LOGIC DEVICES INC
Form 10-Q
August 11, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended

June 29, 2003

Commission File Number

0-17187

LOGIC Devices Incorporated

(Exact name of registrant as specified in its charter)

94-2893789

California	
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)

395 West Java Drive, Sunnyvale, California 94089
(Address of principal executive offices)
(Zip Code)

(408) 542-5400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No _X_

Indicate the number of shares outstanding of the issuer's classes of common stock, as of the latest practicable date. On August 7, 2003, 6,640,688 shares of Common Stock, without par value, were issued and outstanding.

LOGIC Devices Incorporated

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Balance Sheets

	June 29, 2003 (unaudited)	September 29, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,133,200	$ 1,061,100
Accounts receivable, net of allowance for doubtful accounts of $20,000	794,100	2,795,900
Inventories	8,796,300	9,591,100
Prepaid expenses	238,300	525,900
Total current assets	11,961,900	13,974,000
Property and equipment, net	878,100	930,900
Other assets	28,500	21,700
	$ 12,868,500	$ 14,926,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 21,800	$ 129,100
Accrued payroll and vacation	110,200	148,000
Accrued commissions	31,000	18,800
Other accrued expenses	-	900
Capital lease obligations, current portion	-	2,900
Total current liabilities	163,000	299,700
Deferred rent	38,400	-
Total liabilities	201,400	299,700
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; 5,000 designated as Series A; 0 shares issued and outstanding	-	-
Common stock, no par value; 10,000,000 shares authorized;		

6,640,688 and 6,852,888 shares issued and outstanding, respectively	18,317,200	18,539,900
Additional paid-in capital	100,000	100,000
Accumulated deficit	(5,750,100)	(4,013,000)
Total shareholders' equity	12,667,100	14,626,900
	$ 12,868,500	$ 14,926,600

See accompanying notes to financial statements.

Statements of Operations

(unaudited)

	For the fiscal quarter ended:	
	June 29, 2003	June 30, 2002
Net revenues	$ 1,206,300	$ 1,801,100
Cost of revenues	819,500	1,743,100
Gross margin	386,800	58,000
Operating expenses:		
Research and development	479,300	380,600
Selling, general, and administrative	482,100	517,700
Total operating expenses	961,400	898,300
Loss from operations	(574,600)	(840,300)
Other income (expense), net	8,400	(10,800)
Loss before provision for income taxes	(566,200)	(851,100)
Provision for incomes taxes	-	2,900
Net loss	$ (566,200)	$ (854,000)
Basic and diluted loss per common share	$ (0.08)	$ (0.12)
Basic and diluted weighted average common shares outstanding	6,630,688	6,852,888

See accompanying notes to financial statements.

Statements of Operations

(unaudited)

	For the nine fiscal months ended: June 29, 2003	June 30, 2002
Net revenues	$ 3,895,200	$ 4,692,600
Cost of revenues	2,785,800	3,988,500
Gross margin	1,109,400	704,100
Operating expenses:		
Research and development	1,295,500	1,407,600
Selling, general, and administrative	1,567,000	1,507,800
Total operating expenses	2,862,500	2,915,300
Loss from operations	(1,753,100)	(2,211,300)
Other income (expense), net	16,800	(27,800)
Loss before provision for income taxes	(1,736,300)	(2,239,100)
Provision for incomes taxes	800	9,400
Net loss	$ (1,737,100)	$ (2,248,500)
Basic and diluted loss per common share	$ (0.26)	$ (0.33)
Basic and diluted weighted average common shares outstanding	6,655,377	6,849,166

See accompanying notes to financial statements.

Statements of Cash Flows

(unaudited)

	For the nine fiscal months ended:	
	June 29, 2003	June 30, 2002
Cash flows from operating activities:		
Net loss	$ (1,737,100)	$ (2,248,500)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	317,300	587,300
Loss (gain) on disposal of capital equipment	300	(10,500)
Deferred rent	38,400	-
Issuance of common stock warrants for product	-	81,000
Change in operating assets and liabilities:		
Accounts receivable	2,001,800	448,500
Inventories	794,800	1,810,900
Prepaid expenses	287,600	(67,300)
Accounts payable	(107,300)	(101,800)
Accrued payroll and vacation	(37,800)	(106,100)
Accrued commissions	12,200	(54,600)
Other accrued expenses	(900)	200
Income taxes payable	-	(1,900)
Net cash provided by operating activities	1,569,300	337,200
Cash flows from investing activities:		
Capital expenditures	(264,800)	(31,300)
Other assets	(6,800)	1,700
Net cash used in investing activities	(271,600)	(29,600)
Cash flows from financing activities:		
Repurchase of Company common stock	(233,700)	-
Proceeds from exercise of common stock options	11,000	17,200
Proceeds from bank borrowings	-	1,050,000
Repayment of bank borrowings	-	(1,050,000)
Repayment of capital lease obligations	(2,900)	(39,900)
Net cash used in financing activities	(225,600)	(22,700)

Net increase in cash and cash equivalents	1,072,100	284,900
Cash and cash equivalents, beginning of period	1,061,100	217,500
Cash and cash equivalents, end of period	$ 2,133,200	$ 502,400

See accompanying notes to financial statements.

Notes to Financial Statements

(unaudited)

(A) Basis of Presentation

The accompanying unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the financial position, results of operations, and cash flows of the Company for the periods indicated.

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions for Form 10-Q, and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, and cash flows for the Company, in conformity with accounting principles generally accepted in the United States of America. The Company has filed audited financial statements that include all information and footnotes necessary for such a presentation of the financial position, results of operations, and cash flows for the fiscal years ended September 29, 2002 and September 30, 2001, with the Securities and Exchange Commission. It is suggested that the accompanying unaudited interim financial statements be read in conjunction with the aforementioned audited financial statements. The unaudited interim financial statements contain all normal and recurring entries. The results of operations for the interim periods ended June 29, 2003 are not necessarily indicative of the results to be expected for the full fiscal year.

(B) Inventories

A summary of inventories follows:

	June 29,	*September 29,*
	2003	*2002*

Raw materials	$ 940,100	$ 1,232,600
Work-in-process	5,938,000	6,967,500
Finished goods	1,918,200	1,391,000
	$ 8,796,300	$ 9,591,100

Based on forecasted fiscal year 2003 sales levels, the Company has on-hand inventories aggregating approximately 24 months of sales.

(C) Shareholders' Equity

Repurchase Plan

On October 9, 2002, the Board of Directors of the Company authorized the repurchase of up to $500,000 of its common stock. As of June 29, 2003, the Company had repurchased 222,200 shares of its common stock on the open market for $233,700.

Common Stock Option Plans

The Company issues common stock options to its employees, certain consultants, and certain of its board members. The Company accounts for these stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123," the following table illustrates the effect on net loss and net loss per share had the Company applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation:

	Fiscal quarter ended		*Nine fiscal months ended*	
	June 29, 2003	*June 30, 2002*	*June 29, 2003*	*June 30, 2002*
Net loss, as reported	$ (566,200)	$ (854,000)	$(1,737,100)	$(2,248,500)
SFAS No. 123 expense	12,600	61,000	37,800	183,000
Pro forma net loss	$ (578,800)	$ (915,000)	$(1,774,900)	$(2,431,500)

Basic and diluted net loss per share, as reported	$ (0.08)	$ (0.12)	$ (0.26)	$ (0.33)
Pro forma basic and diluted net loss per share	$ (0.09)	$ (0.13)	$ (0.27)	$ (0.36)

For purposes of pro forma disclosure, the estimated fair value of the options is expensed over the vesting period of the related options.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reported financial results may not be indicative of the financial results of future periods. All non-historical information contained in the following discussion constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Some forward-looking statements are identified by words, such as "believe," "expect," "anticipate, "project," and similar expressions. These statements are not guarantees of future performance and involve a number of risks and uncertainties, including but not limited to, operating results, new product introductions and sales, competitive conditions, customer demand, capital expenditures and resources, manufacturing capacity utilization, and intellectual property claims and defense. Factors that could cause actual results to differ materially are included in, but not limited to, those identified in "Factors Affecting Future Results" in the Annual Report on Form 10-K for the Company's fiscal year ended September 29, 2002 and elsewhere in the Management's Discussion and Analysis of Financial Condition and Results of Operations, in such Annual Report on Form 10-K, and in this Quarterly Report on Form 10-Q. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may reflect events or circumstances after the date of this report.

Results of Operations

Revenues

Net revenues decreased 33 percent, from $1,801,100 for the fiscal quarter ended June 30, 2002, to $1,206,300 for the fiscal quarter ended June 29, 2003. The downturn in the economy and industry continued to adversely affect the Company's revenues. While the Company enjoyed a slight increase in commercial bookings during the second quarter of fiscal 2003, bookings decreased dramatically during the third quarter. The decrease was not concentrated in any specific product.

Expenses

Cost of revenues decreased 53 percent, from $1,743,100 in the fiscal quarter ended June 30, 2002, to $819,500 in the fiscal quarter ended June 29, 2003. The Company's gross margin as a percentage of revenues increased 29 percentage points from three percent for the fiscal 2002 quarter to 32 percent for the fiscal 2003 quarter. This increase in gross margin resulted from the Company's efforts to control and reduce manufacturing costs over the past few years and from the sale of some zero-cost, obsolete parts during the fiscal 2003 quarter.

Research and development expense increased 26 percent, from $380,600 in the fiscal quarter ended June 30, 2002, to $479,300 in the fiscal quarter ended June 29, 2003. The majority of this increase was the result of software costs and the hiring of more experienced staff. While the Company continues to try to control its costs, it believes the development of new products is vital to the growth of the Company and intends to focus its efforts on research and development activities.

Selling, general and administrative expense decreased seven percent, from $517,700 in the fiscal quarter ended June 30, 2002, to $482,100 in the fiscal quarter ended June 29, 2003. The Company's move to a new facility saved approximately $40,000 in the 2003 fiscal quarter, as a result of a reduction in rented space and the current market conditions resulting in substantially reduced rental rates.

The Company's gross margin increase resulted in the Company recording a loss from operations of $574,600 for the fiscal 2003 quarter, compared to a loss from operations of $840,300 in the fiscal 2002 quarter.

The Company had $8,400 of other income in the fiscal quarter ended June 29, 2003 compared to $10,800 of other expense in June 30, 2002. The other expense in the fiscal 2002 period resulted from interest expense from bank borrowings, while the Company had no bank borrowings in the fiscal 2003 period.

As a result of the foregoing, the Company had a net loss of $566,200 for the fiscal quarter ended June 29, 2003, compared to a net loss of $854,000 for the fiscal quarter ended June 30, 2002.

Liquidity and Capital Resources

Cash Flows

While the Company had a net loss of $1,737,100, its operations provided $1,569,300 of net cash during the nine fiscal months ended June 29, 2003. This was mainly the result of the collection of accounts receivable of $2,001,800, a decrease in inventory of approximately $794,800 as the Company used existing inventory to ship a majority of the period's sales, and a decrease in prepaid expenses of $287,600. At the same time, the Company used only $147,500 of cash to reduce its liabilities, as it has carried less than $500,000 in total liabilities for the past 12 months. The Company used some of this cash from operations to purchase capital assets aggregating $264,800 and to fund the repurchase of $233,700 of its common stock on the open market.

During the nine fiscal months ended June 30, 2002, the Company's operations provided net cash of $337,200. This increase was mainly the result of collecting some overdue accounts receivable and the use of existing inventory to ship the period's sales. The Company continued its attempt to maintain its prompt payment terms with vendors, so accounts payable decreased $101,800. During the nine months ended June 30, 2002, the Company paid $39,900 against capital lease obligations and drew down $1,050,000 on its line of credit. However, the Company used accounts receivable collections to pay down the entire line of credit balance to zero by the end of the nine-month fiscal period.

Working Capital

The Company's accounts receivable often equals approximately half to two-thirds its quarterly revenues, as many of its customers tend to request shipment during the latter portion of the fiscal quarter. Therefore, a large portion of the Company's accounts receivable are typically not due at quarter-end, according to the Company's net 30 terms. The Company continues to work to accelerate collections and to work closely with customers to spread their orders and shipments throughout the quarter, which helps reduce the ending accounts receivable balance. At the end of fiscal 2002, the Company had an unusually high accounts receivable balance due to one customer having a large balance, which was subsequently collected.

As a nature of its business, the Company's investment in inventories has been, and will continue to be, significant (at forecasted fiscal 2003 sales levels, on-hand inventories approximate 24 months of sales). However, the Company does not anticipate the current slump in the industry and economy to continue indefinitely. In addition, the Company's products have long product life cycles. Although high levels of inventory impact liquidity, the Company believes these costs are a less costly alternative to owning a wafer fabrication facility.

During fiscal 2002, the Company reduced its inventory by 18 percent, or $2,104,600. The Company continued its efforts to reduce inventory during fiscal 2003 (reduction of 8.3 percent as of June 29, 2003) and plans to continue those efforts in future periods. The Company provides reserves for product material that is over one-year old and has no backlog or sales activity, and for future obsolescence. The Company also takes physical inventory write-downs for obsolescence and slow-moving items. The Company establishes reserves through periodic reviews of inventory on-hand, including lower-of-cost-or-market and excess analyses. For example, if a product type has unit costs higher than the average selling price or has more on-hand than it has sold or expects to sell, the Company provides a reserve.

Financing

The Company will continue to evaluate future debt and equity financing opportunities; however, it feels the cost reductions taken in the past few years have resulted in sufficient cash flow generated from operations to provide an adequate base of liquidity to fund future operating and capital needs. The Company's belief is based on the fact that, as of June 29, 2003, it holds approximately $2.1 million in cash reserves and its anticipated cash usage for operations is approximately equal to or less than its current revenue rate. Therefore, it believes it can cover its cash operating expenses using future revenues, while saving current cash reserves for the stock repurchase plan and future capital expenditures, such as mask tooling for new products.