ELDORADO GOLD CORP /FI
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Subject Company: Frontier Pacific Mining Corporation

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Q1 2008 Financial and Operating Results

(all figures in United States dollars, unless otherwise noted)

VANCOUVER, BC – Paul N. Wright, President and Chief Executive Officer of Eldorado Gold Corporation, ("Eldorado" "the Company" or "we") is pleased to report on the Company's financial and operational results for the first quarter ended March 31, 2008. "This was an excellent quarter for us, thanks to record sales at our Tanjianshan mine in China, a successful and smooth resumption of production from our Kisladag mine in Turkey, strong gold prices and lower production cost," said Wright. "Looking ahead, we plan to commence construction at Efemçukuru in Turkey in Q2; we're on track for commissioning the Vila Nova Iron Ore project in Brazil and our exploration work plans for 2008 are underway."

2008 Highlights

- Reported earnings of $0.06 per share
- Produced 67,234 ounces of gold from our operations at an average cash cost of $213 per ounce
- Resumed operations on March 6, 2008 at our Kişladağ gold mine and ramped up quickly to produce 27,228 ounces of gold during March
- Sold 73,604 ounces of gold from our Tanjianshan and Kişladağ mines at a realized average price of $933 per ounce
- Signed a Memorandum of Understanding for the sale of iron ore produced from our Vila Nova Iron Ore project in Brazil to BHP Billiton
- Obtained at our Efemçukuru project, the user rights for all forestry land within the project boundary

- Announced our intention to make an offer to acquire all the outstanding shares of Frontier Pacific Mining Corporation.

Financial Results

Our consolidated net income for Q1 2008 was $20.7 million or $0.06 per share compared with net income of $12.6 million or $0.04 per share in Q1 2007. The increase in net income resulted from record sales from our Tanjianshan mine, higher gold prices, lower costs and strong production and sales in March from our restarted Kisladag mine. In Q1 2008, we sold 73,604 ounces of gold at an average price of $933 per ounce, compared to 64,177 ounces at an average price of $647 per ounce in Q1 2007.

Operating Performance

Kisladag

We reopened the Kisladag mine on March 6, 2008 and quickly achieved full mine production. In the month of March we placed 529,480 tonnes of ore on the leach pad at an average grade of 1.18 g/t of gold. We produced 27,228 ounces of gold at a cash operating cost of $217 per ounce in Q1 2008 and sold 23,219 ounces of gold at an average price of $965 per ounce. We continue to forecast 2008 production of approximately 190,000 ounces at a cash cost of $222 per ounce.

Tanjianshan

We produced 40,006 ounces of gold at a cash cost of $211 per ounce in Q1 2008 and sold 50,475 ounces of gold at an average price of $919 per ounce. We spent $6.6 million on capital expenditures, primarily relating to the sulfide ore processing project to treat ore from the newly opened Jinlonggou pit. The construction has progressed with 500,000 man hours worked without a lost time accident. During the quarter, we also made the transition to contractor mining, which will lower our overall unit mining costs. We forecast 2008 production of approximately 109,000 ounces at a cash cost of $289 per ounce.

Development

Efemçukuru

With the forestry permit approvals in place, the Company is now positioned to commence construction activities and plans to begin access road development and site clearing. We expect to acquire all the remaining privately owned land required for the project in a timely manner.

Vila Nova Iron Ore

We continued construction activities at the Vila Nova Iron Ore project in anticipation of shipping lump ore and sinter fines in Q1 2009. We signed a Memorandum of Understanding with BHP Billiton for the sale of all lump ore and sinter fines for the first three years of production and are negotiating the terms of the Long Term Supply Agreement with BHP Billiton.

Exploration

Exploration expense for Q1 2008 was $2.2 million (Q1 2007 – $2.8 million). Our exploration activities focused on our properties in Turkey, Brazil and China.

Exploration –Turkey

At Efemçukuru we began a soil sampling program designed to generate targets outside the main ore zone. Permits for drill roads have been obtained and we are designing a drilling program that will target the North Ore Shoot, which currently has only inferred resources and limited drilling. Best results from the North Ore Shoot in 2007 included 5.02 meters (true width) at 12.52 g/t Au.

A drill program (+13,000 meters) has been planned for Kisladag and will start in Q2 2008. This program is designed to follow up on results obtained in 2007 that saw significant increases to both the resources and reserves at the mine. The focus of the 2008 program will be to convert inferred resources to measured and indicated and to explore areas in which the mineralization is still open at depth and on the flanks of the deposit.

We obtained four new licenses through the auction process during the quarter and conducted additional mapping and soil sampling on the Biga Peninsula properties. Regional reconnaissance work is continuing in other parts of Turkey to identify and acquire new targets.

Exploration –Brazil

Exploration in Brazil consisted of support for the Vila Nova Iron Ore project and project evaluations in various prospective areas.

Exploration –China

During Q1 2008, our geologists from the Beijing regional exploration office evaluated projects in northern and western China. At Tanjianshan, preparation for a busy field season has begun. We commenced detailed mapping on several areas, including north and south of the current Qinlongtan pit, to identify extensions to the high grade ore zone that will be drill targets during the upcoming drilling campaign. A structural review is underway on the targets in the vicinity of the Jinlonggou pit; we drilled some of these targets in 2007 and will continue drilling in 2008. These targets are peripheral to the currently designed pit in Jinlonggou and are a high priority in the upcoming program.

Acquisitions

On April 21, 2008, we announced the intention to make an offer to acquire all of the outstanding shares of Frontier Pacific Mining Corporation ("FRP"). The proposed transaction is valued at approximately C$148 million (or C$157 million on a fully diluted basis). FRP shareholders will receive 0.122 common shares of Eldorado for every common share FRP.

Eldorado is a gold producing and exploration company actively growing businesses in Brazil, Turkey, China and surrounding regions. With our international expertise in mining, finance and project development, together with highly skilled and dedicated staff, we believe that Eldorado is well positioned to grow in value as we create and pursue new opportunities.

ON BEHALF OF

ELDORADO GOLD CORPORATION

"Paul N. Wright"

Paul N. Wright

President and Chief Executive Officer

Eldorado will host a conference call Friday, May 2, 2008 to discuss the 2008 First Quarter Financial Results at 11:30 a.m. EDT (8:30 a.m. PDT). You may participate in the conference call by dialing 416-641-6127 in Toronto or 1-866-226-1799 toll free in North America and asking for the Eldorado Conference Call with Chairperson: Paul Wright, President and CEO of Eldorado Gold. The call will be available on Eldorado's website. www.eldoradogold.com . A replay of the call will be available until May 9, 2008 by dialing 416-695-5800 in Toronto or 1-800-408-3053 free in North America and entering the Pass code: 3259263.

Certain of the statements made herein may contain forward-looking statements or information within the meaning of the United States Private Securities Litigation Reform Act of 1995, and forward looking statements or information within the meaning of the Securities Act (Ontario). Such forward looking statements or information include, but are not limited to statements or information with respect to unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements or information are subject to a variety of risks and uncertainties, which could cause actual events, or results to *differ from those reflected in the forward-looking statements or information. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward looking statements. Specific reference is made to "Forward Looking Statements and Risk Factors" in the Company's Annual Information Form and Form 40-F dated March 31, 2008. Forward-looking statements herein include statements regarding the*

expectations and beliefs of management. Such factors included, amongst others the following: gold price volatility; impact of any hedging activities, including margin limits and margin calls; discrepancies between actual and estimated production, between actual and estimated reserves, and between actual and estimated metallurgical recoveries; mining operational risk; risks from litigation; regulatory restrictions, including environmental regulatory restrictions and liability; risks of sovereign investment; speculative nature of gold exploration; dilution; competition; loss of key employees; additional funding requirements; and defective title to mineral claims or property, as well as those factors discussed in the section entitled "Risk Factors" in the Company's Annual Information Form and Form 40-F dated March 31, 2008.. We do not expect to update forward-looking statements continually as conditions change and you are referred to the full discussion of the Company's business contained in the Company's reports filed with the securities regulatory authorities in Canada and the U.S.

Eldorado Gold Corporation's shares trade on the Toronto Stock Exchange (TSX: ELD) and the American Stock Exchange (AMEX: EGO). The TSX has neither approved nor disapproved the form or content of this release.

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PRODUCTION HIGHLIGHTS[1]

	First Quarter 2008	First Quarter 2007	Second Quarter 2007	Third Quarter 2007	Fourth Quarter 2007
Gold Production					
Total Ounces Produced	**67,234**	88,780	98,970	61,385	32,000
Commercial Production	**67,234**	76,288	98,970	61,385	32,000
Cash Operating Cost ($/oz)[1, 4]	**213**	220	259	228	216
Total Cash Cost ($/oz)[2,4]	**268**	233	287	264	262
Total Production Cost ($/oz)[3,4]	**393**	270	332	335	522
Realized Price ($/oz - sold)	**933**	647	664	667	774

Kişladağ Mine, Turkey					
Commercial Production	**27,228**	43,601	68,095	23,610	-
Tonnes to Pad	**529,480**	1,849,330	1,872,691	825,839	-
Grade (grams / tonne)	**1.18**	1.27	1.32	1.52	-
Cash Operating Cost ($/oz)[4]	**217**	192	187	191	-
Total Cash Cost ($/oz)[2,4]	**218**	194	190	194	-
Total Production Cost ($/oz)[3,4]	**246**	225	221	234	-
Tanjianshan Mine, China[5]					
Total Ounces Produced	**40,006**	39,252	29,135	37,775	32,000
Commercial Production	**40,006**	26,760	29,135	37,775	32,000
Tonnes Milled	**223,395**	142,859	237,909	202,641	173,945
Grade (grams / tonne)	**6.83**	7.17	4.41	6.87	7.20
Cash Operating Cost ($/oz)[4]	**211**	260	440	251	216
Total Cash Cost ($/oz)[2,4]	**302**	291	522	307	261
Total Production Cost ($/oz)[3,4]	**493**	356	616	397	526
São Bento Mine, Brazil					
Commercial Production	**-**	5,927	1,740	-	-
Tonnes Milled	**-**	20,069	-	-	-
Grade (grams / tonne)	**-**	8.88	-	-	-
Cash Operating Cost ($/oz)[4]	**-**	245	80	-	-
Total Cash Cost ($/oz)[2,4]	**-**	252	132	-	-
Total Production Cost ($/oz)[3,4]	**-**	211	(50)	-	-

1 Cost figures calculated in accordance with the Gold Institute Standard.

2 Cash Operating Costs, plus royalties and the cost of off-site administration.

3 Total Cash Costs, plus foreign exchange gain or loss, depreciation, amortization and reclamation expenses.

4 Cash operating, total cash and total production costs are non-GAAP measures. See the section "Non-GAAP Measures" of this MD&A.

5 The Tanjianshan gold mine commenced commercial production on February 1, 2007.

Eldorado Gold Corporation

Unaudited Consolidated Balance Sheets

(Expressed in thousands of US dollars)

	March 31, 2008 $	**December 31, 2007 $**
Assets		
Current assets		
Cash and cash equivalents	79,948	46,014
Restricted cash (note 3)	71,010	65,710
Accounts receivable and other	31,188	30,335
Inventories	52,938	57,525
Derivative contract (note 8)	2,217	2,956

Future income taxes	957	959
	238,258	203,499
Restricted cash (note 3)	8,300	8,300
Mining interests	381,950	377,705
Other	2,238	2,238
	630,746	591,742
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	48,876	39,943
Debt - current	70,850	65,422
Current portion of asset retirement obligations	1,896	509
	121,622	105,874
Debt - long-term	139	139
Contractual severance obligations	1,248	1,479
Asset retirement obligations	6,384	8,290
Future income taxes	27,088	26,781
	156,481	142,563
Shareholders' Equity		
Share capital (note 4(a))	754,788	753,058
Contributed surplus (note 4(b))	16,223	13,083
Accumulated other comprehensive income (loss) (note 4(c))	(307	214
Deficit	(296,439)	(317,176)
	474,265	449,179
	630,746	591,742

Subsequent event (note 10)

Approved on behalf of the Board of Directors

(Signed) Robert Gilmore Director *(Signed) Paul N. Wright* Director

Eldorado Gold Corporation

Unaudited Consolidated Statements of Operations and Deficit

For the three months ended March 31,

(Expressed in thousands of US dollars except per share amounts)

	2008 **$**	**2007** **$**
Revenue		
Gold sales	68,675	41,548
Interest and other income	3,844	1,940
	72,519	43,488
Expenses		

Operating costs	19,819	15,065
Depletion, depreciation and amortization	8,824	3,108
General and administrative	9,794	7,426
Exploration	2,191	2,796
Mine standby costs	2,433	-
Accretion of asset retirement obligation	133	80
Foreign exchange loss (gain)	854	(565)
Gain on disposal of assets	(24)	(3,477)
Interest and financing costs	1,028	775
Unrealized loss on derivative contract	739	-
	45,791	25,208
Income before income taxes	26,728	18,280
Income tax expense		
Current	(5,682)	(22)
Future	(309)	(5,676)
	(5,991)	(5,698)
Net income for the period	20,737	12,582
Deficit, beginning of period	(317,176)	(353,470)
Deficit, end of period	(296,439)	(340,888)
Weighted average number of shares outstanding		
Basic	344,542	341,435
Diluted	345,902	344,161
Earnings per share		
Basic income per share - US$	0.06	0.04
Diluted income per share - US$	0.06	0.04
Basic income per share - Cdn$	0.06	0.04
Diluted income per share - Cdn$	0.06	0.04

Eldorado Gold Corporation

Unaudited Consolidated Statements of Cash Flows

For the three months ended March 31,

(Expressed in thousands of US dollars, unless otherwise stated)

	2008 **$**	**2007** **$**
Cash flows generated from (used in):		
Operating activities		
Net earnings for the period	20,737	12,582
Items not affecting cash		
Accretion of asset retirement obligation	133	80
Contractual severance expense	-	598
Depletion, depreciation and amortization	8,824	3,108
Unrealized foreign exchange loss	418	148

Future income taxes	309	5,676
Gain on disposal of assets	(24)	(3,477)
Imputed interest and financing costs	10	16
Stock-based compensation	4,882	3,094
Unrealized loss on derivative contract	739	-
	36,028	21,825
Property reclamation payments	(652)	(1,183)
Contractual severance payments	(231)	(1,612)
Changes in non-cash working capital (note 6)	11,898	(6,337)
	47,043	12,693
Investing activities		
Mining interests		
Capital expenditures	(10,296)	(13,940)
Sales proceeds	221	703
Available-for-sale securities		
Purchases	(1,792)	-
Disposals	263	-
Pre-production gold sales capitalized in mining interests	-	10,052
Non-producing properties under development	(2,418)	(2,959)
Value added taxes recoverable on mining interests	-	1,077
Restricted cash	(5,300)	(7,231)
	(19,322)	(12,298)
Financing activities		
Capital stock		
Issuance of common shares for cash	1,213	822
Debt		
Proceeds	5,000	-
	6,213	822
Net increase in cash and cash equivalents	33,934	1,217
Cash and cash equivalents - beginning of period	46,014	59,967
Cash and cash equivalents - end of period	79,948	61,184
Supplementary cash flow information (note 6)		

Eldorado Gold Corporation

Unaudited Consolidated Statements of Comprehensive Income

For the three months ended March 31,

(Expressed in thousands of US dollars, unless otherwise stated)

	2008	**2007**
	$	**$**
Net earnings for the period ended March 31,	20,737	12,582
Other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale investment (note 4(c))	(521)	39
Comprehensive income for the period ended March 31,	20,216	12,621

Eldorado Gold Corporation

Unaudited Consolidated Statements of Comprehensive Income

For the three months ended March 31,

(Expressed in thousands of US dollars, unless otherwise stated)

Nature of operations and basis of presentation

Eldorado Gold Corporation ("Eldorado", "the Company" or "we") is a gold exploration, development, mining and production company. Eldorado has ongoing exploration and development projects in Brazil, China and Turkey. On July 1, 2006, Eldorado began production in Turkey and on February 1, 2007, Eldorado began production in China. Production at the Kisladag mine in Turkey was suspended in August 2007 as a result of a court injunction and the mine remained shut down throughout the remainder of 2007. The court injunction was removed in February 2008 and the mine restarted production on March 6, 2008. Production operations at the São Bento mine in Brazil ceased in the second quarter of 2007 and the mine is in reclamation.

With the exception to changes in accounting policies as outlined in note 2 below, these unaudited interim consolidated financial statements have been prepared by Eldorado in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") consistent with those used in the preparation of Eldorado's audited consolidated financial statements for the year ended December 31, 2007. As these unaudited interim consolidated financial statements do not contain all of the disclosures required by Canadian GAAP, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2007.

In the opinion of Management, Eldorado has made all adjustments necessary to present fairly the consolidated financial position as at March 31, 2008 and the consolidated results of operations, cash flows and comprehensive income for the three-month period then ended. These interim results are not necessarily indicative of the results for a full year.

Changes in accounting policies and new accounting developments

Capital Disclosure – Section 1535

Effective January 1, 2008, the Company adopted Section 1535 "Capital Disclosures", which requires disclosure of qualitative and quantitative information that enables the users to evaluate the Company's objectives, policies and processes for managing capital as well as the implications of non-compliance. Disclosures required by this standard are included in note 7.

Inventories – Section 3031

Effective January 1, 2008, the Company adopted Section 3031 “Inventories”. This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this new accounting policy did not have any impact on the Company’s consolidated financial statements.

2. **Changes in accounting policies and new accounting developments** (continued)

Financial Instruments – Disclosures, Section 3862

Eldorado Gold Corporation

Unaudited Consolidated Statements of Comprehensive Income

For the three months ended March 31,

(Expressed in thousands of US dollars, unless otherwise stated)

Effective January 1, 2008, the Company adopted Section 3862 “Financial Instruments – Disclosures”. This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management’s objectives, policies and procedures for managing such risks. Disclosures required by this standard are included in note 8.

Goodwill and intangible assets – Section 3064

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective beginning January 1, 2009. Concurrent with the adoption of this standard, EIC-27, “Revenues and Expenditures in the Pre-operating Period”, will be withdrawn. This will result in a change to the Company’s accounting for the start-up of mining operations, as pre-commercial production costs will no longer be capitalized as an asset. We are currently assessing the impact of this standard on our consolidated financial statements.

Restricted cash

Restricted cash represents short-term interest-bearing money market securities and funds held on deposit as collateral:

	March 31, 2008 $	December 31, 2007 $
Current:		
Collateral account against the HSBC bank loan – Turkey	60,000	55,000
Collateral account against the HSBC bank loan – China	10,800	10,500
Electricity deposit	210	210
	71,010	65,710
Non-current:		
Environmental guarantee deposit	8,300	8,300
	8,300	8,300

The environmental guarantee deposit is held on account with a Turkish bank under environmental and pollution guarantees required by the Turkish Ministry of the Environment. The funds are invested at prevailing bank rates. Interest earned on these deposits is included in interest and other income as presented in the Consolidated Statements of Operations.

Eldorado Gold Corporation

Unaudited Consolidated Statements of Comprehensive Income

For the three months ended March 31,

(Expressed in thousands of US dollars, unless otherwise stated)

Shareholders' equity

Authorized share capital

The Company's authorized share capital consists of an unlimited number of voting common shares without par value and an unlimited number of non-voting common shares without par value. At March 31, 2008, there were no non-voting common shares outstanding.

Voting common shares	Number of shares	Amount $
Balance, December 31, 2007	344,208,540	753,058
Estimated fair value of share options exercised	-	517
Shares issued upon exercise of share options, for cash	391,154	1,213
Balance, March 31, 2008	344,599,694	754,788

Contributed surplus

The continuity of contributed surplus on the Consolidated Balance Sheet is as follows:

	Contributed surplus attributable to: Stock-based compensation	Other	Total
	$	$	$
Balance, December 31, 2007	11,989	1,094	13,083
Non-cash stock-based compensation	3,657	-	3,657
Options exercised, credited to share capital	(517)	-	(517)
Balance, March 31, 2008	15,129	1,094	16,223

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) is comprised as follows:

	$
Balance, December 31, 2007	214
Unrealized (losses) on available-for-sale investment	(460)
Realized (gains) on sale of available-for-sale investment transferred to net income	(61)
Balance, March 31, 2008	(307)

Eldorado Gold Corporation

Unaudited Consolidated Statements of Comprehensive Income

For the three months ended March 31,

(Expressed in thousands of US dollars, unless otherwise stated)

Stock-based compensation

Share option plans

The continuity of share purchase options outstanding is as follows:

	Weighted average exercise price	Number of options	Contractual weighted average remaining life
	Cdn$		

			(years)
Balance, December 31, 2007	5.36	8,224,279	3.1
Granted	6.44	2,808,000	
Exercised	3.10	(391,154)	
Balance, March 31, 2008	5.73	10,641,125	3.4

At March 31, 2008, 6,691,534 share purchase options (December 31, 2007 – 5,064,193) with a weighted average exercise price of Cdn$5.37 (December 31, 2007 – Cdn$4.64) had vested and were exercisable.

Options outstanding at March 31, 2008 are as follows:

	Total options outstanding			Exercisable opt	
Range of exercise price Cdn$	**Shares**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price Cdn$**	**Shares**	**Weig avera exerc price Cdn$**

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Issued and outstanding: no shares issued and outstanding	-	-
Common stock, $0.0001 par value:		
Authorized: 50,000 shares;		
Issued and outstanding: 9,460 shares at December 31, 2008		
and 9,666 shares at December 31, 2007	1	1
Additional paid-in capital	109,247	108,921
Accumulated other comprehensive income (loss)	(29)	68
Accumulated deficit	(103,328)	(99,784)
Total stockholders' equity	5,891	9,206
Total liabilities and stockholders' equity	$ 17,959	$ 18,263

Note: All share data has been adjusted to reflect the 1-for-2.5 reverse stock split which became effective March 12, 2008.

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

37

LOGICVISION, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

Year Ended December 31,

	2008	2007	2006
Revenues:			
License	$ 5,771	$ 5,279	$ 4,984
Service	6,402	6,270	5,350
Product	-	69	183
Total revenues	12,173	11,618	10,517
Cost of revenues:			
License	667	887	1,006
Service	2,572	2,326	1,887
Total cost of revenues	3,239	3,213	2,893
Gross profit	8,934	8,405	7,624
Operating expenses:			
Research and development	3,246	3,637	4,133
Sales and marketing	5,336	5,090	7,032
General and administrative	3,647	3,787	3,718
Restructuring	334	-	-
Total operating expenses	12,563	12,514	14,883
Loss from operations	(3,629)	(4,109)	(7,259)
Interest income	107	349	316
Loss before provision (benefit) for income taxes	(3,522)	(3,760)	(6,943)
Provision (benefit) for income taxes	22	(37)	144
Net loss	$ (3,544)	$ (3,723)	$ (7,087)
Net loss per common share, basic and diluted	$ (0.37)	$ (0.39)	$ (0.90)
Weighted average number of shares outstanding, basic and diluted	9,581	9,654	7,860

Note: All share and per share data has been adjusted to reflect the 1-for-2.5 reverse stock split which became effective March 12, 2008.

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

38

LOGICVISION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS

For the Years Ended December 31, 2008, 2007 and 2006
(in thousands)

	Common stock		Additional paid-in	Accumulated other comprehensive income	Accumulated	Tot Stockh
	Shares	Amount	capital	(loss)	deficit	Equ
Balances, December 31, 2005	7,557	$ 1	$ 104,418	$ (7)	$ (88,974)	$ 15

Stock options exercised	20		39			
Common stock issued under employee stock purchase plan	28		73			
Additional common stock and contingent consideration issued in SiVerion acquisition	428		(148)			
Common stock issued in private placement, net	1,600		3,103			3
Stock-based compensation			376			
Net loss					(7,087)	(7
Change in unrealized gain on investments				20		
Foreign currency translation adjustment				(13)		
Comprehensive loss						(7
Balances, December 31, 2006	9,633	1	107,861	-	(96,061)	$ 11
Stock options exercised	2		3			
Common stock issued under employee stock purchase plan	31		67			
Stock-based compensation			990			
Net loss					(3,723)	(3
Change in unrealized gain on investments				1		
Foreign currency translation adjustment				67		
Comprehensive loss						(3
Balances, December 31, 2007	9,666	1	108,921	68	(99,784)	$ 9
Stock options exercised	-		-			
Common stock issued under employee stock purchase plan	30		36			
Stock-based compensation			513			
Repurchase of common stock	(236)		(223)			
Net loss					(3,544)	(3
Change in unrealized gain on investments				(1)		
Foreign currency translation adjustment				(96)		
Comprehensive loss						(3
Balances, December 31, 2008	9,460	$ 1	$ 109,247	$ (29)	$ (103,328)	$ 5

Note: All share and per share data has been adjusted to reflect the 1-for-2.5 reverse stock split which became effective March 12, 2008.

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

39

LOGICVISION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended Decem	
	2008	**2007**
Cash flows from operating activities:		
Net loss	$ (3,544)	$ (3,723)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	338	624
Stock-based compensation	513	990

Provision for (recovery of) allowance for doubtful accounts	(15)	14
Restructuring	334	-
Gain on sale of fixed assets	-	(45)
Changes in operating assets and liabilities		
Accounts receivable	512	(395)
Prepaid expenses and other current assets	752	(119)
Other long-term assets	33	402
Accounts payable	103	105
Accrued liabilities and restructuring charges	(495)	9
Deferred revenue	3,110	1,090
Net cash provided by (used in) operating activities	1,641	(1,048)
Cash flows from investing activities:		
Purchase of investments	(1,662)	(3,214)
Purchase of property and equipment	(265)	(24)
Proceeds from sale of property and equipment	-	50
Cash paid for business acquisition	-	-
Proceeds from maturities of investments	3,050	3,825
Net cash provided by investing activities	1,123	637
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	36	69
Payments made on capital lease	(41)	-
Repurchase of common stock	(223)	-
Net cash provided by (used in) financing activities	(228)	69
Effect of foreign currency exchange rates on cash	(70)	38
Net (decrease) increase in cash and cash equivalents	2,466	(304)
Cash and cash equivalents, beginning of year	6,783	7,087
Cash and cash equivalents, end of year	$ 9,249	$ 6,783
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 21	$ 6
Cash (received) paid for income taxes	$ 29	$ (19)
Supplemental disclosure of noncash activities:		
Assets acquired under capital lease	$ -	$ 163
Issuance of common stock for business acquisition	$ -	$ -
Contingent consideration issued for business acquisition	$ -	$ -

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

40

LOGICVISION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Nature of Business

LogicVision, Inc. ("LogicVision," "we," "us," "our" or the "Company") was incorporated on July 23, 1992 and reincorporated in the State of Delaware on September 15, 2000. LogicVision is a test and yield learning company in the semiconductor design-for-test sector. We provide proprietary technologies for embedded test that enable the more efficient test of complex semiconductors. The embedded test solution allows integrated circuit designers to embed, into a semiconductor design, test functionality that can be used during semiconductor production and throughout the useful life of the chip. The technology also allows integrated circuits to be tested and characterized after they have been assembled onto boards and systems.

We have incurred substantial losses and negative cash flows from operations since inception. For the year ended December 31, 2008, we incurred a net loss of approximately $3.5 million and had positive cash flows from operations of approximately $1.6 million. As of December 31, 2008, we had an accumulated deficit of approximately $103.3 million. While management believes that our current funds will be sufficient to enable us to meet our planned expenditures through at least December 31, 2009, we are subject to risks associated with companies of similar size and stage of development, including but not limited to, dependence on key individuals, competition from substitute services and larger companies, and the continued successful development and marketing of our products and services. If anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures so as not to require additional financing resources. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives.

Reverse Stock Split

The Company implemented a 1-for-2.5 reverse stock split of its Common Stock on March 12, 2008, which had been approved by the Company's stockholders at the Special Meeting of Stockholders on February 28, 2008. As the reverse stock split proportionally reduced the authorized and outstanding shares of Common Stock of the Company, without any change to the par value, the "Common Stock" balance on the consolidated balance sheet, and all share and per share data contained in these consolidated financial statements has been adjusted to reflect the 1-for-2.5 reverse stock split assuming the reverse stock split had occurred on January 1, 2006.

Reclassifications

Certain amounts have been reclassified from the prior year to confirm to the current year's presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LogicVision, Inc. and its wholly-owned subsidiaries conducting business in Japan, Canada, and the United Kingdom. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's fiscal year end is December 31.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, investments, income taxes, long-term service contracts and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents and Investments

We consider 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. At December 31, 2008 and 2007, the carrying value of our available-for-sale investments approximates their fair value. Interest and realized gains and losses are included in interest income. Realized gains and losses are recognized based on the specific identification method.

41

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

	December 31, 2008	December 31, 2007
Cash and cash equivalents:		
Cash	$ 647	$ 1,848
Money market funds	8,452	1,596
Commerical paper	-	524
U.S. government agency notes	150	2,815
Total cash and cash equivalents	$ 9,249	$ 6,783
Short-term investments:		
Commerical paper	-	199
U.S. government agency notes	$ 150	$ 1,345
Total short-term investments	$ 150	$ 1,544

The contractual maturities of debt securities classified as cash equivalents and available-for-sale investments at December 31, 2008 and 2007 are as follows (in thousands):

	Estimated Fair Value 2008	Estimated Fair Value 2007
Maturing 90 days or less from purchase	$ 150	$ 3,339
Maturing between 90 days and one year from purchase	150	1,544
Total available-for-sale debt securities	$ 300	$ 4,883

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the Company may need to sell the investments to meet its cash needs. There was no unrealized gain (loss) at December 31, 2008, and there was $1,000 of unrealized gain at December 31, 2007.

Fair Value Measurement

On January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, for which application has been deferred for one year.

The following table summarizes our financial assets measured at fair value on a recurring basis in accordance with SFAS 157 as of December 31, 2008 (in thousands):

	Balance as of December 31, 2008	Significant Other Observable Inputs (Level 2)
Assets:		
Cash equivalents:		
U.S. government agency notes	$ 150	$ 150
Short-term investments:		
U.S. government agency notes	150	150
	$ 300	$ 300
Liabilities:	$ -	$ -

42

Our financial assets are valued using market prices on less active markets (level 2). Level 2 instrument valuations are obtained from readily-available pricing sources for comparable instruments. As of December 31, 2008, we did not have any assets with instrument valuations obtained from real-time quotes for transactions in active exchange markets involving identical assets (level 1) or assets without observable market values that would require a high level of judgment to determine fair value (level 3).

Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives of three to five years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset or the lease term, if shorter. Maintenance and repairs are charged to operations as incurred.

Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We use an estimate of the future undiscounted net cash flow of the related asset or asset grouping over the remaining life in measuring whether these assets are recoverable. During the three years ended December 31, 2008, we did not record any impairment of our long-lived assets, other than amounts related to our November 2005 restructuring.

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)) requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases under our 2000 Employee Stock Purchase Plan based on estimated fair values.

Our Consolidated Financial Statements as of December 31, 2008, 2007 and 2006 reflect the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the years ended December 31, 2008, 2007 and 2006 were $513,000, $990,000 and $376,000, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Consolidated Statements of Operations.

Stock-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in our Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006 include compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, Accounting for Stock-Based Compensation (SFAS 123), and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). 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 years ended December 31, 2008, 2007 and 2006 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.

We use the Black-Scholes option-pricing model (Black-Scholes model) to determine the fair value of share-based awards granted. Our determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, our 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 our common stock. We use 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 our equity awards. We do 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.

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force (EITF) No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services. We believe that the fair value of the stock options is more reliably measured than the fair value of the services received. The fair value of each non-employee stock award (except stock awards to non-employee directors) is remeasured at each period end until a commitment date is reached, which is generally the vesting date. All of our non-employee stock awards were fully vested as of December 31, 2008.

Revenue Recognition

We account for our revenue under the provisions of Statement of Position 97-2, Software Revenue Recognition, as amended by Statement of Position 98-9 Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions.

Our revenues are derived from three primary sources: license revenues, comprised of fees associated with the licensing of software; product revenues, from the sale of hardware products; and service revenues, from maintenance and consulting and training services. Revenue is recognized when persuasive evidence of an arrangement exists, all obligations have been performed pursuant to the terms of such an arrangement, the product has been delivered, the fee is fixed or determinable and the collection of the resulting receivable is reasonably assured. If any of these criteria are not met, revenue recognition is deferred until such time as all criteria are met. Payments received in advance of revenues being recognized are presented as deferred revenue in the accompanying balance sheets.

License revenues

We have three license types:

Subscription licenses subscription licenses include software licenses and maintenance for a specific time period, generally three years or less. Maintenance is bundled into the license agreement for the term of the license and is not charged separately. Since vendor-specific objective evidence (VSOE) of fair value does not exist for each element of the arrangement, revenues from subscription licenses are recognized ratably over the license term commencing upon the effective date of the license, if delivery and other revenue recognition criteria are met.

Term licenses term licenses include software licenses for a specific time period, generally one to three years. Revenues associated with term licenses are recognized on the effective date of the license, if delivery and other revenue recognition criteria are met. Maintenance agreements for term licenses are sold separately for a specified period and may continue to be renewed for the balance of the license term.

Perpetual licenses perpetual licenses consist of software licensed on a perpetual basis. Revenues associated with perpetual licenses are recognized on the effective date of the license, if delivery has occurred and other revenue recognition criteria are met. We no longer offer this type of license.

The timing of revenue recognition for licenses will differ depending on the license type and on the individual terms and conditions associated with each particular license agreement. We use VSOE of fair value to allocate the total fee among all delivered and undelivered elements in those arrangements which contain multiple elements. If the arrangement includes the future delivery of a specified product or upgrade, all revenues under the arrangement are deferred until the specified product or upgrade has been delivered. If VSOE does not exist for one or more delivered elements, the residual method of accounting is applied to the delivered elements. Under the residual method, the VSOE of the fair value of the undelivered elements is deferred, and the remaining portion of the arrangement is recognized as revenue. VSOE for maintenance is generally based upon the customers annual renewal rates as set forth in the license agreement. When VSOE for maintenance cannot be established, all related revenues are recognized ratably over the term of the maintenance obligation. VSOE for services is generally based on the price charged when the services are sold separately.

The Company, on occasion, offers extended payment terms beyond its normal business practice of between 30 and 60 days to certain customers. We do not have sufficient experience collecting under these extended payment term arrangements. As a result, when payment terms are extended, the fee is not considered fixed or determinable and we recognize revenue when the payment is due.

Service revenues

Maintenance revenue is recognized ratably over the maintenance period. For term and perpetual licenses, customers generally renew maintenance agreements annually. For subscription licenses, a portion of revenue is allocated to maintenance revenue using the estimated fair value of the maintenance, which is based on maintenance renewals sold separately for similar products.

Consulting service revenues are generally recognized as the services are performed. Training revenues are recognized when the training is performed.

Product revenues

The terms of our hardware product sales include annual maintenance. Product revenues are recognized ratably over the term of our maintenance obligation as we do not have a history of selling maintenance for this product separately.

Research and Development

Research and development costs are charged to operating expense as incurred.

Software Development Costs and Capitalized Technology License

Costs related to research and development are generally charged to expense as incurred. Capitalization of material software development costs begins when a product's technological feasibility has been established in accordance with the provisions of SFAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". To date, the period between achieving technological feasibility, which we have defined as the establishment of a working model, and which typically occurs when beta testing commences, and the general availability of such software has been very short. Accordingly, software development costs have been expensed as incurred.

Restructuring Charges

Restructuring charges are comprised primarily of severance and associated employee termination costs related to workforce reductions, costs related to facilities abandoned and related write-down of leasehold improvements. We account for restructuring charges in accordance with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities which requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred.

Certain Risks and Concentrations

Our cash and cash equivalents and investments are maintained at five financial institutions, two in the United States, one in Canada, one in Japan, and one in the United Kingdom. Deposits in these institutions may exceed the amount of insurance provided on such deposits.

For accounts receivable, management performs ongoing credit evaluations of its customers financial condition and, generally, requires no collateral from its customers. Based on the expected collectibility of the accounts receivable balance, we maintain an allowance for doubtful accounts. We review our allowance for doubtful accounts monthly by assessing individual accounts receivable over a specified aging and amount, and all other balances on a pooled basis based on historical collection experience. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. At December 31, 2008, four customers accounted for approximately 34%, 25%, 10% and 10% of net accounts receivable, respectively. At December 31, 2007, four customers accounted for approximately 26%, 17%, 17% and 10% of net accounts receivable, respectively.

Customers accounting for more than 10 percent of revenues are as follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
LSI Corporation	16%	21%	26%
Broadcom Corporation	18%	19%	18%

There can be no assurance that the market will accept our technology as an alternative to current design test development methods. If the market does not accept our technology at all or in the time frame anticipated in our projections, our revenues, results of operations, financial condition or cash flows would be materially affected.

Income Taxes

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, which provisions included a two-step approach to recognizing, de-recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109 (SFAS 109), Accounting for Income Taxes. As a result of the implementation of FIN No. 48, the Company recognized an increase of approximately $0.6 million in the liability for unrecognized tax benefits and a decrease in the related reserve of the same amount. Therefore upon implementation of FIN No. 48, the Company recognized no material adjustment to the January 1, 2007 balance of retained earnings.

The Company adopted a policy to classify accrued interest and penalties as part of the accrued FIN No. 48 liability in the provision for income taxes. For the year ended December 31, 2008, the Company did not recognize interest or penalties related to unrecognized tax benefits.

Unrecognized Tax Benefits		
Balance at January 1, 2008	$	600,000
Additions for tax positions of prior years		-
Reductions for tax position of prior years		-
Additions based on tax positions related to the current year		-
Decreases Settlements		-
Reductions Settlements		-
Balance at December 31, 2008	$	600,000

None of the $0.6 million of tax positions would affect our income tax expense if recognized.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2008, the Company had no accrued interest and penalties related to uncertain tax matters.

By the end of 2009, the Company expects to have no uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations. We do not anticipate the adjustments would result in a material change to our financial position.

We file income tax returns in the U.S. federal jurisdictions, and various states and foreign jurisdictions. The 1991 through 2008 tax years are open and may be subject to potential examination in one or more jurisdictions. The Company is not currently under federal, state or foreign income tax examination.

Foreign Currency Translation

We have foreign subsidiaries whose financial statements are denominated in the local currency. Foreign exchange gains and losses, which result from the process of remeasuring foreign currency financial statements into U.S. dollars, have been included on the balance sheet as a cumulative foreign currency translation adjustment included in accumulated other comprehensive income (loss). Exchange gains or losses from foreign currency transactions are included in the consolidated statement of operations and were not material for any period presented.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of the common shares outstanding during the period. Diluted net loss per share does not differ from basic net loss per share since potential common shares from conversion of preferred stock, stock options and warrants and outstanding shares of common stock subject to repurchase are anti-dilutive for all periods presented. Options and warrants to purchase approximately 2.8 million, 1.7 million and 1.5 million shares of common stock have been excluded for the years ended December 31, 2008, 2007 and 2006, respectively, as they are anti-dilutive. There were no shares subject to repurchase as of December 31, 2008, 2007 and 2006.

Comprehensive Loss

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income requires companies to classify items of other comprehensive income (loss) by their nature in the financial statements and display the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. For all periods presented, the primary differences between our net loss and comprehensive loss arise from foreign currency translation adjustments and unrealized gains (losses) on investments, the components of which are immaterial for all periods presented.

46

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008. We are currently assessing the impact that SFAS 141(R) may have on our financial position, results of operations, and cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51 (SFAS 160). SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We are currently assessing the impact that SFAS 160 may have on our financial position, results of operations, and cash flows.

In December 2007, the FASB issued EITF Issue 07-1 Accounting for Collaborative Arrangements (EITF 07-1). Collaborative arrangements are agreements between parties to participate in some type of joint operating activity. The task force provided indicators to help identify collaborative arrangements and provides for reporting of such arrangements on a gross or net basis pursuant to guidance in existing authoritative literature. The task force also expanded disclosure requirements about collaborative arrangements. Conclusions within EITF 07-1 are to be applied retrospectively. EITF 07-1 is applicable for fiscal years beginning after December 15, 2008. We are currently assessing the impact that EITF 07-1 may have on our financial position, results of operations, and cash flows.

3. BALANCE SHEET COMPONENTS

Property and equipment, net were comprised of the following (in thousands):

	December 31, 2008	December 31, 2007
Computer equipment and software	$ 2,486	$ 2,987
Office equipment and leasehold improvements	474	506
	2,960	3,493
Less: accumulated depreciation	(2,549)	(2,983)
	$ 411	$ 510

Depreciation and amortization expense related to property and equipment totaled $338,000, $447,000 and $562,000 for the years ended December 31, 2008, 2007 and 2006, respectively. During 2007, the Company entered into a capital lease for computer equipment valued at $163,000. As of December 31, 2008, the carrying value of this equipment was $113,000.

Accrued liabilities were comprised of the following (in thousands):

	December 31, 2008	December 31, 2007
Accrued compensation and benefits	$ 1,030	$ 1,415
Accrued professional fees	349	318
Other accrued liabilities	412	282
	$ 1,791	$ 2,015

4. LOAN AGREEMENT

We have a loan agreement with a bank under which we 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 3.25% at December 31, 2008. The agreement is unsecured and is not collateralized by our assets. Under the agreement, we must comply with certain operating and reporting covenants and are not permitted to pay dividends, or make material investments or dispositions without the prior written consent of the bank. If we fail to comply with our 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 was amended subsequent to the end of the year and will expire on March 27, 2009. We are in compliance with the covenants under this agreement at December 31, 2008. At December 31, 2008 there were no outstanding borrowings under the agreement and $1.0 million was available.

47

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5. COMMITMENTS AND CONTINGENCIES

Lease Obligations

The Company and its subsidiaries in the US and Canada rent office facilities under noncancelable operating leases which expire through July 2011. The Company and its subsidiaries are responsible for certain maintenance costs, taxes and insurance under the respective leases. Total future minimum payments under such operating leases, including estimated operating costs, and payments due under a capital lease, at December 31, 2008 were as follows (in thousands):

Year ending December 31,	Operating Leases	Capital Lease
2009	763	47
2010	305	65
2011	70	-
	$ 1,138	$ 112

Rent expense for the years ended December 31, 2008, 2007 and 2006 was $451,000, $474,000 and $586,000, respectively.

Indemnification Obligations

We enter into standard license agreements in the ordinary course of business. Pursuant to these agreements, we agree to indemnify our 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. Our 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 we may be required to make may exceed our normal business practices. We estimate the fair value of our indemnification obligations as insignificant, based upon our historical experience concerning product and patent infringement claims. Accordingly, we had no liabilities recorded for indemnification under these agreements as of December 31, 2008.

We have agreements whereby our officers and directors are indemnified for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a directors and officers insurance policy that reduces our exposure and enables us to recover a portion of future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, no liabilities have been recorded for these agreements as of December 31, 2008.

See also Note 10.

Warranties

We offer our customers a warranty that our 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, we had no liabilities recorded for these warranties as of December 31, 2008 or 2007. We assess 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.

6. INTANGIBLE ASSETS AND GOODWILL

Amortization of intangible assets was $0 in fiscal 2008, $178,000 in fiscal 2007, and $287,000 in fiscal 2006. In fiscal 2007 and 2006, amortization of developed technology was charged to cost of sales. In fiscal 2006, amortization of the non-compete agreements was charged to sales and marketing and general and administrative expenses.

We evaluate 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. We performed our annual goodwill impairment test as of October 1, 2008, and the test did not indicated impairment of goodwill. No assurances can be given that future evaluations of goodwill will not result in charges as a result of future impairment.

48

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7. PREFERRED STOCK

At December 31, 2008 and 2007, we had 5,000,000 shares of undesignated preferred stock, $0.0001 par value, authorized, none of which were issued or outstanding. The board of directors has the authority, without further action by the stockholders, to issue from time to time the preferred stock in one or more series and to fix the number of shares, designations, preferences, powers, and other rights of those shares. The preferences, powers, rights and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions, and purchase funds and other matters.

On December 16, 2008, the Board of Directors declared a dividend distribution of one "Right" for each outstanding share of our Common Stock to stockholders of record at the close of business on December 26, 2008. The description and terms of the Rights are set forth in a Rights Agreement (the Rights Agreement) between the Company and Mellon Investor Services LLC.

Under the Rights Agreement, one right will be distributed for each outstanding share of our Common Stock held by stockholders of record as of the close of business on December 26, 2008. Each Right when exercisable entitles the registered holder to purchase from the Company one one-thousandth of a share of a new series of preferred stock, designated as Series A Participating Preferred at a price of $6.00 per one one-thousandth of a share.

The Rights will be exercisable if a person, entity or group acquires 15% or more of the Company's Common Stock, subject to certain exceptions set forth in the Rights Agreement. The Rights Agreement has a term of one year and will expire on December 16, 2009, unless the Rights are earlier redeemed or the Rights Agreement is terminated earlier.

8. STOCK OPTION PLANS AND WARRANTS

Stock Option Plan

Our 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 our fiscal years from 2002 to 2010 by the lesser of 300,000 shares, 3.5% of the outstanding shares of our 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 24, 2008, the Board of Directors approved an increase of 300,000 shares for issuance under the 2000 Plan. As of December 31, 2008, options to purchase a total of 2,772,641 and 4,251 shares of common stock were outstanding under the 2000 Plan and the 1994 Plan, respectively. In addition, the Board of Directors has granted 280,200 non-qualified options, none of which options remained outstanding at December 31, 2008. A total of 2,844,037 shares are reserved for future issuance at December 31, 2008.

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 the fair value of the underlying stock at the date of grant. Options generally vest 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 8,000 shares when they first join the Board. In addition, each nonemployee director will be granted an option to purchase 4,000 shares on the day following the Company's annual meeting of stockholders.

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 $3.70 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 972,964 shares were cancelled and new options for 879,684 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 had a one year vesting period.

The following table summarizes all option activities from January 1, 2006 through December 31, 2008 (shares in thousands, except per share data):

	Year Ended December 31,					
	2008		2007		2006	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding:						
Beginning balance	1,738	$ 2.84	1,479	$ 7.84	1,743	$ 8.90

Granted	1,430	$ 1.22	1,419	$ 2.55	272	$ 3.28
Exercised	-		(2)	$ 1.50	(20)	$ 1.93
Forfeited	(391)	$ 2.70	(1,158)	$ 8.88	(516)	$ 9.23
Ending Balance	2,777	$ 2.02	1,738	$ 2.84	1,479	$ 7.84
Options exercisable at end of year	1,326	$ 2.69	932	$ 3.00	1,230	$ 8.73

The weighted-average grant-date fair value of options granted during the years ended December 31, 2008, 2007 and 2006 were $0.77, $1.03 and $2.08, respectively. There were no option exercises during the year ended December 31, 2008. The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 were $1,000 and $28,000, respectively. We issue new shares upon the exercise of options. There was no tax benefit realized from exercised options. For the three years ended December 31, 2008, 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:

	Year Ended December 31,		
	2008	**2007**	**2006**
Expected average life of option	4.7 years	4.8 years	4.2 years
Risk-free interest rate	1.76%	4.82%	4.37%
Expected dividends	-	-	-
Expected volatility	87%	73%	83%

The options outstanding and currently exercisable by exercise price at December 31, 2008 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**
$0.83-$0.83	807	9.9	$ 0.83	-	-	$ -
$0.97-$2.35	489	9.1	$ 1.74	96	8.9	$ 1.82
$2.50-$2.50	852	8.1	$ 2.50	852	8.1	$ 2.50
$2.67-$9.05	629	7.6	$ 3.12	378	7.4	$ 3.36
	2,777	8.7	$ 2.02	1,326	8.0	$ 2.69
Vested and expected to vest	2,193	7.5	$ 2.16			

The aggregate intrinsic value of options outstanding in the preceding table, based on our closing stock price of $0.76 as of December 31, 2008 was $0. The aggregate intrinsic value of vested options and those expected to vest was $0 as of December 31, 2008. The total fair value of options vested during the years ended December 31, 2008, 2007 and 2006 were $488,000, $829,000, and $293,000, respectively. As of December 31, 2008, total compensation cost related to non-vested stock options not yet recognized was $553,000 which is expected to be recognized over the next 1.8 years.

50

Valuation and Expense Information under SFAS 123(R)

SFAS 123(R) requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors, including employee stock options and employee stock purchases related to the Purchase Plan based on estimated fair value. The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123(R) for the years ended December 31, 2008, 2007 and 2006 which was allocated as follows (in thousands):

	Year Ended December 31, 2008	2007	2006
Cost of revenues:			
Service	$ 22	$ 50	$ 27
Stock-based compensation expense included in cost of sales	22	50	27
Operating expenses:			
Research and development	161	321	70
Sales and marketing	187	320	146
General and administrative	143	299	133
Stock-based compensation expense included in operating expenses	491	940	349
Total stock-based compensation expense related to employee stock options and employee stock purchases	$ 513	$ 990	$ 376
Effect on net loss per share, basic and diluted	$ (0.05)	$ (0.10)	$ (0.05)

As stock-based compensation expense recognized 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. Forfeitures are estimated based on historical experience.

Warrants

At December 31, 2008, we had warrants outstanding to purchase common stock as follows:

Warrants type	Number outstanding	Expiration date	Exercise price
Warrants issued for Series G financing	31,293	December 2009	$ 2.50

The fair value of these warrants was determined using the Black-Scholes model assuming volatility factors of 0.60, contractual lives between 4 and 10 years, and risk-free rates of return between 5.3% and 5.6%.

9. STOCK PURCHASE PLAN

Under the Company's Employee Stock Purchase Plan ("Purchase Plan") a total of 400,000 shares of common stock were reserved for issuance at December 31, 2008. 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 50,000 shares, 1% of the outstanding shares on that date or a lesser amount as determined by the Board of Directors. On January 24, 2008, the Board of Directors approved an increase in the number of shares reserved for issuance by 50,000 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. During the years ended December 31, 2008, 2007, and 2006, we issued 29,958, 31,240, and 27,636 shares under the Purchase Plan at average prices of $1.24, $2.15, and $2.65 per share, respectively. At December 31, 2008, there were 104,195 shares available for future issuance under the Purchase Plan.

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

	Year Ended December 31,		
	2008	2007	2006
Expected average life of option	6 months	6 months	6 months
Risk-free interest rate	1.99%	5.09%	5.15%
Expected dividends	-	-	-
Expected volatility	105%	62%	70%

The weighted average per share fair value of purchase rights under the Purchase Plan was $0.64, $0.85 and $1.20 for the years ended December 31, 2008, 2007 and 2006, respectively.

10. PRIVATE PLACEMENT

On December 19, 2006, we completed a private placement of 1,562,000 shares of our common stock to certain accredited investors at a price per share equal to $2.03, as well as the sale of 38,000 shares of common stock to certain members of our management at a price per share equal to $2.30 (the closing bid price of the Common Stock on The Nasdaq Global Market on December 18, 2006), each pursuant to the terms of a Common Stock Purchase Agreement, dated December 19, 2006. The net proceeds of this private placement were approximately $3.1 million.

11. INCOME TAXES

The components of the provision (benefit) for income taxes were as follows (in thousands):

	December 31,		
	2008	2007	2006
Current			
Federal	$ -	$ -	$ -
State and foreign	22	(37)	144
	22	(37)	144
Deferred			
Federal	-	-	-
State and foreign	-	-	-
Total provision (benefit) for income taxes	$ 22	$ (37)	$ 144

In 2008, we recorded an income tax provision of $22,000 related to foreign taxes.

Significant components of our deferred tax assets and liabilities were as follows (in thousands):

	December 31,		
	2008	2007	2006
Deferred tax assets:			
Net operating losses	$ 33,710	$ 31,528	$ 30,530
Reserves and accruals	368	243	241
Credits	1,106	1,120	1,852
Deferred revenue	241	1,288	1,215

Depreciation and amortization	643	709	690
	36,068	34,888	34,528
Valuation allowance	(36,068)	(34,888)	(34,528)
Net deferred tax assets	$ -	$ -	$ -

We have established a full valuation allowance against our deferred tax assets due to the uncertainty surrounding the realization of such assets. Management evaluates, on an annual basis, the recoverability of the deferred tax assets and the level of the valuation allowance.

As of December 31, 2008, we had federal and California net operating loss carryforwards of approximately $93.1 million and $33.8 million available to reduce future federal and California taxable income, respectively. These federal and California carryforwards begin to expire in 2010 if not utilized. The extent to which these carryforwards can be used to offset future taxable income may be limited under Section 382 of the Internal Revenue Code and applicable state tax law.

As of December 31, 2008, we had federal and California research and experimentation tax credit carryforwards of approximately $1.1 million and $0.9 million, respectively. These federal tax credit carryforwards begin to expire in 2010, if not utilized. Unused California tax credit carryforwards may be carried forward indefinitely. The extent to which these tax credit carryforwards can be used to offset future taxes may be limited under Section 383 of the Internal Revenue Code and applicable state law.

For financial reporting purposes the tax effect of the net operating loss and tax credit carryforwards have been recorded as deferred tax assets.

52

The effective tax rate differs from the statutory federal income tax rate as follows:

	December 31,		
	2008	**2007**	**2006**
Statutory federal income tax rate	(34.0)%	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(5.8)	(5.8)	(5.8)
Stock-based compensation	4.3	10.4	2.1
Credits	-	-	(0.2)
Change in valuation allowance	33.5	25.5	40.5
Foreign taxes	0.3	(1.9)	2.3
Expiration of State NOLs	-	3.9	-
Other	2.3	0.9	(3.0)
Effective tax rate	0.6%	(1.0)%	2.0%

The domestic and foreign components of earnings before taxes were as follows (in thousands):

	December 31,		
	2008	**2007**	**2006**
U.S.	$ (3,502)	$ (3,840)	$ (6,860)
Non-U.S.	(20)	80	(83)
	$ (3,522)	$ (3,760)	$ (6,943)

The valuation allowance increased by $1.2 million and $0.4 million during the years ended December 31, 2008 and 2007, respectively.

12. SEGMENT REPORTING

We have adopted SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. Although we offer various design and manufacturing embedded test software products and services to our customers, we do not manage our operations by these products and services, but instead view the Company as one operating segment when making business decisions. We do not manage our 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. We use one measurement of profitability for our business.

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

	Year ended December 31,		
	2008	**2007**	**2006**
Revenue by product line:			
ETCreate	$ 9,608	$ 9,621	$ 7,774
Silicon Insight	1,720	1,313	1,759
Yield Insight	-	93	134
Consulting & Training	845	591	850
Total revenues	$ 12,173	$ 11,618	$ 10,517

The following is a summary of our revenues by geographic operations (in thousands):

	Year ended December 31,		
	2008	**2007**	**2006**
Revenue by geographic region:			
United States	$ 8,580	$ 8,766	$ 8,827
Japan	2,118	1,901	1,176
Other	1,475	951	514
Total revenues	$ 12,173	$ 11,618	$ 10,517

The following is a summary of our long-lived assets (in thousands):

	December 31,	
	2008	**2007**
United States	$ 323	$ 357
Canada	85	153
Japan	3	-
	$ 411	$ 510

13. BENEFIT PLAN

We have a defined contribution savings plan (the 401(k) Plan) to provide retirement income to all qualified employees of the Company. The 401(k) Plan is intended to be qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan is funded by voluntary pre-tax contributions from employees. Contributions are invested, as directed by the participant, in investment funds available under the

401(k) Plan. We are not required to make, and we have not made, any contributions to the Plan.

14. RESTRUCTURING COSTS

In the fourth quarter of 2008, we implemented a restructuring plan to reduce operating costs by consolidating facilities. Accordingly, we recognized a restructuring charge of approximately $0.3 million for the facility abandonment expenses and other contractual charges associated with these facilities. The restructuring plan eliminated the Massachusetts facility and reduced the utilized space leased in San Jose, California. The restructuring plan was substantially completed by the end of December 2008.

The following is a summary of activities in accrued restructuring and excess facilities costs at December 31, 2008 (in thousands):

	Excess Facilities	Total
Balance as of January 1, 2008	$ -	$ -
Restructuring charge	334	334
Balance as of December 31, 2008	$ 334	$ 334

At December 31, 2008, the current portion of our restructuring accrual of $246,000 is included in accrued liabilities and the long-term portion of our restructuring accrual of $88,000 is included in other long-term liabilities on our consolidated balance sheet.

The restructuring charges are included in the Consolidated Statement of Operations for the year ended December 31, 2008 as follows (in thousands):

	Excess Facilities	Total
Restructuring charge	$ 334	$ 334
Total operating expenses	$ 334	$ 334

15. STOCK REPURCHASES

In April 2008, the Board of Directors authorized the repurchase of up to $200,000 worth of the Companys common stock. The Company was authorized to repurchase the shares in the open market or private transactions, at the discretion of the Companys management. The Company began repurchasing shares in May 2008. In November 2008, the Board of Directors approved the repurchase of an additional $23,039 worth of the Companys Common Stock. During the year ended December 31, 2008, the Company repurchased 236,492 shares for an aggregate cost of $223,000.

16. CHANGE OF CONTROL AGREEMENTS

On November 12, 2008, we entered into Change of Control Severance Agreements (the Agreements) with James T. Healy, our President and Chief Executive Officer, Fadi Maamari, our Chief Operating Officer, and Mei Song, our Chief Financial Officer. The Agreements entered into with Messrs. Healy and Maamari replaced existing Change of Control Severance Agreements between each of them and the Company.

Each Agreement provides that in the event of an involuntary termination of the executive within three months before or twelve months after a change of control, the executive will be entitled to (i) a cash payment based on the executive’s annual base salary as of the termination date (equal to 150% of such annual base salary for Mr. Healy, and equal to 100% of such annual base salary for each of Mr. Maamari and Ms. Song), (ii) a cash payment based the executive’s target bonus and target commission for the year in which the executive is terminated (equal to 150% of such target bonus and target commission for Mr. Healy, and equal to 100% of such target bonus and target commission for each of Mr. Maamari and Ms. Song), (iii) the immediate acceleration of vesting and exercisability of the executive’s outstanding options to acquire our common stock and (iv) reimbursement of health insurance premiums for the executive and eligible dependents for up to twelve months measured from the date of termination. The executives have agreed not to solicit our employees for a period of time (18 months for Mr. Healy, and 12 months for each of Mr. Maamari and Ms. Song) following termination of employment giving rise to severance payments, and not to compete with the Company for the period during which they receive severance payments. A “change of control” includes a merger or consolidation involving the Company in which our stockholders immediately prior to such merger or consolidation own 50% or less of the voting power of the surviving entity’s voting securities, sale of all or substantially all of our assets, the approval by our stockholders of a plan of complete liquidation or dissolution, and the acquisition by a person or related group of persons of 50% or more of the voting power of our voting securities.

SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

The following table presents selected unaudited consolidated financial results for each of the eight quarters in the two-year period ended December 31, 2008. In our opinion, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial information for the period presented.

	Three Months Ended					
	Dec. 31, 2008	**Sept. 30, 2008**	**June 30, 2008**	**March 31, 2008**	**Dec. 31, 2007**	**Sept. 30, 2007**
	(In thousands, except per share data)					
Revenues:						
License	$ 1,397	$ 1,582	$ 1,408	$ 1,384	$ 1,321	$ 1,396
Service	1,599	1,598	1,619	1,586	1,553	1,566
Product	-	-	-	-	-	69
Total revenues	2,996	3,180	3,027	2,970	2,874	3,031
Cost of revenues:						
License	154	167	170	176	202	229
Service	587	673	658	655	640	611
Total cost of revenues	741	840	828	831	842	840
Gross profit	2,255	2,340	2,199	2,139	2,032	2,191
Operating expenses:						
Research and development	701	736	801	1,008	835	920
Sales and marketing	1,039	1,252	1,540	1,506	1,067	1,175
General and administrative	969	868	915	894	902	896
Restructuring	334	-	-	-	-	-
Total operating expenses	3,043	2,856	3,256	3,408	2,804	2,991
Loss from operations	(788)	(516)	(1,057)	(1,269)	(772)	(800)
Interest and other income	14	17	58	18	65	112
Loss before provision (benefit) for income taxes	(774)	(499)	(999)	(1,251)	(707)	(688)
Provision (benefit) for income taxes	8	-	(2)	15	5	-

Net loss	$ (782)	$ (499)	$ (997)	$ (1,266)	$ (712)	$ (688)
Net loss per share, basic and diluted	$ (0.08)	$ (0.05)	$ (0.10)	$ (0.13)	$ (0.07)	$ (0.07)
Market stock price range:						
High	$ 1.00	$ 1.61	$ 2.02	$ 2.48	$ 2.63	$ 2.33
Low	$ 0.35	$ 0.24	$ 0.99	$ 1.20	$ 1.95	$ 1.80

Note: All per share data has been adjusted to reflect the 1-for-2.5 reverse stock split of our Common Stock which became effective March 12, 2008.

56

SCHEDULE IIVALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2008, 2007 and 2006
(in thousands)

Description	Allowance for Doubtful Accounts	Inventory Reserve
Year ended December 31, 2006:		
Balance at beginning of fiscal year	$ 25	$ 60
Addition/charged to expenses	-	-
Recoveries	(19)	(60)
Balance at end of fiscal year	$ 6	$ -
Year ended December 31, 2007:		
Balance at beginning of fiscal year	$ 6	$ -
Addition/charged to expenses	20	-
Recoveries	(6)	-
Balance at end of fiscal year	$ 20	$ -
Year ended December 31, 2008:		
Balance at beginning of fiscal year	$ 20	$ -
Addition/charged to expenses	5	-
Recoveries/Write-offs	(20)	-
Balance at end of fiscal year	$ 5	$ -

57

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A(T). Controls and Procedures

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s annual report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management’s report in this annual report.

Changes in internal controls. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item (with respect to Directors) is incorporated by reference from the information under the caption “Election of Directors” contained in the Company’s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Company’s 2009 Annual Meeting of Stockholders scheduled to be held on June 11, 2009 (the “Proxy Statement”). Certain information required by this item concerning executive officers is set forth in Part I of this Report under the caption “Executive Officers of the Registrant.”

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This information is contained in the section called “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated herein by reference.

The Company has a separately designated standing Audit Committee established in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Richard Okumoto (Chairperson), Randall A. Hughes and Richard C. Yonker. All of such members qualify as an independent director under applicable Nasdaq Stock Market standards and meet the standards established by The Nasdaq Stock Market for serving on an audit committee. The Companys Board of Directors has determined that Mr. Okumoto qualifies as an audit committee financial expert under the definition outlined by the Securities and Exchange Commission.

The Company has adopted a Code of Business Conduct for all of its directors, officers and employees. The Companys Code of Business Conduct is available on the Companys website at *www.logicvision.com.* To date, there have been no waivers under the Companys Code of Business Conduct. The Company will disclose future amendments to certain provisions of its Code of Business Conduct and will post any waivers, if and when granted, under its Code of Business Conduct on the Companys website at *www.logicvision.com*.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the information under the captions Compensation of Directors, Executive Compensation, and Compensation Committee Interlocks and Insider Participation contained in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item with respect to security ownership of certain beneficial owners and management is incorporated by reference from the information under the caption Security Ownership of Certain Beneficial Owners and Management contained in the Proxy Statement.

Equity Compensation Plan Information

The following table sets forth certain information regarding the Companys equity compensation plans as of December 31, 2008 (as adjusted to reflect the 1-for-2.5 reverse stock split of our Common Stock which became effective March 12, 2008):

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**	
Equity compensation plans approved by security holders:				
1994 and 2000 Stock Option Plan	2,776,892	$ 2.02	67,145	(1)
2000 Employee Stock Purchase Plan			104,195	(2)
Total	2,776,892	$ 2.02	171,340	

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(1) Consists of the number of shares reserved for issuance under the Company□s 2000 Stock Incentive Plan. The number of shares reserved for issuance under the Company□s 2000 Stock Incentive Plan will be increased on the first day of each of the Company□s fiscal years from 2002 to 2010 by the lesser of 300,000 shares, 3.5% of the outstanding shares of the Company□s common stock on that date or a lesser amount determined by the Company□s Board of Directors. Stock options, restricted stock, restricted stock units or stock appreciation rights may be awarded under the 2000 Plan.

(2) Consists of the number of shares available for sale pursuant to the Company□s 2000 Employee Stock Purchase Plan. Shares of common stock will be purchased at a price equal to 85% of the fair market value per share of common stock on either the first day preceding the offering period or the last date of the offering period, whichever is less. The number of shares reserved for issuance will be increased on the first day of each fiscal year, commencing in 2002, by the lesser of 50,000 shares, 1% of the outstanding common stock on that date, or such lesser number of shares as is determined by the Board of Directors.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference from the information contained under the caption □Certain Relationships and Related Party Transactions□ and □Director Independence□ contained in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the information contained under the caption □Pre-Approval Policies and Procedures□ contained in the Proxy Statement.

60

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) **Documents filed as part of this report:**

(1) Financial Statements

See Index under Item 8.

(2) Financial Statement Schedule

See Index under Item 8.

(3) Exhibits

See Item 15(b) below. Each compensatory plan required to be filed has been identified.

(b) Exhibits.

Exhibit Number	Description of Document
3(i)	Amended and Restated Certificate of Incorporation.
3(ii)	Bylaws of the Company, amended as of October 16, 2003 (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.1	Form of Common Stock Certificate (incorporated by reference to the exhibit of the same number to Amendment No. 8 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
4.2	Form of Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.4 to Amendment No. 5 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
4.3	Form of Extinguishing Warrant to Purchase Shares of Common Stock (incorporated by reference Exhibit 4.5 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
4.4	Rights Agreement, dated as of December 16, 2008, between LogicVision, Inc. and Mellon Investor Services LLC, which includes the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed December 17, 2008).
4.6#	Form of Stock Option Agreement (incorporated by reference to Exhibit 4.8.2 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
10.1.1#	Form of agreements under the 1994 Flexible Stock Incentive Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
10.1.2#	1994 Flexible Stock Incentive Plan, as amended (incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 (File No. 333-74336)).
10.2.1#	Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004).
10.2.2#	Amendments Nos. 1 and 2 and Addendum to Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003).
10.2.3#	Form of agreement under the 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003).
10.3#	Form of Indemnification Agreement between the Registrant and its officers and directors (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.4	Sixth Amended and Restated Registration Rights Agreement dated as of January 28, 2000 (incorporated by reference to the exhibit of the same number to the

	Company's Registration Statement on Form S-1 (File No. 333-43654)).

Exhibit Number	Description of Document
10.5	Lease, dated as of August 13, 1998, by and between Spieker Properties, L.P. and the Company (incorporated by reference to the exhibit of the same number to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
10.6.1	Extension Agreement, dated as of January 17, 2000, by and between Spieker Properties, L.P. and the Company (incorporated by reference to Exhibit 10.6 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
10.6.2	Second Amendment, dated as of January 23, 2004, to Lease Agreement dated August 13, 1998 by and between CA-Metro Plaza, as successor in interest to Spieker Properties, L.P., and the Company (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.6.3	Third Amendment, dated as of May 7, 2004, by and between CA-Metro Plaza, as successor in interest to Spieker Properties, L.P., and the Company (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004).
10.7.1	Agreement, dated as of September 14, 1992, between Northern Telecom Limited and the Company (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.7.2	Amendment, dated as of October 1, 1993, to the Agreement between Northern Telecom Limited and the Company (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.7.3	Amendment, dated as of January 11, 1994, to the Agreement between Northern Telecom Limited and the Company (incorporated by reference to the exhibit of the same number to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
10.7.4	Amendment, dated as of March 20, 2001, to the Agreement between Nortel Networks Limited (formerly Northern Telecom Limited) and the Company (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.8#	Amended and Restated 2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004).
10.8.1#	Amendment, dated February 18, 2005, to the Amended and Restated 2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005)

10.9.1	Amended and Restated Loan Agreement, dated as of February 11, 2004, by and between Comerica BankCalifornia and the Company (incorporated by reference to the exhibit of the same number to the Companys Annual Report on Form 10-K for the year ended December 31, 2003).
10.9.2	Second Amendment, dated as of January 31, 2005, to Second Amended and Restated Loan Agreement by and between Comerica BankCalifornia and the Company (incorporated by reference to the exhibit of the same number to the Companys Current Report on Form 8-K filed with the Commission on February 4, 2005).
10.9.3	Third Amendment to the Second Amended and Restated Loan Agreement, dated February 9, 2006, by and between Comerica Bank and the Company (incorporated by reference to the Companys Current Report on Form 8-K filed with the Commission on February 10, 2006).
10.10#	Change in Control Severance Agreement entered into by and between the Company and James T. Healy.
10.11#	Change in Control Severance Agreement entered into by and between the Company and Fadi Maamari.
10.12#	Change in Control Severance Agreement entered into by and between the Company and Mei Song.
21.1	Subsidiaries of the Company (incorporated by reference to the exhibit of the same number to the Companys Annual Report on Form 10-K for the year ended December 30, 2002).
23.1	Consent of Burr, Pilger & Mayer LLP, Independent Registered Public Accounting Firm

Exhibit Number		Description of Document
24.1		Power of Attorney (see page 64 of this Form 10-K)
31.1		Rule 13a-14(a) Certification of Chief Executive Officer.
31.2		Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	**	Statement of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350).
32.2	**	Statement of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350).

#	Indicates management contract or compensatory plan or arrangement.
**	In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Managements Reports on Internal Control Over Financial Reporting and

Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-K and will not be deemed filed for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

(c) Financial Statement Schedules.

See Index under Item 8.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOGICVISION, INC.

Date: March 18, 2009

By: /s/ JAMES T. HEALY
James T. Healy
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James T. Healy and Mei Song, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ JAMES T. HEALY **James T. Healy**	President and Chief Executive Officer (Principal Executive Officer) and Director	March 18, 2009
/s/ MEI SONG **Mei Song**	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2009
/s/ GREGG ADKIN **Gregg Adkin**	Director	March 18, 2009
/s/ RANDALL A. HUGHES	Director	March 18, 2009

Randall A. Hughes

/s/ RICHARD OKUMOTO **Richard Okumoto**	Director	March 18, 2009
/s/ MATTHEW RAGGETT **Matthew Raggett**	Director	March 18, 2009
/s/ RICHARD C. YONKER **Richard C. Yonker**	Director	March 18, 2009

64

EXHIBIT INDEX

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3(i)	Amended and Restated Certificate of Incorporation.
3(ii)	Bylaws of the Company, amended as of October 16, 2003 (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.1	Form of Common Stock Certificate (incorporated by reference to the exhibit of the same number to Amendment No. 8 to the Company's Registration Statement on Form S-1 (File No. 333-43654)).
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