

LOGIC DEVICES INC
Form 10-K
December 20, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year 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 _____ to _____

Commission file number

0-17187

LOGIC DEVICES INCORPORATED

(Exact name of registrant as specified in its charter)

California
(State of Incorporation)

94-2893789
(I.R.S. Employer Identification No.)

395 West Java Drive, Sunnyvale, CA 94089

(Address of principal executive offices, including Zip Code)

(408) 542-5400

(Registrant's telephone number, including Area Code)

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Securities registered pursuant to Section 12(b) of the Act

Title of Class	Name of each exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act

Common Stock, without par value

(Title of Class)

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [] CHECK IF APPLICABLE

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

The approximate aggregate market value of the registrant's common stock held by non-affiliates as of March 31, 2004 (the last business day of the registrant's most recently completed second quarter) was \$7.9 million, based on the closing price for the common stock on the Nasdaq National Market on such date. The foregoing calculation excludes shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock, in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of December 20, 2004, the Registrant had 6,743,188 shares of its common stock issued and outstanding.

Documents Incorporated by Reference: Parts of the Proxy Statement for registrant's 2005 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, and 12 of Part III of this Annual Report on Form 10-K.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains forward-looking statements which include, but are not limited to, statements concerning projected revenues, expenses, gross margin, net income, market acceptance of the products of Logic Devices Incorporated (the Company), the competitive nature of and anticipated growth in the Company's markets, the Company's ability to achieve further product integration, the status of evolving technologies and their growth potential, the timing and acceptance of new product introductions, the adoption of future industry standards, the Company's production capacity, its ability to migrate to smaller process geometries, and the need for additional capital. These forward-looking statements are based on the Company's current expectations, estimates, and projections about its industry, management's beliefs, and certain assumptions made by it. Words such as "anticipates, appears, expects, intends, plans, believes, seeks, estimates, may, will," and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, the Company's actual results could differ materially and adversely from those results expressed in any forward-looking statements, as a result of various factors, some of which are listed under the section, "Factors Affecting Future Results," at the end of Item 1 of this Annual Report on Form 10-K. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

ITEM 1. BUSINESS

General Development of the Business

LOGIC Devices Incorporated (the Company) develops and markets high-performance digital integrated circuits that address the requirements of original equipment manufacturers (OEMs) to provide high-speed electronic computation and storage in digital signal processing (DSP), video image processing, and telecommunications applications. The Company's product strategy is to develop and market proprietary circuits that offer superior performance to meet specific application requirements.

On December 15, 2003, the Company elected to change its calendar business year to a fiscal year ending September 30. Previously, the Company's fiscal years were comprised of 52 weeks of seven days, each beginning on Monday and ending on Sunday, with fiscal 2003 ending September 28, 2003 and fiscal 2002 ending September 29, 2002. Previously, the Company's fiscal quarters were comprised of exactly 13 weeks and, therefore, its fiscal years consisted of only 364 days.

As a result of this change, the Company's fiscal years will be comprised of 365 days or, in leap years such as 2004, 366 days with each fiscal quarter ending at the end of a calendar quarter. The Company's 2004 fiscal year ended September 30, 2004 rather than September 26, 2004. The additional four days were included in the Company's first quarter for fiscal 2004, which ended December 31, 2003.

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The Company's products generally address DSP requirements involving high-performance arithmetic computational and high-speed storage functions. The Company is focused on developing proprietary catalog products to address specific functional application needs or performance levels that are not otherwise commercially available. The Company seeks to provide related groups of circuits that OEMs purchase for incorporation into high-performance electronic systems. As a result of the Company's focus on higher value products, it has reduced the number of products it offers by over 80 percent over the past five years.

The Company relies on third-party silicon foundries to process silicon wafers, each wafer having up to several hundred integrated circuits of a given Company design, from which finished products are then assembled. The Company's strategy is to avoid the substantial investment in capital equipment required to establish a wafer fabrication facility, by outsourcing wafer processing to third-party foundries and taking advantage of their expertise. See "Business - Background." The Company currently has two primary wafer suppliers and continues to explore additional foundry relationships to reduce its dependence on any single wafer foundry.

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The Company markets its products worldwide through its own direct sales force, and through one domestic and 21 international distributors. In fiscal year 2004, approximately 34 percent of the Company's net revenues were derived from OEMs, while sales through foreign and domestic distributors accounted for approximately 66 percent of net revenues. Among the Company's customers are GE Medical, Lockheed Martin, Qualcomm, Texas Instruments, Sony, Teradyne, and Raytheon. Approximately 48 percent of the Company's 2004 net revenues were derived from within the United States and approximately 52 percent were derived from foreign sales.

The Company was incorporated under the laws of the State of California in April 1983. The Company headquarters are located at 395 West Java Drive, Sunnyvale, California 94089. The Company's telephone number is (408) 542-5400.

Available Information

The Company makes available its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 free of charge on its website, www.logicdevices.com, as soon as reasonably practicable after we electronically file such material with or furnish such material to the Securities and Exchange Commission.

Background

Rapid advances in fabricating silicon-based semiconductors are driving a global revolution in electronics. With these ongoing advances, the ability to economically compute, communicate, and control seems to be limited only by the creativity required to implement ever more complex electronic systems. It is becoming increasingly common to implement entire electronic systems on a single small sliver of silicon. The challenges to the industry have increasingly turned toward innovative product definition, timely product development, technical customer support, and heavy capital investments in advanced semiconductor wafer fabrication facilities. The rapid advances in chip fabrication technology have resulted in a specialization of skills within the industry. In addition to the specialization of materials processing skills required to fabricate semiconductor wafers, the industry increasingly requires and values system architecture development, interoperability standards, signal processing algorithms, and circuit design expertise as essential skills for developing financially successful products. Opportunities have thus emerged for semiconductor companies that focus on product definition, advanced design techniques, and technical application support, and that rely on third parties for wafer fabrication. The Company focuses its resources on defining and developing high-performance integrated circuit components for growing markets, which require demanding computational throughput.

The semiconductor industry is intensely competitive, highly cyclical, and characterized by rapid technological change, product obsolescence, wide fluctuations in both demand and capacity, and steep price erosion. These factors can obsolete processes and products currently utilized or produced by the Company. In such cases, the Company is required to develop products utilizing new processes and to either integrate such products into its existing foundry processes, or seek new foundry sources.

Markets and Product Strategies

DSP is an important technology for many emerging product technologies. It involves converting light, sound, or other naturally occurring analog phenomena into a stream of digital values that may then be processed, manipulated, exchanged, or sorted by electronic systems. DSP provides many advantages, including: the ability to store and recall information; the ability to extract information content and compress the amount of

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data that must be stored, processed, or transmitted; and the ability to process and manipulate digital data with consistency and precision. Manipulation of video images and speech requires signal-processing rates and precision that are not yet practical with analog technology or with general-purpose (non-DSP) processors.

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DSP is becoming commonplace in our lives, resulting from rapid advances in semiconductor process technology and increasing cost effectiveness. Consequently, very large and formidable companies have become interested in DSP, with a focus on high-volume applications. To avoid direct competition with these larger companies, the Company attempts to identify products and market niches that demand the greater performance that programmable DSP circuits can achieve, yet are small enough not to attract significant attention from the larger chip manufacturers.

Beginning in November 1998, the Federal Communications Commission (FCC) directed that television broadcasters begin a transition from analog broadcasts to high-definition digital television (HDTV), which offers clearer pictures and better sound, with all analog broadcasts scheduled to cease by 2006. Unfortunately, the broadcasters have resisted and remain behind the scheduled mandates. This slow transition adversely affected the Company's revenues in the past few fiscal years.

In August 2002, the FCC issued an order to television manufacturers that requires digital tuners be incorporated into 50 percent of the television sets with screens of 36 or more inches starting in 2004, in 50 percent of the sets with screens of 25-35 inches starting in 2005, and in all sets with screens of 13 inches or more by 2007. On October 29, 2003, the U.S. Court of Appeals for the D.C. Circuit upheld a FCC mandate that, by 2007, all but the very smallest television sets sold in the U.S. must be equipped for receiving digital, along with traditional analog, television signals. The court said that the FCC's mandate was needed because the industry was not moving quickly enough to make new tuners available.

The Company has historically derived a significant portion of its revenues from television broadcast equipment manufacturers. In the late 1990's, the Company jointly defined with its customers a family of high-performance digital image filtering circuits that facilitate the smoothing of edges as video images are stretched and resized. The Company has developed and sampled these to OEMs for incorporation into HDTV studio production systems. While sales of HDTV studio equipment have lagged behind market forecasts, the Company believes its products offer effective solutions to certain video image filtering problems in that equipment. Therefore, if HDTV studio equipment begins to sell in higher volume, the Company believes it may benefit from increasing sales.

As a result of its initial work on digital filtering and image resizing circuits, the Company identified secondary applications for this product technology. The Company found that the circuits were applicable to, and have been incorporated into, advanced medical imaging equipment, such as ultrasound and computer aided tomography (CAT) scanners, and security camera systems.

Lastly, in fiscal 2002, as a result of the need to replenish stocks of advanced military weapons systems, the Company enjoyed increased sales for certain military programs, with sales to one defense contractor, Lockheed Martin, comprising 24 percent of net revenues. One military product comprised 17.4 percent of net revenues in fiscal 2002. No other products made up more than 15 percent of net revenues in fiscal 2002. No products made up more than 15 percent of net revenues in fiscal 2004 or 2003.

Products in Development

Companies in the semiconductor industry typically experience a correlation between their success in introducing new products and increases in revenues. While the Company remains committed to product development, it did not make significant new product introductions over the past few years as a result of focusing on reducing costs and strengthening its cash flow and balance sheet.

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To address the lack of new product introductions over the past few years, the Company maintained high levels of research and development expenditures even though its net revenues decreased during fiscal 2004 and 2003. Through hiring and support of the continuing education of its employees, the Company increased the educational background of its design team during the past few years, while also acquiring new software design automation tools to increase the productivity of its product development efforts. These efforts resulted in the introduction of a new video frame buffer product, the LF3312, which the Company is currently sampling to customers. At current resource levels, the Company does not anticipate being able to complete all product opportunities it has identified. However, as it considers product development critical to its future success, the Company anticipates that its product development expenditures will continue to be significant in the future and be directed towards those products with the greatest revenue potential. Based on the investments the Company has made in research and development, it anticipates product development will accelerate in the future.

Wafer Fabrication Technology

The Company is a fabless manufacturer. It relies upon third-party foundry suppliers to produce processed wafers from mask patterns designed by the Company. Through these wafer suppliers, the Company has access to advanced high-speed, high-density complimentary metal oxide semiconductor (CMOS) process technology, without the significant investment in capital equipment and facilities required to establish a wafer fabrication factory. Coupled with the Company's structured custom design methodology and experience with high-speed circuit design, this CMOS technology has allowed the Company to produce products that offer high computational speeds, high reliability, high levels of circuit integration (complexity), and low power consumption.

The Company is primarily dependent upon two wafer suppliers, one of which was qualified during fiscal 2004, and does not have a guarantee of minimum supplies. Therefore, there can be no assurance that such relationships will continue to be on terms satisfactory to the Company. The inability to obtain adequate quantities of processed wafers could limit the Company's revenues. As a result of this risk, the Company carries a large inventory of unassembled wafers that can be packaged into a variety of carrier styles to support customer requirements.

Production, Assembly, and Test

The Company's production operations consist of functional and parametric testing, package marking, hot and cold testing, final inspection, quality inspection, and shipment. As is customary in the industry, high-volume assembly subcontractors in the Far East assemble the Company's commercial grade devices. Thereafter, the assembled devices are returned to the Company for final testing and shipment to customers. The Company continues to test materials and products at various stages in the manufacturing process, utilizing automated test equipment.

Marketing, Sales, and Customers

The Company markets its products worldwide to a broad range of customers through its own sales efforts and through one domestic and 21 international electronics distributors. The Company concentrates its direct marketing efforts on high-performance segments of the medical imaging, broadcast equipment, and telecommunications markets, in applications where high speed is critical. Among the Company's OEM customers are GE Medical, Lockheed Martin, Qualcomm, Texas Instruments, Sony, Teradyne, and Raytheon.

The Company coordinates worldwide sales from its sales office in Warminster, England. Distributors purchase the Company's products for resale, generally to a broad base of small- to medium-sized customers. As is customary in the industry, the Company's distributors receive certain price protection and limited stock rotation rights. However, the Company's distributors are required to simultaneously order an amount

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equal to or greater than any rotation items returned. During fiscal 2004, 2003, and 2002, sales through both international and domestic distributors accounted for approximately 66%, 68%, and 54% of net revenues, respectively.

In fiscal 2004, 2003, and 2002, Jan Devices, Inc., a domestic distributor, accounted for approximately 14%, 13%, and 21% of net revenues, respectively. In both fiscal 2004 and 2003, MCM Japan Ltd., an international distributor, comprised approximately 12% of net revenues. In addition, Zwinz Technical Consulting, another international distributor, comprised approximately 14% of net revenues in fiscal 2003, while one non-distributor customer, Lockheed Martin, comprised approximately 24% of net revenues in fiscal 2002.

The Company's domestic and international distributors are not exclusive and they may also market products competitive with the Company's products. The Company warrants its products against defects in materials and workmanship for a period of 12 months from the date of shipment. Warranty expenses to date have been nominal.

International sales are conducted by sales representatives and distributors located in Australia, Belgium, Canada, Denmark, England, Finland, France, Germany, Hong Kong, Israel, Italy, Japan, Korea, the Netherlands, Singapore, South Africa, Spain, Sweden, and Taiwan. During fiscal 2004, 2003, and 2002, the Company's export sales were approximately 52%, 55%, and 33% of net revenues, respectively (see Note 8 in "Notes to Financial Statements" contained in Item 8). The Company's international sales are billed in United States dollars, and therefore, settlements are not directly subject to currency exchange fluctuations. However, changes in the relative value of the dollar may create pricing pressures for the Company's products. Although the Company's international sales are subject to certain export restrictions, including the Export Administration Amendments Act of 1985 and the regulations promulgated thereunder, the Company has not experienced any material difficulties resulting from these restrictions to date.

Backlog

As of December 2, 2004 and 2003, the Company's backlog was approximately \$377,000 and \$164,400, respectively. The Company's backlog includes all released purchase orders shippable within the following 12 months, including orders from distributors. The Company's backlog, although useful for scheduling production, does not represent actual sales and should not be used as a measure of future sales or revenues at any particular time. In accordance with accepted industry practice, all orders on the backlog that are not "last-time buys" are subject to cancellation without penalty at the option of the purchaser at any time prior to shipment. In addition, the backlog does not reflect changes in delivery schedules and price adjustments that may be passed on to distributors and credits for returned products. The Company produces catalog products that may be shipped from inventory within a short time after receipt of a purchase order. The Company's business for its catalog products, like the businesses of many companies in the semiconductor industry, is characterized by short-term orders and shipment schedules rather than by volume purchase contracts. For these reasons, the Company's backlog as of any particular date is not representative of actual sales for any succeeding period and the Company believes that its backlog is not a good indicator of future revenues.

Research and Development

As the Company has not introduced sufficient new products in a few years, it views new product development as the most important factor affecting revenue growth; therefore, it continues its commitment to research and development. Research and development expenditures were 31%, 36%, and 27% of net revenues in fiscal 2004, 2003, and 2002, respectively. See "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Statements of Operations," contained in Items 6, 7, and 8, respectively.

Competition

The semiconductor industry is intensely competitive and characterized by rapid technological change and rates of product obsolescence, price erosion, periodic shortage of materials, variations in manufacturing yields and efficiencies, and increasing foreign competition. The industry includes many major domestic and international companies that have substantially greater financial, technical, manufacturing, and marketing resources than the Company. The Company faces competition from other manufacturers of high-performance integrated circuits, many of which have advanced technological capabilities and internal wafer production capabilities. The ability of the Company to compete in this rapidly evolving environment depends on elements both in and outside the control of the Company. These elements include the Company's ability to develop new products in a timely manner, the cost effectiveness of its manufacturing, the acceptance of new products by customers, the speed at which customers incorporate the Company's products into their systems, the continued access to advanced semiconductor foundries, the number and capabilities of its competitors, and general economic conditions. In the area of high-performance DSP circuits, the Company competes with Altera, Analog Devices, Fairchild Semiconductor, Intersil, Lucent Technologies, Texas Instruments, and Xilinx, among others.

Patents and Copyrights

Because of the rapidly changing technology in the semiconductor industry, the Company relies primarily upon its design know-how, rather than patents and copyrights, to develop and maintain its competitive position. The Company attempts to protect its trade secrets and other proprietary information through confidentiality agreements with employees, consultants, suppliers, and customers, but there can be no assurance that those measures will be adequate to protect the Company's interests.

The Company is of the opinion that patent maskwork protection is of less significance in the Company's business than other factors, such as the experience and innovative skill of its personnel and the abilities of its management. There can be no assurance that others will not develop or patent technology similar to the Company's technology, or copy or otherwise duplicate the Company's products. The Company owns five patents awarded by the United States Patent and Trademark Office.

Since others have obtained patents covering various semiconductor designs and processes, certain of the Company's present or future designs or processes may be claimed to infringe upon the patents of third parties. The Company has previously received, and may in the future receive, claims that one or more aspects or uses of the Company's products infringe on patent or other intellectual property rights of third parties. See Item 3 - "Legal Proceedings." The Company does not believe that it infringes upon any known patents at this time. If any such infringements exist or arise in the future, the Company may be liable for damages and may, like many companies in the semiconductor industry, find it necessary or desirable to obtain licenses relating to one or more of its current or future products. Based on industry practice, the Company expects that any necessary licenses or rights under patents could be obtained on conditions that would not have a material adverse effect on the Company. There can be no assurance, however, that licenses could in fact be obtained on commercially reasonable terms, or at all, or that litigation would not occur. The Company's inability to obtain such licenses on economically reasonable terms or the occurrence of litigation could adversely affect the Company.

Factors Affecting Future Results

This Annual Report on Form 10-K contains 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. Any statements about the Company's expectations, beliefs, plans, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. Words and phrases such as "anticipate, appears, estimate, plans, projects, continuing, ongoing, expect, believes, intends," and similar words or phrases may identify forward-looking statements.

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Forward-looking statements involve estimates, assumptions, and uncertainties that could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Form 10-K report. Among the key factors that could cause actual results to differ materially from the forward-looking statements include:

- Delay in product or technology development;
- Lack of market acceptance or demand for new products;
- The impact of competitive products and prices;
- Changes in economic conditions of the Company's various markets;
- Dependencies on silicon wafer suppliers and subcontracted assemblers and testers;
- The availability and terms of financing; and
- Opportunities or acquisitions the Company may pursue.

Actual results could differ materially from those expressed in any forward-looking statements made by the Company. Further, any forward-looking statement applies only as of the date on which it is made. The Company is not required to, and undertakes no obligation, to update or revise any forward-looking statement to reflect events or circumstances after the date on which such statement was made, or to reflect the occurrence of unanticipated events.

The Company has a history of losses and its future operating results could be harmed due to semiconductor industry business cycles.

The Company has sustained substantial net losses during the past few fiscal years. These net losses are attributable principally to delays in the television broadcast industry's transition to high definition digital broadcasting from current analog standards, the prolonged downturn in the semiconductor industry, and delays in new product development. Many factors will affect the Company's ability to become profitable or sustain profitability, such as continued demand for the Company's products by its customers, lack of price erosion, efficiency of its manufacturing subcontractors, continued product innovation and design wins, and the Company's continued ability to manage its operating expenses.

The Company produces and sells semiconductors and its operations are therefore impacted by the repeated and severe business cycles that have historically been experienced by the semiconductor industry. The Company's financial performance has been negatively impacted by significant downturns in the semiconductor industry as a result of:

- general reductions in inventory levels by customers;
- excess production capacity;
- the cyclical nature of the demand for products of semiconductor customers; and
- accelerated declines in average product selling prices.

When these or other conditions in the industry occur, the Company's operating results could be adversely impacted.

The Company is a small company with very limited resources compared to its current and potential competitors and it may not be able to compete effectively in its highly competitive industry.

The semiconductor industry is highly competitive and many of the Company's direct and indirect competitors and potential competitors have substantially greater financial, technological, manufacturing, and sales resources. If the Company is unable to compete successfully in this

environment, its operating results could be harmed.

The current level of competition is high and may increase as the Company's market expands. The Company competes directly with companies that have developed similar products. It also competes indirectly with numerous semiconductor companies that offer products and solutions based on alternative technologies. These direct and indirect competitors are established multinational semiconductor companies, as well as emerging companies. In addition, the Company may experience additional competition from foreign companies in the future.

The Company depends on a limited number of customers for a majority of its sales and its sales orders are typically concentrated in the third month of every quarter, making its financial results particularly susceptible to the loss of a key customer and making sales in a quarter difficult to predict.

The Company anticipates that the concentration of its sales among relatively few customers will continue in the future. The Company does not have long-term purchase commitments from any of its customers. Therefore, these customers could cease purchasing the Company's products with limited notice and with no penalty.

The Company's dependence on a small number of customers increases the risks associated with its potential loss of customers resulting from business combinations or consolidations. If a customer were acquired or combined with another company, the resulting company could cancel purchase orders as part of the integration process.

In addition, the Company frequently ships more products during the third month of each quarter than in the first two months of the quarter. Moreover, shipments in the third month are generally higher toward the end of the month. The Company's sales are therefore concentrated in the latter part of each quarter, making it difficult to predict its revenues and results of operations for any fiscal quarter or other fiscal period.

Continued delay in High Definition Television (HDTV) broadcasting could adversely impact sales of the Company's HDTV application products.

Beginning in November 1998, the Federal Communications Commission directed that television broadcasters begin a transition from current analog broadcasts to HDTV broadcasts. All analog broadcasts are scheduled to cease by the year 2006. However, it is generally acknowledged that the industry will not meet the 2006 conversion deadline.

The Company developed in fiscal 1998 and tested in fiscal 1999, products that were designed-in (incorporated) into HDTV compatible studio systems. Since fiscal 2000, sales of the Company's HDTV-related products have not met expectations, and the Company anticipates that its future revenues will be adversely affected if the slow transition persists.

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The Company depends on third parties to fabricate silicon wafers and to assemble and test its products, which exposes it to a risk of production disruption or uncontrolled price changes.

The Company does not manufacture silicon wafers. It relies upon two wafer suppliers, each of which is the sole source for certain of the Company's products, and two assembly/test subcontractors. These suppliers do not have a contractual obligation or commitment to supply such wafers or services in the future. If the suppliers are unable or unwilling to supply wafers or services, the Company's operating results could be harmed. The Company may not be able to find sufficient suppliers at a reasonable price or at all if such disruptions occur. As a result of its reliance on third parties, the Company faces significant risks, including:

reduced control over delivery schedules and quality;

- longer lead times;
- the potential lack of adequate capacity during periods of excess industry demand;
- difficulties selecting and integrating new subcontractors;
- limited warranties on products supplied to the Company;
- potential increases in prices due to capacity shortages; and
- potential misappropriation of the Company's intellectual property.

If the Company fails to deliver its products on time or if the costs of its products increase, then its profitability and customer relationships could be harmed.

The Company's international operations subject it to risks not present in solely domestic operations.

The Company's primary silicon wafer supplier and assembly subcontractors are located in Asia, primarily in South Korea and Taiwan. Economic, financial, social, and political conditions in have been volatile. Financial difficulties, government actions or restrictions, prolonged work stoppages, or any other difficulties experienced by the Company's suppliers could harm future operating results.

The Company also has many overseas customers. Its export sales are affected by unique risks frequently associated with foreign economics, including:

- governmental controls and trade restrictions;
- export license requirements and restrictions on the export of technology;
- changes in local economic conditions;
- political instability;
- changes in tax rates, tariffs, or freight rates;
- interruptions in air traffic; and
- difficulties in staffing and managing foreign sales offices.

Significant changes in the economic climate in the foreign countries from which the Company derives its export sales could harm future operating results.

The complex nature of semiconductors makes the Company highly susceptible to manufacturing problems and these problems could have a negative impact on future operating results.

Making semiconductors is a highly complex and precise process, requiring production in a tightly controlled, clean environment. Even minute imperfections in its materials, difficulties in the wafer fabrication process, defects in the masks used to print circuits on a wafer or other factors can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to be nonfunctional. The Company may experience problems in achieving an acceptable quality and yield rate in the manufacture of wafers. The interruption of wafer fabrication or the failure to achieve acceptable yields could harm future operating results. The Company may also experience manufacturing problems in its assembly and test operations, and in the introduction of new packaging materials.

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The Company depends on third parties to deliver its products.

The Company relies on independent carriers and freight haulers to transport its products between manufacturing locations and to deliver its products to its customers. Any transport or delivery problems because of their errors, or because of unforeseen interruptions, such as strikes, political instability, terrorism, natural disasters and accidents, could harm the Company's future operating results.

Earthquakes, other natural disasters, and power shortages may damage the Company's business.

The Company's California facility and some of its suppliers are located near major earthquake faults that have experienced earthquakes in the past. In addition, the risk of power shortages and outages in California has been widely reported. In the event of a major earthquake or other natural disaster near the Company's facility or a sustained loss of power at its facility, its operations could be harmed. Similarly, a major earthquake or other natural disaster near one or more of the Company's suppliers, such as the one that occurred in Taiwan in September 1999, could disrupt the operations of its suppliers, which could limit the supply of its products and harm its business.

The Company maintains high levels of inventory that decrease its liquidity and substantially increase the risk of write-offs.

The Company has historically maintained and expects to continue to maintain high levels of inventory of processed silicon wafers, packaging materials, and finished goods. For some product types, it must purchase, in a short period of time, all of its anticipated inventory needs for the life of the product. The Company commits capital to maintain these high inventory levels, which prevents it from using that capital for other purposes, such as research and development, and requires it to utilize more capital than it would otherwise require. The Company's high inventory levels also heighten its risk of inventory obsolescence and write-offs. Further, the Company may forecast demand incorrectly and produce insufficient inventory, resulting in supply shortages.

The Company currently has no bank credit facility and must rely solely upon existing cash reserves and funds from existing operations to finance future operations.

Although the Company sustained substantial net losses during fiscal 2004, 2003, and 2002, its cash flows from operations were positive during these fiscal years, due to its reductions in accounts receivable and inventory and its cost reduction efforts. However, these reductions cannot continue indefinitely. If the Company is unable to return to profitability, it would have to utilize cash reserves and thereafter obtain additional funding through debt or equity financing. If the Company is able to obtain debt financing, which is not assured, the terms of such financing are unknown, since it does not presently have a credit facility, and may be unfavorable to it. Similarly, there can be no assurance that the Company would be able to sell capital stock on favorable terms or at all and any such sales may adversely affect its existing shareholders.

The Company's operating success depends upon its ability to develop new products and access new technologies.

The semiconductor industry is a dynamic environment marked by rapid product obsolescence. The Company's future success depends on its ability to introduce new or improved products that meet critical customer needs, while achieving acceptable profit margins. If the Company fails

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to introduce these new products in a timely manner or these products fail to achieve market acceptance, operating results would be harmed. The introduction of new products in a dynamic market environment presents significant business challenges. Product development commitments and expenditures must be made well in advance of product sales, while the success of new products depends on accurate forecasts of long-term market demand and future technology developments.

Future revenue growth is dependent on market acceptance of new products and the continued market acceptance of existing products. The success of these products is dependent on a variety of specific technical factors, including:

- successful product definition;
- timely and efficient completion of product design;
- timely design into customers' future products and maintenance of close working relationships with customers;
- timely and efficient access to wafer manufacturing and assembly processes; and
- product performance, quality and reliability.

If, due to these or other factors, new products do not achieve market acceptance, the Company's operating results would be harmed. Furthermore, to develop new products and maintain the competitiveness of existing products, the Company needs to migrate to more advanced wafer manufacturing processes that use larger wafer sizes and smaller geometries.

The loss of key personnel or failure to hire and retain additional qualified personnel could impair the Company's ability to develop and market its products.

The Company's future success greatly depends on the ability to attract and retain highly qualified technical and management personnel. As a small company, the Company is particularly dependent on a relatively small group of key employees. Competition for skilled technical and management employees is intense in the semiconductor industry. As a result, the Company may be unable to retain its existing key technical and management employees, or attract additional qualified personnel, which could harm its operating results. The Company does not have employment agreements with, or key person life insurance policies on the lives of, any of its key employees.

The Company's failure to protect its proprietary rights, or the costs of protecting these rights, may harm its ability to compete.

The Company owns several patents but relies primarily on its design know-how and continued access to advanced wafer process technology to develop and maintain its competitive position. The Company attempts to protect its trade secrets and other proprietary information through confidentiality agreements with employees, consultants, suppliers and customers. However, competitors may develop, patent or gain access to similar know-how and technology, or reverse engineer the Company's products. The Company's inability to adequately protect its proprietary rights could result in its competitors offering similar products, potentially causing the Company to lose a competitive advantage and leading to decreased revenue. The Company may not obtain an adequate remedy in the event its confidentiality agreements are breached or any remedy if its trade secrets are independently developed by others. Despite the Company's efforts to protect its proprietary rights, existing intellectual property laws afford only limited protection, especially under the laws of some foreign countries. Litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources.

The Company could be harmed by litigation involving patents and other intellectual property rights.

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As a general matter, the semiconductor and related industries are characterized by substantial litigation regarding patent and other intellectual property rights. The Company has been and in the future may be accused of infringing the intellectual property rights of third parties. Furthermore, the Company may have certain indemnification obligations to customers with respect to the infringement of third-party intellectual property rights by its products. Infringement claims by third parties or claims for indemnification by customers or end-users of Company products resulting from infringement claims may be asserted in the future and such assertions, if proven to be true, may harm the Company's business.

Any litigation relating to the intellectual property rights of third parties, whether or not determined in the Company's favor or settled by the Company, could be costly and could divert the efforts and attention of management and engineering personnel. In the event of any adverse ruling in any such litigation, the Company could be required to pay substantial damages, cease the manufacturing, use and sale of infringing products, discontinue the use of certain processes or obtain a license under the intellectual property rights of the third party claiming infringement. A license might not be available on reasonable terms, if at all.

The Company has adopted certain anti-takeover, indemnification and limited liability provisions which may adversely affect its stock price.

The Company has adopted a shareholder rights plan that is designed to make a change of control through the acquisition of large amounts of its common stock, or through a tender offer to its shareholders, prohibitively expensive unless its board of directors has approved the transaction. The Company's restated articles of incorporation and bylaws also provide for the indemnification of its officers and directors and insulate its directors from monetary liability for certain breaches of their duty of care to the Company. These provisions may also have the effect of delaying or preventing a change in control without action by the Company's shareholders, and therefore could adversely affect the price of the Company's common stock.

The price of the Company's common stock may continue to be volatile and its trading volume may continue to be relatively low.

The market price of the Company's common stock has fluctuated significantly to date. In the future, the market price of the common stock could be subject to significant fluctuations due to general market conditions and in response to quarter-to-quarter variations in:

- the Company's anticipated or actual operating results;
- announcements or introductions of new products;
- technological innovations or setbacks by the Company or its competitors;
- conditions in the semiconductor markets;
- the commencement of litigation; and
- general economic and market conditions.

In July 2002, the Company received a written warning from the Nasdaq Stock Market indicating that its common stock was not in compliance with minimum market value of publicly held shares required and minimum bid price required for continued listing on the Nasdaq National Market. The common stock subsequently regained compliance and was not delisted. However, there can be no assurance that the Company's common stock will continue to satisfy the Nasdaq continued listing requirements. In the event of delisting, if the Company's shares are not then traded on an exchange or another quotation system, a public market for the shares would not exist and the ability of individuals to buy and sell shares would be limited. Even if the shares are traded on an exchange or another quotation system, there can be no assurance that the trading volume in the shares would be comparable to the present volume on the Nasdaq National Market. Any reduction in liquidity of the shares may reduce the value that a holder can obtain for them, regardless of the Company's performance or financial condition.

Employees

As of September 30, 2004, the Company had 16 employees, consultants, and part-time employees, of which 13 were full-time employees. This reduction of 13 full-time employees is part of the Company's efforts to reduce costs; however, it was careful to retain employees that are important to maintain the Company's ongoing development efforts. The Company's ability to attract and retain qualified personnel is an important factor in its continued success. None of the Company's employees are represented by a collective bargaining agreement, and the Company has never experienced any work stoppage. The Company believes that its employee relations are good.

Regulations

Federal, state, and local regulations impose various environmental controls on the discharge of chemicals and gases in connection with the wafer manufacturing process. Since the Company relies on third party manufacturers and its activities do not involve utilization of hazardous substances generally associated with semiconductor processing, the Company believes such regulations are unlikely to have a material affect on its business or operations.

ITEM 2. PROPERTIES

The Company's executive offices, as well as its inventories and principal research and design facilities, are located in approximately 15,400 square feet, in Sunnyvale, California, with a lease expiring September 30, 2007. The Company also maintains additional sales or field application support offices in the metropolitan area of San Diego, California and Warminster, England. The Company believes that its facilities will be adequate to meet its reasonably foreseeable needs and, if necessary, that alternative facilities will be available to it on acceptable terms, so as to meet its requirements.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company receives demands from various parties asserting patent claims. These demands are often not based on any specific knowledge of the Company's products or operations. Because of the uncertainties inherent in litigation, the outcome of any such claim, including simply the cost of a successful defense against such a claim, could have a material adverse impact on the Company.

In January 1998, the Company was contacted by the attorneys representing the estate of Mr. Jerome Lemelson, charging that the Company infringed on certain patents registered by Mr. Lemelson. The attorneys for the estate have not filed suit, but have urged the Company to enter into a licensing agreement with the estate in order to avoid litigation. The Company understands a similar demand has been made upon other manufacturers of integrated circuits, and that some have successfully defeated the claims. The Company has not had contact with the estate of Lemelson regarding this matter for several years. The Company has not analyzed the impact, if any, on the estate's claim from the January 2004 United States District Court of Nevada ruling, which is currently under appeal, that certain patents held by Mr. Lemelson's foundation relating to bar code scanners and related products were unenforceable as a result of the long delay between the filing of the patent applications and the issuance of the patents.

In September 2002, the Company was contacted by Syndia Corporation, the owner of certain patents of which Mr. Jerome Lemelson is a named inventor (Syndia patents). Syndia has not filed suit, but has urged the Company to enter into a licensing agreement with Syndia in order to avoid litigation. The Company understands a similar demand has been made upon other manufacturers of integrated circuits. On June 20, 2003, Taiwan Semiconductor Manufacturing Corporation (TSMC), the Company's primary wafer supplier, filed a claim against Syndia for a declaratory judgment of non-infringement, invalidity, and unenforceability of the Syndia patents. Further, TSMC claimed intentional interference with contractual relations, unfair business practices, and unfair competition arising from Syndia's bad-faith allegations that TSMC and TSMC's customers infringe the Syndia patents. On November 10, 2003, TSMC and Syndia jointly announced they had reached a settlement that resolved all outstanding legal claims raised by both parties, with no admission of liability by either party. TSMC also stated in the announcement that it settled this dispute for business reasons and to protect its customers from potential claims relating to products manufactured for them by TSMC. There has been no activity related to this claim for over a year.

Should the Lemelson estate or Syndia file suit, the Company would vigorously defend itself in this matter. However, because of the inherent uncertainties of litigation, the outcome of this action could be unfavorable, in which event the Company might be required to pay damages and other expenses, which could have a material adverse effect on the Company's financial position and results of operations. In addition, the Company could be required to alter certain of its production processes or products as a result of this matter.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the last quarter of fiscal 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock is traded under the symbol, LOGC, on The Nasdaq National Market. The following table sets forth, for the periods indicated, the high and low closing sale prices for the Company's Common Stock, as reported by Nasdaq during the following calendar quarters:

<u>Calendar Year</u>		<u>High</u>	<u>Low</u>
2002	Fourth quarter	\$1.48	\$0.72
2003	First quarter	\$1.30	\$0.89
	Second quarter	\$1.46	\$0.94
	Third quarter	\$1.91	\$1.22
	Fourth quarter	\$2.58	\$1.42
2004	First quarter	\$1.95	\$1.65
	Second quarter	\$1.79	\$1.45
	Third quarter	\$1.55	\$1.02

Holders

As of December 20, 2004, there were approximately 2,300 holders of record of the Company's Common Stock.

Dividends

The Company has not paid any dividends on its Common Stock since its incorporation.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table represents the position of the Company's equity compensation plans as of September 30, 2004:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	345,000	\$2.073	572,000
Equity compensation plans not approved by security holders	-	-	-
Total	345,000	\$2.073	572,000

ITEM 6. SELECTED FINANCIAL DATA

On December 15, 2003, the Company elected to change its calendar business year to a fiscal year ending September 30. Previously, the Company's fiscal years were comprised of 52 weeks of seven days, each beginning on Monday and ending on Sunday. Previously, the Company's fiscal quarters were comprised of exactly 13 weeks and, therefore, its fiscal years consisted of only 364 days.

As a result of this change, the Company's fiscal years will be comprised of 365 days or, in leap years such as 2004, 366 days with each fiscal quarter ending at the end of a calendar quarter. The Company's 2004 fiscal year ended September 30, 2004 rather than September 26, 2004. The additional four days were included in the Company's first quarter for fiscal 2004, which ended December 31, 2003.

The following table sets forth selected financial data for the Company's last five fiscal periods. This information is derived from the Company's audited financial statements, unless otherwise stated. This data should be read in conjunction with the financial statements, related notes, and other financial information included elsewhere in this report.

(Dollars in thousands, except per share amounts)

	September 30, 2004	September 28, 2003	Fiscal Years Ended: September 29, 2002	September 30, 2001	October 1, 2000
Net revenues	\$ 4,415	\$ 5,009	\$ 6,573	\$ 10,007	\$ 11,786
Research and development	\$ 1,364	\$ 1,785	\$ 1,776	\$ 1,926	\$ 1,661
Net (loss) income	\$ (1,472)	\$ (2,461)	\$ (2,124)	\$ (212)	\$ 522
Basic and diluted (loss) income per common share	\$ (0.22)	\$ (0.37)	\$ (0.31)	\$ (0.03)	\$ 0.08
Weighted average common shares					

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outstanding (000s)					
	6,715	6,652	6,850	6,842	6,772
Working capital	\$ 9,583	\$ 11,084	\$ 13,674	\$ 14,882	\$ 14,115
Net property and equipment	\$ 862	\$ 857	\$ 931	\$ 1,592	\$ 2,424
Total assets	\$ 10,836	\$ 12,248	\$ 14,927	\$ 17,231	\$ 17,589
Long-term liabilities	\$ 41	\$ 40	\$ -	\$ 3	\$ 38
Shareholders' equity	\$ 10,590	\$ 11,943	\$ 14,627	\$ 16,652	\$ 16,845

ITEM 7. 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. 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" at the end of Item 1 of this Annual Report on Form 10-K. 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.

Overview

The Company is one of the smallest publicly traded semiconductor makers. Following its formation, the Company initially developed plug-compatible second source products that were form, fit, and function compatible with products offered by other manufacturers. Beginning in 1996, the Company began identifying unique, proprietary products driven by its existing customer base. While this transition to proprietary products required the Company to obtain advanced design automation tools and to increase the number of people involved in product development, it enabled the Company to focus its sales channels and limit the costs of those channels, and to compete in markets with pricing and delivery demands that are not as highly competitive as the markets for second source products. The Company primarily derives its revenues from the sale of semiconductor chips that perform high-speed DSP in video image filtering and digital communications applications.

The Company's transition to a proprietary product focus has had a significant impact on its financial results. In 1998, the Company recorded significant write-downs of inventory and long-lived assets, as it recognized the obsolescence of its more mature, second-source products. The Company anticipated increased revenues from the HDTV market starting in 1999, but the delays in the broadcast industry's transition to high-definition from analog signals resulted in less revenues from these products than the Company anticipated. In the meantime, revenues from the Company's older second-source products dropped dramatically as they were obsoleted. Therefore, while the Company's revenues have decreased over the past few years, revenues from newer products have actually increased to partially take the place of revenues from mature, second-source products.

In addition, the events of September 11, 2001 and the "war on terrorism" resulted in the Company receiving approximately \$2.92 million in sales to a defense contractor for the cruise missile program during fiscal 2002. The Company anticipated receiving additional revenues from the military programs during fiscal 2004 or 2003; however, these revenues were relatively insignificant. While the revenues from these programs may be significant in the future, the Company cannot be sure if and when that will occur.

The Company anticipates revenues from its newer proprietary products to increase if the HDTV market begins to ramp up. In August 2002, the FCC issued an order to television manufacturers that requires digital tuners to be incorporated into 50 percent of the television sets with screens of 36 or more inches starting in 2004, into 50 percent of the sets with screens of 25-35 inches starting in 2005, and into all sets with screens of 13 inches or more by 2007. On October 29, 2003, the U.S. Court of Appeals for the D.C. Circuit upheld the FCC mandate that, by 2007, all but the very smallest television sets sold in the U.S. must be equipped for receiving digital, along with traditional analog, television signals. The Court said the FCC's mandate was needed because the industry was not moving quickly enough to make new tuners available.

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Notwithstanding the impact of the delayed transition in the broadcasting industry and the overall downturn in the economy, the Company has strengthened its balance sheet in the last few years. As a result of the 1998 reorganization, aggressive expenditure controls, limitations on capital expenditures, reductions of inventory levels, and increased revenues from military programs, the Company has increased its cash balance by 1,156 percent from fiscal 1998 to fiscal 2004, while reducing its total liabilities by 97 percent during the same period.

On December 15, 2003, the Company elected to change its fiscal year to a fiscal year ending September 30. Previously, the Company's fiscal years were comprised of 52 weeks of seven days, each beginning on Monday and ending on Sunday, with fiscal 2003 ending September 28, 2003 and fiscal 2002 ending September 29, 2002. Previously, the Company's fiscal quarters were comprised of exactly 13 weeks and, therefore, its fiscal years consisted of only 364 days.

As a result of this change, the Company's fiscal years will be comprised of 365 days or, in leap years such as 2004, 366 days with each fiscal quarter ending at the end of a calendar quarter. The Company's 2004 fiscal year ended September 30, 2004 rather than September 26, 2004. The additional four days were included in the Company's first quarter for fiscal 2004, which ended December 31, 2003.

Results of Operations

Fiscal Year Ended September 30, 2004 compared to Fiscal Year Ended September 28, 2003

Net revenues for fiscal 2004 decreased 12 percent, from \$5,009,000 in fiscal 2003 to \$4,414,600. This decrease was due to a continued down cycle of the semiconductor industry, the continued sluggish economy, and the prolonged delay in the widespread adoption of HDTV broadcasting. In addition, the Company continues to experience a drop-off in sales of its older products that is not countered enough by revenues from newer products.

While the Company's net revenues decreased by 12 percent, the Company's cost of revenues, as a percentage of net revenues, decreased by 9 percentage points. This reduction in the cost of revenues is the result of the cost cutting of the past several years and a reduction in the amount of work-in-process inventory scrapped during fiscal 2004 compared to fiscal 2003. In fiscal 2004, the Company scrapped \$187,200 of work-in-process inventory compared to \$560,200 in fiscal 2003. In addition, the Company increased its inventory reserve by approximately \$750,000 in fiscal 2003, while it decreased the reserve by \$300 in fiscal 2004. As a result of the foregoing, the Company's gross profit increased by 16 percent from \$1,411,800 in fiscal 2003 to \$1,641,000 in fiscal 2004. As a percentage of net revenues, gross profit increased from 28 percent in fiscal 2003 to 37 percent in fiscal 2004.

While the Company continues to believe new product development is key to future growth, revenue constraints forced the Company to decrease research and development expenditures 24 percent, from \$1,784,600 in fiscal 2003 to \$1,363,900 in fiscal 2004. However, as a percentage of net revenues, this decrease in expenditures still leaves the Company over its target of 20 percent. As a percentage of net revenues, research and development expenditures decreased from 36 percent in fiscal 2003 to 31 percent in fiscal 2004. In addition, the Company believes its current team is made up of very qualified individuals that are capable of accelerating new product introductions in the future.

Selling, general and administrative expenditures decreased 16 percent from \$2,110,900 in fiscal 2003 to \$1,772,100 in fiscal 2004. This reduction is a result of the cost cutting of the past several years, including but not limited to a reduction in staffing, a reduction of office space and rent, and reductions in directors and officers insurance levels.

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While the Company incurred a reduction of net revenues in fiscal 2004, greater reductions of expenditures resulted in a 40 percent decrease in the loss from operations, from \$2,483,700 in fiscal 2003 to \$1,495,000 in fiscal 2004.

Due to slightly decreased cash balances during the year, the Company's interest income from deposits decreased 15 percent in fiscal 2004 from \$23,600 in fiscal 2003 to \$19,700.

As a result of the foregoing, the Company's net loss for fiscal 2004 decreased 40 percent from \$2,461,300 in fiscal 2003 to \$1,472,300 in fiscal 2004.

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Fiscal Year Ended September 28, 2003 compared to Fiscal Year Ended September 29, 2002

Net revenues for fiscal 2003 decreased 24 percent, from \$6,572,600 in fiscal 2002 to \$5,009,000. This decrease was due to the down cycle of the semiconductor industry, the sluggish economy, and the prolonged delay in the adoption of HDTV broadcasting. These factors limited the Company's commercial product revenues to only a slight increase in fiscal 2003 compared to 2002. However, a sharp drop in sales of chips to military programs adversely impacted the Company's overall revenues in fiscal 2003. During fiscal 2002, approximately 24 percent of revenues were derived from sales to defense contractors, while fiscal 2003 defense related sales were insignificant.

While the Company's net revenues decreased 24 percent, the Company's cost of revenues also decreased by 25 percent. The Company was able to reduce the cost of revenues at a rate proportional to the drop in revenues, in spite of having certain overhead expenses that are relatively fixed, due to cost cutting for the past several years. In addition, during fiscal 2003, the Company obsoleted \$1,072,800 and scrapped \$560,200 of inventory, both of which are reflected in the cost of revenues. The Company's gross profit decreased 21 percent from \$1,792,600 in fiscal 2002 to \$1,411,800 in fiscal 2003. Gross profit as a percent of revenues increased from 27 percent in fiscal 2002 to 28 percent in fiscal 2003.

Research and development expenditures increased less than one percent, from \$1,775,700 in fiscal 2002 to \$1,784,600 in fiscal 2003. The Company believes that new product development is a key ingredient for future growth and elected to maintain research and development levels in spite of the drop in revenues. As a result, research and development expenditures, as a percentage of net revenues, increased from 27 percent in fiscal 2002 to 36 percent in fiscal 2003.

Selling, general, and administrative expenses decreased slightly from \$2,138,400 in fiscal 2002 to \$2,110,900 in fiscal 2003. The Company was able to contain selling, general, and administrative expenditures as a result of on-going cost control efforts.

As a result of the significant decrease in revenues and the sustained funding of research and development levels, the Company had a net loss from operations of \$2,483,700 in fiscal 2003, compared to a net loss from operations of \$2,121,500 in fiscal 2002.

Because the Company had essentially no borrowing during fiscal 2003, it had no interest expense, compared to \$37,900 in fiscal 2002.

Due to the above factors, the Company experienced a net loss of \$2,461,300 in fiscal 2003 compared to a net loss of \$2,123,700 in fiscal 2002.

Liquidity and Capital Resources

During fiscal 2004, the Company's operations produced \$292,500 of net cash, despite its \$1,472,300 net loss. This was mainly from the net collection of accounts receivable of \$114,600, reductions in inventories of \$1.4 million, a decrease in prepaid expenses of \$49,200, and an increase in accounts payable at year-end. Even though the Company maintains its prompt payments to vendors, the accounts payable balance increased by \$90,200 in fiscal 2004 compared to fiscal 2003, due to the invoices of some vendors being received during the last week of the fiscal year and not yet being due as of the end of the fiscal year. The Company maintains its prompt payments terms with its vendors. The Company also received \$119,300 of cash from the exercise of common stock options. The Company used this and the cash from operations to

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fund capital purchases of \$285,700 and other asset purchases of \$143,300, which resulted in the Company's cash position decreasing by one percent, from \$1,806,100 in fiscal 2003 to \$1,788,900 in fiscal 2004.

During fiscal 2003, the Company's operations produced \$1,318,200 of net cash, despite its \$2,461,300 net loss. This was mainly the result of the net collection of accounts receivable of \$1,972,300 and a decrease in prepaid expenses of \$333,600. At the same time, the Company maintained its prompt payment terms with vendors, so accounts payable decreased \$82,100. The Company used cash from operations to purchase capital assets aggregating \$326,900 and to fund the repurchase of \$233,700 of its common stock on the open market. The Company's cash position increased from \$1,061,100 at the end of fiscal 2002 to \$1,806,100 at the end of fiscal 2003.

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During fiscal 2002, the Company produced net cash of \$938,900 from operations, despite its \$2,123,700 net loss. While the Company spent \$269,300 for prepaid expenses, \$139,000 for accounts payable, and \$83,300 for accrued expenses, it netted \$556,300 from accounts receivable collections. In addition, the Company was able to produce \$1,767,600 from its inventories as many of its fiscal 2002 revenues were shipped from existing stock. The Company used some of the cash from operations to fund capital expenditures of \$43,000 and to repay capital lease obligations of \$54,700. The Company's cash position increased from \$217,500 at the end of fiscal 2001 to \$1,061,100 at the end of fiscal 2002.

The Company's current working capital requirements are greatly reduced due to the cost cutting of the past few years. The Company believes that these cost cutting actions and its continued focus on higher-margin products should result in after-tax cash earnings being sufficient to support its working capital and capital expenditure requirements for the next 12 months. Based on the fact that, as of December 20, 2004, it holds approximately \$1,937,200 in cash reserves and its cash usage for operations is approximately equal to or less than its current revenue rate, the Company 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.

Working Capital

The Company's investment in inventories has been significant and will continue to be significant in the future. However, during the past few years, the Company has been able to reduce its levels of inventories as it shifts from more competitive second source products to proprietary sole source products. The Company believes it will be able to streamline its inventories as it continues to shift to sole source proprietary products. It also intends to continue its shortened accounts receivable collection cycle by re-focusing on direct sales to customers rather than through distribution channels.

The Company relies on third party suppliers for its raw materials, particularly its processed wafers, for which it currently relies primarily on one supplier, and as a result, maintains substantial inventory levels to protect against disruption in supplies. The Company has periodically experienced disruptions in obtaining wafers. As the Company continues to shift towards higher margin proprietary products, it expects to be able to reduce inventory levels by streamlining its product offerings.

Periodically, the Company reviews inventory to determine recoverability of items on-hand using the lower-of-cost-or-market (LOCOM) and excess methods. The Company groups and evaluates its products based on their underlying die or wafer type (the Company's raw materials, silicon wafers, can generally be used to make multiple products), to determine the total quantity on-hand and average unit costs. Management uses judgment in comparing the sales quantities for up to the prior 18 fiscal months to the quantity on-hand at the end of the fiscal year. If the quantity on-hand exceeds the sales quantities, the Company provides a reserve for the potentially obsolete or slow-moving items. For the LOCOM analysis, the Company compared the average sales price to the average unit cost of inventories at the end of the fiscal year. If the average unit cost exceeds the average sales price, the Company provides a reserve. During fiscal 2004 and 2003, the Company's LOCOM and excess reserves totaled \$856,200 and \$1,043,200, respectively.

With the continuing slow economic conditions, the Company felt it necessary to review its raw materials and work-in-process as well. During fiscal 2004, the Company wrote off approximately \$250,300 of work-in-process inventory and scrapped \$187,200, which were directly expensed to the cost of revenues. During fiscal 2003, the Company wrote off approximately \$1.1 million of work-in-process inventory and scrapped an additional \$560,200, which were directly expensed to the cost of revenues. The Company believes its current reserve of \$1,042,900 for inventory provides a reasonable estimate of the recoverability of inventories at the end of fiscal 2004.

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Although current levels of inventory impact the Company's liquidity, the Company believes that this is a less costly alternative to owning a wafer fabrication facility. The Company continues to evaluate alternative suppliers to diversify its risk of supply disruption. However, this requires a significant investment in product development to tool masks with new suppliers. Such efforts compete for the Company's limited product development resources. The Company seeks to achieve on-going reductions in inventory, although there can be no assurance it will be successful. In the event economic conditions remain slow, the Company may consider identifying additional portions of inventory to write-off at a future date.

Historically, due to customer order scheduling, up to 80% of the quarterly revenues were often shipped in the last month of the quarter, so a large portion of the shipments included in year-end accounts receivable were not yet due per the Company's net 30-day terms. This results in year-end accounts receivable balances being at their highest point for the respective period.

Financing

While the Company will continue to evaluate future debt and equity financing opportunities, it believes the cost reductions implemented in the past few years have resulted in the cash flow generated from operations providing an adequate base of liquidity to fund future operating and capital needs. Based on the fact that, as of December 20, 2004, it holds approximately \$1,937,200 in cash reserves and its anticipated cash usage for operations is approximately equal to or less than its current revenue rate, the Company 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.

Contractual Obligations

Below is a summary of fixed payments related to certain contractual obligations. Payment timing may be subject to change.

	Total	Payments due by period:		
		Within 1 year	1-3 years	After 3 years
Operating leases:				
Buildings	\$ 708,400	\$ 234,900	\$ 473,500	\$ -
Equipment	180,600	154,800	25,800	-
Purchase obligations ¹	285,000	285,000	-	-
	\$ 1,174,000	\$ 674,700	\$ 499,300	\$ -

¹ Purchase obligations are licensing fees for engineering design software.

Off-Balance Sheet Arrangements

Other than its operating leases, the Company does not have any off-balance sheet arrangements.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and the results of operations are based upon the financial statements included in this report and the data used to prepare them. The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America and we are required to make judgments, estimates, and assumptions in the course of such preparation. The Summary of Accounting Policies included with the financial statements describes the significant accounting policies and methods used in the preparation of the financial statements. On an ongoing basis, the Company reevaluates its judgments, estimates, and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, and valuation of long-lived assets. The Company bases its judgments and estimates on historical experience, knowledge of current conditions, and its beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. The following are the critical accounting policies the Company believes are affected by significant judgments, estimates, and assumptions used in the preparation of the financial statements.

Revenue Recognition

Revenue is generally recognized upon shipment of product. Sales to distributors are made pursuant to agreements that provide the distributors certain rights of return and price protection on unsold merchandise. Revenues from such sales are recognized upon shipment, with a provision for estimated returns and allowances recorded at that time, if applicable. While distributors are allowed to return items for stock rotation, they are required to place an order of equal or greater value at the same time. Therefore, no allowance for returns is recorded. Because the Company does not change its pricing of products more than once a year, there has not been any pricing issues in the past several years; therefore, there is no allowance for price protection recorded.

Allowance for Doubtful Accounts

The Company establishes a general allowance for doubtful accounts based on analyzing historical bad debts, specific customer creditworthiness, and current economic conditions. Historically, the Company has not experienced significant losses related to receivables.

Inventories

The Company writes down its inventories for lower of cost or market reserves, aged inventory reserves, and obsolescence reserves. Inventory reserves are generally recorded when inventory for a product type exceeds 18 months of demand for that product type. If actual product demand or selling prices are less favorable than estimated, additional inventory write-downs may be required in the future. Conversely, if demand comes back for product types that have been fully reserved, future margins may be higher.

Long-Lived Assets

Long-lived assets, including property and equipment, goodwill, and other intangible assets, are assessed for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, or whenever management has committed to a

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plan to dispose of the assets. Such assets are carried at the lower of book value or fair value as estimated by management based on appraisals, current market value, and comparable sales value, as appropriate. Assets to be held and used affected by such impairment loss are depreciated or amortized at their new carrying amounts over the remaining estimated life; assets to be sold or otherwise disposed of are not subject to further depreciation or amortization. In determining whether an impairment exists, the Company uses undiscounted future cash flows without interest charges compared to the carrying value of the assets.

Impact of New Financial Accounting Standards

There were no new financial accounting pronouncements with a significant impact on the Company's financial statements.

ITEM 7A. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements and Financial Statement Schedules

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders

and Board of Directors

LOGIC Devices Incorporated

Sunnyvale, 4881: California

We have audited the accompanying balance sheet of LOGIC Devices Incorporated (the "Company") as of September 30, 2004 and September 28, 2003 and the related statements of operations, shareholders' equity, and cash flows for the fiscal years then ended. We have also audited the 2004 and 2003 information included in Schedule II - Valuation and Qualifying Accounts (Schedule II). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company for the fiscal year ended September 29, 2002 and the 2002 information included in Schedule II, were audited by other auditors, whose report, dated November 6, 2002 expressed an unqualified opinion on those statements and schedules.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 and 2003 financial statements referred to above present fairly, in all material respects, the financial position of LOGIC Devices Incorporated as of September 30, 2004 and September 28, 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Schedule II, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the 2004 and 2003 information set forth therein.

/s/ Perry-Smith LLP

Sacramento, California

November 5, 2004

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS

LOGIC DEVICES INCORPORATED

Sunnyvale, California

We have audited the balance sheet as of September 29, 2002 of **LOGIC DEVICES INCORPORATED (the Company)**, and the related statements of operations, stockholders' equity, and cash flows for the fiscal year then ended. We have also audited the 2002 information included in Schedule II - Valuation and Qualifying Accounts (Schedule II). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LOGIC Devices Incorporated as of September 29, 2002, and the results of its operations and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Schedule II, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the 2002 information set forth therein.

/s/ Hood & Strong LLP

Menlo Park, California

November 6, 2002

LOGIC Devices Incorporated**Balance Sheets**

	September 30, 2004	September 28, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,788,900	\$ 1,806,100
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$3,500, respectively (Notes 8, 9, and 12)	729,000	840,100
Inventories (Notes 1, 8, and 12)	7,079,300	8,510,900
Prepaid expenses (Note 3)	143,100	192,300
Sales tax refund receivable	47,600	
Total current assets	9,787,900	11,349,400
Property and equipment, net (Note 2)	862,000	856,700
Other assets (Note 4)	185,700	42,400
	\$ 10,835,600	\$ 12,248,500
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 137,200	\$ 47,000
Accrued payroll and vacation	52,500	160,500
Accrued commissions	15,500	20,200
Other accrued expenses	-	38,000
Total current liabilities	205,200	265,700
Deferred rent	40,500	39,900
Total liabilities	245,700	305,600
Commitments and contingencies (Note 6)		
Shareholders' equity (Note 7):		
Preferred stock, no par value; 1,000,000 shares authorized;	-	-
5,000 designated as Series A; 0 shares issued and outstanding		

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Common stock, no par value; 10,000,000 shares authorized; 6,743,188 and 6,640,688 shares issued and outstanding	18,436,500	18,317,200
Additional paid-in capital	100,000	100,000
Accumulated deficit	(7,946,600)	(6,474,300)
Total shareholders' equity	10,589,900	11,942,900
	\$ 10,835,600	\$ 12,248,500

See accompanying summary of accounting policies and notes to financial statements.

LOGIC Devices Incorporated**Statements of Operations**

	September 30, 2004	Fiscal Years Ended: September 28, 2003	September 29, 2002
Net revenues (Notes 8 and 12)	\$ 4,414,600	\$ 5,009,000	\$ 6,572,600
Cost of revenues	2,773,600	3,597,200	4,780,000
Gross profit (Note 12)	1,641,000	1,411,800	1,792,600
Operating expenses:			
Research and development	1,363,900	1,784,600	1,775,700
Selling, general, and administrative	1,772,100	2,110,900	2,138,400
Total operating expenses	3,136,000	3,895,500	3,914,100
Loss from operations	(1,495,000)	(2,483,700)	(2,121,500)
Other (income) expense:			
Interest expense	-	-	37,900
Interest income	(19,700)	(23,600)	(7,800)
Other (income) expense, net	(3,800)	400	(37,300)
Total other income	(23,500)	(23,200)	(7,200)
Loss before provision for income taxes	(1,471,500)	(2,460,500)	(2,114,300)
Provision for income taxes (Note 5)	(800)	(800)	(9,400)
Net loss	\$ (1,472,300)	\$ (2,461,300)	\$ (2,123,700)
Basic and diluted loss per share	\$ (0.22)	\$ (0.37)	\$ (0.31)

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Basic and diluted weighted average common shares outstanding	6,715,480	6,651,705	6,850,096
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See accompanying summary of accounting policies and notes to financial statements.

LOGIC Devices Incorporated

Statements of Shareholders' Equity

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Accumulated Deficit	
(Consolidated)					
Balances, September 30, 2001	6,841,888	18,522,700	19,000	(1,889,300)	16,652,400
Issuance of common stock on					
exercise of stock options (Note 7)	11,000	17,200	-	-	17,200
Extension of common stock					
warrants (Note 7)	-	-	81,000	-	81,000
Net loss	-	-	-	(2,123,700)	(2,123,700)
Balances, September 29, 2002	6,852,888	18,539,900	100,000	(4,013,000)	14,626,900
Repurchase of common stock					
(Note 7)	(222,200)	(233,700)	-	-	(233,700)
Issuance of common stock on					
exercise of stock options (Note 7)	10,000	11,000	-	-	11,000

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Net loss	-	-	-	(2,461,300)	(2,461,300)
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Balances, September 28, 2003	6,640,688	18,317,200	100,000	(6,474,300)	11,942,900
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Issuance of common stock on

exercise of stock options (Note 7)	102,500	119,300	-	-	119,300
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Net loss	-	-	-	(1,472,300)	(1,472,300)
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Balances, September 30, 2004	6,743,188	\$ 18,436,500	\$ 100,000	\$ (7,946,600)	\$ 10,589,900
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See accompanying summary of accounting policies and notes to financial statements.

LOGIC Devices Incorporated

Statements of Cash Flows

	Fiscal Years Ended:		
	September 30,	September 28,	September 29,
	2004	2003	2002
Cash flows from operating activities:			
Net loss	\$ (1,472,300)	\$ (2,461,300)	\$ (2,123,700)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	277,900	400,800	814,200
Allowance for doubtful accounts	(3,500)	(16,500)	-
Deferred rent	600	39,900	-
Loss on disposal of capital equipment	2,500	300	-
Issuance of common stock warrants for services	-	-	81,000
Changes in current assets and liabilities:			
Accounts receivable	114,600	1,972,300	556,300
Inventories	1,431,600	1,080,200	2,104,600
Prepaid expenses	49,200	333,600	(269,300)
Sales tax refund receivable	(47,600)	-	-
Accounts payable	90,200	(82,100)	(139,000)
Accrued payroll and vacation	(108,000)	12,500	(42,900)
Accrued commissions	(4,700)	1,400	(35,800)
Other accrued expenses	(38,000)	37,100	(4,600)
Income taxes payable	-	-	(1,900)
Net cash provided by operating activities	292,500	1,318,200	938,900
Cash flows from investing activities:			
Capital expenditures	(285,700)	(326,900)	(43,000)
Other assets	(143,300)	(20,700)	(14,800)
Net cash used in investing activities	(429,000)	(347,600)	(57,800)
Cash flows from financing activities:			
Proceeds from issuance of common stock	119,300	11,000	17,200
Repurchase of common stock	-	(233,700)	-
Proceeds from bank borrowings	-	-	1,050,000
Repayments of bank borrowings	-	-	(1,050,000)
Payments of capital lease obligations	-	(2,900)	(54,700)
Net cash provided by (used in) financing activities	119,300	(225,600)	(37,500)
Net (decrease) increase in cash and cash equivalents	(17,200)	745,000	843,600
Cash and cash equivalents, beginning of period	1,806,100	1,061,100	217,500

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Cash and cash equivalents, end of period	\$ 1,788,900	\$ 1,806,100	\$ 1,061,100
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See accompanying summary of accounting policies and notes to financial statements.

LOGIC Devices Incorporated

Summary of Accounting Policies

The Company and Nature of Business

LOGIC Devices Incorporated (the Company) develops and markets high-performance integrated circuits. The Company's products include high-speed digital signal processing chips that are used in digital communications, broadcast and medical imaging processing applications, instrumentation, and smart weapons systems. The Company markets its products worldwide, such that 34 percent of the Company's net revenues in fiscal 2004 were derived from original equipment manufacturers, while sales through foreign and domestic distributors accounted for approximately 66 percent of net revenues. Approximately 48 percent of the Company's net revenues in fiscal 2004 were derived from within the United States and approximately 52 percent from foreign sales.

Fiscal Year

On December 15, 2003, the Company elected to change its calendar business year to a fiscal year ending September 30. Previously, the Company's fiscal years were comprised of 52 weeks of seven days, each beginning on Monday and ending on Sunday, with fiscal 2003 ending September 28, 2003 and fiscal 2002 ending September 29, 2002. Previously, the Company's fiscal quarters were comprised of exactly 13 weeks and, therefore, its fiscal years consisted of only 364 days.

As a result of this change, the Company's fiscal years will be comprised of 365 days or, in leap years such as 2004, 366 days with each fiscal quarter ending at the end of a calendar quarter. The Company's 2004 fiscal year ended September 30, 2004 rather than September 26, 2004. The additional four days were included in the Company's first quarter for fiscal 2004, which ended December 31, 2003.

Reclassifications

Certain items in the fiscal 2002 financial statements were reclassified to conform to the basis used in the fiscal 2003 financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

The Company establishes a general allowance for doubtful accounts based on its analysis of historical bad debts, specific customer creditworthiness, and current economic conditions. Historically, the Company has not experienced significant losses related to receivables.

Inventories

Inventories of raw materials, work-in-process, and finished goods are stated at the lower of cost (first-in, first-out) or market (Notes 1 and 9). Cost includes the purchase price of parts, assembly costs, and overhead.

LOGIC Devices Incorporated

Summary of Accounting Policies

Property and Equipment

Property and equipment are stated at cost. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets, generally three to seven years. Leasehold improvements and assets held under capital lease are amortized on a straight-line basis over the shorter of the lease terms or the estimated lives of the assets. Certain tooling costs are capitalized by the Company and are amortized on a straight-line basis over the shorter of the related product life cycle or five years. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss is reflected in income for the period.

Research and Development Costs

Research and development costs are charged to operations as incurred.

Capitalized Software Costs

Internal test computer software development costs are capitalized as incurred during the application development stage, as defined by Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The capitalized software costs are classified as other assets and are amortized on a straight-line basis over the shorter of the related expected product life cycle or five years, with amortization beginning when production parts are in process.

Revenue Recognition

Revenue is generally recognized upon shipment of product. Sales to distributors are made pursuant to agreements that provide the distributors certain rights of return and price protection on unsold merchandise. Revenues from such sales are recognized upon shipment, with a provision for estimated returns and allowances recorded at that time, if applicable. While distributors are allowed to return items for stock rotation, they are required to place an order of equal or greater value at the same time. Therefore, no allowance for returns is recorded. Because the Company does not change its pricing of products more than once a year, there have not been any pricing issues in the past several years; therefore, there is no allowance for price protection recorded.

Income Taxes

Deferred income tax assets and liabilities are recognized based on the temporary differences between the financial statement and income tax basis of assets, liabilities, and carryforwards using enacted tax rates. Valuation allowances are established for deferred tax assets to the extent of the likelihood that the deferred tax assets may not be realized.

Loss Per Common Share

Basic loss per share is computed by dividing the net loss attributable to common shares, by the weighted average number of common shares outstanding during each period. Diluted loss per share is similar to basic loss per share, except that the weighted average number of common shares outstanding is increased to reflect the dilutive effect, if any, of potential common shares, such as those issuable upon the exercise of stock options or warrants, contingent shares, and the conversion of preferred stock, as if they had been issued.

For the fiscal years ended September 30, 2004, September 28, 2003, and September 29, 2002, there is no difference between basic and diluted loss per share, as there were no dilutive stock options.

LOGIC Devices Incorporated

Summary of Accounting Policies*Fair Value of Financial Instruments*

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short maturity of these items.

Long-Lived Assets

Long-lived assets, including property and equipment, goodwill, and other intangible assets, are assessed for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, or whenever management has committed to a plan to dispose of the assets. Such assets are carried at the lower of book value or fair value as estimated by management based on appraisals, current market value, and comparable sales value, as appropriate. Assets to be held and used affected by such impairment loss are depreciated or amortized at their new carrying amounts over the remaining estimated life; assets to be sold or otherwise disposed of are not subject to further depreciation or amortization. In determining whether an impairment exists, the Company uses undiscounted future cash flows without interest charges compared to the carrying value of the assets.

Stock-based Compensation

At September 30, 2004, the Company has stock-based compensation plans (the Plans), which are described more fully in Note 7. The Company accounts for the Plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees and Related Interpretations*. No stock-based employee compensation cost is reflected in n

et loss, as all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting period. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation:

		2004	2003	2002
<i>Net loss</i>				
	As reported	\$ (1,472,300)	\$ (2,461,300)	\$ (2,123,700)
	Pro forma	\$ (1,477,800)	\$ (2,515,500)	\$ (2,367,600)
<i>Basic and diluted loss per share</i>				
	As reported	\$ (0.22)	\$ (0.37)	\$ (0.31)

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Pro forma

\$ (0.22)

\$ (0.38)

\$ (0.35)

LOGIC Devices Incorporated

Summary of Accounting Policies

The pro forma information provided above was estimated at the date of grant, using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Expected life (in years)	3.0	3.0	3.0
Risk-free interest rate	2.70%	2.63%	2.32%
Volatility	78.0%	91.2%	97.6%
Dividend yield	0.0	0.0	0.0

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because the Company's options have characteristics significantly different from those of trading options, management believes that the existing pricing models do not necessarily provide a reliable single measure of the fair value of its options.

Segment Reporting

The Company is organized in a single operating segment for purposes of making operating decisions and assessing performance. The president (the chief operating decision maker) evaluates performance, makes operating decisions, and allocates resources based on financial data consistent with the presentation in the accompanying financial statements.

Impact of New Financial Accounting Standards

There have been no new financial accounting pronouncements with a significant impact on these financial statements.

LOGIC Devices Incorporated

Notes to Financial Statements**1. Inventories**

A summary of inventories follows:

	<i>September 30,</i>	<i>September 28,</i>
	<i>2004</i>	<i>2003</i>
Raw materials	\$ 771,000	\$ 919,600
Work-in-process	4,003,900	4,521,200
Finished goods	2,304,400	3,070,100
	\$ 7,079,300	\$ 8,510,900

2. Property and Equipment

A summary of property and equipment follows:

	<i>September 30,</i>	<i>September 28,</i>
	<i>2004</i>	<i>2003</i>
Equipment	\$ 2,502,700	\$ 2,446,700
Tooling costs	1,623,900	1,412,300
Leasehold improvements	168,300	167,600
	4,294,900	4,026,600
Less accumulated depreciation and amortization	3,432,900	3,169,900
	\$ 862,000	\$ 856,700

There were no capital lease obligations as of September 30, 2004 and September 28, 2003. Equipment under capital lease obligations was \$357,400 as of September 29, 2002, with related accumulated amortization of \$317,200. For fiscal 2002, amortization expense for equipment under capital lease obligations was \$59,800.

3. Prepaid Expenses

A summary of prepaid expenses follows:

	<i>September 30,</i>	<i>September 28,</i>
	<i>2004</i>	<i>2003</i>
Consulting fees	\$ 24,300	\$ 35,000
Annual report and meeting costs	20,300	35,100
Software licensing and maintenance fees	20,300	25,200
Rent and deposits	20,100	28,500
Insurance	13,900	6,300
Recruiting, education, and immigration costs	-	21,400
Other prepaid expenses	44,200	40,800
	\$ 143,100	\$ 192,300

LOGIC Devices Incorporated

Notes to Financial Statements**4. Other Assets**

A summary of other assets follows:

	<i>September 30,</i>	<i>September 28,</i>
	<i>2004</i>	<i>2003</i>
Capitalized software, net of accumulated amortization of \$2,342,500	\$ 165,000	\$ 14,900
Security deposits and other assets	20,700	27,500
	\$ 185,700	\$ 42,400

5. Provision for Income Taxes

The provision for income taxes for fiscal 2004, 2003, and 2002 includes current state expenses of \$800, \$800, and \$9,400, respectively.

The following summarizes the difference between the income tax expense and the amount computed by applying the Federal income tax rate of 34 percent in fiscal 2004, 2003, and 2002, to the loss before taxes:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Federal income tax provision benefit at statutory rate	\$ 500,300	\$ 836,900	\$ 718,900
Tax credit carryforwards originated in current year	92,000	33,800	44,500
State operating loss carryforward originated in current year	63,400	72,200	73,500
State income taxes, net of federal tax benefit	48,200	54,000	(6,200)
Adjustment of prior year net operating loss carryforwards before valuation allowance	301,000	259,300	(58,600)
Miscellaneous permanent differences and adjustments of estimated income tax accruals	-	121,000	12,100
Change in valuation allowance attributable to: Net operating loss and tax credit carryforwards not recognized	(1,083,200)	(1,126,000)	(877,900)
Valuation of net deferred assets	77,500	(252,000)	84,300

\$ (800) \$ (800) \$ (9,400)

LOGIC Devices Incorporated

Notes to Financial Statements

Deferred tax assets and liabilities comprise the following:

	<i>September 30,</i>	<i>September 28,</i>
	<i>2004</i>	<i>2003</i>
Deferred tax assets:		
Net operating loss carryforwards	4,269,500	\$ 3,186,300
Reserves not currently deductible	446,800	446,900
Capitalized inventory costs	242,100	199,300
Tax credit carryforwards	498,800	570,900
Other	114,300	88,600
Gross deferred tax assets	5,571,500	4,492,000
Deferred tax liabilities:		
State tax benefit	(360,100)	(337,700)
Depreciation	(57,800)	(6,400)
Gross deferred tax liabilities	(417,900)	(344,100)
Net deferred tax assets	5,153,600	4,147,900
Valuation allowance	(5,153,600)	(4,147,900)
Net deferred taxes	\$ -	\$ -

The valuation allowance was increased \$1,005,700 from fiscal 2003 to fiscal 2004. This was the result of an increase in the net deferred tax assets, primarily net operating loss carryforwards (NOLs) and reserves not currently deductible. Because the Company's management is unable to determine whether it is more likely than not that the net deferred tax assets will be realized, the Company continues to record a 100 percent valuation against the net deferred tax assets.

As of September 30, 2004, the Company has Federal and State NOLs totaling approximately \$10,923,900 and \$6,282,700, respectively, available to offset future taxable income. These NOLs expire at various times through 2024 and 2009, respectively. The Company also has Federal and State research and development credit carryforwards totaling approximately \$148,000 and \$40,700, respectively, expiring at various times through 2024. The Company has state manufacturing tax credit carryforwards totaling approximately \$288,700, which expire at various times through 2014.

6. Commitments and Contingencies

Leases

The Company leases its facilities and certain equipment under operating leases. The facility leases require the Company to pay certain maintenance and operating expenses, such as taxes, insurance, and utilities. Rent expense related to these operating leases was \$ 464,300, \$779,600, and \$805,200 for fiscal 2004, 2003, and 2002, respectively.

A summary of future minimum payments required under non-cancelable operating leases with terms in excess of one year, follows:

LOGIC Devices Incorporated

Notes to Financial Statements

	<i>Operating</i>
	<i>Leases</i>
<i>Fiscal years ending:</i>	
September 30, 2005	\$ 389,800
September 30, 2006	252,700
September 30, 2007	227,600
September 30, 2008	19,000
Thereafter	-
	\$ 889,100

Contingencies

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

7. Shareholders' Equity*Common Stock Warrants*

During fiscal 2002, the Company recognized \$81,000 of expense for the extension of warrants (originally issued in April 1999) to a distributor for the purchase of 150,000 shares of its common stock, with an exercise price of \$1.875. The warrants expired on October 5, 2003.

Common Stock Option Plans

The Company issues common stock options to its employees, certain consultants, and certain of its board members. Options granted to its employees and consultants generally vest over four years and expire ten years from the date of grant. Options granted to the board members generally vest immediately and expire five years from the date of grant. A summary of the status of the Company's common stock option plans as of September 30, 2004, September 28, 2003, and September 29, 2002, and changes during the fiscal years then ended, is presented in the following table:

LOGIC Devices Incorporated

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Notes to Financial Statements

	September 30, 2004		Options Outstanding September 28, 2003		September 29, 2002	
	Shares	Wtd Avg	Shares	Wtd Avg	Shares	Wtd Avg
		Ex. Price		Ex. Price		Ex. Price
Beginning	624,750	\$ 2.077	961,750	\$ 2.337	1,001,500	\$ 2.705
Granted	75,000	\$ 1.700	50,000	\$ 1.400	225,000	\$ 1.106
Exercised	(102,500)	\$ 1.164	(10,000)	\$ 1.100	(11,000)	\$ 1.565
Forfeited	(252,250)	\$ 2.355	(377,000)	\$ 2.724	(253,750)	\$ 2.659
	345,000	\$ 2.073	624,750	\$ 2.077	961,750	\$ 2.337
Exercisable at						
year-end	345,000		555,125		846,250	
Weighted-average fair value of						
options granted during year		\$ 0.560		\$ 0.530		\$ 0.660

The following table summarizes information about common stock options outstanding as of September 30, 2004:

Range of Exercise Prices	Options Outstanding Wtd Avg			Options Exercisable	
	Number	Remaining	Wtd Avg	Number	Wtd Avg
	Outstanding	Contractual	Exercise	Exercisable	Exercise
at 09/30/04	Life	Price	at 09/30/04	Price	
\$0.000 - 2.000	264,750	3.71 years	\$ 1.421	264,750	\$ 1.421
\$2.001 - 4.000	40,250	3.78 years	\$ 2.895	40,250	\$ 2.895
\$4.001 - 6.000	40,000	0.50 years	\$ 5.563	40,000	\$ 5.563
	345,000		\$ 2.073	345,000	\$ 2.073

The difference between the exercise price and the fair market value of the options issued on the dates of grant is accounted for as unearned compensation and amortized to expense over the related vesting period. As discussed in the Summary of Accounting Policies, the Company follows APB No. 25 for measurement and recognition of employee stock-based transactions. Had the Company elected to adopt the

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measurement and recognition provisions of SFAS No. 123, the Company would have incurred an additional \$5,500, \$54,200, and \$243,900 in related compensation expenses during fiscal 2004, 2003, and 2002, respectively.

Share Repurchase Plan

During fiscal 2003, the Company approved a share repurchase plan authorizing the purchase of the Company's common stock up to a total cost of \$500,000. As of September 30, 2004, the Company had repurchased 222,200 shares on the open market at a total cost of \$233,700.

LOGIC Devices Incorporated

Notes to Financial Statements**8. Major Customers, Major Suppliers, and Export Sales***Major Customers and Suppliers*

For fiscal 2004, two customers accounted for approximately 14 and 12 percent of net revenues, one of which is the Company's domestic distributor, with accounts receivable of \$138,800 and \$24,600, respectively, as of September 30, 2004. For fiscal 2003, three customers accounted for approximately 14, 13, and 12 percent of net revenues, one of which is the Company's domestic distributor, with accounts receivable of \$162,400, \$92,600, and \$136,000, respectively, as of September 28, 2003. For fiscal 2002, two customers accounted for approximately 24 and 21 percent of net revenues, with accounts receivable of \$1,506,600 and \$685,200, respectively, as of September 29, 2002.

Three suppliers each comprised 10 or more percent of the total inventory purchases in fiscal 2004 (44, 30, and 11 percent). Four suppliers each comprised 10 or more percent of the total inventory purchases in fiscal 2003 (36, 24, 16 and 13 percent). Four suppliers each comprised 10 or more percent of the total inventory purchases in fiscal 2002 (33, 24, 24, and 19 percent).

Export Sales

	2004	2003	2002
Western Europe	\$ 1,535,000	\$ 1,990,300	\$ 1,682,500
Far East	706,300	645,200	363,300
Other	46,400	104,700	94,000
	\$ 2,287,700	\$ 2,740,200	\$ 2,139,800

In fiscal 2004, Japan accounted for 12 percent of net revenues. In fiscal 2003, Austria (for Germany) and Japan accounted for 14 and 12 percent of net revenues, respectively. No one country comprised ten percent or more of net revenues in fiscal 2002.

9. Use of Estimates and Concentration of Credit Risks

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. These estimates are impacted, in part, by the following risks and uncertainties:

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and trade receivables. The Company places its cash and cash equivalents with high quality financial institutions, and, by policy, limits the amounts

of credit exposure to any one financial institution.

A significant portion of the Company's accounts receivable has historically been derived from one major class of customer (distributors) with the remainder being spread across many other customers in various electronic industries. The Company believes any risk of accounting loss is significantly reduced due to the diversity of its products, end-customers, and geographic sales areas. The Company performs credit evaluations of its customers' financial condition whenever necessary. The Company generally does not require cash collateral or other security to support customer receivables.

LOGIC Devices Incorporated

Notes to Financial Statements

The Company currently is dependent on two suppliers as its wafer-processing sources. If this supply was to be interrupted or the terms were to become unfavorable to the Company, this could have a material adverse impact on the Company's operations.

The Company produces inventory based on orders received and forecasted demand. The Company must order wafers and build inventory well in advance of product shipments. Due to the Company's reliance upon a limited number of suppliers, high levels of inventory are also maintained to protect against a disruption in supply. Because the Company's markets are volatile and subject to rapid technology and price changes, there is a risk that the Company will forecast incorrectly and produce excess or insufficient inventories of particular products. This inventory risk is heightened because many of the Company's customers place orders with short lead times. Demand will differ from forecasts and such differences may have a material effect on actual operations.

10. Statements of Cash Flows

The Company paid \$37,900 interest during fiscal 2002. There was no interest paid during fiscal 2004 and 2003. The Company paid \$800, \$800, and \$9,400 for income taxes during fiscal 2004, 2003, and 2002, respectively.

There were no non-cash investing and financing activities for fiscal 2004 and 2003. The Company extended 150,000 common stock warrants to a distributor, recorded at an amount of \$81,000 in fiscal 2002 (Note 7).

11. 401(k) Savings Plan

The Company discontinued its 401(k) Savings Plan (the Plan) on April 30, 2003. The Plan was originally adopted on September 1, 2000. Employees were able to make voluntary contributions and the Company had the discretion to make matching contributions. The Plan covered all employees meeting certain age and service requirements. The Company funded expenses incurred in connection with the Plan. The Company made no matching contributions in fiscal 2003 and 2002.

12. Results of Operations

Due to the cyclical nature of the semiconductor industry, coupled with the downturn in the overall industry sales and economy, the Company's net revenues decreased 12 percent in fiscal 2004 and 24 percent in fiscal 2003. The Company's gross profit margin, as a percentage of sales fluctuated from 27 percent in fiscal 2002 to 28 percent in fiscal 2003, and then to 37 percent in fiscal 2004.

At September 30, 2004 and September 28, 2003, accounts receivable and inventories account for a large portion of the working capital and net assets of the Company, which are discussed more fully in Note 9.

Inventory levels are generally driven by actual customer orders and forecasted sales. During fiscal 2004, the Company reduced its inventories approximately \$1.4 million, resulting in total inventories of approximately \$7.1 million at September 30, 2004. During fiscal 2003, the Company reduced its inventories approximately \$1.1 million, resulting in total inventories of approximately \$8.5 million at September 28, 2003.

As discussed in the Summary of Accounting Policies, inventories are carried at the lower of cost or market. The Company believes inventories on hand at September 30, 2004 will be sold in the normal course of business, at amounts in excess of their carrying value. However, depending upon the level of demand, the period over which current inventories will be sold may exceed one year.

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Quarterly Financial Data (Unaudited)

The following is a summary of unaudited results of operations (dollars in thousands, except per share data) for the fiscal years ended September 30, 2004 and September 28, 2003:

	12/31/03	03/31/04	Fiscal Quarters Ended:		Total
			06/30/04	09/30/04	
Net revenues	\$ 1,102	\$ 1,206	\$ 1,100	\$ 1,007	\$ 4,415
Gross margin	\$ 392	\$ 356	\$ 389	\$ 504	\$ 1,641
Loss from operations	\$ (521)	\$ (460)	\$ (300)	\$ (213)	\$ (1,495)
Loss before income taxes	\$ (515)	\$ (449)	\$ (296)	\$ (211)	\$ (1,471)
Net loss	\$ (515)	\$ (450)	\$ (296)	\$ (211)	\$ (1,472)
Basic loss per share	\$ (0.08)	\$ (0.07)	\$ (0.04)	\$ (0.03)	\$ (0.22)
Weighted average common shares	6,654	6,721	6,743	6,743	6,715

	12/29/02	03/30/03	Fiscal Quarters Ended:		Total
			06/29/03	09/28/03	
Net revenues	\$ 1,323	\$ 1,366	\$ 1,206	\$ 1,114	\$ 5,009
Gross margin	\$ 239	\$ 483	\$ 387	\$ 303	\$ 1,412
Loss from operations	\$ (725)	\$ (453)	\$ (575)	\$ (731)	\$ (2,484)
Loss before income taxes	\$ (726)	\$ (445)	\$ (566)	\$ (724)	\$ (2,461)
Net loss	\$ (726)	\$ (445)	\$ (566)	\$ (724)	\$ (2,461)

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Basic loss per share	\$ (0.11)	\$ (0.07)	\$ (0.08)	\$ (0.11)	\$ (0.37)
Weighted average common shares	6,705	6,631	6,631	6,641	6,652

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Based upon an evaluation as of September 30, 2004, the Company's President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no changes in the Company's internal control over financial reporting that occurred during the final quarter of the Company's fiscal year ended September 30, 2004 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item is incorporated by reference from the Registrant's proxy statement for its 2005 Annual Meeting, expected to be filed with the SEC on or about January 28, 2005.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference from the Registrant's proxy statement for its 2005 Annual Meeting, expected to be filed with the SEC on or about January 28, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is incorporated by reference from the Registrant's proxy statement for its 2005 Annual Meeting, expected to be filed with the SEC on or about January 28, 2005.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since the beginning of its last fiscal year, the Company has engaged in no transactions or series of similar transactions with any of its officers, directors, or principal shareholders, or, to the knowledge of the Company, with any of their affiliates in which the amount invested exceeded \$60,000. Also, no such transactions are currently contemplated.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

Fees paid to Perry-Smith LLP for the audit of the Company's annual financial statements included in the registrant's reports on Form 10-K and review of the financial statements included in the registrant's reports on Form 10-Q were \$74,500 for fiscal 2004 and \$61,500 for fiscal 2003.

Tax Fees

Fees paid to Perry-Smith LLP for services rendered for preparation of the Company's federal and state income tax returns, tax compliance, and tax advice were \$14,200 for fiscal 2004 and

\$9,500 for fiscal 2003.

All Other Fees

There were no additional fees paid or payable to Perry-Smith LLP for any other services provided during fiscal 2004 or 2003, respectively.

Audit Committee's Pre-approval Policies and Procedures

The Audit Committee pre-approves all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Company by its principal accountant on a case-by-case basis, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, which are approved by the Audit Committee before the completion of the audit. The Audit Committee approved 100% of audit, tax, and all other services provided by any accounting firms.

No audit work was performed by persons other than the principal accountant's full-time, permanent employees.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(A) The following documents are filed as part of this report:

- (1) The Company's Financial Statements, Summary of Accounting Policies, and Notes to Financial Statements appear at pages 23 to 38 of this report; see Index to Financial Statements and Financial Statement Schedules at page 22 of this report.
 - (2) The Financial Statement Schedule appears at page 43 of this report; see Index to Financial Statements and Financial Statement Schedules at page 22 of this report.
 - (3) The Index to Exhibits appears at page 45 of this report.
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Schedule II - Valuation and Qualifying Accounts

Description	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period
<i>2004</i>				
Allowance for:				
Doubtful accounts	\$ 3,500	\$ -	\$ 3,500	\$ -
Inventory reserve	\$ 1,043,200	\$ 250,000	\$ 250,300	\$ 1,042,900
<i>2003</i>				
Allowance for:				
Doubtful accounts	\$ 20,000	\$ -	\$ 16,500	\$ 3,500
Inventory reserve	\$ 337,000	\$ 1,779,000	\$ 1,072,800	\$ 1,043,200
<i>2002</i>				
Allowance for:				
Doubtful accounts	\$ 20,000	\$ -	\$ -	\$ 20,000
Inventory reserve	\$ 1,867,700	\$ 337,000	\$ 1,867,700	\$ 337,000

The Company periodically reviews its inventory for obsolescence and standard costs accuracy. During fiscal 2004 and 2003, the Company used \$250,300 and \$1,072,800, respectively, of its inventory reserve for direct write-offs of obsolete products and excess overhead absorbed in prior years.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOGIC DEVICES INCORPORATED

Dated: December 20, 2004

By: /s/ William J. Volz
 William J. Volz, President and
 Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Dated</u>
<u>/s/ William J. Volz</u> William J. Volz	President and Director (Principal Executive Officer)	December 20, 2004
<u>/s/ Kimiko Milheim</u> Kimiko Milheim	Chief Financial Officer (Principal Financial and Accounting Officer)	December 20, 2004
<u>/s/ Howard L. Farkas</u> Howard L. Farkas	Chairman of the Board of Directors	December 20, 2004
<u>/s/ Albert Morrison, Jr.</u> Albert Morrison Jr.	Director	December 20, 2004
<u>/s/ Fredric J. Harris</u> Fredric J. Harris	Director	December 20, 2004
<u>/s/ Joel S. Kanter</u>	Director	December 20, 2004

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Joel S. Kanter

/s/ Brian P. Cardozo

Director

December 20, 2004

Brian P. Cardozo

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
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. [10.2] (5)
10.2	LOGIC Devices Incorporated 1996 Stock Incentive Plan. [99.1] (2)
10.3	LOGIC Devices Incorporated 1998 Director Stock Incentive Plan, as amended. [10.3] (5)
10.4	Rights Agreement, dated April 30, 1997. [1] (3)
10.5	Registration Rights Agreement dated October 3, 1998 between William J. Volz, BRT Partnership, and Registrant. [10.19] (4)
23.1	Consent letter of Perry-Smith LLP.
23.2	Consent letter of Hood & Strong LLP.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

- [] 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-8, as filed with the SEC on August 17, 1997 [Registration No. 333-32819].
- (3) Registration Statement on Form 8-A, as filed with the SEC on May 5, 1997
- [Registration No. 000-17187].
- (4) Annual Report on Form 10-K for the transition period January 1, 1998 to October 3, 1999, as filed with the SEC on January 13, 1999.
- (5) Annual Report on Form 10-K for the fiscal year ended September 29, 2002, as filed with
- the SEC on December 10, 2002.