LOGICVISION INC
Form 10-Q
May 14, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from ____________ to ____________.

Commission File No.: 0-31773

LOGICVISION, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

At May 12, 2009, 9,473,572 shares of Registrant's Common Stock, $0.0001 par value were outstanding.

LOGICVISION, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED MARCH 31, 2009

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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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

	March 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,917	$ 9,249
Short-term investments	-	150
Accounts receivable, net of allowance for doubtful accounts of $20 and $5, respectively	1,944	504
Prepaid expenses and other current assets	831	593
Total current assets	9,692	10,496
Property and equipment, net	347	411
Intangible assets, net	-	-
Goodwill	6,846	6,846
Other long-term assets	203	206
Total assets	$ 17,088	$ 17,959
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 773	$ 516
Accrued liabilities	1,578	1,791
Deferred revenue, current portion	7,703	7,871
Total current liabilities	10,054	10,178
Deferred revenue	1,043	1,703
Other long-term liabilities	76	187
Total liabilities	11,173	12,068
Commitments and contingencies (See Note 6)		
Stockholders' Equity:		
Preferred stock, $0.0001 par value:		
Authorized: 5,000 shares;		
Issued and outstanding: no shares issued and outstanding	-	-
Common stock, $0.0001 par value:		
Authorized: 50,000 shares;		
Issued and outstanding: 9,474 shares at March 31, 2009 and 9,460 shares at December 31, 2008	1	1
Additional paid-in capital	109,383	109,247
Accumulated other comprehensive loss	(37)	(29)
Accumulated deficit	(103,432)	(103,328)
Total stockholders' equity	5,915	5,891
Total liabilities and stockholders' equity	$ 17,088	$ 17,959

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues:		
Bundled time-based license and maintenance	$ 2,720	$ 2,815
Other license	61	-
Professional service	283	155
Total revenues	3,064	2,970
Cost of revenues:		
Bundled time-based license and maintenance	468	754
Professional service	136	77
Total cost of revenues	604	831
Gross profit	2,460	2,139
Operating expenses:		
Research and development	800	1,008
Sales and marketing	843	1,506
General and administrative	687	894
Cost related to strategic alternatives	243	-
Total operating expenses	2,573	3,408
Loss from operations	(113)	(1,269)
Interest and other income, net	9	18
Loss before provision for income taxes	(104)	(1,251)
Income tax provision	-	15
Net loss	$ (104)	$ (1,266)
Net loss per common share, basic and diluted	$ (0.01)	$ (0.13)
Weighted average number of shares outstanding, basic and diluted	9,468	9,674

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		

Net loss	$ (104)	$ (1,266)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	62	108
Provision for (recovery of) doubtful accounts	15	(9)
Stock-based compensation	120	177
Changes in operating assets and liabilities:		
Accounts receivable	(1,454)	(133)
Prepaid expenses and other current assets	(238)	67
Other long-term assets	3	9
Accounts payable	257	29
Accrued and other liabilities	(313)	(551)
Deferred revenue	(828)	718
Net cash used in operating activities	(2,480)	(851)
Cash flows from investing activities:		
Purchase of investments	-	(782)
Purchase of property and equipment	-	(59)
Proceeds from sales and maturities of investments	150	500
Net cash provided by (used in) investing activities	150	(341)
Cash flows from financing activities:		
Proceeds from issuance of common stock	15	19
Payments made on capital lease	(11)	(10)
Net cash provided by financing activities	4	9
Effect of exchange rate on cash and cash equivalents	(6)	-
Net decrease in cash and cash equivalents	(2,332)	(1,183)
Cash and cash equivalents, beginning of period	9,249	6,783
Cash and cash equivalents, end of period	$ 6,917	$ 5,600

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

LOGICVISION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of LogicVision, Inc. (we, our, LogicVision or the Company) and its wholly-owned subsidiaries. All intercompan accounts and transactions have been eliminated in consolidation. The Companys fiscal year end is December 31.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows. The unaudited condensed consolidated interim financial statements contained herein should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K as filed with the SEC.

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

We have incurred substantial losses and negative cash flows from operations since inception. For the year ended December 31, 2008, we incurred a net loss of approximately $3.5 million and positive cash flows from operations of approximately $1.6 million. As of March 31, 2009, we had an accumulated deficit of approximately $103.4 million. While management believes that our current funds will be sufficient to enable us to meet our planned expenditures through at least December 31, 2009, we are subject to risks associated with companies of similar size and stage of development, including but not limited to, dependence on key individuals, competition from substitute services and larger companies, and the continued successful development and marketing of our products and services. If anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures so as not to require additional financing resources. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Specifically, we have reclassified certain prior year amounts relating to the classification of revenues to show revenues from bundled time-based licenses and maintenance revenues together. We believe that the revised presentation is a better way to reflect our revenue stream. The effects of these reclassifications had no impact on previously reported total revenues, gross profit or net income.

Stock-Based Compensation Expense

Stock-based compensation expense recognized under Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS 123(R)) Share-Based Payment for the three months ended March 31, 2009 and 2008 was $120,000 and $177,000, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan.

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Stock-based compensation expense for the three months ended March 31, 2008 includes compensation expense recognized as a result of the consummation of the Companys stock option exchange offer on March 8, 2007, in accordance with SFAS 123(R); compensation cost associated with the incremental fair value of these option awards was calculated at approximately $579,000 using the Black-Scholes valuation option pricing model. To this total was added the remaining unamortized fair value of any exchanged options originally granted of $21,000 to arrive at a total fair value of $600,000 to be amortized to expense over the vesting period of these newly exchanged options. Of this amount, $548,000 was recognized as compensation expense for the year ended December 31, 2007. The remaining amount was fully recognized as compensation expense for the quarter ended March 31, 2008.

Compensation expense for all share-based payment awards is recognized using the multiple option approach. As stock-based compensation expense recognized in the consolidated statements of operations for the three months ended March 31, 2009 and 2008, is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Companys determination of fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model is affected by the Companys stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the Companys expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Expected volatilities are based on the historical volatility of the Companys common stock. The expected term of the options granted represents the period of time that options are expected to be outstanding, based on historical information. The Company uses historical data to estimate option exercise and employee terminations. The risk-free interest rate is based on the U.S. Treasury zero-coupon issues with remaining terms similar to the expected term of the Company's equity awards. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero.

For further information on stock-based compensation, see Note 9.

Net Loss Per Share

SFAS 128, "Earnings Per Share," requires a dual presentation of basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that would occur if outstanding securities to issue common stock were exercised or converted to common stock. Diluted net loss per share for the three months ended March 31, 2009 and 2008 does not differ from basic net loss per share since potential shares of common stock issuable upon exercise of stock options and warrants are anti-dilutive under the treasury stock method.

The following table presents the calculation of the basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Numerator - Basic and Diluted		
Net loss	$ (104)	$ (1,266)
Denominator - Basic and Diluted		
Weighted average common stock outstanding	9,468	9,674
Basic and Diluted net loss per share	$ (0.01)	$ (0.13)

Options and warrants to purchase an aggregate of 2.5 million shares of common stock outstanding at March 31, 2009 and 2.3 million shares at March 31, 2008 were excluded from the computation of diluted shares because of their antidilutive effect on net loss per share for the three months then ended.

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Recently Issued Accounting Standards

In April 2009, the Financial Accounting Standards Board ("FASB") issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. This FSP also amends APB Opinion No. 28, "Interim Financial Reporting", to require those disclosures in all interim financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 and shall be applied prospectively. The Company does not expect that the implementation of FSP FAS 107-1 and APB 28-1 will have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 clarifies when markets are illiquid or that market pricing may not actually reflect the "real" value of an asset. If a market is determined to be inactive and market price is reflective of a distressed price then an alternative method of pricing can be used, such as a present value technique to estimate fair value. FSP FAS 157-4 identifies factors to be considered when determining whether or not a market is inactive. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 and shall be applied prospectively. The Company is evaluating the impact the implementation of FSP FAS 157-4 will have on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments (OTTI) (FSP FAS 115-2 and FAS 124-2) which is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. The FSP applies to debt securities and requires that the total OTTI be presented in the statement of income with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is not more likely than not that it will have to sell the security prior to its anticipated recovery. The FSP is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP will be applied prospectively with a cumulative effect transition adjustment as of the beginning of the period in which it is adopted. An entity early adopting this FSP must also early adopt FSP FAS 157-4. The Company is evaluating the impact the implementation of FSP FAS 115-2 and FAS 124-2 will have on its consolidated financial statements.

Note 2. Cash and Cash Equivalents and Investments

The Company considers all highly liquid investment instruments purchased with original maturities of three months or less at the acquisition date to be cash equivalents. Investment instruments purchased with original maturities of more than three months, which mature in less than twelve months, are considered to be short-term investments. All investments are classified as available-for-sale and are reported at fair value. Interest and realized gains and losses are included in interest and other income, net. Realized gains and losses are recognized based on the specific identification method.

Cash, cash equivalents and investments consist of the following (in thousands):

	March 31, 2009	December 31, 2008
Cash and cash equivalents:		
Cash	$ 650	$ 647
Money market funds	6,267	8,452
U.S. government agency notes	-	150
Total cash and cash equivalents	$ 6,917	$ 9,249
Short-term investments:		
U.S. government agency notes	-	$ 150
Total short-term investments	$ -	$ 150

Note 3. Goodwill

The Company evaluates goodwill at least on an annual basis (in the fourth quarter) and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from its estimated future cash flow. No assurances can be given that future evaluations of goodwill will not result in charges as a result of future impairment.

Note 4. Loan Agreement

As of March 31, 2009, we had a loan agreement with a bank under which we could borrow, on a revolving basis, up to $1.0 million at an interest rate equal to prime rate, which was equal to an annual rate of 3.25% at March 31, 2009. There were no outstanding borrowings under the agreement, and we were in compliance with the covenants under the agreement as of March 31, 2009. The agreement expired on April 26, 2009.

On April 24, 2009, we entered into a loan agreement with a bank under which we may borrow, on a revolving basis, up to $2.0 million. The interest rate applicable to any outstanding amounts is determined by reference to LIBOR plus a stated margin, and is subject to daily adjustment. In connection with entering into the agreement, we granted the bank a security interest in all of our existing and after-acquired property, including, but not limited to, intellectual property, inventory and equipment. Under the agreement, we must comply with certain operating and reporting covenants as a condition to receiving credit extensions. If we fail to perform any of our obligations, violate any of our covenants, suffer a material adverse change in our business or financial condition or become insolvent under the agreement, the bank can declare any outstanding amounts immediately due and payable and cease advancing us money or extending us credit. The agreement expires on February 24, 2010. We are currently in compliance with all the operating and reporting covenants under the agreement and there are currently no borrowings outstanding.

Note 5. Income Taxes

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