LOGICVISION INC
Form 10-Q
November 12, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

|X| **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2004

OR

|_| **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________.

Commission File No.: 0-31773

LOGICVISION, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3166964** **(I.R.S. Employer Identification Number)**

25 Metro Drive, Third Floor
San Jose, California 95110
(Address of principal executive offices)

Telephone: (408) 453-0146
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (l) 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 at least 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 Act). Yes |_| No |X|

At October 29, 2004, 16,105,452 shares of Registrant s Common Stock, $0.0001 par value were outstanding.

LOGICVISION, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

LOGICVISION, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,539	$15,475
Short-term investments	12,818	3,782
Accounts receivable, net	2,560	2,756
Prepaid expenses and other current assets	1,321	1,251
Total current assets	24,238	23,264
Property and equipment, net	986	922
Marketable securities	7,365	11,801
Other long-term assets, net	2,007	508
Total assets	$34,596	$36,495
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 2,360	$ 754
Accrued liabilities	2,238	1,389
Deferred revenue	5,496	5,482
Total current liabilities	10,094	7,625
Non-current deferred revenue	2,818	1,719
Total liabilities	12,912	9,344
Commitments and contingencies (Note 5)		
Stockholders Equity:		
Preferred stock, $0.0001 par value:		
Authorized: 5,000,000 shares;		
Issued and outstanding: no shares issued and outstanding		
Common stock, $0.0001 par value:		
Authorized: 125,000,000 shares;		
Issued and outstanding: 16,094,087 shares at September 30, 2004 and 15,775,779 shares at December 31, 2003	2	2
Additional paid-in capital	98,315	97,759
Deferred stock-based compensation	(10)	(132)
Accumulated other comprehensive income	108	135
Accumulated deficit	(76,731)	(70,613)
Total stockholders equity	21,684	27,151
Total liabilities and stockholders equity	$34,596	$36,495

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

LOGICVISION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Revenues:				
License	$1,662	$466	$ 4,111	$2,046
Service	962	950	2,977	3,115
Product	69	65	278	129
Total revenues	2,693	1,481	7,366	5,290
Cost of revenues:				
License	42	58	136	144
Service	691	524	1,977	2,013
Product	99	32	266	53
Total cost of revenues	832	614	2,379	2,210
Gross profit	1,861	867	4,987	3,080
Operating expenses:				
Research and development	1,220	1,089	3,659	3,526
Sales and marketing	1,530	2,149	4,368	7,118
General and administrative	980	1,082	3,366	3,167
Total operating expenses	3,730	4,320	11,393	13,811
Loss from operations	(1,869)	(3,453)	(6,406)	(10,731)
Interest and other income, net	106	152	324	523
Loss before provision for income taxes	(1,763)	(3,301)	(6,082)	(10,208)
Provision for income taxes	4	41	36	123

Net loss	$ (1,767)	$ (3,342)	$ (6,118)	$(10,331)
Net loss per common share, basic and diluted	$ (0.11)	$ (0.21)	$ (0.38)	$ (0.67)
Weighted average number of shares outstanding, basic and diluted	16,065	15,618	15,990	15,435

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

LOGICVISION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2004	**2003**
Cash flows from operating activities:		
Net loss	$ (6,118)	$ (10,331)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	468	1,342
Amortization of deferred stock-based compensation	39	601
Changes in operating assets and liabilities:		
Accounts receivable, net	195	(2,206)
Prepaid expenses and other current assets	(69)	220
Other long-term assets	(1,499)	(57)
Accounts payable	1,606	(862)
Deferred revenue	1,114	1,836
Accrued liabilities	849	(41)
Net cash used in operating activities	(3,415)	(9,498)
Cash flows from investing activities:		
Purchase of marketable securities	(3,283)	(4,301)
Purchase of short-term investments	(6,984)	(2,004)
Purchase of property and equipment	(528)	(395)
Proceeds from sales of marketable securities and short-term investments	5,667	8,490
Net cash provided by (used in) investing activities	(5,128)	1,790
Cash flows from financing activities:		
Proceeds from issuance of common stock	639	698
Repayment of short-term debt		(1,500)

Net cash provided by (used in) financing activities	639	(802)
Effect of exchange rate on cash	(32)	17
Net decrease in cash and cash equivalents	(7,936)	(8,493)
Cash and cash equivalents, beginning of period	15,475	16,179
Cash and cash equivalents, end of period	$ 7,539	$ 7,686

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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LOGICVISION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of LogicVision, Inc. (LogicVision or the Company) and its wholly-owned subsidiaries after elimination of all inter-company transactions. The Company s fiscal year ends on December 31.

The accompanying unaudited condensed consolidated financial statements of LogicVision have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The December 31, 2003 fiscal year end balance sheet data was derived from the audited financial statements and does not include all disclosures required by GAAP. Operating results for the three months and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2004 or any other future period. The unaudited condensed consolidated interim financial statements contained herein should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2003 included in the Company s Annual Report on Form 10-K as filed with the SEC.

Certain items previously presented in specific financial statement captions have been reclassified to conform with the current presentation for 2004.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Note 2. Recently Issued Accounting Standards

In June 2004, the Financial Accounting Standards Board (FASB) issued EITF Issue 03-01 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 establishes a common approach to evaluating other-than-temporary impairment to investments in an effort to reduce the ambiguity in impairment methodology found in APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock and Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, which has resulted in inconsistent application. In September 2004, the FASB issued FASB Staff Position (FSP) No. EITF Issue 03-01-1, which deferred the effective date for the measurement and recognition guidance clarified in EITF 03-01; however, disclosure requirements have not been deferred. Disclosure requirements are effective for the Company s next annual financial statements. While the effective date for certain elements of EITF 03-01 have been deferred, the adoption of EITF 03-01 when finalized is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

On December 17, 2003, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104 (SAB 104), Revenue Recognition, which supersedes SAB 101, Revenue Recognition in Financial Statements. SAB 104 s primary purpose is to rescind the accounting guidance contained in SAB 101 related to multiple-element revenue arrangements that was superseded as a result of the issuance of EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. Additionally, SAB 104 rescinds the SEC s related Revenue Recognition in Financial Statements Frequently Asked Questions and Answers issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The Company s adoption of SAB 104 did not have a material effect on its financial position or results of operations.

Note 3. Cash and Cash Equivalents, Short-Term Investments and Marketable Securities

The Company considers all highly liquid investment instruments with original maturities of three months or less at the acquisition date to be cash equivalents, and investment instruments with original maturities of more than three months but less than twelve months to be short-term investments. All short-term investments and marketable securities are classified as held-to-maturity. Interest and realized gains and losses are included in interest income. Realized gains and losses are recognized based on

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the specific identification method. Cash and cash equivalents, short-term investments and marketable securities consist of the following (in thousands):

	September 30, 2004	December 31, 2003
Cash and cash equivalents:		
Cash	$ 641	$ 1,942
Money market funds	3,800	203
Commercial paper	1,298	-
U.S. government agency notes	1,800	13,330
Total cash and cash equivalents	7,539	15,475
Short-term investments:		
U.S. government agency notes	11,069	3,782
Certificates of deposit	1,500	-
Commercial paper	249	-
Total short-term investments	12,818	3,782
Marketable securities:		
U.S. government agency notes	7,365	11,801
	$ 27,722	$ 31,058

Cash and Cash Equivalents, Short-Term Investments
and Marketable Securities

Note 4. Loan Agreement

The Company has a Loan Agreement with a bank under which it may borrow, on a revolving basis, up to $5.0 million at an interest rate equal to prime rate, which was equal to an annual rate of 4.75% at September 30, 2004. The agreement is unsecured and is not collateralized by the Company s assets. Under the agreement, the Company must comply with certain operating and reporting covenants and is not permitted to pay dividends, or make material investments or dispositions without the prior written consent of the bank. If the Company fails to comply with its covenants under the agreement, the bank can declare any outstanding amounts immediately due and payable and cease advancing money or extending credit to or for the Company. The agreement expires on January 31, 2005. There were no borrowings outstanding at September 30, 2004, and the Company was in compliance with all the operating and reporting covenants under the Agreement.

Note 5. Commitments and Contingencies

Lease obligations

At September 30, 2004, total future obligations under contractual obligations and commercial commitments, primarily leasing arrangements, were as follows (in thousands):

	Operating Leases
Year ending December 31,	
2004	$ 146
2005	494
2006	414
2007	325
2008	302
Thereafter	389
	$2,070

Rent expense for the three months and nine months ended September 30, 2004 was $208,000 and $686,000, respectively. Rent expense for the three months and nine months ended September 30, 2003 was $280,000 and $876,000, respectively.

The Company and its subsidiaries in Canada, India and Japan rent office facilities under non-cancelable operating leases which expire through March 2010. The Company and its subsidiaries are responsible for certain maintenance costs, taxes and insurance under the respective leases.

Off-balance Sheet Arrangements

The Company s off-balance sheet arrangements consist solely of operating leases as described above.

Indemnification Obligations

The Company enters into standard license agreements in the ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify its customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement claim by any third party with respect to the Company s products. These indemnification obligations have perpetual terms. The Company estimates the fair value of its indemnification obligations as insignificant, based upon its historical experience concerning product and patent infringement claims. Accordingly, the Company has no liabilities recorded for indemnification under these agreements as of September

30, 2004.

The Company has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was, serving at the Company s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a directors and officers insurance policy that reduces its exposure and enables the Company to recover a portion of future amounts paid. As a result of the Company s insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, no liabilities have been recorded for these agreements as of September 30, 2004.

Warranties

The Company offers its customers a warranty that its products will conform to the documentation provided with the products. To date, there have been no payments or material costs incurred related to fulfilling these warranty obligations. Accordingly, the Company has no liabilities recorded for these warranties as of September 30, 2004. The Company assesses the need for a warranty reserve on a quarterly basis, and there can be no guarantee that a warranty reserve will not become necessary in the future.

Note 6. Concentration of Credit Risk

The Company has been dependent on a relatively small number of customers for a substantial portion of its revenue, although the customers comprising this group have changed from time to time. Three customers accounted for 19%, 16% and 13% of its revenues in the three months ended September 30, 2004 and two customers accounted for 20% and 18% of its revenues in the nine months ended September 30, 2004. In the three and nine months ended September 30, 2003, no customer accounted for more than 10% of its revenues.

At September 30, 2004, two customers accounted for 67%, and 28% of net accounts receivable, respectively. At December 31, 2003, two customers accounted for approximately 64% and 24% of net accounts receivable, respectively.

Note 7. Net Loss Per Share

SFAS No. 128, Earnings Per Share, requires a dual presentation of basic and diluted earnings per share (EPS). Basic EPS excludes dilution and is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that would occur if outstanding securities to issue common stock were exercised or converted to common stock. Diluted net loss per share for the three months and nine months ended September 30, 2004 and 2003 does not differ from basic net loss per share since potential shares of common stock issuable upon exercise of stock options and warrants are anti-dilutive under the treasury stock method.