LOGIC DEVICES INC
Form 10-K
December 19, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2008

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	**94-2893789**
(State of Incorporation	(I.R.S. Employer Identification No,)

1375 Geneva Drive, Sunnyvale, CA 94089

(Address of principal executive offices, including Zip Code)

(408) 542-5400

(Registrant s telephone number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act : **NONE**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, no par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file report pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate 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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [X] (Do not check if a smaller reporting company Smaller reporting company [ ]

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the closing price of the common stock as of March 31, 2008, the last day of the registrant s most recently completed second quarter was $5,055,500.

As of December 18, 2008, the Registrant had 6,814,438 shares of its common stock issued and outstanding.

LOGIC DEVICES INCORPORATED

ANNUAL REPORT ON FORM 10-K

INDEX

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 our products, the competitive nature of and anticipated growth in our markets, our 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, our production capacity, our ability to migrate to smaller process geometries, and the need for additional capital. These forward-looking statements are based on our current expectations, estimates, and projections about our 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, 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, Item 1A - Risk Factors, of this Annual Report on Form 10-K. We undertake 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, an ISO 9001:2000 registered company, develops and markets high-performance, low power digital integrated circuits an integrated modules that perform high-density storage and signal/image processing functions. Our products enable high definition video display, transport, editing, composition, and special effects. We also provide solutions for digital filtering in television broadcast stations and image enhancement in medical diagnostic scanning and imaging equipment.

Our products are used in the broadcast, medical imaging, military, industrial, embedded, telecommunications, and consumer electronics markets. Our products address main-system (core) memory, bulk storage, multi-port arrays, and digital signal processing (DSP) requirements that involve high-performance arithmetic computation. We focus on developing proprietary, silicon IP, and integrated modular, standard catalog products to address specific functional application needs or performance levels that are not otherwise commercially available. We seek to provide related

groups of circuits that original equipment manufacturers (OEMs) incorporate into high-performance electronic systems.

We rely on third-party silicon foundries to process silicon wafers, each wafer having up to several hundred integrated circuits of a given LOGIC design, from which finished products are then assembled. Our strategy is to avoid the substantial investment in capital equipment required to establish a wafer fabrication facility, by outsourcing wafer processing to third-party foundry specialists to take advantage of their expertise. See "Business Background." We currently have two primary wafer suppliers. We continue to explore additional foundry relationships to reduce our dependence on any single wafer foundry.

We market our products worldwide through a combination of a direct sales, one domestic distributor, and 21 international distributors and/or representatives. In fiscal 2008, approximately 31 percent of net revenues were from distributors. We adjust our sales structure to address appropriate market requirements. We include the following as some of our customers: Texas Instruments, BAE Systems, Harmonic, GE Medical, Northrup Grumman, Qualcomm, and Raytheon. Fiscal 2008 net revenues derived from foreign sales approximate 30 percent.

LOGIC Devices was incorporated under the laws of the State of California in April 1983. Our headquarters are located at 1375 Geneva Dr ive, Sunnyvale, California 94089, and our telephone number is 408-542-5400.

Available Information

Our 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 are available free of charge on our 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

Continuing advances in fabricating 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 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. Many 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. We focus our resources on defining and developing high-performance integrated circuit components and integrated multi-chip modular products to 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 us. In such cases, we are required to develop products utilizing new processes and to either integrate such products into our existing foundry processes, or seek new foundry sources.

Markets and Product Development Strategies

We have historically derived a significant portion of our revenues from sales to television broadcast equipment manufacturers and to defense contractors providing systems that perform computationally intensive image processing. Our products were among the first to provide economical, high-speed, yet low power, computational solutions for common image manipulation and storage problems encountered in implementing these systems. Applications of our products also overlap into medical diagnostic imaging equipment, digital cinema systems, and in-flight entertainment

systems. We jointly defined with our customers, a family of digital image filtering applications that address the filtering requirements of HDTV studio production systems. Sales of these systems lagged market forecasts as a result of repeated delays in the conversion to HDTV. As a result, the magnitude of our sales of these products was affected. Sales that we had expected to generate over a five-year period have extended at a slower rate for over a ten-year period.

As a result of our work on high-speed, low power image processing circuits that are very computationally demanding, we have developed expertise in circuit design and implementation that is not readily available to many OEMs, and within the semiconductor industry, only available within some of the very largest companies which, due to their size, are compelled to pursue very large markets. Our capabilities and size provide opportunities to service technically-demanding industrial and military markets that are not serviced by those larger companies.

In addition to, as well as a result of our work on high-performance, low power silicon developments for the markets, applications, and platforms we serve, we have introduced a product family enabling us to provide advanced, multi-chip, integrated modular products. This product packaging medium facilitates the integration of LOGIC silicon IP as well as silicon IP from other semiconductor manufacturers providing high-density, wide-word memory arrays, sub-systems, and systems in packages.

The same advances in semiconductor technology that have enabled the advancements in high definition broadcast video production and distribution have driven a rapid increase in the ability to transmit vast amounts of data. Communications in all forms with increasing portability and bandwidth are proliferating worldwide. Much of this new communication capability will be utilized to transport video streams. We believe that many opportunities exist to utilize our capabilities in low power, high speed computation and storage to address the requirements of these communications and video systems. The convergence of communications and ubiquitous image processing is an opportunity that is well suited to our capabilities and far exceeds our abilities to address completely.

We seek to identify additional markets that require the application our silicon design and multi-chip packaging expertise; that are stable, long-lived markets that are not extremely cost-sensitive; that offer potential for substantial revenue growth; and that are not served by larger competitors with substantially more resources. Currently the semiconductor industry is challenged by several factors. First, the cost of developing high complexity products is escalating nearly as fast as the capability of the technology itself is increasing. Second, the disciplines required to develop complex, systems-on-chips (SOCs) requires a rapidly increasing breadth of technical skills. Consumer-related products are experiencing ever shrinking life cycles as new products are quickly supplanted by even newer products.

Wafer Fabrication Technology

LOGIC Devices is a fabless manufacturer. We rely upon third-party foundry suppliers to produce processed wafers from mask patterns designed by us. Through these wafer suppliers, we have 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 our structured custom design methodology and experience with high-speed circuit design, this CMOS technology has allowed us to produce products that offer high computational speeds, high reliability, high levels of circuit integration (complexity), and low power consumption.

We are primarily dependent upon two wafer suppliers and do not have a guarantee of minimum supplies. Therefore, there can be no assurance that such relationships will continue to be on terms satisfactory to us. The inability to obtain adequate quantities of processed wafers could limit our revenues. As a result of this risk, we carry a large inventory of unassembled wafers that can be packaged into a variety of carrier styles to support customer requirements.

Production, Assembly, and Test

Our production operations consist of functional and parametric testing, hot and cold testing, final inspection, quality inspection, and shipment. As is customary in the industry, high-volume assembly subcontractors assemble our devices. Thereafter, the assembled devices are returned to us for final testing and shipment to customers. We continue to test materials and products at various stages in the manufacturing process, utilizing automated test equipment.

We have historically maintained, and expect to continue to maintain, high levels of inventory for newer products. For some product types, we must purchase all of our anticipated inventory needs for the life of the product (often ten or more years) in a short period of time. Our high inventory levels heighten the risk of inventory obsolescence and write-offs.

Marketing, Sales, and Customers

We market our products worldwide to a broad range of customers through our own direct sales force, one domestic electronics distributor, and 21 international electronics distributors and/or representatives. We concentrate our direct marketing efforts on high-performance segments of the broadcast, medical imaging, industrial, embedded telecommunications and consumer markets, in applications where high speed is critical. Among our OEM customers are Texas Instruments, BAE Systems, Harmonic, GE Medical, Northrup Grumman, Qualcomm, and Raytheon.

Distributors purchase our products for resale, generally to a broad base of small- to medium-sized customers. As is customary in the industry, our distributors receive certain price protection and limited stock rotation rights. However, our distributors are required to simultaneously order an amount equal to or greater than any rotation items returned. During fiscal 2008, 2007, and 2006, sales through distributors accounted for approximately 31%, 27%, and 38% of net revenues, respectively.

In fiscal 2008, 2007, and 2006, no distributors generated more than 10% of net revenues; however, Benchmark Electronics (manufacturer for Texas Instruments) comprised 26%, 43% and 23% of net revenues in fiscal 2008, 2007, and 2006, respectively. In addition, BAE Systems comprised 19% and 12% of net revenues in fiscal 2008 and 2006, respectively.

Our distributors are not exclusive and they may also market products competitive with our products. We warrant our 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 throughout Europe and Asia. During fiscal 2008, 2007, and 2006, our export sales were approximately 30%, 33%, and 40% of net revenues, respectively (see Note 7 in "Notes to Financial Statements" contained in Item 8). Our 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 our products. Although our international sales are subject to certain export restrictions, including the Export Administration Amendments Act of 1985 and the regulations promulgated thereunder, we have not experienced any material difficulties resulting from these restrictions to date.

Backlog

As of December 2, 2008 and 2007, our backlog was approximately$357,200 and $147,000, respectively. This backlog includes all released purchase orders shippable within the following 12 months, including orders from distributors. Our 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" of obsolete products 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. We produce catalog products that may be shipped from inventory within a short time after receipt of a purchase order. The business for our catalog products, like the businesses of other companies in the semiconductor industry, is characterized by short-term orders and shipment schedules rather than by volume purchase contracts. Our shipments are generally concentrated toward the end of the third month of each quarter, making it difficult to predict our revenues and results of operations for any fiscal period. For these reasons, our backlog as of any particular date is not representative of actual sales for any succeeding period and we believe that our backlog is not a good indicator of future revenues.

Research and Development

As we have not introduced sufficient new silicon IP products in the past few years, we view all new product development as the most important factor affecting revenue growth; therefore, we continue our commitment to

research and development of silicon IP. In addition, we bolster our position with the addition of our multi-chip packaged products, facilitating the integration of our silicon IP with the silicon IP of others to provide packaged solutions to our current and prospective expansion customers. Research and development expenditures were 47%, 38%, 21% of net revenues in fiscal 2008, 2007, and 2006, respectively. However, the fiscal 2007 figure includes a write-off of $400,200 of capitalized software development costs. These percentages are also affected by the declining revenues. 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 LOGIC. We face competition from other manufacturers of high-performance integrated circuits, many of which have advanced technological capabilities and internal wafer production capabilities. Our ability to compete in this rapidly evolving environment depends on elements both in and outside our control. These elements include our ability to develop new products in a timely manner, the cost effectiveness of our manufacturing, the acceptance of new products by customers, the speed at which customers incorporate our products into their systems, the continued access to advanced semiconductor foundries, the number and capabilities of our competitors, and general economic conditions.

Patents and Copyrights

Because of the rapidly changing technology in the semiconductor industry, we rely primarily upon our design know-how, rather than patents and copyrights, to develop and maintain our competitive position. We attempt to protect our 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 our interests.

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

Since others have obtained patents covering various semiconductor designs and processes, certain of our present or future designs or processes may be claimed to infringe upon the patents of third parties. We have previously received, and may in the future receive, claims that one or more aspects or uses of our products infringe on patent or other intellectual property rights of third parties. See Item 3 Legal Proceedings. We do not believe that we infringe upon any known patents at this time. If any such infringements exist or arise in the future, we 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 our current or future products. Based on industry practice, we expect that any necessary licenses or rights under patents could be obtained on conditions that would not have a material adverse effect. 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. Our inability to obtain such licenses on economically reasonable terms or the occurrence of litigation could adversely affect us.

Employees

As of September 30, 2008, we had 15 full-time employees. We have been careful to retain employees that are important to maintain our ongoing development efforts. Our ability to attract and retain qualified personnel is an important factor in our continued success. None of our employees are represented by a collective bargaining agreement, and we have never experienced any work stoppage. We believe that our 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 we rely on third party manufacturers and our activities do not involve utilization of hazardous substances generally associated with semiconductor processing, we believe such regulations are unlikely to have a material affect on our business or operations.

Item 1A. RISK FACTORS

Set forth below are some of the risks and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other public statements we make.

We have a history of losses and our future operating results could be harmed due to semiconductor industry business cycles.

We have sustained substantial net losses during the past five fiscal years, other than fiscal 2006. These net losses are attributable principally to delays in the television broadcast industry s transition to high definition digital broadcasting from current analog standards, a downturn in the semiconductor industry, and lack of new product introductions. Many factors will affect our ability to become profitable or sustain profitability, such as continued demand for our products by our customers, lack of price erosion, efficiency of our manufacturing subcontractors, continued product innovation and design wins, and our continued ability to manage operating expenses.

We produce and sell semiconductors and our operations are therefore impacted by the repeated and severe business cycles that have historically been experienced by the semiconductor industry. Our 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, our operating results could be adversely impacted.

We are a small company with very limited resources compared to our current and potential competitors and we may not be able to compete effectively in our highly competitive industry.

The semiconductor industry is highly competitive and many of our direct and indirect competitors and potential competitors have substantially greater financial, technological, manufacturing, and sales resources. If we are unable to compete successfully in this environment, our operating results could be harmed.

The current level of competition is high and may increase as our market expands. We compete directly with companies that have developed similar products. We also compete 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, we may experience additional competition from foreign companies in the future.

We depend on a limited number of customers for a majority of our sales and our sales orders are typically concentrated in the last month of every quarter, making our financial results particularly susceptible to the loss of a key customer and making sales in a quarter difficult to predict.

We anticipate that the concentration of our sales among relatively few customers will continue in the future. We do not have long-term purchase commitments from any of our customers. Therefore, these customers could cease purchasing our products with limited notice and with no penalty.

Our dependence on a small number of customers increases the risks associated with the 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, we ship 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. Our sales are therefore concentrated in the latter part of each quarter, making it difficult to predict our revenues and results of operations for any fiscal quarter or other fiscal period.

We *depend on third parties to fabricate silicon wafers and to assemble and test our products, which exposes us to a risk of production disruption or uncontrolled price changes.*

We do not manufacture silicon wafers. We rely upon two wafer suppliers, each of which is the sole source for certain of our 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, our operating results could be harmed. We may not be able to find sufficient suppliers at a reasonable price or at all if such disruptions occur. As a result of our reliance on third parties, we face 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 us;
- potential increases in prices due to capacity shortages; and
- potential misappropriation of our intellectual property.

If we fail to deliver our products on time or if the costs of our products increase, then our profitability and customer relationships could be harmed.

Our international operations subject us to risks not present in solely domestic operations.

Our primary silicon wafer supplier and assembly subcontractors are located outside the United States. Financial difficulties, government actions or restrictions, prolonged work stoppages, or any other difficulties experienced by our suppliers could harm future operating results.

We also have many overseas customers. Our 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 we derive our export sales could harm future operating results.

The complex nature of semiconductors makes us 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. We 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. We may also experience manufacturing problems in our assembly and test operations, and in the introduction of new packaging materials.

We depend on third parties to deliver our products.

We rely on independent carriers and freight haulers to transport our products between manufacturing locations and to deliver products to our 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 future operating results.

Earthquakes, other natural disasters, and power shortages may damage our business.

Our California facility and some of our suppliers are located near earthquake faults that have experienced major earthquakes in the past. In the event of a major earthquake or other natural disaster near our facility or a sustained loss of power at our facility, our operations could be harmed. Similarly, a major earthquake or other natural disaster near one or more of our suppliers could disrupt the operations of these suppliers, which could limit the supply of our products and harm our business.

We maintain high levels of inventory that decrease our liquidity and substantially increase the risk of write-offs.

We have historically maintained and expect to continue to maintain high levels of inventory of processed silicon wafers, packaging materials, and finished goods. For some product types, we must purchase all of our anticipated inventory needs for the life of the product in a short period of time. We commit capital to maintain these high inventory levels, which prevents us from using that capital for other purposes, such as research and development, and requires us to utilize more capital than might otherwise be required. Our high inventory levels also heighten the risk of inventory obsolescence and write-offs. Further, we may forecast demand incorrectly and produce insufficient inventory, resulting in supply shortages.

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

We rely upon cash reserves and available-for-sale securities to fund our operations. If these resources should be insufficient, we would be forced to obtain additional funding through debt or equity financing. If we are able to obtain debt financing, which is not assured, the terms of such financing are unknown, since we do not presently have a credit facility, and may be unfavorable to us. Similarly, there can be no assurance that we would be able to sell capital stock on favorable terms or at all and any such sales may adversely affect our existing shareholders.

Since May 2006, we have had approximately $1 million of auction rate securities (ARS) classified as a short-term investment in available-for-sale securities, which paid a monthly average of $3,500 of dividends and interest. Historically, these securities were considered cash alternatives that were risk averse and highly liquid. Beginning in February 2008, the auctions began to fail and through June 2008 no secondary market has developed. Accordingly, ARS are no longer considered cash alternatives and currently lack liquidity. While there is no current market for the ARS, the underlying issuers must continue to pay the interest and dividends when due. On October 16, 2008, we elected to accept an offer from UBS Financial Services Inc. (UBS) for ARS Rights to sell our ARS to UBS at par value at any time during a two-year period, beginning January 2, 2009. In addition, on November 10, 2008, we obtained a no net-cost line of credit from UBS Bank USA for the par value of our ARS. We drew down the entire $975,000 available balance on November 21, 2008. This loan is considered no net-cost as the interest charged is the lesser of the LIBOR rate plus an established percentage rate or the interest and/or dividends earned on our ARS. Therefore, our interest paid can be no more than the interest and/or dividends we earn on the ARS. When we exercise the ARS Rights, we will pay back the no net-cost loan and the line will be closed.

Our operating success depends upon our ability to develop new products and access new technologies.

The semiconductor industry is a dynamic environment marked by rapid product obsolescence. Our future success depends on our ability to introduce new or improved products that meet critical customer needs, while achieving acceptable profit margins. If we fail 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, our operating results would be harmed. Furthermore, to develop new products and maintain the competitiveness of existing products, we need 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 our ability to develop and market our products.

Our future success greatly depends on the ability to attract and retain highly qualified technical and management personnel. As a small company, we are particularly dependent on a relatively small group of employees. Competition for skilled technical and management employees is intense in the semiconductor industry. As a result, we may be unable to retain our existing key technical and management employees, or attract additional qualified personnel, which could harm operating results. We do not have employment agreements with any of our employees.

Our failure to protect our proprietary rights, or the costs of protecting these rights, may harm our ability to compete.

We own several patents but rely primarily on our design know-how and continued access to advanced wafer process technology to develop and maintain our competitive position. We attempt to protect our 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 our products. Our inability to adequately protect these proprietary rights could result in our competitors offering similar products, potentially causing us to lose a competitive advantage and leading to decreased revenue. We may not obtain an adequate remedy in the event our confidentiality agreements are breached or any remedy if our trade secrets are independently developed by others. Despite our efforts to protect our 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 our intellectual property rights, to protect our 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.

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

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

Any litigation relating to the intellectual property rights of third parties, whether or not determined in our favor or settled by us, 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, we 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 price of our common stock may continue to be volatile and our trading volume may continue to be relatively low.

The market price of our 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:

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

Item 1B. UNRESOLVED STAFF COMMENTS

This items is not applicable as we are not an accelerated filer as defined in Exchange Act Rule 12b-2.

Item 2. PROPERTIES

Our executive offices, as well as our inventories and research and development facilities, are located in approximately 17,200 square feet, in Sunnyvale, California, with a lease expiring August 31, 2014. We believe our facilities will be adequate to meet our reasonably foreseeable needs and, if necessary, alternative facilities will be available on acceptable terms, so as to meet our requirements.

Item 3. LEGAL PROCEEDINGS

From time to time, we receive demands from various parties asserting patent or other claims in the ordinary course of business. These demands are often not based on any specific knowledge of our 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 us.

Item 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the last quarter of fiscal 2008.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock trades under the ticker symbol, LOGC, on The Nasdaq Capital Market. The following tables sets forth, for the period indicated, the high and low closing sales prices for our Common Stock, as reported by Nasdaq during the following calendar quarters:

Calendar Year	High	Low
2006		
Fourth quarter	$3.02	$2.12
2007		
First quarter	$2.77	$1.85
Second quarter	$2.34	$1.76
Third quarter	$3.18	$1.92
Fourth quarter	$2.07	$1.03
2008		
First quarter	$2.50	$1.00

Second quarter	$1.18	$0.88
Third quarter	$1.52	$0.90

Holders

As of December 18, 2008, there were approximately 1,500 holders of record of our Common Stock.

Dividends

We have not paid any dividends on our Common Stock since our incorporation.

Performance Graph

The following graph, which is furnished rather than filed, compares the five-year cumulative total return on our Common Stock to the total returns on the S&P 500 Index and the NASDAQ Electronic Components Stock Index. This comparison assumes, in each case, that $100 was invested on or about September 30, 2003 and all dividends were reinvested. Our fiscal year ends on September 30 each year.

* $100 invested on 09/30/03 in stock or index including reinvestment of dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the position of our equity compensation plans as of September 30, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	337,500	$1.595	1,015,000

Equity compensation plans not approved by security holders			
Total	337,500	$1.595	1,015,000

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data for our last five fiscal years. This information is derived from our 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.

(In thousands, except per share amounts)

	Fiscal Years Ended:				
	September 30, 2008	September 30, 2007	September 30, 2006	September 30, 2005	September 28, 2004
Net revenues	$3,352	$4,686	$4,641	$3,509	$4,415
Research and development	$1,563	$1,812	$982	$730	$1,364
Net (loss) income	$(3,965)	$(1,488)	$129	$(1,363)	$(1,472)
Basic (loss) earnings per common share	$(0.58)	$(0.22)	$0.02	$(0.20)	$(0.22)
Basic weighted-average common shares outstanding	6,814	6,797	6,754	6,750	6,715
Working capital	$3,162	$6,957	$7,897	$7,589	$9,583
Inventory	$1,425	$4,389	$5,240	$5,626	$7,079
Total assets	$4,376	$8,263	$9,717	$9,547	$10,836
Shareholders' equity	$4,035	$8,016	$9,397	$9,238	$10,590

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 those identified in Item 1A Risk Factors of this Annual Report on Form 10-K. We undertake no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this report.

Overview

LOGIC Devices Incorporated develops and markets high-speed digital integrated circuits that perform high-density storage and signal/image processing functions. Our products enable high definition video display, transport, editing, composition, and special effects. We also provide solutions for digital filtering in television broadcast stations and image enhancement in medical diagnostic scanning and imaging equipment.

Our products are used in the broadcast, medical, military and consumer electronics markets. Our products address storage and digital signal processing (DSP) requirements that involve high-performance arithmetic computation. We focus on developing proprietary catalog products to address specific functional application needs or performance levels that are not otherwise commercially available. We seek to provide related groups of circuits that original equipment manufacturers (OEMs) incorporate into high-performance electronic systems.

Liquidity and Capital Resources

Our operations used net cash of $386,300, despite a large net loss of $3,965,000 for fiscal 2008. Inventory write-downs totaling $2,059,700 and a write-off of property and equipment no longer in use totaling $129,900 increased our net loss but did not affect cash flows. Sales of existing inventories produced $904,700 of cash for operations, while timing of invoices resulted in an increase in accounts payable of $126,200. Prior to the collapse of the auction rate securities market, we liquidated $112,000 of our investment. Capital expenditures of $274,200 included mask tooling and production tooling for new products.

Despite having a net loss of $1,487,700 for fiscal 2007, our operations produced net cash of $272,600. During fiscal 2007, we wrote-off $555,600 of inventories, $400,200 of capitalized test software, and $142,600 of property and equipment no longer in use, all of which increased the net loss but did not affect cash flows from operations. During the year, we also increased our inventory valuation allowance by $402,700, while writing off $1,551,000 of inventories against this valuation allowance. We also continue to purchase additional available-for-sale securities as a means to increase the return on our cash and cash equivalents balances, with purchases of $554,900 in fiscal 2007. Capital expenditures of $391,100 included leasehold improvements for our new facilities into which we moved on September 1, 2007.

While producing a net income of $129,400 during fiscal 2006, our operations produced net cash of $977,700. During the year, we increased the inventory valuation allowance by $1,036,900 and wrote-off $200,000 of capitalized test software, both of which reduced net income but not cash flows. In addition, LOGIC collected $45,000 from a property tax refund and had increases in its accrued payroll and vacation and other accrued expenses totaling $81,200 due to the timing of these expenses. Capital expenditures of $196,700 for fiscal 2006 were substantially less than fiscal 2005, which totaled $540,700.

Working Capital

Our investment in inventories has been significant and will continue to be significant in the future. However, during the past few years, we have been able to reduce our levels of inventories as we shift from more competitive second source products to proprietary sole source products. We seek to further streamline our inventories as we continue to shift to sole source proprietary products.

We rely on third party suppliers for our raw materials, particularly our processed wafers, for which we currently rely primarily on two suppliers, and as a result, maintain substantial inventory levels to protect against disruption in supplies. We have periodically experienced disruptions in obtaining wafers. As we continue to shift towards higher margin proprietary products, we expect to be able to reduce inventory levels by streamlining our product offerings.

Periodically, we review inventory to determine recoverability of items on-hand using the lower-of-cost-or-market (LOCOM) and excess methods. We group and evaluate our products based on their underlying die or wafer type (our 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 historical sales quantities to the quantity on-hand at the end of the fiscal year. If the quantity on-hand exceeds the sales quantities, we provide a valuation allowance for the potentially obsolete or slow-moving items. For the LOCOM analysis, we compare the average historical 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, we provide a valuation allowance.

With continuing low revenue levels, management felt it necessary to also review our raw materials and work-in-process. Our products generally exhibit an active sales product life cycle of ten or more years. However, due to rapid changes in process technology, we are generally unable to obtain wafers for our products for as long a period as their life cycles. As a result, early in a product's life, we are often required to estimate the sales expectations for the entire life cycle and purchase materials upfront. On some occasions, our expectations become lower and we provide a reserve for potential excess materials. In fiscal 2008, we wrote down inventory against our inventory valuation allowance of $1,573,700 and additional inventory totaling $2,059,300. In fiscal 2007, we increased our inventory valuation allowance by $402,700 for potential excess materials, while writing down $1,551,000 of inventory against this previously established allowance. In addition, during fiscal 2007, we scrapped other inventory of $555,600. We believe our current inventory valuation provides a reasonable estimate of the recoverability of inventories at the end of fiscal 2008.

Although current levels of inventory impact our liquidity, we believe that this is a less costly alternative to owning a wafer fabrication facility or continuously redesigning our products to newer process technologies, which would divert limited engineering resources from new product development. We continue to evaluate alternative suppliers to diversify our risk of supply disruption. However, this requires a significant investment in product development to tool masks with new suppliers. Such efforts compete for our limited product development resources. We seek to achieve on-going reductions in inventory, although there can be no assurance we will be successful. In the event economic conditions remain slow, we may consider identifying additional portions of inventory to write-off at a future date.

Historically, due to customer order scheduling, up to 70% of our 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 our net 30-day terms. This results in year-end accounts receivable balances being at their highest point for the respective period.

Financing

On November 10, 2008, we obtained a no net-cost line of credit from UBS Bank USA for the $975,000 par value of our Auction Rate Securities (ARS). We drew down the entire $975,000 available balance on November 21, 2008 so we would have the cash readily available rather than held in the illiquid ARS at UBS Financial Services Inc. (UBS). This loan is considered no net-cost as the interest charged is the lesser of the LIBOR rate plus an established percentage rate or the interest and/or dividends earned on our ARS. Therefore, our interest paid can be no more than the interest and/or dividends we earn on the ARS. In addition, on October 16, 2008, we signed an agreement with UBS for ARS Rights to sell our ARS to UBS at par value within a two-year period beginning January 2, 2009. At the time we exercise these ARS Rights, we will pay back the no net-cost loan from UBS Bank USA and the line will be closed.

We believe the cost reductions we have undertaken in the past few years will allow us to use this cash, along with cash from future revenues, to fund current operations and future capital needs. However, we continue to evaluate our debt and equity financing opportunities.

Contractual Obligations

Our only contractual obligation is our facility operating lease. The following table summarizes the future fixed payments under this lease as of September 30, 2008. Payment timing may be subject to change.

Payments due by period:

	Total	Within 1 year	1-3 years	After 3 years
Building	$1,442,500	$223,200	$719,200	$500,100

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Results of Operations

Comparison of Fiscal Years Ended September 30, 2008 and 2007

Net revenues for fiscal 2008 decreased 28 percent from $4,686,400 in fiscal 2007 to $3,352,100. This decrease was the result of the older products, including the digital cinema project, dropping off with no new product revenues replacing them during fiscal 2008.

Cost of revenues for fiscal 2008 increased 47 percent from $2,846,700 in fiscal 2007 to $4,196,600, mainly the result of write-downs of inventory totaling $2,059,300. Sales of products previously written down to zero were 27% of revenues in fiscal 2008 compared to 15% in fiscal 2007.

Research and development expenses decreased 14 percent from $1,811,800 in fiscal 2007 to $1,563,400 in fiscal 2008. This decrease is primarily the result of the one-time $400,200 write-off of capitalized test software done in fiscal 2007. During the last quarter of fiscal 2008, we made a few minor staffing cuts but believe the current team can complete the new products we currently have in development.

Selling, general, and administrative expenses decreased four percent from $1,546,400 in fiscal 2007 to $1,483,200. This decrease was mainly the result of general cost cutting in fiscal 2008 and the expensing of certain prepaids in fiscal 2007 that did not recur in fiscal 2008.

Interest income decreased 25 percent from $75,900 in fiscal 2007 to $56,700, primarily as a result of a smaller balance in available-for-sale securities and a lower cash balance in fiscal 2008. Other expense in fiscal 2008 consisted of the write-off of property and equipment no longer in use.

As a result of the decreased revenues and large write-down of inventory, we had a net loss of $3,965,000 in fiscal 2008, compared to a net loss of $1,487,700 in fiscal 2007.

Comparison of Fiscal Years Ended September 30, 2007 and 2006

Net revenues for fiscal 2007 increased one percent from $4,640,600 in fiscal 2006 to $4,686,400. This slight increase is the result of one customer increasing its order rate to an amount that offset decreases in older product sales.

Cost of revenues for fiscal 2007 increased 32 percent from $2,153,700 in fiscal 2006 to $2,846,700, mainly the result of write-offs of inventory totaling $555,600 and a decrease in sales of products previously written down to zero-value (15% in fiscal 2007 compared to 26% in fiscal 2006).

Research and development expenses increased 85 percent from $981,700 in fiscal 2006 to $1,811,800. While this increase includes the write-off of $400,200 of capitalized test software development costs, the remaining increase is the result of our continued commitment to expand our product development team, in both numbers and expertise. While the expenses, net of the write-off of capitalized test software development costs, are outside our goal of 20 to 25 percent of net revenues (30%), we believe we must continue at this current level as new product development is the key to our future growth and success. Future new product introductions will result in future revenue increases that will begin to offset these expenditures down to our goal level.

Selling, general, and administrative expenses increased nine percent from $1,421,900 in fiscal 2006 to $1,546,400. While we attempted to identify areas for cost-cutting during the fiscal year, the need for outside consultants and the expensing of certain prepaid expenses whose useful life had expired early in the normal course of business resulted in the total increase.

Interest income increased 101 percent from $37,800 in fiscal 2006 to $75,900. The increase is the result of more funds being invested in available-for-sales securities during fiscal 2007 and from the fact that the investments existed for the full fiscal year compared to only four months of fiscal 2006.

As a result of the foregoing, we had a net loss of $1,487,700 for fiscal 2007, compared to net income of $129,400 in fiscal 2006.

Critical Accounting Policies

Management's discussion and analysis of our 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, we reevaluate our judgments, estimates, and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, and valuation of long-lived assets. We base our judgments and estimates on historical experience, knowledge of current conditions, and our 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 we believe 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 we generally do not change the pricing of our 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.

Allowance for Doubtful Accounts

We establish a general allowance for doubtful accounts based on analyzing historical bad debts, specific customer creditworthiness, and current economic conditions. Historically, we have not experienced significant losses related to receivables.

Inventories

We write down our inventories for lower of cost or market reserves, aged inventory reserves, and obsolescence reserves. As a result of production requirements and constraints, we are often required to estimate the sales expectations for the entire life cycle of a product (which can be ten or more years) and purchase materials upfront. 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 increases 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 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, we use undiscounted future cash flows without interest charges compared to the carrying value of the assets.

Deferred Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits are subject to a valuation allowance when we are unable to conclude that our deferred income tax assets will more likely than not be realized from the results of operations. We have recorded a valuation allowance to reflect the estimated amount of deferred income tax assets that may not be realized. The ultimate realization of deferred income tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. We consider projected future taxable income and tax planning strategies in making this assessment.

Based on the historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management believes it more likely than not that we will not realize benefits of these deductible differences as of September 30, 2008. Accordingly, we have established a valuation allowance against our net deferred income tax assets as of September 30, 2008.

Impact of New Financial Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

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. 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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements and Financial Statement Schedules

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors

LOGIC Devices Incorporated

Sunnyvale, California

We have audited the accompanying balance sheets of LOGIC Devices Incorporated (the "Company") as of September 30, 2008 and 2007 and the related statements of operations, shareholders' equity, and cash flows for each of the fiscal years then ended. Our audits also included the financial statement schedule of the Company listed in Item 15. These financial statements and the financial statement schedule 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 audits 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 audits provided 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 30, 2008 and 2007 and the results of their operations and their cash flows for each of the two fiscal years in the period ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We were not engaged to examine management s assertion about the effectiveness of LOGIC Devices Incorporated s internal control over financial reporting as of September 30, 2008 included in the accompanying Form 10-K and, accordingly, we do not express an opinion thereon.

/s/ Hein & Associates LLP

Irvine, California

December 17, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders

and Board of Directors

LOGIC Devices Incorporated

Sunnyvale, California

We have audited the accompanying LOGIC Devices Incorporated (the "Company") statements of operations, shareholders' equity, and cash flows for the fiscal year ended September 30, 2006. Our audit also included the financial statement schedule of the Company listed in Item 15 for the fiscal year ended September 30, 2006. These financial statements and the financial statement schedule 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 provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of its operations and cash flows of LOGIC Devices Incorporated for the fiscal year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Perry-Smith LLP

Sacramento, California

November 29, 2006

LOGIC Devices Incorporated

Balance Sheets

	September 30, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 312,400	$ 884,000
Investment in available-for-sale securities	944,400	1,061,900
Accounts receivable	658,200	681,300
Inventories	1,424,700	4,388,700
Prepaid expenses and other current assets	136,800	186,500
Total current assets	3,476,500	7,202,400
Property and equipment, net	877,800	1,038,800
Other assets, net	22,100	22,100
	$ 4,376,400	$ 8,263,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 156,300	$ 30,100
Accrued payroll, vacation and bonuses	126,200	119,900
Accrued commissions	16,000	25,000
Other accrued expenses	16,000	70,500
Total current liabilities	314,500	245,500
Deferred rent	26,500	2,100
Total liabilities	341,000	247,600
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized;		
5,000 designated as Series A, 0 shares issued and outstanding	-	-
70,000 designated as Series B, 0 shares issued and outstanding	-	-
Common stock, no par value; 10,000,000 shares authorized;		
6,814,438 and 6,812,938 shares issued and outstanding	18,543,200	18,541,300
Additional paid-in capital	155,600	142,200
Other comprehensive loss	(30,600)	-
Accumulated deficit	(14,632,800)	(10,667,800)
Total shareholders' equity	4,035,400	8,015,700
	$ 4,376,400	$ 8,263,300

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

LOGIC Devices Incorporated

Statements of Operations

	For the fiscal years ended September 30,		
	2008	2007	2006
Net revenues	$ 3,352,100	$ 4,686,400	$ 4,640,600
Cost of revenues	4,196,600	2,846,700	2,153,700
Gross margin	(844,500)	1,839,700	2,486,900
Operating expenses:			
Research and development	1,563,400	1,811,800	981,700
Selling, general and administrative	1,483,200	1,546,400	1,421,900
Total operating expenses	3,046,600	3,358,200	2,403,600
Operating (loss) income	(3,891,100)	(1,518,500)	83,300
Other expense (income), net:			
Interest income	(56,700)	(75,900)	(37,800)
Other expense (income), net	129,800	(100)	(9,100)
Total other expense (income), net	73,100	(76,000)	(46,900)
(Loss) income before provision for income taxes	(3,964,200)	(1,442,500)	130,200
Provision for income taxes	800	45,200	800
Net (loss) income	$ (3,965,000)	$ (1,487,700)	$ 129,400
Basic (loss) earnings per common share	$ (0.58)	$ (0.22)	$ 0.02
Basic weighted average common shares outstanding	6,814,313	6,797,480	6,754,021
Diluted (loss) earnings per common share	$ (0.58)	$ (0.22)	$ 0.02
Diluted weighted average common shares outstanding	6,814,313	6,797,480	6,794,789

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

LOGIC Devices Incorporated

Statement of Shareholders' Equity

	Common Stock		Additional Paid-In	Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Loss	Deficit	Total
Balances, September 30, 2005	6,753,188	$ 18,447,500	$ 100,000	$	$(9,309,500)	$ 9,238,000
Grants of director common stock options			14,000			14,000
Vested grants of employee common stock options			4,700			4,700
Exercise of director common stock options	10,000	11,000	-		-	11,000
Net income					129,400	129,400
Balances, September 30, 2006	6,763,188	18,458,500	118,700		(9,180,100)	9,397,100
Grants of director common						