

LOGIC DEVICES INC
Form 10-Q
August 08, 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

June 30, 2002

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
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 August 8, 2002, 6,852,888 shares of Common Stock, without par value, were issued and outstanding.

LOGIC Devices Incorporated

INDEX

| | Page |
|-------------------------------------|----------------------|
| | <u>Number</u> |
| Part I. - Financial Information | |
| <u>Item 1. Financial Statements</u> | |

Edgar Filing: LOGIC DEVICES INC - Form 10-Q

| | |
|---|----|
| Consolidated Balance Sheets as of June 30, 2002 and September 30, 2001 | 3 |
| Consolidated Statements of Operations for the fiscal quarter ended June 30, 2002 and July 1, 2001 | 4 |
| Consolidated Statements of Operations for the nine fiscal months ended June 30, 2002 and July 1, 2001 | 5 |
| Consolidated Statements of Cash Flows for the nine fiscal months ended June 30, 2002 and July 1, 2001 | 6 |
| Notes to Consolidated Financial Statements | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 9 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 11 |
| Part II. - Other Information | 12 |
| <u>Item 1. Legal Proceedings</u> | 12 |
| <u>Item 6. Exhibits and Reports on Form 8-K</u> | 12 |
| Signatures | 13 |

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

LOGIC Devices Incorporated**Consolidated Balance Sheets**

| | June 30, 2002 (unaudited) | September 30, 2001 |
|---|---------------------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 502,400 | \$ 217,500 |
| Accounts receivable, net of allowance | 2,903,700 | 3,352,200 |
| Inventories | 9,884,800 | 11,695,700 |
| Prepaid expenses | 259,900 | 192,600 |
| Total current assets | 13,550,800 | 15,458,000 |
| Property and equipment, net | 1,059,100 | 1,592,000 |
| Other assets | 156,200 | 181,000 |
| | \$ 14,766,100 | \$ 17,231,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 166,300 | \$ 268,100 |
| Accrued payroll and vacation | 84,800 | 190,900 |
| Accrued commissions | - | 54,600 |
| Other accrued expenses | 5,700 | 5,500 |
| Capital lease obligations, current portion | 7,200 | 54,700 |
| Income taxes payable | - | 1,900 |
| Total current liabilities | 264,000 | 575,700 |

| | | |
|---|----------------------|----------------------|
| Capital lease obligations, net of current portion | - | 2,900 |
| Total liabilities | 264,000 | 578,600 |
| Shareholders' equity: | | |
| Common stock | 18,539,900 | 18,522,700 |
| Additional paid-in capital | 100,000 | 19,000 |
| Accumulated deficit | (4,137,800) | (1,889,300) |
| Total shareholders' equity | 14,502,100 | 16,652,400 |
| | \$ 14,766,100 | \$ 17,231,000 |

LOGIC Devices Incorporated

Consolidated Statements of Operations

(unaudited)

| | Fiscal quarter ended: | |
|------------------|-----------------------|-----------------|
| | June 30, 2002 | July 1, 2001 |
| Net revenues | \$ 1,801,100 | \$ 2,490,000 |
| Cost of revenues | 1,743,100 | 1,363,700 |

| | | | |
|--|-------------------------------------|--------------|-----------|
| | Gross margin | 58,000 | 1,126,300 |
| Operating expenses: | | | |
| | Research and development | 380,600 | 528,700 |
| | Selling, general and administrative | 517,700 | 575,700 |
| | Total operating expenses | 898,300 | 1,104,400 |
| | (Loss) income from operations | (840,300) | 21,900 |
| Other expense, net | | | |
| | (Loss) income from operations | (851,100) | 13,900 |
| Income tax provision | | | |
| | | 2,900 | - |
| | Net (loss) income | \$ (854,000) | \$ 13,900 |
| Basic and diluted (loss) earnings per common share | | | |
| | | \$ (0.12) | \$ 0.00 |
| Basic weighted average common shares outstanding | | | |
| | | 6,852,888 | 6,841,888 |
| Diluted weighted average common share outstanding | | | |
| | | 6,852,888 | 6,841,888 |

LOGIC Devices Incorporated

Consolidated Statements of Operations

(unaudited)

| | Nine fiscal months ended: | |
|---|---------------------------|-------------------|
| | June 30, 2002 | July 1, 2001 |
| Net revenues | \$ 4,692,600 | \$ 8,087,600 |
| Cost of revenues | 3,988,500 | 4,937,200 |
| Gross margin | 704,100 | 3,150,400 |
| Operating expenses: | | |
| Research and development | 1,407,600 | 1,343,100 |
| Selling, general and administrative | 1,507,800 | 1,657,300 |
| Total operating expenses | 2,915,400 | 3,000,400 |
| | | 150,000 |
| (Loss) income from operations | (2,211,300) | |
| Other expense, net | (27,800) | (16,600) |
| | | 133,400 |
| (Loss) income from operations | (2,239,100) | |
| Income tax provision | 9,400 | 10,400 |
| Net (loss) income | \$ (2,248,500) | \$ 123,000 |
| Basic and diluted (loss) earnings per common share | \$ (0.33) | \$ 0.02 |
| Basic weighted average common shares outstanding | 6,849,166 | 6,841,888 |
| Diluted weighted average common share outstanding | 6,849,166 | 6,841,888 |

LOGIC Devices Incorporated

Consolidated Statements of Cash Flows

(unaudited)

| | Nine fiscal months ended: | |
|--|---------------------------|-----------------|
| | June 30, 2002 | July 1, 2001 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (2,248,500) | \$ 123,000 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization expense | 587,300 | 915,800 |
| Gain on disposal of capital equipment | (10,500) | - |
| Issuance of common stock warrants for products | 81,000 | - |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 448,500 | (995,100) |
| Inventories | 1,810,900 | 9,100 |
| Prepaid expenses | (67,300) | (14,900) |
| Accounts payable | (101,800) | (3,600) |
| Accrued payroll and vacation | (106,100) | (9,000) |
| Accrued commissions | (54,600) | (75,300) |
| Other accrued expenses | 200 | (26,500) |
| Income taxes payable | (1,900) | (4,300) |

Edgar Filing: LOGIC DEVICES INC - Form 10-Q

| | | | |
|---------------------------------------|--|-------------|------------|
| | Net cash provided by (used in) operating activities | 337,200 | (80,800) |
| Cash flows from investing activities: | | | |
| | Capital expenditures | (31,300) | (140,100) |
| | Other assets | 1,700 | (400) |
| | Net cash used in investing activities | (29,600) | (140,500) |
| Cash flows from financing activities: | | | |
| | Proceeds from exercise of common stock options | 17,200 | - |
| | Proceeds from bank borrowings | 1,050,000 | 500,000 |
| | Repayments of bank borrowings | (1,050,000) | (500,000) |
| | Payments of capital lease obligations | (39,900) | (174,700) |
| | Net cash used in financing activities | (22,700) | (174,700) |
| | Net increase (decrease) in cash and cash equivalents | 284,900 | (396,000) |
| | Cash and cash equivalents, beginning of period | 217,500 | 753,300 |
| | Cash and cash equivalents, end of period | \$ 502,400 | \$ 357,300 |

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. Certain items were reclassified in the consolidated financial statements of July 1, 2001 to conform to the basis used in the audited consolidated financial statements for the fiscal year ended September 30, 2001.

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 consolidated 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 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 June 30, 2002 are not necessarily indicative of the results to be expected for the full fiscal year.

(B) Inventories

A summary of inventories follows:

| | June 30, 2002 | September 30, 2001 |
|-----------------|------------------|-----------------------|
| Raw materials | \$ 1,532,600 | \$ 1,544,800 |
| Work-in-process | 5,895,700 | 6,801,900 |
| Finished goods | 2,456,500 | 3,349,000 |
| | \$ 9,884,900 | \$ 11,695,700 |

Based on forecasted fiscal year 2002 sales levels, the Company has on-hand inventories aggregating approximately 18 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 June 30, 2002) plus 0.25%, 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 \$15.7 million plus 50% of the quarter's net profit and 100% of newly issued equity, and annual profitability. On June 30, 2002, the Company had no outstanding balance and was in compliance with the quarterly covenants, except the tangible net worth requirement, for which it has not received a waiver. The line of credit matured on July 31, 2002.

Under the terms of the 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.

(D) Shareholders' Equity

On April 5, 2002, the Company extended 150,000 common stock warrants issued to a distributor. The warrants now expire on October 5, 2003 with an exercise price of \$1.875. If the Company's common stock price closes at \$2.8125 or more for any 20 trading days during a consecutive 30 trading day period, the distributor is required to exercise the warrants upon written notice from the Company. Using the Black-Scholes valuation method required by Statement of Financial Accounting Standards No. 123, the Company recorded \$81,000 of cost of revenues relating to these warrants.

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 30, 2001 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 28 percent, from \$2,490,000 for the fiscal quarter ended July 1, 2001, to \$1,801,100 for the fiscal quarter ended June 30, 2002. This decrease was the result of the continued downturn in the industry and economy. However, revenues for the current fiscal quarter did increase 61 percent from \$1,120,300 in the previous fiscal quarter.

Expenses

Cost of revenues increased 22 percent, from \$1,363,700 in the fiscal quarter ended July 1, 2001, to \$1,662,100 in the fiscal quarter ended June 30, 2002. This increase is the result of higher-cost products being sold during the current fiscal quarter, and the Company not being allowed to fully recover its costs for military products. In addition, some indirect overhead costs, such as insurance, increased during the current fiscal year. Furthermore, the Company recorded non-cash cost of revenues of \$81,000 for the value of a distributor's common stock warrants that were extended during the quarter.

Research and development expense decreased 28 percent, from \$528,700 in the fiscal quarter ended July 1, 2001, to \$380,600 in the fiscal quarter ended June 30, 2002. However, the research and development costs remained consistent at 21 percent of net revenues, within the Company's target range of 18 to 23 percent. While the Company continues its attempts to control costs, it believes research and development is the most important area of expenditure for growing future revenues.

Selling, general and administrative expense decreased ten percent, from \$575,700 in the fiscal quarter ended July 1, 2001, to \$517,700 in the fiscal quarter ended June 30, 2002. This decrease resulted from a reduction in the Company's sales personnel and representatives, the ending of operating leases, and general cost cutting.

While the Company attempted to reduce costs as quickly as possible, it still recorded a loss from operations of \$840,300 for the fiscal quarter ended June 30, 2002, as a result of the low revenues and unavoidable fixed costs.

The Company had \$10,800 of other expense for the fiscal 2002 period, compared to \$8,000 in the fiscal 2001 period. This was mainly the result of the Company utilizing more bank borrowings during the fiscal 2002 period.

As a result of the foregoing, the Company had a net loss of \$854,000 for the fiscal quarter ended June 30, 2002, compared to net income of \$13,900 for the fiscal 2001 period.

Liquidity and Capital Resources

Cash Flows

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 quarter's sales. The Company continues to attempt to maintain its prompt payment terms with vendors, so accounts payable decreased by \$101,800. During the nine fiscal 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.

Even though the Company had net income of \$123,000, it used net cash of \$80,800 for operations during the nine fiscal months ended July 1, 2001. This was primarily the result of an increase in accounts receivable of \$995,100 and the reduction of accrued commissions by \$75,300. During the nine-month fiscal period, the Company made \$140,100 in capital expenditures and paid \$174,700 against capital lease obligations.

Working Capital

While the Company's accounts receivable balance typically represents the prior quarter's sales, one customer with a balance of approximately \$1,668,700 is currently past due on 90 percent of its balance. This customer is a distributor holding products that are critical to certain defense programs. Given that the end-customer is a major defense contractor, the Company expects to collect the entire balance from this customer and has not provided any reserve for the amount.

As a nature of its business, the Company's investment in inventories has been, and will continue to be, significant (at current sales levels, on-hand inventories approximate 18 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 has reduced its inventory by 15%, or \$1,810,900. The Company plans to continue its efforts to reduce inventory during the remaining portion of fiscal 2002 and in future periods. The Company provides reserves and 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. 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. The Company believes its current reserve provides a reasonable estimate of the recoverability of inventories.

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 June 30, 2002) 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 1.1 to 1.0, a quarterly maximum debt to tangible net worth ratio of no more than 0.6 to 1.0, a quarterly tangible net worth of at least \$15.7 million plus 50% of the quarter's profits and 100% of newly issued equity, and annual profitability. On June 30, 2002, the Company had no outstanding balance, and was in compliance with the quarterly covenants, except the tangible net worth requirement, for which it has not received a waiver. The line of credit matured on July 31, 2002.

Under the terms of the 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 the financial covenants. Regardless of any such restrictions, 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 operating cash flow 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 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: August 8, 2002

By: /s/ William J. Volz

Williams J. Volz

President and Principal Executive Officer

Date: August 8, 2002

By: /s/ Kimiko Lauris

Kimiko Lauris

Chief Financial Officer and Principal

Financial and Accounting Officer

INDEX TO EXHIBITS

Edgar Filing: LOGIC DEVICES INC - Form 10-Q

| 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, CA facilities. [10.1] (2) |
| 10.2 | LOGIC Devices Incorporated 1996 Stock Incentive Plan. [99.1] (3) |
| 10.3 | LOGIC Devices Incorporated 1998 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 on 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, 1998, as filed with the SEC on August 14, 1998. |
| (5) | Annual Report on Form 10-K for the transition period from January 1, 1998 to September 30, 1998, as filed with the SEC on January 13, 1999. |