LOGIC DEVICES INC
Form 10-Q
February 12, 2002

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
DECEMBER 30, 2001

Commission File Number
0-17187

LOGIC DEVICES INCORPORATED
(Exact name of registrant as specified in its charter)

CALIFORNIA	94-2893789
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1320 ORLEANS 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 the number of shares outstanding of the issuer's classes of common stock, as of the latest practicable date. On February 12, 2002, 6,849,638 shares of Common Stock, without par value, were issued and outstanding.

LOGIC DEVICES INCORPORATED

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

LOGIC DEVICES INCORPORATED

CONSOLIDATED BALANCE SHEETS

	December 30, 2001 (unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 202,900	$
Accounts receivable, net of allowance	4,048,300	
Inventories	11,098,400	
Prepaid expenses	258,400	
Total current assets	15,608,000	
Property and equipment, net	1,378,500	
Other assets	172,900	

	$ 17,159,400	$

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Bank borrowings	$ 500,000	$
Accounts payable	289,200	
Accrued payroll and vacation	103,300	
Accrued commissions	46,000	
Accrued insurance	80,100	
Other accrued expenses	2,900	
Current portion, capital lease obligations	25,300	
Income taxes payable	1,000	
Total current liabilities	1,047,800	
Capital lease obligations, net of current portion	-	
Total liabilities	1,047,800	
Shareholders' equity:		
Common stock	18,536,100	
Additional paid-in capital	19,000	
Accumulated deficit	(2,443,500)	
Total shareholders' equity	16,111,600	
	$ 17,159,400	$

LOGIC DEVICES INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the fiscal qua	
	December 30, 2001	
Net revenues	$ 1,771,200	$
Cost of revenues	1,330,100	
Gross margin	441,100	
Operating expenses:		
Research and development	567,800	

Selling, general and administrative		432,700
Total operating expenses		1,000,500
(Loss) income from operations		(559,400)
Other income (expense), net		5,200
(Loss) income before income taxes		(554,200)
Income tax provision		-
Net (loss) income	$	(554,200)
Basic and diluted (loss) earnings per common share	$	(0.08)
Basic weighted average common shares outstanding		6,843,471
Diluted weighted average common shares outstanding		7,036,968

LOGIC DEVICES INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

		For the fis
		December 30, 2001
Cash flows from operating activities:		
Net (loss) income	$	(554,200)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization		241,400
Allowance for doubtful accounts		-
Gain on disposal of capital equipment		(10,500)
Change in operating assets and liabilities:		
Accounts receivable		(696,100)
Inventories		597,300
Prepaid expenses		(65,800)
Accounts payable		21,100
Accrued payroll and vacation		(87,600)
Accrued commissions		(8,600)
Other accrued expenses		77,500

Income taxes payable		(900)
Net cash (used in) provided by operating activities		(486,400)
Cash flows from investing activities:		
Capital expenditures		(20,200)
Decrease in other assets		400
Net cash used in investing activities		(19,800)
Cash flows from financing activities:		
Proceeds from exercise of common stock options		13,400
Proceeds from bank borrowing		500,000
Repayment of capital lease obligations		(21,800)
Net cash provided by (used in) financing activities		491,600
Net (decrease) increase in cash and cash equivalents		(14,600)
Cash and cash equivalents, beginning of period		217,500
Cash and cash equivalents, end of period	$	202,900

LOGIC DEVICES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(A) BASIS OF PRESENTATION

The accompanying unaudited interim consolidated 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 consolidated 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 generally accepted accounting principles. 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 30, 2001 and October 1, 2000, with the Securities and Exchange Commission. It is suggested that the accompanying unaudited interim consolidated financial statements be read in conjunction with the aforementioned audited consolidated financial statements. The unaudited interim consolidated financial statements contain all normal and recurring entries. The results of operations for the interim period ended December 30, 2001 are not necessarily indicative of the results to be expected for the full year.

(B) INVENTORIES

A summary of inventories follows:

	December 30, 2001	September 30, 2001
Raw materials	$ 1,537,800	$ 1,544,800
Work-in-process	6,187,100	6,801,900
Finished goods	3,373,500	3,349,000
	$ 11,098,400	$ 11,695,700

Based on forecasted fiscal year 2002 sales levels, the Company has on hand inventories aggregating approximately fifteen months of sales.

(C) FINANCING

On July 31, 2001, the Company renewed its line of credit with Comerica Bank - California, with an availability of up to $2,000,000. The line of credit bears interest at the bank's prime rate (4.75% at December 30, 2001) plus 0.25%, matures on July 31, 2002, is secured by all of the Company's assets, and is guaranteed, in part, by a federal agency. The line of credit requires the Company to maintain a quarterly minimum quick ratio of 1.1/1.0, a quarterly debt to tangible net worth of no more than 0.6/1.0, a quarterly tangible net worth of at least $16.5 million plus 50% of the quarter's net profit, and annual profitability. On December 30, 2001, the Company had an outstanding balance of $500,000 and was in compliance with the quarterly covenants, except the tangible net worth requirement, for which it has not received a waiver.

Under the terms of its line of credit, the Company is precluded from paying any dividends without the consent of the parties to such agreements, even if the Company is in compliance with all of the financial covenants. Regardless of any such restrictions in its bank loan agreements, the Company does not intend to pay cash dividends in the near future.

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 "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 30, 2001 and elsewhere in Management's Discussion and Analysis of Financial Conditions 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 42% from $3,058,000, for the fiscal quarter ended December 31, 2000, to $1,771,200, for the fiscal quarter ended December 30, 2001, which is the Company's first fiscal quarter of 2002. This decrease was the result of the unfortunate events of September 11, 2001 and the general downturn in the industry and economy.

Expenses

Cost of revenues also decreased 35% from $2,045,000 in the fiscal quarter ended December 31, 2000 to $1,330,100 in the fiscal quarter ended December 30, 2001. Consistent with the changes in revenues and cost of revenues, the gross profit decreased by 56%. As a percentage of net revenues, the gross profit margin decreased by eight percent, due to the revenues being down and some overhead costs being fixed.

Research and development expense increased 55% from $367,300 (12% of net revenues) in the fiscal 2001 period to $567,800 (32% of net revenues) in the fiscal 2002 period. However, if revenues had remained consistent, the expense would have been approximately 20% of revenues, which is the Company's target. The Company believes the only way to consistently grow revenues will be through new product development. Therefore, while it continues to attempt to control and lower administrative costs, it is increasing its research and development expenses.

Selling, general and administrative expense decreased 20% from $540,800 (18% of net revenues) in the fiscal 2001 period to $432,700 (24% of net revenues) in the fiscal 2002 period.

The Company had a loss from operations for the fiscal 2002 period of

$554,200 versus income of $104,900 in fiscal 2001, due to the decrease in revenues, the increase in research and development, and unavoidable fixed administrative costs.

For the fiscal 2002 period, the Company had other income of $5,200 versus other expense of $6,800 in the fiscal 2001 period, consisting mainly of interest income and a gain on the disposal of capital equipment.

As a result of the foregoing, the Company had a net loss of $554,200 for the fiscal 2002 period versus a net income of $97,300 in the fiscal 2001 period.

Liquidity and Capital Resources

Cash Flows

During the fiscal quarter ended December 30, 2001, the Company used net cash in operations of $486,400, as the result of its net loss of $554,200 for the fiscal quarter. While the downturn in the industry and economy continues to result in many customers paying 14 to 30 days past due, the Company attempts to maintain its payment terms with vendors. Therefore, while accounts receivable increased by approximately $696,100, accounts payable increased only slightly by $21,100. The Company was also fortunate to use a large amount of existing inventory to ship the quarter's sales, resulting in a decrease of $597,300 in inventory. During the quarter, the Company drew down $500,000 on its line of credit while reducing capital lease obligations by $21,800 and purchasing $20,200 in capital equipment. The Company also received $13,400 from the exercise of stock options by two employees.

During the fiscal quarter ended December 31, 2000, the Company had $101,200 of net cash provided by operations, resulting from net income of $97,300. During the quarter, the Company had an increase in accounts payable of $752,800, largely due to the purchase of large quantities of silicon wafers into inventory. The Company also prepaid approximately $220,000 for additional wafers. The Company also paid $28,600 for capital equipment and $49,400 to reduce capital lease obligations.

Working Capital

The Company's investment in inventories and accounts receivable has been significant and will continue to be significant in the future. Over prior periods, the Company, as a nature of its business, has maintained these high levels of inventories and accounts receivable.

The Company is continuing its shift to higher value proprietary products, while reducing the total number of products that it offers. As this transition continues, the Company expects to improve its sales to inventory ratio.

The Company provides reserves for product material that is over one year old, with no backlog or sales activity, and reserves for future obsolescence. The Company also takes physical inventory write-downs for obsolescence. While the Company has been actively attempting to reduce inventory levels over the past several quarters, it made large purchases of wafers during the quarter ended December 31, 2000, as the wafer fabricating capacity continues to be tight. The Company felt it was necessary to take advantage of available capacity from its primary supplier in order to prepare itself for future sales.

The Company's accounts receivable level has been consistently correlated to the Company's previous quarter revenue level. Because of the Company's customer scheduled backlog requirements, up to two-thirds of the quarterly revenues may be shipped in the last month of the quarter. This has the effect of placing a large portion of the quarterly shipments reflected in accounts receivable not yet due per the Company's net 30 day 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 would reduce the ending accounts receivable balance.

Although current levels of inventory impact the Company's liquidity, the Company believes that it is a cost of doing business given the Company's fabless operation. The Company believes it made good progress in reducing inventory levels during the first quarter of fiscal 2002, and plans to increase its efforts to reduce inventory during the remaining fiscal quarters.

Financing

The Company has a $2,000,000 line of credit with Comerica Bank-California, which bears interest at the bank's prime rate (4.75% at December 30, 2001) plus 0.25%, is secured by all the Company's assets, and is partially guaranteed by a federal agency. The line of credit requires the Company to maintain a quarterly minimum quick ratio of not less than 1.10 to 1.00, a quarterly maximum debt to tangible net worth ratio of no more than 0.60 to 1.00, a quarterly tangible net worth of at least $16.5 million plus 50% of the quarter's profits, and annual profitability. On December 30, 2001, the Company had an outstanding balance of $500,000 and was in compliance with the quarterly covenants, except the tangible net worth requirement, for which it has not received a waiver. This line of credit matures on July 31, 2002.

Under the terms of its line of credit, the Company is precluded from paying any dividends without the consent of the parties to such agreements, even if the Company is in compliance with all of the financial covenants. Regardless of any such restrictions in its bank loan agreements, the Company does not intend to pay cash dividends in the near future.

While the Company will continue to evaluate debt and equity financing opportunities, it believes its financing arrangements and cash flow generated from operations provide a sufficient base of liquidity for funding operations and capital needs to support the Company's operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company conducts all of its transactions, including those with foreign suppliers and customers, in U.S. dollars. It is therefore not directly subject to the risks of foreign currency fluctuations and does not hedge or otherwise deal in currency instruments in an attempt to minimize such risks. Of course, demand from foreign customers and the ability or willingness of foreign suppliers to perform their obligations to the Company may be affected by the relative change in value of such customer or supplier's domestic currency to the value of the U.S. dollar. Furthermore, changes in the relative value of the U.S. dollar may change the price of the Company's prices relative to the prices of its foreign competitors. The Company also does not hold any market risk sensitive instruments that are not considered cash under generally accepted accounting principles. The Company's credit facilities bear interest at rates determined from the prime rate of the Company's lender; therefore, changes in interest rates affect the amount of interest that the Company is required to pay thereunder.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not Applicable.

Item 2. Changes in Securities and Use of Proceeds.

Not Applicable.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not Applicable.

Item 5. Other Information.

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K.

a. The Index to Exhibits appears at page 14 of this report.

b. No reports on Form 8-K have been filed during the fiscal quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Logic Devices Incorporated
(Registrant)

Date: February 12, 2002

By /s/ William J. Volz

William J. Volz
President and Principal
Executive Officer

Date: February 12, 2002 By /s/ Kimiko Lauris

Kimiko Lauris
Chief Financial Officer and
Principal Financial and
Accounting Officer

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation, as amended. [3.1](1)
3.2	Bylaws, as amended. [3.2](1)
10.1	Real Estate lease regarding Registrant's Sunnyvale facilities. [10.1](2)
10.2	LOGIC Devices Incorporated 1996 Stock Incentive Plan. [99.1](3)
10.3	LOGIC Devices Incorporated 1999 Director Stock Incentive Plan. [10.1](4)
10.4	Registration Rights Agreement dated October 3, 1998 between William J. Volz, BRT Partnership, and Registrant. [10.19](5)

[ ] Exhibits so marked have been previously filed with the Securities and Exchange Commission (SEC) as exhibits to the filings shown below under the exhibit numbers indicated following the respective document description and are incorporated herein by reference.

(1) Registration Statement on Form S-18, as filed with the SEC on August 23, 1988 [Registration No. 33-23763-LA].

(2) Registration Statement of Form S-3, as filed with the SEC on November 21, 1996 [Registration No. 333-16591].

(3) Registration Statement on Form S-8, as filed with the SEC on August 17, 1997 [Registration No. 333-32819].

(4) Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the SEC on August 14, 1999.

(5) Annual Report on Form 10-K for the transition period from January 1, 1998 to October 3, 1999, as filed with the SEC on January 13, 1999.