SEMIANNUAL REPORT FOR
THE SIX MONTHS ENDED
AUGUST 31, 2012 and 2011

QUADLOGIC CONTROLS CORPORATION

(Exact Name of issuer as specified in its charter)

New York	**13-3109443**
(State of Incorporation)	(IRS Employer Identification No.)

33-00 Northern Blvd, 2nd Floor
Long Island City, NY 11101
(Address of principal executive office)

(212) 930-9300
(Company's telephone number)

ISSUER'S EQUITY SECURITIES

COMMON & PREFERRED STOCK

$0.001 Par Value
20,000,000 Common Shares & 5,000,000 Preferred Shares Authorized
11,013,351 Common Shares Issued and Outstanding

QUADLOGIC CONTROLS CORPORATION
UNAUDITED CONDENSED BALANCE SHEETS
(In thousands, except per share data)

	August 31, 2012	August 31, 2011
ASSETS		
Current assets		
Cash	$ 908	$ 684
Accounts receivable	2,011	3,377
Inventories	2,578	2,630
Prepaid expenses and other current assets	630	677
Total current assets	6,127	7,368
Property and equipment, net	1,254	1,452
Other assets	514	423
Total Assets	$ 7,895	$ 9,243
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of installment debt	$ 265	$ 360
Current maturities of capital lease obligations	33	102
Secured line of credit	1,133	1,386
Debt obligations - preferred shareholders	692	912
Accounts payable	1,702	2,766
Customer deposits	156	915
Accrued expenses and other liabilities	671	711
Current portion of accrued compensation	524	736
Total current liabilities	5,176	7,888
Non-current liabilities		
Capital lease obligations, net of current maturities	13	20
Installment debt, net of current maturities	-	173
Accrued compensation	679	633
Other non-current liabilities	1,454	1,417
Total liabilities	7,322	10,131
Shareholders' equity (deficit):		
Common stock, $0.001 par value; 20,000,000 shares authorized, 11,013,351 shares issued and outstanding	11	11
Additional paid-in capital	9,370	9,370
Accumulated deficit	(8,808)	(10,269)
Total shareholders' equity (deficit)	573	(888)
Total Liabilities and shareholders' equity	$ 7,895	$ 9,243

See accompanying notes to the financial statements

QUADLOGIC CONTROLS CORPORATION
UNAUDITED CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	August 31, 2012	August 31, 2011
Revenues		
Meter Sales	$ 4,348	$ 6,462
Billing and technical services	1,903	1,804
Total revenues	6,251	8,266
Cost of revenues		
Cost of meters sold	2,605	3,629
Cost of billing and technical services	996	1,045
Total cost of revenues	3,601	4,674
Gross Margin	2,650	3,592
Operating expenses:		
Selling	703	1,153
Research and development	506	679
General and administrative	838	757
Total operating expenses	2,047	2,589
Operating income	603	1,003
Other expense, net		
Interest expense	(156)	(179)
Other expense, net	(14)	(18)
Total other expense	(170)	(197)
Net income	$ 433	$ 806
Basic earnings per share	$ 0.04	$ 0.07
Shares used in computing basic earnings per share	11,013,351	11,013,351
Diluted net earnings per share	$ 0.04	$ 0.07
Shares used in computing diluted earnings per share	11,668,111	11,561,611

See accompanying notes to the financial statements

QUADLOGIC CONTROLS CORPORATION
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	August 31, 2012	August 31, 2011
Cash flows from operating activities:		
Net income	$ 433	$ 806
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	15	20
Depreciation and amortization	129	143
Stock based compensation	20	-
Changes in assets and liabilities:		
Accounts receivable	147	(1,472)
Inventories	200	(901)
Prepaid expenses and other current assets	(109)	(183)
Accounts payable	184	966
Customer deposits	(143)	915
Accrued expenses and other liabilities	(137)	199
Accrued compensation	(188)	(48)
Other non-current liabilities	10	38
Net cash provided by operating activities	561	483
Cash flow from investing activities:		
Purchases of property and equipment	(23)	(27)
Patent acquisition costs	(57)	(11)
Net cash used in investing activities	(80)	(38)
Cash flows from financing activities:		
Payments on debt obligations	(243)	(442)
Net borrowings from line of credit	471	345
Principal payments on capital lease obligations	(44)	(62)
Net provided by (used in) financing activities	184	(159)
Net increase in cash	665	286
Cash beginning	243	398
Cash ending	$ 908	$ 684

See accompanying notes to the financial statements

Quadlogic Controls Corporation

Notes to Financial Statements

Interim Financial Statements

The unaudited condensed interim financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state our financial position, results from operations and cash flows for the date and period presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted; nevertheless, the Company believes that the disclosures herein are adequate to make the information presented not misleading. Operating results for the six months ended August 31, 2012 and August 31, 2011 are not necessarily indicative of the results that may be expected for future periods. The balance sheets, operating results, and statements of cash flows for the periods ended August 31, 2012 and 2011 were neither audited nor reviewed by an independent accounting firm and are subject to change upon such a review or audit being completed.

1. Summary of Significant Accounting Policies

This summary of the significant accounting policies of Quadlogic Controls Corporation ("Quadlogic" or the "Company") is presented to assist in the understanding of the financial statements. The financial statements and notes are representations of the Company's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

History and Business Activity

The Company is engaged in the business of electricity metering, monitoring and control since 1982. All Quadlogic metering products feature the company's proprietary robust power line communications technology. The business consists of three segments. First is the design, manufacture and sale of the Transmeter® "smart" metering system, a line of digital, microprocessor-controlled meters that, in communication with the Quadlogic Transponder, measures and remotely monitors the time and amount of electricity consumption and other diagnostics. The second segment supports the first and consists of technical services including meter reading, customer billing, and system repair and maintenance. The third segment, the Energy Guard ™ system of concentrated metering, is sold primarily to utilities in countries where electricity theft is common. It consists of pole-mounted sealed panels of meters, remote data concentrators and sub-station based data collectors capable of remote metering, theft and tamper detection and remote power disconnect and reconnect. The Company's customers include real estate development and construction companies, owners and operators of multi-tenant commercial and residential buildings, distributors and foreign electric utility companies.

The Company's stock is not listed on any organized exchange but is traded on the over-the-counter market. The Company's common stock under the symbol "QDLC" is quoted on the OTC Markets Electronic Quotation Service and experiences limited trading activity.

Use of Estimates

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

Accounts Receivable

The Company carries its accounts receivable at cost less allowances for doubtful accounts and returns. On a periodic basis, the Company evaluates its accounts receivable and establishes allowances for doubtful accounts and returns based on a history of past write-offs, collections, returns and current conditions.

Revenue Recognition

The Company recognizes revenue from the sale of electric metering equipment at the time of shipment to the customer. Revenues from installation contracts are recognized using the proportional performance method based upon the percentage of costs incurred to total estimated costs. Revenues from meter, read and bill services, and from repair and technical services are recognized at the time the services are rendered.

Cost of Revenues

Cost of revenues is comprised of cost of materials, direct labor and overhead expenses. Cost of materials consists primarily of materials used in production of metering equipment, freight and duties, inventory adjustments and reserves, and parts consumed by billing, field, technical, and repair services. Direct labor includes salaries for production, billing, field and repair services. Overhead expenses consist primarily of salaries for production support, technical and quality control, payroll taxes and benefits, rent and utilities, depreciation and insurance, professional fees, packing and shipping supplies, and other related expenses.

Operating Expenses

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions, payroll taxes and benefits, consulting fees, and other related selling expenses.

Research and Development. Research and development expenses consist primarily of salaries, payroll taxes and benefits, product development, depreciation, and other related expenses. Costs related to the development of new products and enhancements to existing products are charged to operations as incurred.

General and Administrative. General and administrative expenses include allocated facilities cost, finance, payroll and human resources, legal, auditing, and other administrative functions. The expenses associated with these functions consist primarily of salaries, payroll taxes and benefits, rent, professional and director's fees, depreciation, credit and collection, and other related expenses.

Other expenses, net

Other expenses, net consist primarily of interest expense, and credit line and loan collateral monitoring fees. Interest expense includes primarily loans, debt obligations to preferred shareholders, and other related expenses.

Fair Value of Financial Instruments

The Company follows the provisions of Financial Accounting Standards Board ("FASB") ASC- 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC- 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The carrying value of the Company's cash, accounts receivable and accounts payable approximates their fair values based on the short-term nature of such items. The carrying value of the debt included in long-term debt approximates fair value since the interest rate is at terms currently available to the Company. The fair value of the debt at August 31, 2012 and 2011 was approximately $311,000 and $655,000, respectively.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out basis.

Depreciation and Amortization

Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the related assets, as follows:

Machinery and equipment	5 years
Transportation equipment	5 years
Office furniture and equipment	3-7 years
Computer equipment and software costs	3-5 years
Tools, dies and molds	3 years

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease.

Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts, and any resulting gain or loss is recognized.

Patents and Trademarks

The Company owns various patents of technology concerning its electronic metering systems and processes. The costs associated with the acquisition of patents, and the costs of registering the patents and trademarks are capitalized and amortized on the straight-line basis over their remaining lives. Amortization expense for the six months ended August 31, 2012 and 2011 amounted to approximately $5,200 and $2,900, respectively.

Shipping and Handling

Shipping and handling costs incurred in shipping products to customers are expensed as incurred and included in cost of meters sold. Shipping costs totaled approximately $91,000 and $68,000 for the six months ended August 31, 2012 and 2011, respectively. All shipping and handling costs billed to customers are recorded in revenue.

Stock-based Compensation

The Company follows the provisions of ASC 718, for stock-based compensation. This statement requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award over the service period.

2. Deferred Taxes

The Company provides for income taxes and recognizes deferred tax assets and liabilities on the balance sheet using the liability method for income taxes. The liability method requires that all deferred tax balances be determined by using the applicable tax rate expected to be in effect when the taxes will actually be paid or when refunds are received. The applicable tax rate is applied to the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The resulting deferred tax asset or liability is adjusted to reflect changes in tax laws as they occur. Valuation allowances are established, if necessary, to reduce the deferred tax assets and liabilities. (See Note 10)

3. Concentration of Credit Risk

The Company maintains its cash balances in financial institutions in New York. From time to time, the Company has cash balances that may exceed Federally insured limits.

The Company's trade receivables are potentially subject to credit risk. The Company extends credit to its customers based upon an evaluation of the customers' financial condition and credit history. The Company's policies do not require collateral to support accounts receivable. However, because of the diversity and creditworthiness of the individual accounts that comprise the total balance, management does not believe that the Company is subject to any significant credit risk.

4. Inventories

Inventories consisted of the following:

($ in thousands)	August 31, 2012	August 31, 2011
Raw materials	$ 926	$ 944
Work-in-progress	565	577
Finished goods	1,087	1,109
Total inventories	$ 2,578	$ 2,630

5. Property and Equipment

Property and equipment consisted of the following:

($ in thousands)	August 31, 2012	August 31, 2011
Machinery and equipment	$ 939	$ 915
Office furniture and equipment	469	419
Leasehold improvements	1,574	1,574
Computer equipment and software costs	210	215
Tools, dies and molds	246	244
Less accumulated depreciation and amortization	(2,184)	(1,915)
Property and equipment, net	$ 1,254	$ 1,452

6. Secured Credit Line

On March 24, 2008 the Company entered into a two-year loan agreement expiring March 31, 2010 for a $2,000,000 revolving line of credit with Entrepreneur Growth Capital, LLC (EGC). The loan facility had been extended until March 31, 2012 as per the automatic renewal provision in the agreement. Lender agreed to an extension of the loan agreement until September 28, 2012. This line of credit is secured by the Company's trade receivables, deposit accounts, equipment, machinery, furniture and fixtures. Borrowings under the credit facility bear interest at prime plus 3%, not to exceed 24% per annum. The minimum monthly interest charge is $9,000. The agreement includes collateral monitoring fees and an annual facility fee of 2% on the line of credit. The amount borrowed at August 31, 2012 and 2011 was $1,133,286 and $1,385,751, respectively.

On October 5, 2012 the Company entered into a new two-year loan agreement expiring October 1, 2014 for a $2,000,000 total revolving line of credit facility with EGC. The maximum loans and advances against accounts receivable is $2,000,000 and against inventory is $250,000. EGC agrees, at borrower's request, to periodically re-evaluate the Total Facility and may increase the facility but not to exceed $5,000,000. This line of credit is secured by the Company's trade receivables, deposit accounts, equipment, machinery, furniture and fixtures. Borrowings under the credit facility bear interest at prime plus 3% for loans made against accounts receivable and interest at prime plus 5% for loans made against inventory. The minimum monthly interest charge is $4,000 for a credit line of $1,250,000 and increases to $5,000 when total credit line exceeds $1,250,000. The agreement includes collateral monitoring fees and an annual facility fee of 2% on the line of credit.

7. Capital Lease Obligations

The Company has equipment loans payable in monthly installments of $8,002, including interest ranging from 6.50% to 13.6%, and expiring at various dates through August 2014. At August 31, 2012 and 2011, the balance on these loans was $46,601 and $122,329, respectively.

Maturities of capital lease obligations are as follows:

Fiscal Year Ending February 28,	(in thousands)
2013	$ 18
2014	26
2015	6
Total	50
Less: amount representing interest	(3)
Present value of net minimum lease payments	$47

8. Convertible Preferred Stock

The Company is authorized to issue 5,000,000 shares of $.001 par value preferred stock, including 4,000,000 shares of Series A Convertible Preferred stock. The shares may be designated and issued by the board of directors at anytime in one or more series that will have voting rights, mandatory dividends, convertible features, and/or preferences that have not been given to shares of any other series of the Company's common stock.

Series A Convertible Preferred accrue cumulative dividends at the rate of 9% per annum, which are payable if and when declared by the Company's board. Each share of preferred stock is convertible into 1.25 shares of common stock at the option of the holder at any time. The Company is required to redeem any unconverted shares at the original purchase price, plus accrued dividends, upon the sale of the Company's business or a public offering of its stock, but in no event later than February 29, 2008. On February 25, 2008 the Board of Directors of the Corporation extended the redemption date to August 31, 2009 followed by the consent in writing of at least 66% of the outstanding shares. The extended redemption date expired and the Company is currently in default of the agreement. The Company has reclassified to current debt the preferred stock with an original face amount of $399,000 plus accrued dividends of $697,997 as of February 28, 2010. In November 2010, the Company instituted a voluntary monthly buyback program to retire the outstanding principal amount. Balance due as of August 31, 2012 was $0 in principal and $691,895 in accrued dividends.

9. Commitments and Contingencies

In fiscal year 2007, the Company entered into a lease agreement for new facilities. The lease commenced July 1, 2007 and expires December 31, 2022. The lease is for a 15-year period with an option to buy-out the remainder of the lease term at the end of 10 years. The lease provides for minimum annual rentals plus real estate taxes and escalation charges. The new facilities are located within an area that qualifies the Company for certain New York City income tax credits, real estate tax incentives and utility credits.

Rent expense charged to operations net of income tax credits and real estate tax incentives amounted to approximately $257,000 and 230,000, for the six months ended August 31, 2012 and 2011, respectively.

Future minimum annual rental payments under the non-cancelable operating lease are as follows:

Year ending February 28,	($ in thousands)
2013	$ 384
2014	767
2015	767
2016	767
2017	767
Thereafter	4,977
	$ 8,429

10. Income Taxes

Deferred tax assets arise from net operating loss carryforwards and from items that are currently expensed for financial statement purposes but are not currently deductible for income tax purposes.

The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding realization of such assets.

As of August 31, 2012, the Company had federal, state and city net operating loss carryforwards of approximately $750,000 and federal R&D tax credits of approximately $300,000 available to reduce future federal taxable income. The federal net operating loss carryforwards begin expiring in February 28, 2025.

The company follows FASB ASC 740-10 (FASB Interpretation No. 48) “Accounting for Uncertainty in Income Taxes” which clarifies the accounting for uncertainty in income taxes recognized in and entity’s financial statement disclosure of tax provisions taken or expected to be taken on a tax return. The company has not indentified any uncertain tax positions that would require a provision of a liability under ASC 740-10.

11. Stock Option Plan and Warrants

The Company recognized no compensation expense arising from stock options issued to employees for six months ended August 31, 2012 and 2011, respectively.

On September 1, 1999, the board of directors adopted the 1999 Stock Option Plan (the "1999 Plan"). This was approved by the shareholders in April 2000. The 1999 Plan provides for the granting of options to officers, directors, employees, and consultants to purchase up to 2,000,000 shares of the Company's common stock. The 1999 Plan expired September 2009. A new plan is pending subject to shareholder vote and Board approval, which will be determined at the next shareholder meeting.

A summary of stock option activity related to the Company's 1999 Stock Option Plan for the six months ended August 31, 2011 and 2012 is as follows:

	Number of shares	Weighted average exercise price per share	Expiration date of options
Outstanding February 28, 2011	296,500	$1.25	1/17/15 - 1/8/18
Forfeited	-		
Outstanding August 31, 2011	296,500	$1.25	1/17/15 - 1/8/18
Outstanding February 29, 2012	296,500	$1.25	1/17/15 - 1/8/18
Forfeited	(11,500)		
Outstanding August 31, 2012	285,000	$1.25	1/17/15 - 1/8/18

For the fiscal year ended February 28, 2011, upon joining the board, a director is awarded an option to purchase 90,000 shares of the Company's common stock at an exercise price of $1.25 per share. The option vests ratably over two years, with one-third vested upon issuance, one-third after one year, and the remainder after two years. The Company also compensates each independent director $12,500 annually payable quarterly and each new independent director is required to purchase a minimum of $75,000 of Company stock. In fiscal year ended February 2012, the company amended this to compensate each independent director at $40,000 annually and grant each independent director 30,000 shares of the Company’s common stock which vest immediately. There was $10,000 of compensation expense arising from stock granted to each independent director for six months ended August 31, 2012.

As of August 31, 2012 and 2011, there were no outstanding director’s options.

Warrants

The Company has granted warrants to purchase shares of its common stock in connection with various equity transactions. There were 249,760 warrants outstanding during the six months ended August 31, 2012.

The Company uses the Black-Scholes pricing model to value warrants. The value of each warrant granted is estimated on the date of the grant.

12. Results From Operations

The following table sets forth our historical operating results as a percentage of total revenues for the periods indicated:

	Statements of Operations	
	August 31, 2012	**August 31, 2011**
Total revenues	100%	100%
Cost of revenues	58%	57%
Gross Margin	42%	43 %
Operating expenses		
Selling	11%	14%
Research and development	8%	8%
General and administrative	13%	9%
Total operating expenses	32%	31%
Operating income	10%	12%

Earnings Per Share

Basic income or loss per share is computed using the net income or loss and the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the net income and the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential dilutive common shares include, for some or all of the periods presented, outstanding stock grants, options and warrants. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method. As of August 31, 2012 and 2011, there were 654,760 and 548,260 outstanding stock grants, options and warrants to purchase shares of the Company's common stock, respectively.

The following table sets forth the computation of basic and diluted net income or loss attributable to common stockholders:

	August 31, 2012	August 31, 2011
In thousands, except per share amounts		
Numerator:		
Net Income	$ 433	$ 806
Denominator:		
Shares used to compute basic EPS	11,013	11,013
Effect of Dilutive Securities:		
Diluted common shares	655	548
Weighted-average shares used to compute diluted EPS	11,668	11,561
Net earnings per share:		
Basic	$ 0.04	$ 0.07
Diluted	$ 0.04	$ 0.07

EBITDA

We define Adjusted EBITDA as net income or (loss) excluding net interest income, income taxes, depreciation and amortization, and non-cash stock-based compensation expense. Our EBITDA was approximately $738,000 and $1,128,000 for six months ended August 31, 2012 and 2011, respectively.

The following table reconciles Adjusted EBITDA to the reported net income:

Reconciliation of Adjusted EBITDA to Net Income

$ in thousands	August 31, 2012	August 31, 2011
Reported net income	$ 433	$ 806
Depreciation and amortization	129	143
Stock grant to directors	20	-
Interest	156	179
Adjusted EBITDA	$ 738	$ 1,128

Adjusted EBITDA does not represent funds available for management's discretionary use and is not intended to represent cash flow from operations. Adjusted EBITDA has limitations and should not be construed as a substitute for net loss or as a better measure of liquidity than cash flows from operating activities, which are determined in accordance with United States generally accepted accounting principles ("GAAP") and therefore Adjusted EBITDA should only be used as supplemental information. Adjusted EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. In addition, Adjusted EBITDA in not a term defined by GAAP and as a result, our measure of Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

However, Adjusted EBITDA is used by management to evaluate, assess and benchmark our performance. We believe understanding the costs directly related to the delivery of our goods and services is beneficial to the management of the Company. Adjusted EBITDA is relevant and useful information, which is often reported and widely used by analysts, investors and other interested parties as a measurement of the delivery of a product or service. Accordingly, we are disclosing this information to permit a more comprehensive analysis of our operating performance, to provide an additional measure of performance and liquidity and to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements.

Our Adjusted EBITDA financial information is also comparable to net cash provided by operating activities. The table below reconciles Adjusted EBITDA to the GAAP disclosure of net cash provided (used in) operating activities:

$ in thousands	August 31, 2012	August 31, 2011
Net cash provided by operating activities	$ 561	$ 483
Interest	156	179
Provision for doubtful accounts	(15)	(20)
Changes in accounts receivable	(147)	1,472
Changes in inventories	(200)	901
Changes in prepaid expenses and other current assets	109	183
Changes in accounts payable	(184)	(966)
Changes in customer deposits	143	(915)
Changes in Accrued expenses and other liabilities	137	(199)
Changes in accrued compensation	188	48
Changes in other non-current liabilities	(10)	(38)
Adjusted EBITDA	$ 738	$ 1,128

The reconciliation of Adjusted EBITDA to net cash provided by operating our Company should be viewed as supplemental information to our statement of cash flows and not as a substitute.

13. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.