LOGICVISION INC
Form 10-Q
July 27, 2007

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 June 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non accelerated filer 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 July 26, 2007, 24,124,562 shares of Registrant's Common Stock, $0.0001 par value were outstanding.

LOGICVISION, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED JUNE 30, 2007

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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)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,439	$ 7,087
Short-term investments	1,541	2,155
Accounts receivable, net of allowance for doubtful accounts of $15 and $6, respectively	1,522	615
Prepaid expenses and other current assets	1,081	1,226
Total current assets	9,583	11,083
Property and equipment, net	540	743
Intangible assets, net	71	178
Goodwill	6,846	6,846
Other long-term assets	449	641
Total assets	$ 17,489	$ 19,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 335	$ 308
Accrued liabilities	2,039	2,008
Deferred revenue, current portion	5,043	5,089
Total current liabilities	7,417	7,405
Deferred revenue	-	285
Total liabilities	7,417	7,690
Commitments and contingencies		
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: 125,000 shares;		
Issued and outstanding: 24,125 shares at June 30, 2007 and 24,081 shares at December 31, 2006	2	2
Additional paid-in capital	108,429	107,860
Accumulated other comprehensive income (loss)	25	-
Accumulated deficit	(98,384)	(96,061)
Total stockholders' equity	10,072	11,801
Total liabilities and stockholders' equity	$ 17,489	$ 19,491

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

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

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues:				
License	$ 1,457	$ 1,305	$ 2,562	$ 2,524
Service	1,626	1,367	3,151	2,497
Product	-	100	-	100
Total revenues	3,083	2,772	5,713	5,121
Cost of revenues:				
License	225	230	456	487
Service	552	429	1,075	853
Product	-	-	-	-
Total cost of revenues	777	659	1,531	1,340
Gross profit	2,306	2,113	4,182	3,781
Operating expenses:				
Research and development	927	1,036	1,882	2,123
Sales and marketing	1,547	1,779	2,848	3,659
General and administrative	1,077	1,037	1,989	2,001
Total operating expenses	3,551	3,852	6,719	7,783
Loss from operations	(1,245)	(1,739)	(2,537)	(4,002)
Interest and other income, net	67	90	172	162
Loss before provision for (benefit from) income taxes	(1,178)	(1,649)	(2,365)	(3,840)
Income tax provision (benefit)	(58)	19	(42)	76
Net loss	$ (1,120)	$ (1,668)	$ (2,323)	$ (3,916)
Net loss per common share, basic and diluted	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.21)
Weighted average number of shares outstanding, basic and diluted	24,124	18,986	24,116	18,954

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

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

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006

Cash flows from operating activities:				
Net loss	$	(2,323)	$	(3,916)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		336		452
Stock-based compensation		528		219
Changes in operating assets and liabilities:				
Accounts receivable		(907)		1,819
Prepaid expenses and other current assets		145		248
Other long-term assets		192		248
Accounts payable		27		27
Accrued liabilities		31		187
Deferred revenue		(331)		(304)
Net cash used in operating activities		(2,302)		(1,020)
Cash flows from investing activities:				
Purchase of investments		(1,561)		(2,915)
Purchase of property and equipment		(12)		(76)
Proceeds from sales and maturities of investments		2,175		6,675
Net cash provided by investing activities		602		3,684
Cash flows from financing activities:				
Proceeds from issuance of common stock		41		39
Net cash provided by financing activities		41		39
Effect of exchange rate on cash and cash equivalents		11		6
Net (decrease) increase in cash and cash equivalents		(1,648)		2,709
Cash and cash equivalents, beginning of period		7,087		3,620
Cash and cash equivalents, end of period	$	5,439	$	6,329

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

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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. (LogicVision or the Company) and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company s 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, 2006 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.

The Company has incurred substantial losses and negative cash flows from operations since inception. For the year ended December 31, 2006, the Company incurred a loss from operations of approximately $7.1 million and negative cash flows from operating activities of approximately $4.3 million. For the six months ended June 30, 2007, the Company incurred a loss of approximately $2.3 million and negative cash flows from operating activities of approximately $2.3 million. As of June 30, 2007, the Company had an accumulated deficit of approximately $98.4 million. While management believes that its current funds will be sufficient to enable the Company to meet its planned expenditures through at least December 31, 2007, the Company is 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 its 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.

Stock-Based Compensation Expense

Stock-based compensation expense recognized under SFAS 123(R) for the six months ended June 30, 2007 and 2006 was $528,000 and $219,000, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan.

Stock-based compensation expense for the six months ended June 30, 2007 includes compensation expense recognized as a result of the consummation of the Company's 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, $54,000 was recognized as compensation expense within the Company's unaudited condensed consolidated statement of operations for the quarter ended March 31, 2007, associated with the vesting of these option awards. An additional $215,000 was recognized as compensation expense for the quarter ended June 30, 2007. The remaining fair value of these option awards of $251,000, net of estimated forfeitures, will be recognized as expense using the multiple option approach over the remaining weighted average vesting period of 0.4 years.

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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 and six months ended June 30, 2007 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 Company's 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 Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the Company's 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 Company's common stock. The Company uses historical data to estimate option exercise and employee terminations. The expected term of the options granted represents the period of time that options are expected to be outstanding, based on historical information. 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

Statement of Financial Accounting Standards (“SFAS”) No. 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 and six months ended June 30, 2007 and 2006 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 basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Numerator - Basic and Diluted				
Net loss	$ (1,120)	$ (1,668)	$ (2,323)	(3,916)
Denominator - Basic and Diluted				
Weighted average common stock outstanding	24,124	18,986	24,116	18,954
Basic and Diluted net loss per share	$ (0.05)	$ (0.09)	$ (0.10)	(0.21)

Options and warrants to purchase an aggregate of 4.5 million shares of common stock outstanding at June 30, 2007 and 4.0 million shares at June 30, 2006, were excluded from the computation of diluted shares because of their antidilutive effect on net loss per share for the three and six months then ended.

Recently Issued Accounting Standards

In September 2006, the FASB issued FASB Statement No. 157, “Fair Value Measurements” (“SFAS 157”). The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 must be adopted prospectively as of the beginning of the year it is initially applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are still evaluating the impact this standard will have on our financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements” (“SAB 108”). SAB 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB 108 requires an entity to quantify misstatements using a balance sheet and income-statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The guidance is applicable for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilitiesincluding an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 creates a fair value option under which an entity may elect to record certain financial assets or liabilities at fair value upon their initial recognition. Subsequent changes in fair value would be recognized in earnings as those changes occur. The election of the fair value option would be made on a contract-by-contract basis and would need to be supported by concurrent documentation or a preexisting documented policy. SFAS 159 requires an entity to separately disclose the fair value of these items on the balance sheet or in the footnotes to the financial statements and to provide information that would allow the financial statement user to understand the impact on earnings from changes in the fair value. SFAS 159 is effective for us beginning with fiscal year 2008. We are currently evaluating the impact that the adoption of SFAS 159 will have on our 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):

	June 30, 2007	December 31, 2006
Cash and cash equivalents:		
Cash	$ 1,137	$ 1,241
Money market funds	1,960	3,234
Commerical paper	849	1,119
U.S. government agency notes	1,493	1,493
Total cash and cash equivalents	$ 5,439	$ 7,087
Short-term investments:		
Certificates of deposit	$ -	$ -
Commercial paper	249	149
U.S. government agency notes	1,292	2,006
Total short-term investments	$ 1,541	$ 2,155

Note 3. Intangible Assets

The following table summarizes the components of goodwill, other intangible assets and related accumulated amortization balances (in thousands):

	June 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	$ 6,846	$ -	$ 6,846	$ 6,846	$ -	$ 6,846

Other Intangible Assets:						
Developed technology	$ 640	$ (569)	$ 71	$ 640	$ (462)	$ 178
Non-compete agreement	177	(177)	-	177	(177)	-
Total	$ 817	$ (746)	$ 71	$ 817	$ (639)	$ 178

At June 30, 2007, the estimated future amortization expense of other intangible assets was $71,000. This amount will be amortized during the year ending December 31, 2007.

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

The Company has a loan agreement with a bank under which it may 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 8.25% at June 30, 2007. The agreement is unsecured and is not collateralized by the Company's assets. Under the agreement, the Company must comply with certain operating and reporting covenants and is not permitted to pay dividends, or make material investments or dispositions without the prior written consent of the bank. If the Company fails to comply with its covenants under the agreement, the bank can declare any outstanding amounts immediately due and payable and cease advancing money or extending credit to or for the Company. The agreement expires on February 28, 2008. At June 30, 2007 there were no outstanding borrowings under the agreement. At that date, the Company was in compliance with the covenants under the agreement.

Note 5. Income Taxes

Income taxes are accounted for using an asset and liability approach in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ("SFAS 109") which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of current and deferred tax liabilities and assets are based on the provisions of enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are provided if based upon the weight of available evidence, it is considered more likely than not that some or all of the deferred tax assets will not be realized.

Effective January 1, 2007, we adopted the provisions of FASB Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," or FIN 48. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

As of January 1, 2007, our unrecognized tax benefits totaled $0.6 million. The adoption of FIN 48 resulted in no change to the reserve for unrecognized tax benefits that existed at January 1, 2007. As such, there is no change recorded to retained earnings as a result of the adoption.

It is the Company□s policy to classify accrued interest and penalties as part of the accrued FIN 48 liability and record the expense in the provision for income taxes. For unrecognized tax benefits that exist at June 30, 2007, the Company does not anticipate any significant changes within the next twelve months. The Company is not currently under federal, state or foreign income tax examination.

Note 6. Commitments and Contingencies

Lease obligations

The Company and its subsidiary in Canada rent office facilities under noncancelable operating leases which expire through July 2011. The Company and its subsidiary are responsible for certain maintenance costs, taxes and insurance under the respective leases. Total future minimum payments under such operating leases at June 30, 2007 were as follows (in thousands):

Year ending December 31,	
2007	$ 361
2008	697
2009	706
2010	264
2011	68
	$ 2,096

Off-balance Sheet Arrangements

The Company□s off-balance sheet arrangements consist solely of operating leases as described above.

Indemnification Obligations

The Company enters into standard license agreements in the ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify its customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement claim by any third party with respect to the Company□s products. These indemnification obligations have perpetual terms. The Company□s normal business practice is to limit the maximum amount of indemnification to the amount received from the customer. On occasion, the maximum amount of indemnification the Company may be required to make may exceed its normal business practices. The Company estimates the fair value of its indemnification obligations as insignificant, based upon its historical experience concerning product and patent infringement claims. Accordingly, the Company had no liabilities recorded for indemnification under these agreements as of June 30, 2007.

The Company has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was, serving at the Company□s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a directors and officers insurance policy that reduces its exposure and enables the Company to recover a portion of future amounts paid. As a result of the Company□s insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, no liabilities have been recorded for these agreements as of June 30, 2007.

Warranties

The Company offers its customers a warranty that its products will conform to the documentation provided with the products. To date, there have been no payments or material costs incurred related to fulfilling these warranty obligations. Accordingly, the Company has no liabilities recorded for these warranties as of June 30, 2007. The Company assesses the need for a warranty reserve on a quarterly basis, and there can be no guarantee that a warranty reserve will not become necessary in the future.

Note 7. Concentration of Revenues and Credit Risks

The Company has been dependent on a relatively small number of customers for a substantial portion of its revenue, although the customers comprising this group have changed from time to time. Customers accounting for more than 10 percent of revenue are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
LSI / Agere Systems	21%	27%	22%	28%
Broadcom Corporation	19%	18%	20%	17%

On April 2, 2007, LSI Corporation acquired Agere Systems, Inc. The data in the above table reflects the combined revenues for the two companies for the periods indicated. At June 30, 2007, three customers accounted for 28%, 12% and 11% of net accounts receivable, respectively. At December 31, 2006, four customers accounted for approximately 28%, 27%, 12% and 11% of net accounts receivable, respectively.

Note 8. Comprehensive Loss

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. SFAS 130, Reporting Comprehensive Income, requires companies to classify items of other comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the stockholders equity section of the balance sheet.

The Companys other comprehensive income (loss) consists primarily of adjustments to translate the financial statements of the Companys foreign subsidiaries into U.S. dollars upon consolidation, and unrealized gains (losses) on available-for-sale investments. The functional currency of the Companys foreign subsidiaries is the local currency and therefore, the translation adjustments of those statements into U.S. dollars are recorded in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders equity.

For the three and six months ended June 30, 2007 and 2006, comprehensive loss, which was comprised of the Companys net loss for the periods and changes in foreign currency translation adjustments and unrealized gains (losses) on investments were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Net loss	$ (1,120)	$ (1,668)	$ (2,323)	$ (3,916)
Other comprehensive income (loss) -				
Cumulative translation adjustment	22	(1)	24	(5)
Unrealized gain (loss) on				
available-for-sale investments, net	-	15	1	33
Comprehensive loss	$ (1,098)	$ (1,654)	$ (2,298)	$ (3,888)

Note 9. Stock Option Plans

Stock Option Plan

The Company’s 2000 Stock Incentive Plan (the “2000 Plan”) is a successor to the 1994 Flexible Stock Option Plan (the “1994 Plan”). The number of shares reserved for issuance under the 2000 Plan are increased on the first day of each of the Company’s fiscal years from 2002 to 2010 by the lesser of 750,000 shares, 3.5% of the outstanding shares of the Company’s common stock on that date or a lesser amount determined by the Board of Directors and are also increased by any forfeitures under the 1994 Plan. On January 25, 2007, the Board of Directors approved an increase of 650,000 shares for issuance under the 2000 Plan. As of June 30, 2007, options to purchase a total of 4,293,211 and 95,563 shares of common stock were outstanding under the 2000 Plan and the 1994 Plan, respectively. In addition, the Board of Directors has granted 700,500 non-qualified options, of which options to purchase 7,500 shares remained outstanding at June 30, 2007. A total of 6,367,505 shares are reserved for future issuance at June 30, 2007.

Under the 2000 Plan, the Board of Directors has the authority to determine the type of option and the number of shares subject to each option. The exercise price is generally equal to fair value of the underlying stock at the date of grant. Options generally become exercisable over a four-year period and, if not exercised, expire ten years from the date of grant. The option plan also provides for accelerated vesting if there is a change in control of the Company (as defined in the 2000 Plan).

Under the 2000 Plan, the Board of Directors has the discretion to grant options to nonemployee directors. Each nonemployee director will be granted an option to purchase 20,000 shares when they first join the Board. In addition, each nonemployee director will be granted an option to purchase 10,000 shares on the day following the Company’s annual meeting of stockholders.

The following table summarizes all option activities from December 31, 2006 through June 30, 2007 (shares in thousands, except per share data):

	June 30, 2007	
	Number of Shares	Weighted Average Exercise Price per Share
Options outstanding:		
Beginning balance	3,698	$ 3.14
Granted	3,529	$ 1.02
Exercised	(4)	$ 0.60
Forefeited	(2,827)	$ 3.60
Ending balance	4,396	$ 1.14
Options exercisable at end of period	506	$ 1.87

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2007 and 2006 were $0.41 and $1.29, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 were $1,000 and $28,000, respectively. The Company issues new shares upon the exercise of options. There was no tax benefit realized from exercised options. For the six months ended June 30, 2007, the value of the option grants has been calculated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Expected average life of option	3.55	years
Risk-free interest rate	4.62%	
Expected dividends	-	
Expected volatility	73%	

The options outstanding and currently exercisable by exercise price at June 30, 2007 were as follows (options in thousands):

	Options Outstanding			Options Exercisable		
Exercise Price	**Number of Shares Underlying Options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number of Shares Underlying Options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**
$0.80-$0.80	70	9.9	$ 0.80	-	-	$ -
$1.00-$1.00	2,285	9.3	$ 1.00	95	1.0	$ 1.00
$1.07-$1.07	1,243	9.6	$ 1.07	-	-	$ -
$1.16-$6.75	798	8.1	$ 1.68	411	7.5	$ 2.07
	4,396	9.2	$ 1.14	506	6.3	$ 1.87

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There was no aggregate intrinsic value of vested options in the preceding table based on the Company's closing stock price of $0.91 as of June 30, 2007. The total fair value of options vested during the six months ended June 30, 2007 and 2006 were $95,000 and $130,000, respectively. As of June 30, 2007, total compensation cost related to non-vested stock options not yet recognized was $744,000 which is expected to be recognized over the next 1.9 years.

Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("Purchase Plan") a total of 750,000 shares of common stock were reserved for issuance at December 31, 2006. The number of shares reserved for issuance under the Purchase Plan is increased on the first day of each fiscal year by the lesser of 125,000 shares, 1% of the outstanding shares on that date or a lesser amount as determined by the Board of Directors. On January 25, 2007, the Board of Directors approved an increase in the number of shares reserved for issuance by 125,000 shares. The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended, is administered by the Compensation Committee of the Company's Board of Directors.

The estimated fair value of purchase rights under the Company's Purchase Plan was determined using the Black-Scholes pricing model with the following assumptions:

	June 30, 2007
Expected average life of option	0.5 year
Risk-free interest rate	5.16%
Expected dividends	-
Expected volatility	68%

The weighted average per share fair value of purchase rights under the Purchase Plan was $0.40 and $0.52 for the six months ended June 30, 2007 and 2006, respectively.

Valuation and Expense Information under SFAS 123(R)

The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123(R) for the three and six months ended June 30, 2007 and 2006, respectively, which was allocated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Cost of revenues:				
Service	$ 19	$ 10	$ 28	$ 16
Stock-based compensation expense included in cost of sales	19	10	28	16
Operating expenses:				
Research and development	115	27	165	42
Sales and marketing	116	48	174	81
General and administrative	107	39	161	80
Stock-based compensation expense included in operating expenses	338	114	500	203
Total stock-based compensation expense related to employee stock options and employee stock purchases	$ 357	$ 124	$ 528	$ 219

Note 10. Segment Reporting

The Company has adopted SFAS 131, Disclosure about Segments of an Enterprise and Related Information. Although the Company offers various design and manufacturing embedded test software products and services to its customers, the Company does not manage its operations by these products and services, but instead views the Company as one operating segment when making business decisions. The Company does not manage its operations on a geographical basis. Revenues attributed to the United States and to all foreign countries are based on the geographical location of the customers. The Company uses one measurement of profitability for its business.

The table below sets forth revenues by product line (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
ETCreate	$ 2,317	$ 1,999	$ 4,359	$ 3,743
ETAccess	360	624	663	1,087
YieldInsight and other	406	149	691	291
Total revenues	$ 3,083	$ 2,772	$ 5,713	$ 5,121

The following is a summary of the Company's revenues by geographic operations (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,

	2007	2006	2007	2006
United States	$ 2,354	$ 2,394	$ 4,462	$ 4,459
Japan	498	275	850	481
Others	231	103	401	181
	$ 3,083	$ 2,772	$ 5,713	$ 5,121

The following is a summary of the Company's long-lived assets (in thousands):

	June 30, 2007	December 31, 2006
United States	$ 331	$ 487
Canada	204	246
Japan	5	10
	$ 540	$ 743

Note 11. Stock Option Exchange Offer

On February 7, 2007, we commenced an offer (the "Exchange Offer") to our eligible employees to exchange some or all of their outstanding stock options to purchase shares of common stock for new options to be granted under the 2000 Plan. The Exchange Offer covered all employee options with an exercise price greater than $1.48 per share. Other than eligible options tendered by our five executive officers, the exchange rate was one-for-one. The exchange ratio applicable to our executive officers was one-for-1.25.

The Exchange Offer expired on March 8, 2007, at which time properly tendered options for 2,432,411 shares were cancelled and new options for 2,199,211 shares were granted at the closing price of our common stock on the grant date.

All new options have an option expiration term of ten years. Each new option has a one year vesting period, one-half of which will vest on the date that is six months after the new option's issuance date and the remainder vesting in equal monthly installments over the next six months.

Note 12. Continued listing of shares on NASDAQ

On April 12, 2007 The NASDAQ Stock Market notified us that we are no longer in compliance with The NASDAQ Stock Market's requirements for continued listing because the bid price of our common stock had closed below the minimum $1.00 per share requirement for continued inclusion under NASDAQ Marketplace Rule 4450(a)(5) for 30 consecutive business days. In its notification, NASDAQ informed us that we have 180 calendar days, or until October 9, 2007, to regain compliance.

In order to regain compliance with this requirement, the bid price of our common stock must close at $1.00 per share or more for a minimum of 10 consecutive business days. We cannot assure you that our common stock will close at $1.00 per share or more before October 9, 2007.

If we are unable to regain compliance, we may consider applying to transfer our common stock to The NASDAQ Capital Market if we satisfy all criteria for initial inclusion on such market other than compliance with the $1.00 bid price requirement. In the event of such a transfer, the NASDAQ Marketplace Rules provide that the Company would be provided an additional 180 calendar days to comply with the Minimum Bid Price Rule while on The NASDAQ Capital Market. If we fail to regain compliance and if we are unable to transfer to the NASDAQ Capital Market, and must move to a market with less liquidity, our financial condition could be harmed and our stock price would likely decline. If we are delisted, it could have a material adverse effect on the market price of, and the liquidity for, our common stock.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto set forth in Item 1 of this report and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

When used in this Report, the words "expects," "anticipates," "intends," "estimates," "plans," "believes," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include statements about the features, benefits and performance of our current and future products, services and technology, plans for future products and services and for enhancements of existing products and services, our expectations regarding future operating results, including backlog, revenues, sources of revenues and expenses, net losses, fluctuations in future operating results, our estimates regarding the adequacy of our capital resources, our capital requirements and our needs for additional financing, planned capital expenditures, use of our working capital, our critical accounting policies and estimates, our internal control over financial reporting, our patent applications and licensed technology, our efforts to protect intellectual property, our ability to attract customers, establish license agreements and obtain orders, the impact of economic and industry conditions on our customers, customer demand, our growth strategy, our marketing efforts, our business development efforts, future acquisitions or investments, our focus on larger orders with major customers, our employee matters, our competitive position, our foreign currency risk strategy, and the impact of recent accounting pronouncements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the possibility that orders could be modified, cancelled or not renewed, our ability to negotiate and obtain customer agreements and orders, lengthening sales cycles, the concentration of sales to large customers, our reliance on a limited number of customers for a substantial portion of revenues, dependence upon and trends in capital spending budgets in the semiconductor industry and fluctuations in general economic conditions, our ability to rapidly develop new technology and introduce new products, our ability to safeguard our intellectual property, and the risks set forth below under Part II, Item 1A ,"Risk Factors." These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

In this report, all references to "LogicVision," "we," "us," "our" or the "Company" mean LogicVision, Inc. and its subsidiaries, except where it is made clear that the term means only the parent company.

LogicVision and the LogicVision logo are our registered trademarks. We also refer to trademarks of other corporations and organizations in this document.

Critical Accounting Policies and Estimates

LogicVision's financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for LogicVision include revenue recognition, allowance for doubtful accounts, valuation of investments, inventory, goodwill impairment, valuation of long-lived intangible assets, accounting for stock-based compensation, and accounting for income taxes, which are discussed in more detail under the caption "Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Stock-Based Compensation Expense

Stock-based compensation expense recognized under SFAS 123(R) for the six months ended June 30, 2007 and 2006 was $528,000 and $219,000, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan.

Stock-based compensation expense for the six months ended June 30, 2007 includes compensation expense recognized as a result of the consummation of the Company's 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, $54,000 has been recognized as compensation expense within the Company's unaudited condensed consolidated statement of operations for the quarter ended March 31, 2007, associated with the vesting of these option awards. An additional $215,000 was recognized as compensation expense for the quarter ended June 30, 2007. The remaining fair value of these option awards of $251,000, net of estimated forfeitures, will be recognized as expense using the multiple option approach over the remaining weighted average vesting period of 0.4 years.

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 and six months ended June 30, 2007 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 Company's 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 Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the Company's 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 Company's common stock. The Company uses historical data to estimate option exercise and employee terminations. The expected term of the options granted represents the period of time that options are expected to be outstanding, based on historical information. 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.

Results of Operations

Orders and backlog

We received new orders of $2.3 million in the second quarter of 2007, compared to $2.7 million in the first quarter of 2007 and $1.3 million in the second quarter of 2006. These new orders are for periods ranging from one to three years. Receipt of new orders may fluctuate due to the lengthy sales cycles and our dependence on relatively few customers for large orders.

Our one-year backlog was $8.2 million at June 30, 2007, compared with $8.6 million at March 31, 2007 and $9.0 million at June 30, 2006. Backlog is comprised of deferred revenues (orders which have been billed but for which revenue has not yet been recognized) plus orders which have been accepted but have not yet been billed and for which no revenue has been recognized. A portion of the orders which have been accepted but have not yet been billed provide customers with cancellation rights; customers may also renew contracts before their expiration or modify that portion of their orders which is cancelable. Therefore, our backlog at any particular date is not necessarily indicative of revenues to be recognized during any succeeding period.

Revenues, cost of revenues and gross profit

The table below sets forth the fluctuations in revenues, cost of revenues and gross profit data for the three and six months ended June 30, 2007 and 2006 (in thousands, except percentage data):

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2007	2006	Change	2007	2006	Change
Revenues:						
License	$ 1,457	$ 1,305	12%	$ 2,562	$ 2,524	2%
Service	1,626	1,367	19%	3,151	2,497	26%
Product	-	100	-100%	-	100	-100%
Total revenues	3,083	2,772	11%	5,713	5,121	12%
Cost of revenues:						
License	225	230	-2%	456	487	-6%
Service	552	429	29%	1,075	853	26%
Product	-	-	-	-	-	-
Total cost of revenues	777	659	18%	1,531	1,340	14%
Gross profit	$ 2,306	$ 2,113	9%	$ 4,182	$ 3,781	11%
Percentage of total revenues:						
Revenues:						
License	47%	47%		45%	49%	
Service	53%	49%		55%	49%	
Product	0%	4%		0%	2%	
Total revenues	100%	100%				