LOGIC DEVICES INC
Form 10-Q
July 26, 2001

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
JULY 1, 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 classed of common stock, as of the latest practicable date. On July 26, 2001, 6,841,888 shares of common stock, without par value, were outstanding.

LOGIC DEVICES INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

LOGIC DEVICES INCORPORATED

CONSOLIDATED BALANCE SHEETS

	July 1, 2001 (unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 357,300	$
Accounts receivable, net of allowance	2,643,900	
Inventories	12,173,200	

Prepaid expenses and other assets	250,200	
Total current assets	15,424,600	
Property and equipment, net	1,817,000	
Other assets	202,400	
	$ 17,444,000	$

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank borrowings	$ -	$
Accounts payable	188,500	
Accrued payroll and vacation	150,400	
Accrued commissions	40,000	
Other accrued expenses	12,200	
Current portion, capital lease obligations	76,400	
Income taxes payable	900	
Total current liabilities	468,400	
Capital lease obligations, net of current portion	7,200	
Total liabilities	475,600	
Shareholders' equity:		
Common stock	18,522,700	
Accumulated deficit	(1,554,300)	
Total shareholders' equity	16,968,400	
	$ 17,444,000	$

LOGIC DEVICES INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME

Three months ended July 1, 2001 and July 2, 2000

(unaudited)

	2001	
Net revenues	$ 2,490,000	$
Cost of revenues	1,159,100	

Gross margin		1,330,900
Operating expenses:		
Research and development		528,900
Selling, general and administrative		780,200
Total operating expenses		1,309,100
Income from operations		21,800
Other expense, net		8,000
Income before income taxes		13,800
Income tax provision		-
Net income	$	13,800
Basic income per common share	$	-
Weighted average common shares outstanding		6,841,888
Diluted income per common share	$	-
Weighted average common shares outstanding		6,841,888

LOGIC DEVICES INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME

Nine months ended July 1, 2001 and July 2, 2000

(unaudited)

		2001
Net revenues	$	8,087,600
Cost of revenues		4,323,500

Gross margin	3,764,100	
Operating expenses:		
Research and development	1,343,100	
Selling, general and administrative	2,271,000	
Total operating expenses	3,614,100	
Income from operations	150,000	
Other expense, net	16,600	
Income before income taxes	133,400	
Income tax provision	10,400	
Net income	$ 123,000	$
Basic income per common share	$ 0.02	$
Weighted average common shares outstanding	6,841,888	
Diluted income per common share	$ 0.02	$
Weighted average common shares outstanding	6,841,888	

LOGIC DEVICES INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended July 1, 2001 and July 2, 2000

(unaudited)

	2001
Cash flows from operating activities:	
Net income	$ 123,
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	915,

Gain on disposal of equipment	
Allowance for doubtful accounts	
Changes in operating assets and liabilities:	
Accounts receivable	(995,
Inventories	9,
Prepaid expenses and other assets	(14,
Income taxes receivable	
Accounts payable	(3,
Accrued payroll and vacation	(9,
Accrued commissions	(75,
Other accrued expenses	(26,
Income taxes payable	(4,
Net cash (used in) provided by operating activities	(80,
Cash flows from investing activities:	
Capital expenditures	(140,
Proceeds from disposal of equipment	
Other assets	(
Net cash used in investing activities	(140,
Cash flows from financing activities:	
Proceeds from bank borrowing	500,
Repayment of bank borrowing	(500,
Repayment of capital lease obligations	(174,
Repayment of notes payable, related party	
Proceeds from exercise of warrants	
Proceeds from exercise of stock options	
Net cash used in financing activities	(174,
Net change in cash and cash equivalents	(396,
Cash and cash equivalents, beginning of period	753,
Cash and cash equivalents, end of period	$ 357,

LOGIC DEVICES INCORPORATED

Notes to Consolidated Financial Statements

July 1, 2001 and October 1, 2000

(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. All adjustments for the quarter ended July 1, 2001 were of a recurring nature. Certain items were reclassified in the consolidated financial statements for the quarter ended July 2, 2000 to conform to the basis used in the audited consolidated financial statements for the fiscal year ended October 1, 2000.

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 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 October 1, 2000 and October 3, 1999, 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 July 1, 2001 are not necessarily indicative of the results to be expected for the full year.

B. INVENTORY

A summary of inventories follows:

	July 1, 2001	October 1 2000
Raw materials	$ 4,991,000	$ 3,826,400
Work-in-process	3,652,000	5,573,900
Finished goods	3,530,200	2,782,000
	$ 12,173,200	$ 12,182,300

Based on forecasted sales levels, the Company has on-hand inventory aggregating approximately 15 months of sales.

C. FINANCING

On July 27, 2000, the Company obtained a line of credit from Comerica Bank - California, with an availability of up to $2,000,000. The line of credit bears interest at prime (7.0% at July 1, 2001) plus 0.25%, matures on July 31, 2001, 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 July 1, 2001, the Company had no outstanding balance on its line of credit, and was in compliance with the covenants. As of July 26, 2001, Company has renewed this line of credit with similar terms.

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 the 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 October 1, 2000 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

Like many companies in the technology sector, the Company experienced a continued downturn in its revenues, resulting from a continued reduction of revenues from discontinued products, the general downturn in the economy, and the broad-based inventory correction within the industry. Net revenues decreased 17% from $2,990,000 for the quarter ended July 2, 2000 to $2,490,000 for the quarter ended July 1, 2001.

Expenses

Cost of revenues decreased 25% from $1,538,700 for the quarter ended July 2, 2000, to $1,159,100 for the quarter ended July 1, 2001. While the gross profit decreased by 8% from $1,451,300 in 2000 to $1,330,900 in 2001, as a percentage of revenues, gross profit increased 5%, due to a large sale of "last time buy" military products and the continued shift to higher-margin proprietary products.

Research and development expense increased from $425,500 (14% of revenues) in the 2000 period to $528,900 (21% of revenues) in the 2001 period. This increase resulted from efforts to increase staffing levels. The Company is committed to new product development as a means to increase revenues in future fiscal years.

Selling, general and administrative expense decreased from $830,900 in the 2000 period to $780,200 in the 2001 period, due to the end of operating leases and increased efforts to control costs, such as reducing administrative staffing levels.

Due to the aforementioned factors, the Company's income from operations decreased from $194,900 for the 2000 period to $21,800 for the 2001 period.

During the 2000 period, the Company incurred $48,000 of other expense, principally consisting of interest expense, compared to $8,000 of other expense for the 2001 period, due to the reduction in bank borrowings.

As a result of the foregoing, the Company earned net income of $13,800 for the quarter ended July 1, 2001, versus net income of $146,900 for the quarter ended July 2, 2000.

Liquidity and Capital Resources

Cash Flows

For the nine months ended July 1, 2001, the Company used net cash of $80,800 in operations. While the Company's inventory appears flat, there was a large fluctuation during the nine-month period. As noted in the Form 10-Q/A for the quarter ended April 1, 2001, dated May 31, 2001, the Company had a $672,500 increase in inventory during the first six months. During the three months ended July 1, 2001, the Company was able to reduce this inventory down to a net reduction of $9,100 through the first nine months of fiscal 2001. Accounts receivable increased $995,100 during the nine months as some customers are paying in 45-60 days rather than the Company's normal net 30 terms, due to the downturn in the economy. The Company also paid down accrued expenses totaling $101,800, spent $140,100 in capital expenditures, and repaid capital leases aggregating $174,700.

For the nine months ended July 2, 2000, the Company had $2,514,900 in net cash provided by operations. The Company's efforts to improve collections showed results as accounts receivable were reduced by $2,103,500. During the nine-month period, the Company also paid down accounts payable totaling $540,400, spent $193,500 on capital expenditures, reduced bank borrowings by $1,745,000, repaid related party notes payable of $250,000, and reduced capital lease obligations by $168,400. The Company also received cash from the exercise of warrants and stock options totaling $146,900 and $242,400, respectively.

Working Capital

Over prior periods, the Company, as a nature of its business, has maintained high levels of inventory and accounts receivable. While the Company believes this is a cost of doing business as a fabless operation, it endeavors to reduce both inventory and accounts receivable.

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. During the quarter ended December 31, 2000, when wafer fabricating capacity was tight, the Company felt it was necessary to take advantage of available capacity from its primary supplier to prepare for future sales of newer products. Other than this instance, the Company continues to focus its sales efforts on reducing inventory

levels. The Company is beginning to see the benefits of these efforts as it reduced inventory from $12,854,800 to $12,173,200 during the quarter ended July 1, 2001.

The Company is continuing its shift in product offerings to higher-margin proprietary products and is 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's accounts receivable level has consistently been 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 a quarter. Therefore, a large portion of the quarter-end accounts receivable balance is often not yet due per the Company's normal net 30 day terms. The Company continues to closely analyze the credit status of its customers, to accelerate its collection efforts, and to work closely with customers to spread their orders and shipments throughout the quarter, which reduces the ending accounts receivable balance.

Financing

The Company has a $2,000,000 line of credit with Comerica Bank-California, which bears interest at the bank's prime rate (7.0% at July 1, 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 July 1, 2001, the Company was in compliance with these covenants and had no outstanding balance. This line of credit matures on July 31, 2001, and has been renewed with similar terms.

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 expect 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 accounting principles generally accepted in the United States of America. 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) No reports on Form 8-K have been filed during the 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:	July 26, 2001	By	/s/ William J. Volz
			William J. Volz President and Principal Executive Officer
Date:	July 26, 2001	By	/s/ Kimiko Lauris
			Kimiko Lauris Chief Financial Officer and Principal Financial and Accounting Officer