

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

**FORM 10-QSB**

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2005**

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**000-32865**

(Commission file number)

**WordLogic Corporation**

(Exact name of small business issuer as specified in its charter)

**Nevada**

(State or other jurisdiction  
of incorporation or organization)

**88-0422023**

(IRS Employer  
Identification No.)

**650 West Georgia Street, Suite 2400  
Vancouver, British Columbia, Canada V6B 4N7**

(Address of principal executive offices)

**(604) 257-3600**

(Issuer's telephone number)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

☒ Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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.

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2005 – 21,951,663 shares of common stock

**Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒**

WORDLOGIC CORPORATION

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WORDLOGIC CORPORATION  
(A DEVELOPMENT STAGE COMPANY)

**Condensed Consolidated Balance Sheet**  
(Unaudited)  
**March 31, 2005**

**Assets**

Cash	\$ 47,453
Account receivables	12,265
Employee advance	8,215
Prepaid expenses	15,403
Equipment and equipment, net of accumulated depreciation of \$96,986	<u>6,716</u>
Total assets	<u>\$ 90,052</u>

**Liabilities and Stockholders' Deficit**

Liabilities:

Accounts payable:	
Trade	\$ 119,000
Related party (Note 2)	8,065
Accrued expenses	6,572
Accrued interest	28,629
Notes payable (Note 3):	
Convertible	519,451
Other	<u>240,000</u>
Total liabilities	<u>921,717</u>

Stockholders' deficit (Note 5):

Common stock, \$.001 par value; 100,000,000 shares authorized, 21,951,663 shares issued and outstanding	21,952
Additional paid-in capital	1,623,011
Accumulated deficit	(2,264,854)
Equity accumulated during development stage	162,753
Cumulative translation adjustment	<u>(374,527)</u>
Total shareholders' deficit	<u>(831,665)</u>

Total liabilities and shareholders' deficit	<u>\$ 90,052</u>
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See accompanying notes to condensed consolidated financial statements.

WORDLOGIC CORPORATION  
(A DEVELOPMENT STAGE COMPANY)

**Condensed Consolidated Statements of Operations**  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>		<b>May 27, 2003 Through March 31, 2005</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
Royalty revenue	\$ 2,910	\$ 2,982	\$ 15,613
Operating expenses:			
Stock based compensation (Note 5):			
Common stock options	77,000	-	87,344
Consulting services	-	37,500	40,451
Rent, related party (Note 2)	21,291	12,611	109,958
Selling, general and administrative	167,399	68,419	752,981
Research and development	<u>148,612</u>	<u>19,223</u>	<u>414,647</u>
Total operating expenses	<u>414,302</u>	<u>137,753</u>	<u>1,405,381</u>
Loss from operations	(411,392)	(134,771)	(1,389,768)
Other income (expenses):			
Interest income	-	-	1,760
Interest expense:			
Related parties	-	(6,437)	(34,377)
Other	(13,538)	(12,392)	(79,357)
Gain on settled payables	<u>12,550</u>	<u>-</u>	<u>64,495</u>
Loss before income taxes and extraordinary item	(412,380)	(153,600)	(1,437,247)
Income tax provision (Note 4)	<u>-</u>	<u>-</u>	<u>-</u>
Loss before extraordinary item	(412,380)	(153,600)	(1,437,247)
Net extraordinary gain on litigation settlement, less applicable income taxes of \$-0-	<u>-</u>	<u>-</u>	<u>1,600,000</u>
Net income (loss)	<u>\$ (412,380)</u>	<u>\$ (153,600)</u>	<u>\$ 162,753</u>
Basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	
Weighted average common shares outstanding	<u>21,951,663</u>	<u>21,923,663</u>	

See accompanying notes to condensed consolidated financial statements.

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**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>		<b>May 27, 2003 Through March 31, 2005</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
Net cash provided by (used in) operating activities	\$ (304,088)	\$ (74,562)	\$ 29,338
Cash flows from investing activities:			
Purchases of equipment	<u>-</u>	<u>(1,643)</u>	<u>(16,635)</u>
Net cash used in investing activities	<u>-</u>	<u>(1,643)</u>	<u>(16,635)</u>
Cash flows from financing activities:			
Proceeds from related party advances	-	-	69,388
Repayment of related party advances	-	(5,002)	(171,775)
Proceeds from promissory notes issued to related parties	-	15,750	250,394
Repayment of related party promissory notes	-	(23,689)	(493,941)
Proceeds from convertible promissory note	-	85,201	882,468
Repayment of convertible promissory notes (Note 3)	(139,653)	-	(363,016)
Proceeds from other promissory note (Note 3)	240,000	-	240,000
Payments on capital lease obligation	-	(2,358)	(12,071)
Proceeds from stock options exercised	<u>-</u>	<u>-</u>	<u>6,300</u>
Net cash provided by financing activities	<u>100,347</u>	<u>69,902</u>	<u>407,747</u>
Effect of exchange rate changes on cash	<u>(10,867)</u>	<u>15,528</u>	<u>(374,527)</u>
Net change in cash	(214,608)	9,225	45,923
Cash, beginning of period	\$ 262,061	\$ 3,751	1,530
Cash, end of period	<u>\$ 47,453</u>	<u>\$ 12,976</u>	<u>\$ 47,453</u>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 31</u>	<u>\$ 169,260</u>

See accompanying notes to condensed consolidated financial statements.

WORDLOGIC CORPORATION  
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**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**Note 1 - Basis of Presentation**

The financial statements presented herein have been prepared by the Company in accordance with the accounting policies in its Form 10-KSB dated December 31, 2004, and should be read in conjunction with the notes thereto.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of operating results for the interim period presented have been made. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the year.

Financial data presented herein are unaudited.

**Note 2 - Related Party Transactions**

As of March 31, 2005, the Company owed an affiliate \$8,065 for administrative services provided to the Company. This obligation is included in the accompanying condensed consolidated financial statements as "Accounts payable, related party".

The Company rents office space from an affiliate on a month-to-month basis. Monthly lease payments vary based on the amount of office space utilized by the Company. Office rent incurred by the Company totaled \$21,291 for the three months ended March 31, 2005.

**Note 3 - Notes Payable**

As of December 31, 2004, the Company owed an unrelated third party for a convertible promissory note totaling \$659,104. During the three months ended March 31, 2005, the Company repaid \$139,653, which reduced the balance owed on the note to \$519,451 at March 31, 2005. The note carries an eight percent interest rate and matures on March 31, 2006. Principal and accrued interest are payable in any combination of cash and common stock of the Company. The Company can repay principal and interest with common stock at a rate of 85 percent of the stock's market value on the date of advance. Accrued interest payable on the note totaled \$26,947 at March 31, 2005.

On March 1, 2005, the Company obtained \$240,000 from an unrelated third party in exchange for a promissory note. No amounts were repaid as of March 31, 2005. The note is unsecured, carries an eight percent interest rate and matures on March 1, 2007. Accrued interest payable on the note totaled \$1,682 at March 31, 2005.

Future maturities of the notes payable are as follows:

<u>Year ended December 31,</u>	
2006.....	\$ 519,451
2007.....	240,000
	<u>\$ 759,451</u>

**Note 4 - Income Taxes**

The Company records its income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". The Company incurred net operating losses for all periods presented resulting in a deferred tax asset, which was fully allowed for; therefore, the net benefit and expense resulted in \$-0- income taxes.

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**Note 5 – Shareholders’ Deficit**

**Common Stock Options**

The following schedule summarizes the Company’s stock option activity for the three months ended March 31, 2005:

	Options Outstanding		Options Exercisable		Weighted Average
	Number of Shares	Exercise Price Per Share	Number of Shares	Exercise Price Per Share	Exercise Price Per Share
Balance at January 1, 2005....	3,325,000	\$0.30 to \$1.00	2,915,000	\$0.30 to \$1.00	\$ 0.76
Options granted.....	1,500,000	\$ 1.75	349,999	\$ 1.75	\$ 1.75
Options exercised.....	-	-	-	-	\$ -
Options expired.....	(400,000)	\$ 0.57	(400,000)	\$ 0.57	\$ 0.57
Balance at March 31, 2005....	<u>4,425,000</u>	\$0.30 to \$1.75	<u>2,864,999</u>	\$0.30 to \$1.75	\$ 1.00

**Stock options - employees**

During the three months ended March 31, 2005, the Company granted two officers options to purchase 1,500,000 shares of the Company’s common stock. The options carry an exercise price of \$1.75 per share and expire on February 11, 2008. 300,000 options vested immediately on the date of grant. The remaining 1,200,000 options vested evenly, each month, through February 11, 2007. The Company’s common stock had a market value of \$1.93 on the date of grant. The total value of the stock options was calculated at \$330,000 in accordance with APB 25, of which \$77,000 was recorded as stock-based compensation at March 31, 2005 for the 330,000 options that had vested as of March 31, 2005. The weighted average exercise price and weighted average fair value of the above options as of March 31, 2005 were \$1.75 and \$0.959, respectively.

Pro forma information regarding net income and earnings per share is required by SFAS 123 as if the Company had accounted for the granted stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate.....	2.36%
Dividend yield.....	0.00%
Volatility factor.....	66.145%
Weighted average expected life.....	3 years

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The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. However, the Company has presented the pro forma net loss and pro forma basic and diluted loss per common share using the assumptions noted above.

	Three Months Ended March 31, 2005
Net income, as reported.....	<u>\$ (412,380)</u>
Stock-based employee compensation, as reported.....	<u>\$ 77,000</u>
Stock-based employee compensation, fair value.....	<u>\$ 335,650</u>
Pro forma net income.....	<u>\$ (671,030)</u>
Basic and diluted net income per common share, as reported.....	<u>\$ (0.02)</u>
Pro forma basic and diluted net income per common share.....	<u>\$ (0.03)</u>

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**Item 2. Management's Discussion and Analysis of Financial Condition and Plan of Operations**

This statement may include projections of future results and “forward looking statements” as that term is defined in Section 27A of the Securities Act of 1933 as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934 as amended (the “Exchange Act”). All statements that are included in this Quarterly Report, other than statements of historical fact, are forward looking statements. Although management believes that the expectations reflected in these forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

**Financial Summary**

Results of Operations for the Three-Months Ended March 31, 2004

The Company reports a net loss of \$412,380 for the 3-months ended March 31, 2005 or a \$0.02 loss per share; versus a net loss of \$153,600 for the 3-months ended March 31, 2004 or a \$0.01 loss per share.

The net loss for the 3-months ended March 31, 2005 of \$412,380 is primarily comprised of loss from operations of \$411,392. The comparative net loss for the 3-months ended March 31, 2004 of \$153,600 is comprised of loss from operations of \$134,771 and interest expenses of \$18,829. The increase in net loss is primarily due to significant increases in selling, general and administrative expenses, and research and development expense; stock based compensation for the period increased \$39,500 for the 3-month period ending March 31, 2005 as compared to the period ending March 31, 2004.

Revenues during this period were \$2,910 vs. \$2,982 for the comparative prior period.

Liquidity and Capital Resources

During the 3-months ended March 31, 2005 the Company's cash position decreased by \$214,608. Net cash used in operating activities totaled \$304,088; and, \$100,347 was provided through financing activities through proceeds of \$240,000 from a promissory note vs. \$139,653 used for repayment of convertible promissory notes. The effect of exchange rates of cash was a decrease of \$10,867.

During the 3-months ended March 31, 2004 the Company's cash position increased by \$9,225. Net cash used in operating activities totaled \$74,562; and, \$69,902 was provided through financing activities primarily from proceeds from promissory notes.

The Company has incurred losses from operations since inception and at March 31, 2005 had \$47,453 in cash and a capital deficit of \$831,665. The Company requires additional funds to implement its business plan, develop its products and market them. These matters raise doubt about the Company's ability to continue as a going concern. The Company is currently not receiving sufficient cash flow from revenues nor have cash reserves sufficient to maintain operations for the next 12 months. Revenues from sales of our products will need increase and additional financing through debt or equity financing will be required to continue operations. Management is constantly seeking additional financing and while it has successfully done this in the past, there is no assurance that it will continue to be able to do so in the future. No officer or affiliate has made any commitment or is obligated to continue to provide cash through loans or purchases of equity. There is no assurance the Company will achieve profitable operations.

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Management Plan of Operations

WordLogic Corporation is a technology company that delivers predictive interface solutions for computing devices ranging from small hand-held devices to conventional desktop computers. Incorporated in the United States, the company's research, testing and marketing facilities are located in Vancouver, British Columbia, Canada.

The Company has one wholly-owned subsidiary, 602531 British Columbia that was incorporated under the laws of British Columbia on March 2, 2000. This subsidiary holds WordLogic Corporation's intellectual property including its patents and trademarks.

WordLogic Corporation's principal activity is to research, develop, market, license and sell intellectual property including the WordLogic™ Predictive Keyboard. The company currently holds one patent for "Data Entry for Personal Computing Devices" and has five additional pending patents.

The Company presently markets its Desktop software online. In addition, the Company markets its PDA software in seven languages to consumers using online commerce engines such as handango.com and pocketgear.com. The company intends to license its technology to OEMs and other software developers in return for a royalty based on the number of units sold and will continue to market its product to end users via the Web and direct marketing programs. There are also numerous vertical market opportunities for the company in terms of industry-specific applications. For example the learning disabled market, customized dictionaries and the use of the WordLogic technology by other software developers.

The Company also intends to generate royalty income from the licensing and sale of its intellectual property including the WordLogic™ Predictive Keyboard and its patent portfolio.

Patents & Trademarks

Six patent applications have been filed by the Company's subsidiary, 602531 British Columbia Ltd., for "Method, system and media for entering data in a personal computing device" in the United States, Canada and Europe. In connection with one of the European patent applications, the European Patent Office granted European Patent No. 1171813 on March 4, 2004. European Patent No. 1171813 covers 8 countries: Germany, France, the United Kingdom, Italy, Finland, Spain, the Netherlands and Portugal.

On January 12, 2005 two patent applications were filed by the Company's subsidiary, 602531 British Columbia Ltd., for "Method, system, apparatus and computer readable media for directing input associated with a keyboard-type device" in the United States and internationally under the Patent Cooperation Treaty. On March 24, 2005, a further related patent application was filed in Canada.

Through its subsidiary, 602531 British Columbia Ltd., the Company has obtained U.S. Trademark Registration No. 2,774,468 and Canadian Trademark Registration TMA576,700 for the WORDLOGIC trademark. The WORDLOGIC trademark was registered in the United States on October 21, 2003 and in Canada on February 28, 2003. A European Community Trade Mark Application for WORDLOGIC has been approved by the Community Trade Mark Office and is pending registration.

**Item 3. Controls and Procedures**

WordLogic Corporation management, including the Principal Executive Officer and Principal Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c). This evaluation was conducted within 90 days prior to the filing of this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date the Principal Executive Officer and Principal Financial Officer completed their evaluation.

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**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None during the three month period ending March 31, 2005.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On February 15, 2005 the Board adopted a "2005 Stock Incentive Plan" reserving 3,000,000 common shares for issuance under the plan. During the three months ended March 31, 2005, the Company granted the President 1,000,000 options and the CFO 500,000 options to purchase the Company's common stock. The options carry an exercise price of \$1.75 per share and expire on February 11, 2008. 300,000 options vested immediately on the date of grant. The remaining 1,200,000 options vested evenly, each month, through February 11, 2007. The Company's common stock had a market value of \$1.93 on the date of grant. The total value of the stock options was calculated at \$330,000 in accordance with APB 25, of which \$77,000 was recorded as stock-based compensation at March 31, 2005 for the 330,000 options that had vested as of March 31, 2005. All options/shares were issued as exempted transactions under Section 4(2) of the Securities Act of 1933 and are subject to Rule 144 of the Securities Act of 1933. The recipient(s) of our stock took their options/shares for investment purposes without a view to distribution. Furthermore, they had access to information concerning our Company and our business prospects; there was no general solicitation or advertising for the purchase of our shares; there were no commissions paid; and the securities are restricted pursuant to Rule 144.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None, for the period ending March 31, 2005.

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

Exhibits

WordLogic Corporation includes herewith the following exhibits:

- |      |  |
|------|--|
| 10   | Loan Agreement and Promissory note, EH&P Investments AG , March 1, 2005    |
| 31.1 | Certification of Principal Executive Officer (Rule 13a-14(a)/15(d)-14(a))  |
| 31.2 | Certification of Principal Accounting Officer (Rule 13a-14(a)/15(d)-14(a)) |
| 32.1 | Certification of Principal Executive Officer (18 U.S.C. 1350)              |
| 32.2 | Certification of Principal Accounting Officer (18 U.S.C. 1350)             |
| 99   | 2005 Stock Incentive Plan, Adopted February 15, 2005                       |

Reports on Form 8-K

January 26, 2005

WordLogic Corporation filed a Report on Form 8-K with the Securities and Exchange Commission; re. Press Release: WordLogic Unveils Details of New Patent Application.

February 16, 2005

WordLogic Corporation filed a Report on Form 8-K with the Securities and Exchange Commission; re. Press Release: WordLogic Announces Preview Version of Predictive Keyboard™ for Desktop PCs.

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**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**WordLogic Corporation**

Date: May 13, 2005

By: /s/ Frank R. Evanshen, President  
Frank R. Evanshen, President  
Principal Executive Officer

Date: May 13, 2005

By: /s/ T. Allen Rose, CFO  
T. Allen Rose, Chief Financial Officer  
Principal Accounting Officer