or (ii) recognize compensation cost from the beginning of the fiscal year of adoption as if the fair value method had been used to account for awards (modified prospective method). For fiscal years beginning December 15, 2003, the prospective method will no longer be allowed. The Company currently accounts for its stock-based compensation using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and plans on continuing using this method to account for stock options , therefore, it does not intend to adopt the transition requirements as specified in SFAS 148. The Company has adopted the new disclosure requirements of SFAS 148 in these financial statements.

In April 2003, the FASB issued Statements of Financial Accounting Standards

No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Management does not believe that the adoption of SFAS 149 will have a material impact on its financial position or results of operations.

In May 2003, the FASB issued Statements of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150). SFAS 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Management believes the adoption of SFAS 150 will have no immediate impact on its financial position or results of operations.

The FASB issued Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, in November 2002 and FIN No. 46, Consolidation of variable Interest Entities, in January 2003. FIN No. 45 is applicable on a prospective basis for initial recognition and measurement provisions to guarantees issued after December 2002; however, disclosure requirements are effective immediately. FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee and expands the required disclosures to be made by the guarantor about its obligation under certain guarantees that it has issued. The adoption of FIN No. 45 did not have a material impact on the Company's financial position or results of operations. FIN No. 46 requires that a company that controls another entity through interest other than voting interest should consolidate such controlled entity in all cases for interim periods beginning after June 15, 2003. Management does not believe the adoption of FIN No. 46 will have a material impact on its financial position or results of operations.

INFLATION

The impact of inflation on our business has not been material.

BUSINESS

GENERAL

We were formed as a Colorado corporation on January 7, 1986. We provide integrated circuits to the electronics market for use in a variety of systems, such as computers, copiers, factory controllers, electric meters and military systems. We design, market and sell our products, but we subcontract the majority of our manufacturing requirements. We have designed and developed nonvolatile Static Random Access Memory products since we began business operations in May 1987. We have concentrated on the design and development of the 4, 16, 64 and 256 kilobit nonvolatile Static Random Access memory product families and technologies, distribution channels, and sources of supply, including production at subcontractors. Kilobits are a measure of the amount of data that can be stored; more kilobits imply more storage. During 2000, we added

the capability to design, develop and produce programmed semiconductor logic products.

Having established a core business within the nonvolatile memory application segment, we have been expanding into other technology areas including logic and data communication markets.

In March 2001, we acquired Q-DOT Group, Inc. Q-DOT Group specializes in advanced technology research and development for data acquisition, signal processing, imaging and data communications. Their projects are supported by "conventional" government and commercial contracts in addition to government contracts sponsored by the Small Business Innovation Research program. We operate Q-DOT Group's government contract research and development operations as our wholly owned subsidiary. This acquisition was intended to enable us to enter the high speed data communications market, addressing both wired and wireless applications, based on advanced "Silicon Germanium" process technology.

As of June 30, 2003, our backlog for released purchase orders was approximately $1,754,000, all of which is expected to ship by December 31, 2003. Orders are cancelable without penalty at the option of the purchaser prior to 30 days before scheduled shipment and are, therefore, not necessarily a measure of future product revenue.

We are in production of our first four families of memory products; 256 kilobit, 64 kilobit, 16 kilobit and 4 kilobit nonvolatile Static Random Access memories. Our 256 kilobit nonvolatile Static Random Access memory product was qualified by our internal quality organization to the product's data sheet and in accordance with accepted industry standard practices in 1997 for sales into commercial and industrial markets and in 1998 for shipment into the military market. During 2002, we designed and qualified a 3 volt version of our 256 kilobit nonvolatile Static Random Access memory product for sale into commercial and industrial markets. Our 64 kilobit nonvolatile Static Random Access memories have been qualified for sale into commercial, industrial and military markets. Our 16 kilobit and 4 kilobit nonvolatile Static Random Access memories have been qualified for sales into commercial and industrial markets. Our nonvolatile Static Random Access memories are physically smaller and require less maintenance than Static Random Access Memory devices that achieve nonvolatility through the use of internal batteries and are more convenient to use than Static Random Access Memory devices that achieve nonvolatility by being combined with additional chips.

Our programmed semiconductor logic products are used to replace programmable logic devices when a customer has completed its system design and requires cost-reduced integrated circuits for volume manufacturing. Each programmed semiconductor logic product is configured using the individual customer's design files and is built to their specific requirements.

We have merged our logic design engineers into our memory design group in order to incorporate unique features into our next generation memory products currently under development.

We reduce capital requirements by subcontracting all phases of the manufacturing process. Chartered Semiconductor Manufacturing began providing silicon wafers for our nonvolatile Static Random Access memory products in September 1993 and continues to provide wafers based on our product technology. In February 2003, we received notification from Chartered Semiconductor Manufacturing that it will close its wafer fabrication facility #1 by March 2004. The memory wafers we purchase from Chartered Semiconductor Manufacturing are manufactured in facility #1. We are working with Chartered Semiconductor Manufacturing to transfer the manufacturing process of our memory wafers to Chartered Semiconductor Manufacturing's facility #2. Facility #2 is newer and more modern than facility #1, processing 8 inch wafers rather than the older 6

inch wafers processed in facility #1. Assuming the transfer can produce memory wafers that meet our specifications, we anticipate the transfer to be completed in nine to twelve months. This would provide uninterrupted supply of our current

0.8 micron family of nonvolatile Static Random Access memory products, and would have no material impact on our ability to support our customers. If we cannot complete the transfer of manufacturing into Chartered Semiconductor Manufacturing's facility #2 or if we cannot contract with another supplier, this will have a material negative impact on our future revenues and earnings.

United Microelectronics and Chartered Semiconductor Manufacturing provide silicon wafers for our programmed semiconductor logic products based on 0.5 micron and 0.35 micron product technology, respectively. In February 2003, we received notification from United Microelectronics that they will be unable to supply us with logic wafers after August 2003. We plan to support customers with 0.5 micron logic wafers manufactured at United Microelectronics through December 2003 by offering opportunities to purchase their life-time requirements for these products with deliveries scheduled by the end of the year. After this period, we do not plan to support sales of 0.5 micron logic products to the market. Amkor Technology and Amkor Test Services provide assembly and final test services, respectively, for our nonvolatile Static Random Access memory products built from the wafers purchased from Chartered Semiconductor Manufacturing. Advanced Semiconductor Engineering Inc. provides assembly services for our programmed semiconductor logic products. Testing of our programmed semiconductor logic products is done either internally or by Advanced Interconnect Technologies.

During 2002, all of the wafers used to produce our nonvolatile Static Random Access memories were purchased from Chartered Semiconductor Manufacturing. Sales of these products accounted for approximately 80% of our revenue for 2002. Wafers were purchased from both Chartered Semiconductor Manufacturing and United Microelectronics in 2002 to support our programmed semiconductor logic products. Sales of these products accounted for approximately 7% of our revenue for 2002. The remaining 13% of our revenue was from research and development contracts.

We currently have three sales and marketing offices, located in Colorado and Georgia for the western and eastern North American markets, respectively, and in Windsor, England for the European market. Asia is currently covered from Colorado with plans to add an Asian sales office in 2003. We have engaged over 20 independent representative organizations with over 30 sales offices in North America, Europe and Asia and distributor organizations with over 100 sales offices worldwide. These organizations have multiple sales offices and technical sales personnel covering specific geographic territories. Through these organizations and their sales offices we believe that we are capable of serving a significant portion of the worldwide market with our full line of products.

MEMORY INDUSTRY AND PRODUCT BACKGROUND

The semiconductor memory market is large and highly differentiated. This market covers a wide range of product densities, speeds, features and prices. We believe that the ideal memory would have:

- high bit density per chip to minimize the number of chips required in a system;

- fast data read and write speeds to allow a system's microprocessor to access data without having to wait;
- the ability to read and modify data an unlimited number of times; o the ability to retain its data indefinitely when power is interrupted (i.e. nonvolatility);
- availability in a variety of package types for modern assembly techniques; and
- the ability to be tested completely by the manufacturer to ensure the highest quality and reliability.

Although customers would like to have memory components with all of these attributes, such components currently are not technically feasible. Therefore, the memory market is segmented with different products combining different mixes of these attributes.

Semiconductor memories can be divided into two main categories, volatile and nonvolatile. Volatile memories generally offer high densities and fast data access and programming speeds, but lose data when electrical power is interrupted. Nonvolatile memories retain data in the absence of electrical power, but typically have been subject to speed and testing limitations. They also wear out if they are modified too many times. There are a number of common volatile and nonvolatile product types, as set forth below. The list of products under "Combinations" is limited to single packages and does not include

combinations of the listed memories in separate packages, such as Static Random Access Memories in combination with Electrically Erasable Programmable Read Only Memories and Erasable Programmable Read Only Memories.

Volatile	Nonvolatile	Combinations
Static Random Access Memories	Electrically Erasable Programmable Read Only Memory	Nonvolatile Static Rando Memory
Dynamic Random Access Memory	Flash Memory	Nonvolatile Random Acces Memory
	Erasable Programmable Read Only Memory	Static Random Access Mem plus lithium battery
	Programmable Read Only Memory	
	Read Only Memory	

VOLATILE MEMORIES. Rewritable semiconductor memories store varying amounts of electronic charge within individual memory cells to perform the memory function. In a Dynamic Random Access Memory the charge must be electrically refreshed many times per second or data are lost even when power is continuously

applied. In a Static Random Access Memory the charge need not be refreshed, but data can be retained only if power is not interrupted.

NONVOLATILE MEMORIES. A Read Only Memory is programmed, or written, once in the later stages of the manufacturing process and cannot be reprogrammed by the user. Programmable Read Only Memory can be programmed once by the user, while Erasable Programmable Read Only Memory may be reprogrammed by the user a limited number of times if the Erasable Programmable Read Only Memory is removed from the circuit board in the equipment. Both Flash memory and Electrically Erasable Programmable Read Only Memory may be reprogrammed electrically by the user without removing the memory from the equipment. However, the reprogramming time on both Electrically Erasable Programmable Read Only Memory and Flash memory is excessively long compared to the read time such that in most systems the microprocessor must stop for a relatively long time to rewrite the memory.

COMBINATIONS. Many customers use a combination of volatile and nonvolatile memory functions to achieve the desired performance for their electronic systems. By using Static Random Access Memories in combination with Erasable Programmable Read Only Memory and Electrically Erasable Programmable Read Only Memory chips, customers can achieve nonvolatility in their systems and still retain the high data read and write speeds associated with Static Random Access Memory. This approach, however, is not desirable in many applications because of the size and cost disadvantages associated with using two or more chips to provide a single memory function. Also, it may take up to several seconds to transfer the data from the Static Random Access Memory to the Electrically Erasable Programmable Read Only Memory; an excessive time at power loss. As a result, attempts have been made to combine nonvolatile and volatile memory features in a single package or silicon chip. One approach combines a Static Random Access Memory with lithium batteries in a single package.

Nonvolatile Random Access Memories combine volatile and nonvolatile memory cells on a single chip and do not require a battery. We believe our nonvolatile Static Random Access memory represents a significant advance over existing products that combine volatility and nonvolatility on a single silicon chip. We combine a Static Random Access Memory cell with an Electrically Erasable Programmable Read Only Memory cell to create a small nonvolatile Static Random Access memory cell. Our unique and patented memory cell design enables the nonvolatile Static Random Access memory to be produced at densities higher than existing Nonvolatile Random Access Memories and at a lower cost per bit. In addition to high density and nonvolatility, the nonvolatile Static Random Access memory has fast data access and program speeds and the Static Random Access Memory portion of the memory can be modified an unlimited number of times without wearing out.

MEMORY TECHNOLOGY

We use an advanced implementation of silicon-nitride-oxide-semiconductor technology. Silicon-nitride-oxide-semiconductor technology stores electrical charge within an insulator, silicon nitride, and uses a thin tunnel oxide layer

to separate the silicon nitride layer from the underlying silicon substrate. Silicon-nitride-oxide-semiconductor technology prevents tunnel oxide rupture in the memory cell from causing an immediate loss of data. Oxide rupture has been a major cause of failures in Flash and Electrically Erasable Programmable Read Only Memories using floating gate technology, where charge is stored on a

polysilicon conductor surrounded by insulators. To protect against these failures, many floating gate Electrically Erasable Programmable Read Only Memories have required error correction circui