

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

FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended September 30, 2007

or
☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period _____ to _____

Commission File Number
0-17187

LOGIC DEVICES INCORPORATED
(Exact name of registrant as specified in its charter)

California
(State of Incorporation)

94-2893789
(I.R.S. Employer Identification No.)

1375 Geneva Drive, Sunnyvale, CA 94089
(Address of principal executive offices, including Zip Code)

(408) 542-5400
(Registrant's telephone number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act

Title of Class
NONE

Name of each exchange on which registered
NONE

Securities registered pursuant to Section 12(g) of the Act

Common Stock, no par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file report pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ CHECK IF APPLICABLE

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

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

State the aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the closing price of the common stock as of March 31, 2007, the last day of the registrant's most recently completed second quarter: \$9,241,800.

As of December 21, 2007, the Registrant had 6,814,438 shares of its common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE (See Part III)

LOGIC DEVICES INCORPORATED

ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains forward-looking statements which include, but are not limited to, statements concerning projected revenues, expenses, gross margin, net income, market acceptance of our products, the competitive nature of and anticipated growth in our markets, our ability to achieve further product integration, the status of evolving technologies and their growth potential, the timing and acceptance of new product introductions, the adoption of future industry standards, our production capacity, our ability to migrate to smaller process geometries, and the need for additional capital. These forward-looking statements are based on our current expectations, estimates, and projections about our industry, management's beliefs, and certain assumptions made by it. Words such as "anticipates, appears, expects, intends, plans, believes, seeks, estimates, may, will," and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from those results expressed in any forward-looking statements, as a result of various factors, some of which are listed under the section, "Item 1A - Risk Factors," of this Annual Report on Form 10-K. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

Item 1. BUSINESS

General Development of the Business

LOGIC Devices Incorporated develops and markets high-speed digital integrated circuits that perform high-density storage and signal/image processing functions. Our products enable high definition video display, transport, editing, composition, and special effects. We also provide solutions for digital filtering in television broadcast stations and image enhancement in medical diagnostic scanning and imaging equipment.

Our products are used in the broadcast, medical, military and consumer electronics markets. Our products address storage and digital signal processing (DSP) requirements that involve high-performance arithmetic computation. We focus on developing proprietary catalog products to address specific functional application needs or performance levels that are not otherwise commercially available. We seek to provide related groups of circuits that original equipment manufacturers (OEMs) incorporate into high-performance electronic systems.

We rely on third-party silicon foundries to process silicon wafers, each wafer having up to several hundred integrated circuits of a given LOGIC design, from which finished products are then assembled. Our strategy is to avoid the substantial investment in capital equipment required to establish a wafer fabrication facility, by outsourcing wafer processing to third-party foundry specialists to take advantage of their expertise. See "Business – Background." We currently have two primary wafer suppliers. We continue to explore additional foundry relationships to reduce our dependence on any single wafer foundry.

We market our products worldwide through a combination of a direct sales force, sales representatives, and 20 international distributors. In fiscal 2007, approximately 27 percent of net revenues were from distributors. We adjust our sales structure to address appropriate market requirements. We include the following as some of our customers: Texas Instruments, BAE Systems, Harmonic, GE Medical, Lockheed Martin, Qualcomm, and Raytheon. Fiscal 2007 net revenues derived from foreign sales approximate 33 percent.

LOGIC Devices was incorporated under the laws of the State of California in April 1983. Our headquarters are located at 1375 Geneva Drive, Sunnyvale, California 94089, and our telephone number is 408-542-5400.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website, www.logicdevices.com, as soon as reasonably practicable after we electronically file such material with or furnish such material to the Securities and Exchange Commission.

Background

Continuing advances in fabricating semiconductors are driving a global revolution in electronics. With these ongoing advances, the ability to economically compute, communicate, and control seems to be limited only by the creativity required to implement ever more complex electronic systems. It is increasingly common to implement entire electronic systems on a single small sliver of silicon. The challenges to the industry have increasingly turned toward innovative product definition, timely product development, technical customer support, and heavy capital investments in advanced semiconductor wafer fabrication facilities. The rapid advances in chip fabrication technology have resulted in a specialization of skills within the industry. In addition to the specialization of materials processing skills required to fabricate semiconductor wafers, the industry increasingly requires and values system architecture development, interoperability standards, signal processing algorithms, and circuit design expertise as essential skills for developing financially successful products. Many opportunities have thus emerged for semiconductor companies that focus on product definition, advanced design techniques, and technical application support, and that rely on third parties for wafer fabrication. We focus our resources on defining and developing high-performance integrated circuit components for growing markets, which require demanding computational throughput.

The semiconductor industry is intensely competitive, highly cyclical, and characterized by rapid technological change, product obsolescence, wide fluctuations in both demand and capacity, and steep price erosion. These factors can obsolete processes and products currently utilized or produced by us. In such cases, we are required to develop products utilizing new processes and to either integrate such products into our existing foundry processes, or seek new foundry sources.

Markets and Product Development Strategies

We have historically derived a significant portion of our revenues from sales to television broadcast equipment manufacturers and to defense contractors providing systems that perform computationally intensive image processing. Our products were among the first to provide economical, high-speed, yet low power, computational solutions for common image manipulation and storage problems encountered in implementing these systems. Applications of our products also overlap into medical diagnostic imaging equipment, digital cinema systems, and in-flight entertainment systems. In the late 1990's, we jointly defined with our customers, a family of digital image filtering applications that address the filtering requirements of HDTV studio production systems. Sales of these systems lagged market forecasts as a result of repeated delays in the conversion to HDTV. As a result, the magnitude of our sales of these products was affected. Sales that we had expected to generate over a five-year period have extended at a slower rate for over a ten-year period.

As a result of our work on high-speed, low power image processing circuits that are very computationally demanding, we have developed expertise in circuit design and implementation that is not readily available to many OEMs, and within the semiconductor industry, only available within some of the very largest companies which, due to their size, are compelled to pursue very large markets. Our capabilities and size provide opportunities to service technically-demanding industrial and military markets that are not serviced by those larger companies.

The same advances in semiconductor technology that have enabled the advancements in high definition broadcast video production and distribution have driven a rapid increase in the ability to transmit vast amounts of data. Communications in all forms with increasing portability and bandwidth are proliferating worldwide. Much of this new communication capability will be utilized to transport video streams. We believe that many opportunities exist to utilize our capabilities in low power, high speed computation and storage to address the requirements of these communications and video systems. The convergence of communications and ubiquitous image processing is an opportunity that is well suited to our capabilities and far exceeds our abilities to address completely.

We seek to identify markets that require the application our expertise; that are stable, long-lived markets that are not extremely cost-sensitive; that offer potential for substantial revenue growth; and that are not served by larger competitors with substantially more resources. Currently the semiconductor industry is challenged by several factors. First, the cost of developing high complexity products is escalating nearly as fast as the capability of the technology itself is increasing. Second, the disciplines required to develop complex, systems-on-chips (SOCs) requires a rapidly increasing breadth of technical skills. Consumer-related products are experiencing ever shrinking life cycles as new products are quickly supplanted by even newer products.

To identify market opportunities, we attempt to obtain substantial input from our existing customers in defining new products. We seek to identify new product opportunities that leverage our technical strengths. Lastly, we seek the markets for such products that can provide increasing revenue opportunities without exceeding our capital resources. In the near term, we believe products that leverage our high-speed memory capabilities fit these criteria for both our exiting video customer base and for additional communications applications. Large SOC's are increasingly dominated by high speed memory. Currently, most SOC's are internally 70 percent or more embedded memory. Projections anticipate that embedded memory will comprise in excess of 90 percent of future SOC's. Consequently, our capabilities are a key foothold for leveraging into many applications. Combined with our experience in image manipulation, a rapidly growing area, and communications, also growing very dynamically, our opportunities are only limited by our ability to execute product development. Worldwide, there is a critical shortage of skills in this area and a company's success generally depends on its ability to both develop and hire skilled personnel. In that regard, we recognize the need to continue to increase the technical skill levels of our technical team and have worked to build internally as well as hire increasingly stronger experts. And consequently, much of our market directions are established by the capabilities of our core team.

Wafer Fabrication Technology

LOGIC Devices is a fabless manufacturer. We rely upon third-party foundry suppliers to produce processed wafers from mask patterns designed by us. Through these wafer suppliers, we have access to advanced high-speed, high-density complimentary metal oxide semiconductor (CMOS) process technology, without the significant investment in capital equipment and facilities required to establish a wafer fabrication factory. Coupled with our structured custom design methodology and experience with high-speed circuit design, this CMOS technology has allowed us to produce products that offer high computational speeds, high reliability, high levels of circuit integration (complexity), and low power consumption.

We are primarily dependent upon two wafer suppliers and do not have a guarantee of minimum supplies. Therefore, there can be no assurance that such relationships will continue to be on terms satisfactory to us. The inability to obtain adequate quantities of processed wafers could limit our revenues. As a result of this risk, we carry a large inventory of unassembled wafers that can be packaged into a variety of carrier styles to support customer requirements.

Production, Assembly, and Test

Our production operations consist of functional and parametric testing, hot and cold testing, final inspection, quality inspection, and shipment. As is customary in the industry, high-volume assembly subcontractors assemble our devices. Thereafter, the assembled devices are returned to us for final testing and shipment to customers. We continue to test materials and products at various stages in the manufacturing process, utilizing automated test equipment.

We have historically maintained, and expect to continue to maintain, high levels of inventory. For some product types, we must purchase all of our anticipated inventory needs for the life of the product (often ten or more years) in a short period of time. Our high inventory levels heighten the risk of inventory obsolescence and write-offs.

Marketing, Sales, and Customers

We market our products worldwide to a broad range of customers through our own direct sales force, sales representative partners, and 20 international electronics distributors. We concentrate our direct marketing efforts on high-performance segments of the medical imaging, broadcast equipment, and telecommunications markets, in applications where high speed is critical. Among our OEM customers are Texas Instruments, BAE Systems, Harmonic, GE Medical, Lockheed Martin, Qualcomm, and Raytheon.

International distributors purchase our products for resale, generally to a broad base of small- to medium-sized customers. As is customary in the industry, our distributors receive certain price protection and limited stock rotation rights. However, our distributors are required to simultaneously order an amount equal to or greater than any rotation items returned. During fiscal 2007 and 2006, sales through international distributors accounted for approximately 27% and 38% of net revenues, respectively. During fiscal 2005, we also had a domestic distributor, Jan Devices, Inc., which we terminated in May 2005. Sales to the international distributors and this domestic distributor accounted for approximately 68% of net revenues for fiscal 2005.

In fiscal 2007 and 2006, no distributors generated more than 10% of net revenues; however, Benchmark (manufacturer for Texas Instruments) comprised 43% and 23% of net revenues in fiscal 2007 and 2006, respectively. In addition, BAE Systems comprised 12% of net revenues in fiscal 2006. In fiscal 2005, three international distributors, MCM Japan Ltd., Zwinz Technical Consulting, and 3D Industrial Electronics PTE, comprised approximately 12%, 11%, and 11% of net revenues, respectively.

Our distributors are not exclusive and they may also market products competitive with our products. We warrant our products against defects in materials and workmanship for a period of 12 months from the date of shipment. Warranty expenses to date have been nominal.

International sales are conducted by sales representatives and distributors located throughout Europe and Asia. During fiscal 2007, 2006, and 2005, our export sales were approximately 33%, 40%, and 62% of net revenues, respectively (see Note 7 in "Notes to Financial Statements" contained in Item 8). Our international sales are billed in United States dollars, and therefore, settlements are not directly subject to currency exchange fluctuations. However, changes in the relative value of the dollar may create pricing pressures for our products. Although our international sales are subject to certain export restrictions, including the Export Administration Amendments Act of 1985 and the regulations promulgated thereunder, we have not experienced any material difficulties resulting from these restrictions to date.

Backlog

As of December 2, 2007 and 2006, our backlog was approximately \$147,000 and \$838,200, respectively. This backlog includes all released purchase orders shippable within the following 12 months, including orders from distributors. Our backlog, although useful for scheduling production, does not represent actual sales and should not be used as a measure of future sales or revenues at any particular time. In accordance with accepted industry practice, all orders on the backlog that are not "last-time buys" of obsolete products are subject to cancellation without penalty at the option of the purchaser at any time prior to shipment. In addition, the backlog does not reflect changes in delivery schedules and price adjustments that may be passed on to distributors and credits for returned products. We produce catalog products that may be shipped from inventory within a short time after receipt of a purchase order. The business for our catalog products, like the businesses of other companies in the semiconductor industry, is characterized by short-term orders and shipment schedules rather than by volume purchase contracts. Our shipments are generally concentrated toward the end of the third month of each quarter, making it difficult to predict our revenues and results of operations for any fiscal period. For these reasons, our backlog as of any particular date is not representative of actual sales for any succeeding period and we believe that our backlog is not a good indicator of future revenues.

Research and Development

As we have not introduced sufficient new products in a few years, we view new product development as the most important factor affecting revenue growth; therefore, we continue our commitment to research and development. Research and development expenditures were 38%, 21%, 21% of net revenues in fiscal 2007, 2006, and 2005, respectively. However, the fiscal 2007 figure includes a write-off of \$400,200 of capitalized software development costs. See "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Statements of Operations," contained in Items 6, 7, and 8, respectively.

Competition

The semiconductor industry is intensely competitive and characterized by rapid technological change and rates of product obsolescence, price erosion, periodic shortage of materials, variations in manufacturing yields and efficiencies, and increasing foreign competition. The industry includes many major domestic and international companies that have substantially greater financial, technical, manufacturing, and marketing resources than LOGIC. We face competition from other manufacturers of high-performance integrated circuits, many of which have advanced technological capabilities and internal wafer production capabilities. Our ability to compete in this rapidly evolving environment depends on elements both in and outside our control. These elements include our ability to develop new products in a timely manner, the cost effectiveness of our manufacturing, the acceptance of new products by customers, the speed at which customers incorporate our products into their systems, the continued access to advanced semiconductor foundries, the number and capabilities of our competitors, and general economic conditions.

Patents and Copyrights

Because of the rapidly changing technology in the semiconductor industry, we rely primarily upon our design know-how, rather than patents and copyrights, to develop and maintain our competitive position. We attempt to protect our trade secrets and other proprietary information through confidentiality agreements with employees, consultants, suppliers, and customers, but there can be no assurance that those measures will be adequate to protect our interests.

We are of the opinion that patent and maskwork protection is of less significance in our business than other factors, such as the experience and innovative skill of our personnel and the abilities of our management. There can be no assurance that others will not develop or patent technology similar to our technology, or copy or otherwise duplicate our products. We own five patents awarded by the United States Patent and Trademark Office.

Since others have obtained patents covering various semiconductor designs and processes, certain of our present or future designs or processes may be claimed to infringe upon the patents of third parties. We have previously received, and may in the future receive, claims that one or more aspects or uses of our products infringe on patent or other intellectual property rights of third parties. See Item 3 – “Legal Proceedings.” We do not believe that we infringe upon any known patents at this time. If any such infringements exist or arise in the future, we may be liable for damages and may, like many companies in the semiconductor industry, find it necessary or desirable to obtain licenses relating to one or more of our current or future products. Based on industry practice, we expect that any necessary licenses or rights under patents could be obtained on conditions that would not have a material adverse effect. There can be no assurance, however, that licenses could, in fact, be obtained on commercially reasonable terms, or at all, or that litigation would not occur. Our inability to obtain such licenses on economically reasonable terms or the occurrence of litigation could adversely affect us.

Employees

As of September 30, 2007, we had 21 employees, consultants, and part-time employees, of which 20 were full-time employees. We have been careful to retain employees that are important to maintain our ongoing development efforts. Our ability to attract and retain qualified personnel is an important factor in our continued success. None of our employees are represented by a collective bargaining agreement, and we have never experienced any work stoppage. We believe that our employee relations are good.

Regulations

Federal, state, and local regulations impose various environmental controls on the discharge of chemicals and gases in connection with the wafer manufacturing process. Since we rely on third party manufacturers and our activities do not involve utilization of hazardous substances generally associated with semiconductor processing, we believe such regulations are unlikely to have a material effect on our business or operations.

Item 1A. RISK FACTORS

Set forth below are some of the risks and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other public statements we make.

We have a history of losses and our future operating results could be harmed due to semiconductor industry business cycles.

We have sustained substantial net losses during the past five fiscal years, other than fiscal 2006. These net losses are attributable principally to delays in the television broadcast industry’s transition to high definition digital broadcasting from current analog standards, a downturn in the semiconductor industry, and lack of new product introductions. Many factors will affect our ability to become profitable or sustain profitability, such as continued demand for our products by our customers, lack of price erosion, efficiency of our manufacturing subcontractors, continued product innovation and design wins, and our continued ability to manage operating expenses.

We produce and sell semiconductors and our operations are therefore impacted by the repeated and severe business cycles that have historically been experienced by the semiconductor industry. Our financial performance has been negatively impacted by significant downturns in the semiconductor industry as a result of:

- general reductions in inventory levels by customers;
- excess production capacity;
- the cyclical nature of the demand for products of semiconductor customers; and
- accelerated declines in average product selling prices.

When these or other conditions in the industry occur, our operating results could be adversely impacted.

We are a small company with very limited resources compared to our current and potential competitors and we may not be able to compete effectively in our highly competitive industry.

The semiconductor industry is highly competitive and many of our direct and indirect competitors and potential competitors have substantially greater financial, technological, manufacturing, and sales resources. If we are unable to compete successfully in this environment, our operating results could be harmed.

The current level of competition is high and may increase as our market expands. We compete directly with companies that have developed similar products. We also compete indirectly with numerous semiconductor companies that offer products and solutions based on alternative technologies. These direct and indirect competitors are established multinational semiconductor companies, as well as emerging companies. In addition, we may experience additional competition from foreign companies in the future.

We depend on a limited number of customers for a majority of our sales and our sales orders are typically concentrated in the last month of every quarter, making our financial results particularly susceptible to the loss of a key customer and making sales in a quarter difficult to predict.

We anticipate that the concentration of our sales among relatively few customers will continue in the future. We do not have long-term purchase commitments from any of our customers. Therefore, these customers could cease purchasing our products with limited notice and with no penalty.

Our dependence on a small number of customers increases the risks associated with the potential loss of customers resulting from business combinations or consolidations. If a customer were acquired or combined with another company, the resulting company could cancel purchase orders as part of the integration process.

In addition, we ship more products during the third month of each quarter than in the first two months of the quarter. Moreover, shipments in the third month are generally higher toward the end of the month. Our sales are therefore concentrated in the latter part of each quarter, making it difficult to predict our revenues and results of operations for any fiscal quarter or other fiscal period.

We depend on third parties to fabricate silicon wafers and to assemble and test our products, which exposes us to a risk of production disruption or uncontrolled price changes.

We do not manufacture silicon wafers. We rely upon two wafer suppliers, each of which is the sole source for certain of our products, and two assembly/test subcontractors. These suppliers do not have a contractual obligation or commitment to supply such wafers or services in the future. If the suppliers are unable or unwilling to supply wafers or services, our operating results could be harmed. We may not be able to find sufficient suppliers at a reasonable price or at all if such disruptions occur. As a result of our reliance on third parties, we face significant risks, including:

- reduced control over delivery schedules and quality;
- longer lead times;
- the potential lack of adequate capacity during periods of excess industry demand;
- difficulties selecting and integrating new subcontractors;
- limited warranties on products supplied to us;
- potential increases in prices due to capacity shortages; and
- potential misappropriation of our intellectual property.

If we fail to deliver our products on time or if the costs of our products increase, then our profitability and customer relationships could be harmed.

Our international operations subject us to risks not present in solely domestic operations.

Our primary silicon wafer supplier and assembly subcontractors are located outside the United States. Financial difficulties, government actions or restrictions, prolonged work stoppages, or any other difficulties experienced by our suppliers could harm future operating results.

We also have many overseas customers. Our export sales are affected by unique risks frequently associated with foreign economics, including:

- governmental controls and trade restrictions;
- export license requirements and restrictions on the export of technology;
- changes in local economic conditions;
- political instability;
- changes in tax rates, tariffs, or freight rates;
- interruptions in air traffic; and
- difficulties in staffing and managing foreign sales offices.

Significant changes in the economic climate in the foreign countries from which we derive our export sales could harm future operating results.

The complex nature of semiconductors makes us highly susceptible to manufacturing problems and these problems could have a negative impact on future operating results.

Making semiconductors is a highly complex and precise process, requiring production in a tightly controlled, clean environment. Even minute imperfections in its materials, difficulties in the wafer fabrication process, defects in the masks used to print circuits on a wafer or other factors can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to be nonfunctional. We may experience problems in achieving an acceptable quality and yield rate in the manufacture of wafers. The interruption of wafer fabrication or the failure to achieve acceptable yields could harm future operating results. We may also experience manufacturing problems in our assembly and test operations, and in the introduction of new packaging materials.

We depend on third parties to deliver our products.

We rely on independent carriers and freight haulers to transport our products between manufacturing locations and to deliver products to our customers. Any transport or delivery problems because of their errors, or because of unforeseen interruptions, such as strikes, political instability, terrorism, natural disasters and accidents, could harm future operating results.

Earthquakes, other natural disasters, and power shortages may damage our business.

Our California facility and some of our suppliers are located near earthquake faults that have experienced major earthquakes in the past. In the event of a major earthquake or other natural disaster near our facility or a sustained loss of power at our facility, our operations could be harmed. Similarly, a major earthquake or other natural disaster near one or more of our suppliers could disrupt the operations of these suppliers, which could limit the supply of our products and harm our business.

We maintain high levels of inventory that decrease our liquidity and substantially increase the risk of write-offs.

We have historically maintained and expect to continue to maintain high levels of inventory of processed silicon wafers, packaging materials, and finished goods. For some product types, we must purchase all of our anticipated inventory needs for the life of the product in a short period of time. We commit capital to maintain these high inventory levels, which prevents us from using that capital for other purposes, such as research and development, and requires us to utilize more capital than might otherwise be required. Our high inventory levels also heighten the risk of inventory obsolescence and write-offs. Further, we may forecast demand incorrectly and produce insufficient inventory, resulting in supply shortages.

We currently have no bank credit facility and must rely solely upon existing cash reserves and funds from existing operations to finance future operations.

We rely upon cash reserves and available-for-sale securities to fund our operations. If these resources should be insufficient, we would be forced to obtain additional funding through debt or equity financing. If we are able to obtain debt financing, which is not assured, the terms of such financing are unknown, since we do not presently have a credit facility, and may be unfavorable to us. Similarly, there can be no assurance that we would be able to sell capital stock on favorable terms or at all and any such sales may adversely affect our existing shareholders.

Our operating success depends upon our ability to develop new products and access new technologies.

The semiconductor industry is a dynamic environment marked by rapid product obsolescence. Our future success depends on our ability to introduce new or improved products that meet critical customer needs, while achieving acceptable profit margins. If we fail to introduce these new products in a timely manner or these products fail to achieve market acceptance, operating results would be harmed. The introduction of new products in a dynamic market environment presents significant business challenges. Product development commitments and expenditures must be made well in advance of product sales, while the success of new products depends on accurate forecasts of long-term market demand and future technology developments.

Future revenue growth is dependent on market acceptance of new products and the continued market acceptance of existing products. The success of these products is dependent on a variety of specific technical factors, including:

- successful product definition;
- timely and efficient completion of product design;
- timely design into customers' future products and maintenance of close working relationships with customers;
- timely and efficient access to wafer manufacturing and assembly processes; and
- product performance, quality and reliability.

If, due to these or other factors, new products do not achieve market acceptance, our operating results would be harmed. Furthermore, to develop new products and maintain the competitiveness of existing products, we need to migrate to more advanced wafer manufacturing processes that use larger wafer sizes and smaller geometries.

The loss of key personnel or failure to hire and retain additional qualified personnel could impair our ability to develop and market our products.

Our future success greatly depends on the ability to attract and retain highly qualified technical and management personnel. As a small company, we are particularly dependent on a relatively small group of employees. Competition for skilled technical and management employees is intense in the semiconductor industry. As a result, we may be unable to retain our existing key technical and management employees, or attract additional qualified personnel, which could harm operating results. We do not have employment agreements with any of our employees.

Our failure to protect our proprietary rights, or the costs of protecting these rights, may harm our ability to compete.

We own several patents but rely primarily on our design know-how and continued access to advanced wafer process technology to develop and maintain our competitive position. We attempt to protect our trade secrets and other proprietary information through confidentiality agreements with employees, consultants, suppliers and customers. However, competitors may develop, patent or gain access to similar know-how and technology, or reverse engineer our products. Our inability to adequately protect these proprietary rights could result in our competitors offering similar products, potentially causing us to lose a competitive advantage and leading to decreased revenue. We may not obtain an adequate remedy in the event our confidentiality agreements are breached or any remedy if our trade secrets are independently developed by others. Despite our efforts to protect our proprietary rights, existing intellectual property laws afford only limited protection, especially under the laws of some foreign countries. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources.

We could be harmed by litigation involving patents and other intellectual property rights.

As a general matter, the semiconductor and related industries are characterized by substantial litigation regarding patent and other intellectual property rights. We have been and in the future may be accused of infringing the intellectual property rights of third parties. Furthermore, we may have certain indemnification obligations to customers with respect to the infringement of third-party intellectual property rights by our products. Infringement claims by third parties or claims for indemnification by customers or end-users of our products resulting from infringement claims may be asserted in the future and such assertions, if proven to be true, may harm our business.

Any litigation relating to the intellectual property rights of third parties, whether or not determined in our favor or settled by us, could be costly and could divert the efforts and attention of management and engineering personnel. In the event of any adverse ruling in any such litigation, we could be required to pay substantial damages, cease the manufacturing, use and sale of infringing products, discontinue the use of certain processes or obtain a license under the intellectual property rights of the third party claiming infringement. A license might not be available on reasonable terms, if at all.

The price of our common stock may continue to be volatile and our trading volume may continue to be relatively low.

The market price of our common stock has fluctuated significantly to date. In the future, the market price of the common stock could be subject to significant fluctuations due to general market conditions and in response to quarter-to-quarter variations in:

- our anticipated or actual operating results;
- announcements or introductions of new products;
- technological innovations or setbacks by us or our competitors;
- conditions in the semiconductor markets;
- the commencement of litigation; and
- general economic and market conditions.

Item 1B. UNRESOLVED STAFF COMMENTS

This item is not applicable as we are not an accelerated filer as defined in Exchange Act Rule 12b-2.

Item 2. PROPERTIES

Our executive offices, as well as our inventories and research and development facilities, are located in approximately 17,200 square feet, in Sunnyvale, California, with a lease expiring August 31, 2014. We believe our facilities will be adequate to meet our reasonably foreseeable needs and, if necessary, alternative facilities will be available on acceptable terms, so as to meet our requirements.

Item 3. LEGAL PROCEEDINGS

From time to time, we receive demands from various parties asserting patent or other claims in the ordinary course of business. These demands are often not based on any specific knowledge of our products or operations. Because of the uncertainties inherent in litigation, the outcome of any such claim, including simply the cost of a successful defense against such a claim, could have a material adverse impact on us.

Item 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the last quarter of fiscal 2007.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock trades under the ticker symbol, LOGC, on The Nasdaq Capital Market. The following tables sets forth, for the period indicated, the high and low closing sales prices for our Common Stock, as reported by Nasdaq during the following calendar quarters:

<u>Calendar Year</u>	<u>High</u>	<u>Low</u>
2005		
Fourth quarter	\$1.20	\$0.93
2006		
First quarter	\$1.40	\$0.98
Second quarter	\$1.70	\$1.15
Third quarter	\$2.72	\$1.27
Fourth quarter	\$3.02	\$2.12
2007		
First quarter	\$2.77	\$1.85
Second quarter	\$2.34	\$1.76
Third quarter	\$3.18	\$1.92

Holders

As of December 21, 2007, there were approximately 1,900 holders of record of our Common Stock.

Dividends

We have not paid any dividends on our Common Stock since our incorporation

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the position of our equity compensation plans as of September 30, 2007:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)</u>
Equity compensation plans approved by security holders	290,500	\$1.623	165,000
Equity compensation plans not approved by security holders	—		—
Total	290,500	\$1.623	165,000

Item 6. SELECTED FINANCIAL DATA

On December 15, 2003, we elected to change our calendar business year to a fiscal year ending September 30. Previously, our fiscal years were comprised of 52 weeks of seven days, each beginning on Monday and ending on Sunday, with fiscal 2003 ending September 28, 2003. As a result of this change, our 2004 fiscal year ended September 30, 2004 rather than September 26, 2004. The additional four days were included in our first quarter for fiscal 2004, which ended December 31, 2003.

The following table sets forth selected financial data for our last five fiscal years. This information is derived from our audited financial statements, unless otherwise stated. This data should be read in conjunction with the financial statements, related notes, and other financial information included elsewhere in this report.

(In thousands, except per share amounts)

	Fiscal Years Ended:				
	September 30, 2007	September 30, 2006	September 30, 2005	September 30, 2004	September 28, 2003
Net revenues	\$ 4,686	\$ 4,641	\$ 3,509	\$ 4,415	\$ 5,009
Research and development	\$ 1,812	\$ 982	\$ 730	\$ 1,364	\$ 1,785
Net (loss) income	\$ (1,488)	\$ 129	\$ (1,363)	\$ (1,472)	\$ (2,461)
Basic (loss) earnings per common share	\$ (0.22)	\$ 0.02	\$ (0.20)	\$ (0.22)	\$ (0.37)
Basic weighted-average common shares outstanding	6,797	6,754	6,750	6,715	6,652
Working capital	\$ 6,957	\$ 7,897	\$ 7,589	\$ 9,583	\$ 11,084
Property and equipment, net	\$ 1,039	\$ 1,101	\$ 1,163	\$ 862	\$ 857
Total assets	\$ 8,263	\$ 9,717	\$ 9,547	\$ 10,836	\$ 12,248
Shareholders' equity	\$ 8,016	\$ 9,397	\$ 9,238	\$ 10,590	\$ 11,943

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reported financial results may not be indicative of the financial results of future periods. All non-historical information contained in the following discussion constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are not guarantees of future performance and involve a number of risks and uncertainties, including those identified in "Item 1A – Risk Factors" of this Annual Report on Form 10-K. We undertake no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this report.

Overview

LOGIC Devices Incorporated develops and markets high-speed digital integrated circuits that perform high-density storage and signal/image processing functions. Our products enable high definition video display, transport, editing, composition, and special effects. We also provide solutions for digital filtering in television broadcast stations and image enhancement in medical diagnostic scanning and imaging equipment.

Our products are used in the broadcast, medical, military and consumer electronics markets. Our products address storage and digital signal processing (DSP) requirements that involve high-performance arithmetic computation. We focus on developing proprietary catalog products to address specific functional application needs or performance levels that are not otherwise commercially available. We seek to provide related groups of circuits that original equipment manufacturers (OEMs) incorporate into high-performance electronic systems.

Liquidity and Capital Resources

Despite having a net loss of \$1,487,700 for fiscal 2007, our operations produced net cash of \$272,600. During fiscal 2007, we wrote-off \$555,600 of inventories, \$400,200 of capitalized test software, and \$142,600 of property and equipment no longer in use, all of which increased the net loss but did not affect cash flows from operations. During the year, we also increased our inventory valuation allowance by \$402,700, while writing off \$1,551,000 of inventories against this valuation allowance. We also continue to purchase additional available-for-sale securities as a means to increase the return on our cash and cash equivalents balances, with purchases of \$554,900 in fiscal 2007. Capital expenditures of \$391,100 included leasehold improvements for our new facilities into which we moved on September 1, 2007.

While producing a net income of \$129,400 during fiscal 2006, our operations produced net cash of \$977,700. During the year, we increased the inventory valuation allowance by \$1,036,900 and wrote-off \$200,000 of capitalized test software, both of which reduced net income but not cash flows. In addition, LOGIC collected \$45,000 from a property tax refund and had increases in its accrued payroll and vacation and other accrued expenses totaling \$81,200 due to the timing of these expenses. Capital expenditures of \$196,700 for fiscal 2006 were substantially less than fiscal 2005, which totaled \$540,700.

Despite a net loss of \$1,362,900 for fiscal 2005, our operations produced net cash of \$367,100, which is mainly the result of a reduction of inventories of \$810,700, the collection of a sales tax refund of \$47,600, and an increase in accounts payable of \$69,800 at year-end. The increase in accounts payable was from the timing of purchases and invoices being received but not yet due at year-end. We maintain prompt payment terms with our vendors. The 28 percent decrease in our net cash balance from \$1,788,900 in fiscal 2004 to \$1,292,900 at September 30, 2005 was the result of a substantial increase in capital expenditures totaling \$540,700 (including a one-time purchase of \$437,500 of engineering design software) and capitalized software development costs of \$333,400.

Our current working capital requirements are greatly reduced due to our past cost cutting. We believe that these cost cutting actions and our continued focus on higher-margin products should result in after-tax cash earnings being sufficient to support our working capital and capital expenditure requirements for the next 12 months. Based on the fact that, as of December 21, 2007, we hold approximately \$1.9 million in cash reserves and available-for-sale securities and our cash usage for operations is approximately equal to or less than our current revenue rate, we believe we can cover our cash operating expenses using future revenues, while saving current cash reserves for future capital expenditures, such as mask tooling for new products.

Working Capital

Our investment in inventories has been significant and will continue to be significant in the future. However, during the past few years, we have been able to reduce our levels of inventories as we shift from more competitive second source products to proprietary sole source products. We seek to further streamline our inventories as we continue to shift to sole source proprietary products.

We rely on third party suppliers for our raw materials, particularly our processed wafers, for which we currently rely primarily on two suppliers, and as a result, maintain substantial inventory levels to protect against disruption in supplies. We have periodically experienced disruptions in obtaining wafers. As we continue to shift towards higher margin proprietary products, we expect to be able to reduce inventory levels by streamlining our product offerings.

Periodically, we review inventory to determine recoverability of items on-hand using the lower-of-cost-or-market (LOCOM) and excess methods. We group and evaluate our products based on their underlying die or wafer type (our raw materials, silicon wafers, can generally be used to make multiple products), to determine the total quantity on-hand and average unit costs. Management uses judgment in comparing historical sales quantities to the quantity on-hand at the end of the fiscal year. If the quantity on-hand exceeds the sales quantities, we provide a valuation allowance for the potentially obsolete or slow-moving items. For the LOCOM analysis, we compare the average historical sales price to the average unit cost of inventories at the end of the fiscal year. If the average unit cost exceeds the average sales price, we provide a valuation allowance.

With continuing low revenue levels, management felt it necessary to also review our raw materials and work-in-process. Our products generally exhibit an active sales product life cycle of ten or more years. However, due to rapid changes in process technology, we are generally unable to obtain wafers for our products for as long a period as their life cycles. As a result, early in a product's life, we are often required to estimate the sales expectations for the entire life cycle and purchase materials upfront. On some occasions, our expectations become lower and we provide a reserve for potential excess materials. In fiscal 2007 and 2006, we increased our inventory valuation allowance by \$402,700 and \$1,036,900, respectively, for potential excess materials. During fiscal 2007, we wrote-off \$1,551,000 of inventory against the previously established allowance. In addition, during fiscal 2007 and 2006, we scrapped other inventory of \$555,600 and \$272,100, respectively. We believe our current inventory valuation allowance of \$1,573,700 provides a reasonable estimate of the recoverability of inventories at the end of fiscal 2007.

Although current levels of inventory impact our liquidity, we believe that this is a less costly alternative to owning a wafer fabrication facility or continuously redesigning our products to newer process technologies, which would divert limited engineering resources from new product development. We continue to evaluate alternative suppliers to diversify our risk of supply disruption. However, this requires a significant investment in product development to tool masks with new suppliers. Such efforts compete for our limited product development resources. We seek to achieve on-going reductions in inventory, although there can be no assurance we will be successful. In the event economic conditions remain slow, we may consider identifying additional portions of inventory to write-off at a future date.

Historically, due to customer order scheduling, up to 70% of our quarterly revenues were often shipped in the last month of the quarter, so a large portion of the shipments included in year-end accounts receivable were not yet due per our net 30-day terms. This results in year-end accounts receivable balances being at their highest point for the respective period.

Financing

While we will continue to evaluate future debt and equity financing opportunities, we believe the cost reductions implemented in the past few years have resulted in the cash flow generated from operations providing an adequate base of liquidity to fund future operating and capital needs. Based on the fact that, as of December 21, 2007, we hold approximately \$1.9 million in cash reserves and available-for-sale securities and our anticipated cash usage for operations is approximately equal to or less than our current revenue rate, we believe we can cover our cash operating expenses using future revenues, while saving current cash reserves for future capital expenditures, such as mask tooling for new products.

Contractual Obligations

Our only contractual obligation is our facility operating lease. The following table summarizes the future fixed payments under this lease as of September 30, 2007. Payment timing may be subject to change.

	Payments due by period:			
	Total	Within 1 year	1-3 years	After 3 years
Building	1,657,300	214,900	694,300	748,200

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Results of Operations

Comparison of Fiscal Years Ended September 30, 2007 and 2006

Net revenues for fiscal 2007 increased one percent from \$4,640,600 in fiscal 2006 to \$4,686,400. This slight increase is the result of one customer increasing its order rate to an amount that offset decreases in older product sales.

Cost of revenues for fiscal 2007 increased 32 percent from \$2,153,700 in fiscal 2006 to \$2,846,700, mainly the result of write-offs of inventory totaling \$555,600 and a decrease in sales of products previously written down to zero-value (15% in fiscal 2007 compared to 26% in fiscal 2006).

Research and development expenses increased 85 percent from \$981,700 in fiscal 2006 to \$1,811,800. While this increase includes the write-off of \$400,200 of capitalized test software development costs, the remaining increase is the result of our continued commitment to expand our product development team, in both numbers and expertise. While the expenses, net of the write-off of capitalized test software development costs, are outside our goal of 20 to 25 percent of net revenues (30%), we believe we must continue at this current level as new product development is the key to our future growth and success. Future new product introductions will result in future revenue increases that will begin to offset these expenditures down to our goal level.

Selling, general, and administrative expenses increased nine percent from \$1,421,900 in fiscal 2006 to \$1,546,400. While we attempted to identify areas for cost-cutting during the fiscal year, the need for outside consultants and the expensing of certain prepaid expenses whose useful life had expired early in the normal course of business resulted in the total increase.

Interest income increased 101 percent from \$37,800 in fiscal 2006 to \$75,900. The increase is the result of more funds being invested in available-for-sales securities during fiscal 2007 and from the fact that the investments existed for the full fiscal year compared to only four months of fiscal 2006.

As a result of the foregoing, we had a net loss of \$1,487,700 for fiscal 2007, compared to net income of \$129,400 in fiscal 2006.

Comparison of Fiscal Years Ended September 30, 2006 and 2005

Net revenues for fiscal 2006 increased 32 percent from \$3,508,800 in fiscal 2005 to \$4,640,600. These increases are due to increases in certain customers' order quantity rates and from certain customers returning to their past order quantity rates after a slowdown in fiscal 2005. In addition, we experienced a renewed interest in fiscal 2006 in military-grade products that had been previously written down to zero-value.

While net revenues increased 32 percent, cost of revenues decreased by 25 percent, from \$2,861,600 in fiscal 2005 to \$2,153,700 in fiscal 2006. This is the result of 26 percent of fiscal 2006 net revenues coming from items previously written down to zero-value compared to 12 percent in fiscal 2005, and the recognition of favorable standard cost variances from jobs in process at September 30, 2005 that were completed in the current year. This increase in profitability was partially offset by increases in the inventory reserve totaling \$1,036,900. Our products generally exhibit an active sales product life cycle of ten or more years. However, due to rapid changes in process technology, we are generally unable to obtain wafers for our products for as long a period as their life cycles. As a result, early in a product's life, we are often required to estimate the sales expectations for the entire life cycle and purchase materials upfront. On some occasions, our expectations become lower and we provide a reserve for or write-down potential excess materials.

Recognizing the need to increase new product development, we expanded our research and development team, which resulted in a 34 percent increase in expenses, from \$729,800 in fiscal 2005 to \$981,700 in fiscal 2006. However, this amount remains within our goal of being between 20 to 25 percent of net revenues (21 percent in fiscal 2006).

Selling, general, and administrative expenses increased nine percent from \$1,298,700 in fiscal 2005 to \$1,421,900 in fiscal 2006. We are making various changes to our administrative and sales structure, which we believe will increase our visibility to customers, and in turn, increase revenues.

Interest income increased 103 percent from \$18,600 in fiscal 2005 to \$37,800 in fiscal 2006, mainly as a result of increases in our cash balances and investments in higher yield available-for-sale securities. Other income increased from \$600 in fiscal 2005 to \$9,100 in fiscal 2006, as a result of the sale of previously written-off fixed assets.

As a result of the foregoing, we had net income of \$129,400 in fiscal 2006, compared to a net loss of \$1,362,900 in fiscal 2005.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and the results of operations are based upon the financial statements included in this report and the data used to prepare them. The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America and we are required to make judgments, estimates, and assumptions in the course of such preparation. The Summary of Accounting Policies included with the financial statements describes the significant accounting policies and methods used in the preparation of the financial statements. On an ongoing basis, we reevaluate our judgments, estimates, and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, and valuation of long-lived assets. We base our judgments and estimates on historical experience, knowledge of current conditions, and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. The following are the critical accounting policies we believe are affected by significant judgments, estimates, and assumptions used in the preparation of the financial statements.

Revenue Recognition

Revenue is generally recognized upon shipment of product. Sales to distributors are made pursuant to agreements that provide the distributors certain rights of return and price protection on unsold merchandise. Revenues from such sales are recognized upon shipment, with a provision for estimated returns and allowances recorded at that time, if applicable. While distributors are allowed to return items for stock rotation, they are required to place an order of equal or greater value at the same time. Therefore, no allowance for returns is recorded. Because we generally do not change the pricing of our products more than once a year, there have not been any pricing issues in the past several years; therefore, there is no allowance for price protection recorded.

Allowance for Doubtful Accounts

We establish a general allowance for doubtful accounts based on analyzing historical bad debts, specific customer creditworthiness, and current economic conditions. Historically, we have not experienced significant losses related to receivables.

Inventories

We write down our inventories for lower of cost or market reserves, aged inventory reserves, and obsolescence reserves. As a result of production requirements and constraints, we are often required to estimate the sales expectations for the entire life cycle of a product (which can be ten or more years) and purchase materials upfront. If actual product demand or selling prices are less favorable than estimated, additional inventory write-downs may be required in the future. Conversely, if demand increases for product types that have been fully reserved, future margins may be higher.

Long-Lived Assets

Long-lived assets, including property and equipment, goodwill, and other intangible assets, are assessed for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, or whenever management has committed to a plan to dispose of the assets. Such assets are carried at the lower of book value or fair value as estimated by management based on appraisals, current market value, and comparable sales value, as appropriate. Assets to be held and used affected by such impairment loss are depreciated or amortized at their new carrying amounts over the remaining estimated life; assets to be sold or otherwise disposed of are not subject to further depreciation or amortization. In determining whether an impairment exists, we use undiscounted future cash flows without interest charges compared to the carrying value of the assets.

Deferred Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits are subject to a valuation allowance when we are unable to conclude that our deferred income tax assets will more likely than not be realized from the results of operations. We have recorded a valuation allowance to reflect the estimated amount of deferred income tax assets that may not be realized. The ultimate realization of deferred income tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. We consider projected future taxable income and tax planning strategies in making this assessment.

Based on the historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management believes it more likely than not that we will not realize benefits of these deductible differences as of September 30, 2007. Accordingly, we have established a valuation allowance against our net deferred income tax assets as of September 30, 2007.

Impact of New Financial Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The provisions are effective for the Company as of October 1, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

In September 2006, the SEC staff published Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 addresses quantifying the financial statement effects of misstatements and considering the effects of prior year uncorrected errors on the statements of operations as well as the balance sheets. SAB No. 108 does not change the requirements under SAB No. 99 regarding qualitative considerations in assessing the materiality of misstatements. We adopted SAB No. 108 during the third quarter of fiscal year 2007, and the adoption had no impact on its results of operations or financial condition as of and for the fiscal year ended September 30, 2007.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company conducts all of its transactions, including those with foreign suppliers and customers, in U.S. dollars. It is therefore not directly subject to the risks of foreign currency fluctuations and does not hedge or otherwise deal in currency instruments in an attempt to minimize such risks. Demand from foreign customers and the ability or willingness of foreign suppliers to perform their obligations to the Company may be affected by the relative change in value of such customer or supplier's domestic currency to the value of the U.S. dollar. Furthermore, changes in the relative value of the U.S. dollar may change the price of the Company's prices relative to the prices of its foreign competitors.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders
and Board of Directors
LOGIC Devices Incorporated
Sunnyvale, California

We have audited the accompanying balance sheet of LOGIC Devices Incorporated (the "Company") as of September 30, 2007 and the related statements of operations, shareholders' equity, and cash flows for the fiscal year then ended. Our audit also included the financial statement schedule of the Company listed in Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LOGIC Devices Incorporated as of September 30, 2007 and the results of its operations and its cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Hein & Associates LLP

Irvine, California
December 21, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders
and Board of Directors
LOGIC Devices Incorporated
Sunnyvale, California

We have audited the accompanying balance sheet of LOGIC Devices Incorporated (the "Company") as of September 30, 2006 and the related statements of operations, shareholders' equity, and cash flows for each of the two years in the two fiscal years then ended. Our audits also included the financial statement schedule of the Company listed in Item 15 for the years ended September 30, 2006 and 2005. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LOGIC Devices Incorporated as of September 30, 2006 and the results of its operations and its cash flows for each of the two years in the two fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Perry-Smith LLP

Sacramento, California
November 29, 2006

LOGIC Devices Incorporated

Balance Sheets

September 30,
2007 *September 30,*
2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 884,000	\$ 1,478,100
Investment in available-for-sale securities	1,061,900	507,000
Accounts receivable	681,300	830,900
Inventories	4,388,700	5,239,700
Prepaid expenses and other current assets	186,500	141,600
Total current assets	<u>7,202,400</u>	<u>8,197,300</u>

Property and equipment, net	1,038,800	1,100,700
Other assets, net	<u>22,100</u>	<u>418,800</u>
	<u><u>\$ 8,263,300</u></u>	<u><u>\$ 9,716,800</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 30,100	\$ 146,900
Accrued payroll, vacation and bonuses	119,900	99,700
Accrued commissions	25,000	10,400
Other accrued expenses	70,500	43,000
Total current liabilities	<u>245,500</u>	<u>300,000</u>

Deferred rent	<u>2,100</u>	<u>19,700</u>
Total liabilities	<u>247,600</u>	<u>319,700</u>

Commitments and contingencies (Note 5)

Shareholders' equity:

Preferred stock, no par value; 1,000,000 shares authorized; 5,000 designated as Series A, 0 shares issued and outstanding	—	—
70,000 designated as Series B, 0 shares issued and outstanding	—	—
Common stock, no par value; 10,000,000 shares authorized; 6,812,938 and 6,763,188 shares issued and outstanding, respectively	18,541,300	18,458,500
Additional paid-in capital	142,200	118,700
Accumulated deficit	(10,667,800)	(9,180,100)
Total shareholders' equity	<u>8,015,700</u>	<u>9,397,100</u>
	<u><u>\$ 8,263,300</u></u>	<u><u>\$ 9,716,800</u></u>

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

LOGIC Devices Incorporated

Statements of Operations

For the fiscal years ended September 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net revenues	\$ 4,686,400	\$ 4,640,600	\$ 3,508,800
Cost of revenues	<u>2,846,700</u>	<u>2,153,700</u>	<u>2,861,600</u>
Gross margin	<u>1,839,700</u>	<u>2,486,900</u>	<u>647,200</u>
Operating expenses:			
Research and development	1,811,800	981,700	729,800
Selling, general and administrative	<u>1,546,400</u>	<u>1,421,900</u>	<u>1,298,700</u>
Total operating expenses	<u>3,358,200</u>	<u>2,403,600</u>	<u>2,028,500</u>
Operating (loss) income	<u>(1,518,500)</u>	<u>83,300</u>	<u>(1,381,300)</u>
Other income, net:			
Interest income	(75,900)	(37,800)	(18,600)
Other income, net	<u>(100)</u>	<u>(9,100)</u>	<u>(600)</u>
Total other income, net	<u>(76,000)</u>	<u>(46,900)</u>	<u>(19,200)</u>
(Loss) income before provision for income taxes	(1,442,500)	130,200	(1,362,100)
Provision for income taxes	<u>45,200</u>	<u>800</u>	<u>800</u>
Net (loss) income	<u>\$ (1,487,700)</u>	<u>\$ 129,400</u>	<u>\$ (1,362,900)</u>
Basic (loss) earnings per common share	<u>\$ (0.22)</u>	<u>\$ 0.02</u>	<u>\$ (0.20)</u>
Basic weighted average common shares outstanding	<u>6,797,480</u>	<u>6,754,021</u>	<u>6,749,855</u>
Diluted (loss) earnings per common share	<u>\$ (0.22)</u>	<u>\$ 0.02</u>	<u>\$ (0.20)</u>
Diluted weighted average common shares outstanding	<u>6,797,480</u>	<u>6,794,789</u>	<u>6,749,855</u>

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

LOGIC Devices Incorporated

Statement of Shareholders' Equity

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-In	Deficit	Total
			Capital		
Balances, September 30, 2004	6,743,188	\$ 18,436,500	\$ 100,000	\$ (7,946,600)	\$ 10,589,900
Exercise of director common stock options	10,000	11,000	—	—	11,000
Net loss	—	—	—	(1,362,900)	(1,362,900)
Balances, September 30, 2005	6,753,188	18,447,500	100,000	(9,309,500)	9,238,000
Grants of director common stock options	—	—	14,000	—	14,000
Vested grants of employee common stock options	—	—	4,700	—	4,700
Exercise of director common stock options	10,000	11,000	—	—	11,000
Net income	—	—	—	129,400	129,400
Balances, September 30, 2006	6,763,188	18,458,500	118,700	(9,180,100)	9,397,100
Grants of director common stock options	—	—	18,800	—	18,800
Vesting of employee common stock options	—	—	4,700	—	4,700
Exercise of director common stock options	30,000	47,400	—	—	47,400
Exercise of employee common stock options	19,750	35,400	—	—	35,400
Net loss	—	—	—	(1,487,700)	(1,487,700)
Balances, September 30, 2007	<u>6,812,938</u>	<u>\$ 18,541,300</u>	<u>\$ 142,200</u>	<u>\$ (10,667,800)</u>	<u>\$ 8,015,700</u>

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

LOGIC Devices Incorporated

Statements of Cash Flows

For the fiscal years ended September 30,

	2007	2006	2005
Cash flows from operating activities:			
Net (loss) income	\$ (1,487,700)	\$ 129,400	\$ (1,362,900)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	307,800	256,000	239,300
Issuance of common stock options	23,500	18,700	–
Inventory valuation account	402,700	1,036,900	642,200
Loss on disposal of capital equipment	145,200	3,500	–
Write-off of capitalized software development costs	400,200	200,000	–
Deferred rent	(17,600)	(14,100)	(6,700)
Change in operating assets and liabilities:			
Accounts receivable	149,600	(96,000)	(5,900)
Inventories	448,300	(650,200)	810,700
Prepaid expenses and other current assets	(44,900)	24,100	(22,600)
Property tax refund receivable	–	45,000	(45,000)
Sales tax refund receivable	–	–	47,600
Accounts payable	(116,800)	(60,100)	69,800
Accrued payroll and vacation	20,200	38,200	9,000
Accrued commissions	14,600	3,300	(8,400)
Other accrued expenses	27,500	43,000	–
Net cash provided by operating activities	<u>272,600</u>	<u>977,700</u>	<u>367,100</u>
Cash flows from investing activities:			
Purchases of available-for-sale securities	(554,900)	(507,000)	–
Capital expenditures	(391,100)	(196,700)	(540,700)
Other assets	(3,500)	(99,800)	(333,400)
Net cash used in investing activities	<u>(949,500)</u>	<u>(803,500)</u>	<u>(874,100)</u>
Cash flows from financing activities:			
Exercise of director stock options	47,400	11,000	11,000
Exercise of employee stock options	35,400	–	–
Net cash provided by financing activities	<u>82,800</u>	<u>11,000</u>	<u>11,000</u>
Net (decrease) increase in cash and cash equivalents	(594,100)	185,200	(496,000)
Cash and cash equivalents, beginning	<u>1,478,100</u>	<u>1,292,900</u>	<u>1,788,900</u>
Cash and cash equivalents, ending	<u>\$ 884,000</u>	<u>\$ 1,478,100</u>	<u>\$ 1,292,900</u>

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

The Company and Nature of Business

LOGIC Devices Incorporated (the Company) develops and markets high-performance integrated circuits. The Company's products include chips that are used in digital communications, broadcast and medical imaging processing applications, instrumentation, and smart weapons systems. The Company markets its products worldwide, such that 73 percent of the Company's net revenues in fiscal 2007 were derived from original equipment manufacturers, while sales through foreign distributors accounted for approximately 27 percent of net revenues. Approximately 67 percent of the Company's fiscal 2007 net revenues were from domestic sales and approximately 33 percent from foreign sales.

Use of Estimates

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, available-for-sale securities, accounts receivable, and accounts payable approximate fair value because of the short maturity of these items.

Cash, Cash Equivalents, and Investments in Available-for-Sale Securities

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Investments that do not meet the definition of cash equivalents are classified as available-for-sale in accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company's available-for-sale securities consist of auction rate municipal notes with expiration dates through 2028. The interest is settled and the rate is reset every seven days.

Accounts Receivable

The Company establishes a general allowance for doubtful accounts based on its analysis of historical bad debts, specific customer creditworthiness, and current economic conditions. Historically, the Company has not experienced significant losses related to receivables. At September 30, 2007 and 2006, the Company determined that no allowance for doubtful accounts was necessary.

Inventories

Inventories of raw materials, work-in-process, and finished goods are stated at the lower of cost (first-in, first-out) or market. Cost includes the purchase price of parts, assembly costs, and overhead.

Property and Equipment

Property and equipment are stated at cost. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets, generally three to seven years. Leasehold improvements and assets held under capital lease are amortized on a straight-line basis over the shorter of the lease terms or the estimated lives of the assets. Certain tooling costs are capitalized by the Company and are amortized on a straight-line basis over the shorter of the related product life cycle or five years. Upon disposition, the cost and related accumulated depreciation or accumulated amortization is removed from the accounts and the resulting gain or loss is reflected in income for the period.

Capitalized Software Costs

Internal test computer software development costs are capitalized as incurred during the application development stage. The capitalized software costs are classified as other assets and are amortized on a straight-line basis over the shorter of the related expected product life cycle or five years, with amortization beginning when production parts are in process.

Revenue Recognition

Revenue is generally recognized upon shipment of product. Sales to distributors are made pursuant to agreements that provide the distributors certain rights of return and price protection on unsold merchandise. Revenues from such sales are recognized upon shipment, with a provision for estimated returns and allowances recorded at that time, if applicable. While distributors are allowed to return items for stock rotation, they are required to place an order of equal or greater value at the same time. As the Company historically does not have material returns, there is no allowance for returns recorded. Because the Company does not change its pricing of products more than once a year, there have not been any pricing issues in the past several years; therefore, there is no allowance for price protection recorded.

Research and Development Costs

Research and development costs are charged to operations as incurred.

Income Taxes

Deferred income tax assets and liabilities are recognized based on the temporary differences between the financial statement and income tax basis of assets, liabilities, and net operating loss and tax credit carryforwards using enacted tax rates. Valuation allowances are established for deferred tax assets to the extent of the likelihood that the deferred tax assets may not be realized.

Income (Loss) Per Common Share

Basic income (loss) per share is calculated by dividing net income or loss by the weighted average common shares outstanding during the period. Diluted income (loss) per share reflects the net incremental shares that would be issued if dilutive outstanding stock options were exercised, using the treasury stock method. In the case of a net loss, no incremental shares would be issued because they are antidilutive. Stock options with exercise prices above the average market price during the period are also antidilutive.

For the fiscal year ended September 30, 2006, the Company had 40,767 dilutive shares as the weighted average market price for the Company's common stock during the fiscal year was \$1.447. There were 335,500 and 385,000 common stock options outstanding at September 30, 2007 and 2005, respectively. These options were not considered in calculating diluted net loss per common share as their effect would have been antidilutive. As a result, for fiscal 2007 and 2005, the Company's basic and diluted net loss per common share are the same.

Long-lived Assets

Long-lived assets, including property and equipment and intangible assets, are assessed for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, or whenever management has committed to a plan to dispose of the assets. Such assets are carried at the lower of book value or fair value as estimated by management based on appraisals, current market value, and comparable sales value, as appropriate. Assets to be held and used affected by such impairment loss are depreciated or amortized at their new carrying amounts over the remaining estimated lives; assets to be sold or otherwise disposed of are not subject to further depreciation or amortization. In determining whether an impairment exists, the Company uses undiscounted future cash flows without interest charges compared to the carrying value of the assets.

Share-based Payment

The Company issues common stock options to its employees, certain consultants, and certain of its board members. Effective January 1, 2006, the Company adopted the provisions of FAS 123R, which requires the measurement of the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which services are provided in exchange for the award, known as the requisite service period (usually the vesting period). We have made the transition to FAS 123R using the modified prospective method. Under the modified prospective method, FAS 123R is applied to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (such as unvested options) that are outstanding as of January 1, 2006 are being recognized over the period that the remaining requisite services are rendered. There were no unvested options as of January 1, 2006. Under this method of implementation, no restatement of prior periods has been made.

In calculating compensation related to stock option grants, the fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted average assumptions:

	2007	2006	2005
Dividend yield	None	None	None
Expected volatility	49.8%	61.3%	48.5%
Risk-free interest rate	4.5%	4.9%	4.1%
Expected term (years)	4.0	4.0	3.0

The computation of expected volatility used in the Black-Scholes option-pricing model is based on the historical volatility of our share price. The expected term is estimated based on a review of historical exercise behavior with respect to option grants.

Prior to the adoption of FAS 123 (R), the Company accounted for stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees and related Interpretations*, and followed the disclosure-only provisions of FAS 123, *Accounting for Stock-Based Compensation*. For the fiscal year ended September 30, 2005, the pro forma disclosure was \$24,100 of compensation expense, resulting in a pro forma net loss of \$1,387,000.

Segment Reporting

The Company is organized in a single operating segment for purposes of making operating decisions and assessing performance. The president (the chief operating decision maker) evaluates performance, makes operating decisions, and allocates resources based on financial data consistent with the presentation in the accompanying financial statements.

Impact of New Financial Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The provisions are effective for the Company as of October 1, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

In September 2006, the SEC staff published Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 addresses quantifying the financial statement effects of misstatements and considering the effects of prior year uncorrected errors on the statements of operations as well as the balance sheets. SAB No. 108 does not change the requirements under SAB No. 99 regarding qualitative considerations in assessing the materiality of misstatements. We adopted SAB No. 108 during the third quarter of fiscal year 2007, and the adoption had no impact on its results of operations or financial condition as of and for the fiscal year ended September 30, 2007.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this statement will have on our financial statements, if any.

1. Inventories

A summary of inventories follows:

	<i>September 30,</i> <i>2007</i>	<i>September 30,</i> <i>2006</i>
Raw materials	\$ 636,700	\$ 577,000
Work-in-process	889,000	1,597,600
Finished goods	2,863,000	3,065,100
	<u>\$ 4,388,700</u>	<u>\$ 5,239,700</u>

2. Property and Equipment

A summary of property and equipment follows:

	<i>September 30,</i> <i>2007</i>	<i>September 30,</i> <i>2006</i>
Equipment	\$ 3,247,100	\$ 3,120,900
Tooling costs	483,700	1,633,700
Leasehold improvements	154,100	168,300
	<u>3,884,900</u>	<u>4,922,900</u>
Less accumulated depreciation	<u>2,846,100</u>	<u>3,822,200</u>
	<u>\$ 1,038,800</u>	<u>\$ 1,100,700</u>

3. Other Assets

A summary of other assets follows:

	<i>September 30,</i> <i>2007</i>	<i>September 30,</i> <i>2006</i>
Capitalized software development costs, net of accumulated amortization of \$2,342,500	\$ —	\$ 398,800
Security deposits and other assets	22,100	20,000
	<u>\$ 22,100</u>	<u>\$ 418,800</u>

During fiscal 2007 and 2006, the Company capitalized test software development costs totaling \$1,400 and \$100,400, respectively, for products that were in the application development state. However, the Company wrote off \$400,200 and \$200,000, respectively, of capitalized software development costs during fiscal 2007 and 2006. There was no amortization expense associated with capitalized software during the past three fiscal years.

4. Provisions for Income Taxes

The provision for income taxes for fiscal 2007 includes a current state expense of \$800, federal alternative minimum taxes of \$37,100, and state alternative minimum taxes of \$6,500. The provision for income taxes for fiscal 2006 and 2005 includes a current state expense of \$800 only for each year.

The following summarizes the difference between the income tax expense and the amount computed by applying the Federal income tax rate of 34 percent in fiscal 2007, 2006, and 2005, to the income (loss) before taxes:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal income tax expense (benefit) at statutory rate	\$ (490,400)	\$ 44,000	\$ (463,000)
Tax credit carryforwards originated in current year	(41,000)	(29,900)	(23,100)
State tax expense (benefit), net of federal tax benefit	(85,700)	7,000	(79,800)
Adjustment of prior year net operating loss carryforwards before valuation allowance	(28,200)	(258,900)	(168,600)
Valuation allowance	765,800	(38,400)	573,300
Other, net	(75,300)	277,000	162,000
	<u>\$ 45,200</u>	<u>\$ 800</u>	<u>\$ 800</u>

Deferred tax assets and liabilities comprise the following:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,681,000	\$ 4,240,900
Reserves not currently deductible	673,900	1,166,100
Tax credit carryforwards	442,900	401,500
Other	53,400	195,700
Gross deferred tax assets	6,851,200	6,004,200
Deferred tax liabilities:		
State tax benefit	(396,900)	(315,700)
Net deferred tax assets	6,454,300	5,688,500
Valuation allowance	(6,454,300)	(5,688,500)
Net deferred taxes	<u>\$ —</u>	<u>\$ —</u>

The valuation allowance increased \$765,800 from fiscal 2006 to fiscal 2007. This was the result of an increase in the net deferred tax assets, primarily net operating loss carryforwards (NOLs), partially offset by the decrease in reserves not currently deductible. Because the Company's management is unable to determine whether it is more likely than not that the net deferred tax assets will be realized, the Company continues to record a 100 percent valuation against the net deferred tax assets.

As of September 30, 2007, the Company has Federal and State NOLs totaling approximately \$3,309,400 and \$3,312,200 respectively, available to offset future taxable income. These NOLs expire at various times through 2026 and 2011, respectively. The Company also has Federal and State research and development credit carryforwards totaling approximately \$63,200 and \$197,700, respectively, expiring at various times through 2025. The Company has state manufacturing tax credit carryforwards totaling approximately \$181,600, which expire at various times through 2016.

5. Commitments and Contingencies

Leases

The Company leases its facilities under an operating lease, which requires the Company to pay certain maintenance and operating expenses, such as taxes, insurance, and utilities. During fiscal 2006 and 2005, the Company also leased certain equipment under operating leases. Rent expense under the various leases was \$214,900, \$381,800, and \$386,200 for fiscal 2007, 2006, and 2005, respectively.

A summary of future minimum payments required under non-cancelable operating leases with terms in excess of one year, follows:

	<i>Amount</i>
<i>Fiscal years ending:</i>	
September 30, 2008	\$ 214,900
September 30, 2009	223,100
September 30, 2010	231,400
September 30, 2011	239,700
Thereafter	748,200
	<u>\$ 1,657,300</u>

Contingencies

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

6. Share-Based Compensation

The Company issues options to purchase common stock to its employees, certain consultants, and certain of its board members. Options are generally granted with an exercise price equal to the closing market value of a common share at the date of grant, have five- to ten-year terms and typically vest over periods ranging from immediately to three years from the date of grant. There are 165,000 authorized shares remaining for granting of future options.

Per FAS 123R, the estimated fair value of equity-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. Share-based compensation expense recognized in the statements of operations for fiscal years ended September 30, 2007 and 2006 related to common stock options was \$23,500 (\$0.38 per share) and \$18,700 (\$0.00 per share), respectively. The Company did not record income tax benefits related to the equity-based compensation expense as deferred tax assets are fully offset by a valuation allowance. There was no significant impact from the implementation of FAS 123R on the cash flows from operations during fiscal 2007 and 2006.

A summary of changes in common stock options outstanding under the equity-based compensation plans for the fiscal years ended September 30, 2007 and 2006 follows:

	<i>Common Stock Options</i>	<i>Weighted Average Exercise Price</i>	<i>Weighted Average Remaining Contractual Term (Years)</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at October 1, 2005	385,000	\$ 1.593	2.96	\$ —
Granted	125,500	\$ 1.218		
Exercised	(10,000)	\$ 1.100		\$ 11,100
Forfeited/Expired	<u>(35,000)</u>	\$ 1.509		
Outstanding at September 30, 2006	465,500	\$ 1.509	3.56	\$ 551,000
Granted	45,000	\$ 2.240		
Exercised	(49,750)	\$ 1.663		\$ 82,800
Forfeited/Expired	<u>(125,250)</u>	\$ 1.157		
Outstanding at September 30, 2007	<u>335,500</u>	<u>\$ 1.623</u>	4.88	\$ 157,100
Exercisable at September 30, 2007	<u>310,250</u>	<u>\$ 1.741</u>	3.85	\$ 128,900
Exercisable at September 30, 2006	<u>416,375</u>	<u>\$ 1.537</u>	2.82	\$ 480,600

The weighted average fair value of options granted during the fiscal year ended September 30, 2007 was \$0.61.

A summary of nonvested shares at September 30, 2007 and changes during the fiscal year then ended follows:

	<i>Shares</i>	<i>Weighted Average Grant Date Fair Value</i>
Nonvested shares at October 1, 2006	49,125	\$ 0.47
Granted	45,000	\$ 0.61
Vested	(57,625)	\$ 0.58
Forfeited/Expired	<u>(11,250)</u>	\$ 0.47
Nonvested shares at September 30, 2007	<u>25,250</u>	\$ 0.47

As September 30, 2007, there was \$9,500 of total unrecognized compensation cost related to nonvested options granted under the plans. That cost is expected to be recognized over a weighted average period of two years. The total fair value of options vested during the fiscal year ended September 30, 2007 was \$23,500. Cash received from exercises of common stock options during fiscal 2007 was \$82,800.

7. Major Customers, Major Suppliers, and Export Sales

Major Customers and Suppliers

For fiscal 2007, one customer accounted for approximately 43 percent of net revenues, with accounts receivable of \$334,900 as of September 30, 2007. For fiscal 2006, two customers accounted for approximately 23 and 12 percent of net revenues, with accounts receivable of \$59,900 and \$359,400, respectively, as of September 30, 2006. For fiscal 2005, three customers accounted for approximately 12, 11, and 11 percent of net revenues, with accounts receivable of \$65,200, \$30,700, and \$76,700, respectively, as of September 30, 2005.

During fiscal 2007, one supplier comprised 62 percent of the total inventory purchases (no others comprised more than 10 percent). Five suppliers comprised 10 or more percent of the total inventory purchases in fiscal 2006 (42, 15, 15, 13, and 11 percent). Four suppliers each comprised 10 or more percent of the total inventory purchases in fiscal 2005 (44, 16, 15, and 10 percent).

Export Sales

The following table summarizes export sales information:

	2007	2006	2005
Western Europe	\$ 1,132,700	\$ 1,170,200	\$ 1,326,300
Far East	393,400	622,700	803,100
Other	37,800	50,900	49,200
	<u>\$ 1,563,900</u>	<u>\$ 1,843,800</u>	<u>\$ 2,178,600</u>

In fiscal 2007 and 2006, no one country accounted for more than 10 percent of net revenues. In fiscal 2005, Japan, Austria (for Germany), and Singapore accounted for 12, 11, and 11 percent of net revenues, respectively.

8. Use of Estimates and Concentrations of Credit Risks

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. These estimates are impacted, in part, by the following risks and uncertainties:

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and trade receivables. The Company places its cash and cash equivalents and available-for-sale securities with high quality financial institutions, and, by policy, limits the amounts of credit exposure to any one financial institution.

A significant portion of the Company's accounts receivable have historically been derived from one major class of customer (distributors) with the remainder being spread across many other customers in various electronic industries. The Company believes any risk of accounting loss is significantly reduced due to the diversity of its products, end-customers, and geographic sales areas. The Company performs credit evaluations of its customers' financial condition whenever necessary. The Company generally does not require cash collateral or other security to support customer receivables.

The Company currently is dependent on two suppliers as its wafer-processing sources. If this supply was to be interrupted or the terms were to become unfavorable to the Company, this could have a material adverse impact on the Company's operations.

The Company produces inventory based on orders received and forecasted demand. The Company must order wafers and build inventory well in advance of product shipments. Due to the Company's reliance upon a limited number of suppliers, high levels of inventory are also maintained to protect against a disruption in supply. Because the Company's markets are volatile and subject to rapid technology and price changes, there is a risk that the Company will forecast incorrectly and produce excess or insufficient inventories of particular products. This inventory risk is heightened because many of the Company's customers place orders with short lead times. Demand will differ from forecasts and such differences may have a material effect on actual operations.

9. Statements of Cash Flows

There was no interest paid during fiscal 2007, 2006, and 2005. The Company paid \$80,000 (\$77,200 for estimated alternative minimum taxes) for income tax in fiscal 2007. In fiscal 2006 and 2005, the Company paid \$800 each for income taxes. There were no non-cash investing and financing activities during fiscal 2007, 2006, and 2005.

10. 401(k) Savings Plan

The Company adopted a 401(k) Savings Plan (the Plan) in September 2005. Employees are able to make voluntary contributions and the Company has the discretion to make matching contributions. The Plan covers all employees meeting certain age and service requirements. The Company funds expenses incurred in connection with the Plan. The Company made no matching contributions in fiscal 2007 and 2006.

Quarterly Financial Data (Unaudited)

The following is an unaudited summary of quarterly results of operations for the fiscal years ended September 30, 2007 and 2006 (in thousands, except per share data):

	Fiscal Quarters Ended:				Fiscal Year
	12/31/06	03/31/07	06/30/07	09/30/07	
Net revenues	\$ 1,362	\$ 1,258	\$ 1,107	\$ 959	\$ 4,686
Gross margin	\$ 705	\$ 778	\$ (303)	\$ 659	\$ 1,839
Income (loss) from operations	\$ 35	\$ 24	\$ (1,447)	\$ (131)	\$ (1,519)
Income (loss) before income taxes	\$ 55	\$ 42	\$ (1,428)	\$ (111)	\$ (1,442)
Net income (loss)	\$ 55	\$ 41	\$ (1,428)	\$ (155)	\$ (1,487)
Basic income (loss) per share	\$ 0.01	\$ 0.01	\$ (0.21)	\$ (0.03)	\$ (0.22)
Basic wtd-avg common shares	6,773	6,795	6,798	6,808	6,797

	Fiscal Quarters Ended:				Fiscal Year
	12/31/05	03/31/06	06/30/06	09/30/06	
Net revenues	\$ 1,101	\$ 1,048	\$ 1,217	\$ 1,275	\$ 4,641
Gross margin	\$ 446	\$ 573	\$ 622	\$ 846	\$ 2,487
Income (loss) from operations	\$ 3	\$ (18)	\$ 40	\$ 58	\$ 83
Income (loss) before income taxes	\$ 10	\$ (11)	\$ 60	\$ 71	\$ 130
Net income (loss)	\$ 9	\$ (11)	\$ 60	\$ 71	\$ 129
Basic income per share	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02
Basic wtd-avg common shares	6,753	6,753	6,753	6,756	6,754

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Based upon an evaluation as of September 30, 2007, our President and Acting Chief Financial Officer concluded that our disclosure controls and procedures are effective. There have been no changes in our internal control over financial reporting that occurred during our final quarter of the fiscal year ended September 30, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information required by this Item is incorporated by reference from our proxy statement for our 2008 Annual Meeting, expected to be filed with the SEC on or about December 28, 2007.

Item 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference from our proxy statement for our 2008 Annual Meeting, expected to be filed with the SEC on or about December 28, 2007.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

Information required by this Item is incorporated by reference from our proxy statement for our 2008 Annual Meeting, expected to be filed with the SEC on or about December 28, 2007.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is incorporated by reference from our proxy statement for our 2008 Annual Meeting, expected to be filed with the SEC on or about December 28, 2007.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is incorporated by reference from our proxy statement for our 2008 Annual Meeting, expected to be filed with the SEC on or about December 28, 2007.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) The following documents are filed as part of this report:

- (1) Our Financial Statements, Summary of Accounting Policies, and Notes to Financial Statements appear at pages 20 to 35 of this report; see Index to Financial Statements and Financial Statement Schedules at page 19 of this report.
- (2) Our Financial Statement Schedule (Schedule II) appears on page 38.
- (3) Our Index to Exhibits appears at page 40 of this report.

Schedule II – Valuation and Qualifying Accounts

	<u>Beginning Balance</u>	<u>Charged to expense</u>	<u>Write-offs</u>	<u>Ending Balance</u>
<i>Allowance for doubtful accounts</i>				
There was no allowance for doubtful accounts needed in fiscal 2007, 2006, and 2005.				
<i>Inventory</i>				
2007	\$ 2,722,000	\$ 402,700	\$ (1,551,000)	\$ 1,573,700
2006	\$ 1,685,100	\$ 1,036,900	\$ –	\$ 2,722,000
2005	\$ 1,042,900	\$ 642,200	\$ –	\$ 1,685,100

SIGNATURES

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

LOGIC DEVICES INCORPORATED

Dated: December 21, 2007

By: /s/ William J. Volz
William J. Volz, President and
Principal Executive Officer

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

Signature	Title	Dated
<u>/s/ William J. Volz</u> William J. Volz	President and Director (Principal Executive Officer)	December 21, 2007
<u>/s/ Kimiko Milheim</u> Kimiko Milheim	Chief Financial Officer (Principal Financial and Accounting Officer)	December 21, 2007
<u>/s/ Howard L. Farkas</u> Howard L. Farkas	Chairman of the Board of Directors	December 21, 2007
<u>/s/ Brian P. Cardozo</u> Brian P. Cardozo	Director	December 21, 2007
<u>/s/ Steven R. Settles</u> Steven R. Settles	Director	December 21, 2007

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation, as amended. [3.1] (1)
3.2	Bylaws, as amended. [3.2] (2)
10.1	Real estate lease regarding our Sunnyvale, CA facilities. [99.1] (3)
10.2	LOGIC Devices Incorporated 1998 Director Stock Incentive Plan, as amended. [10.3] (4)
10.3	Registration Rights Agreement dated October 3, 1998 between William J. Volz, BRT Partnership, and Registrant. [10.19] (5)
23.1	Consent letter of Hein & Associates LLP.
23.2	Consent letter of Perry-Smith LLP.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

[] Exhibits so marked have been previously filed with the Securities Exchange Commission (SEC) as exhibits to the filings shown below under the exhibit numbers indicated following the respective document description and are incorporated herein by reference.

- (1) Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2004, as filed with the SEC on January 26, 2005.
- (2) Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, as filed with the SEC on May 15, 2007.
- (3) Current Report on Form 8-K, as filed with the SEC on August 7, 2007.
- (4) Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004, as filed with the SEC on May 12, 2004.
- (5) Annual Report on Form 10-K for the transition period January 1, 1998 to October 3, 1999, as filed with the SEC on January 13, 1999.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-109261 and No. 333-32819 of LOGIC Devices Incorporated on Form S-8 and Registration Statement No. 333-16591 of LOGIC Devices Incorporated on Form S-3 of our report, dated December 21, 2007, relating to our audit of the financial statements and financial statement schedule for the year ended September 30 2007, which appear in this Annual Report on Form 10-K of LOGIC Devices Incorporated for the year ended September 30, 2007.

/s/ Hein & Associates LLP

Irvine, CA
December 21, 2007

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-109261 and No. 333-32819 of LOGIC Devices Incorporated on Form S-8 and Registration Statement No. 333-16591 of LOGIC Devices Incorporated on Form S-3 of our report, dated November 29, 2006, relating to our audits of the financial statements and financial statement schedule for the year ended September 30 2006 and 2005, which appear in this Annual Report on Form 10-K of LOGIC Devices Incorporated for the years ended September 30, 2006 and 2005.

/s/ Perry-Smith LLP

Sacramento, CA
December 21, 2007

EXHIBIT 31.1

Certification

I, William J. Volz, certify that:

1. I have reviewed this annual report on Form 10-K of LOGIC Devices Incorporated (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 21, 2007

/s/ William J. Volz
William J. Volz
President and Chief Executive Officer

EXHIBIT 31.2

Certification

I, Kimiko Milheim, certify that:

1. I have reviewed this annual report on Form 10-K of LOGIC Devices Incorporated (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 21, 2007

/s/ Kimiko Milheim

Kimiko Milheim
Chief Financial Officer

EXHIBIT 32.1

**Certifications of
Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

We, William J. Volz, President and Chief Executive Officer, and Kimiko Milheim, Chief Financial Officer, of LOGIC Devices Incorporated (the Company), do hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on our knowledge:

- (1) the Annual Report on Form 10-K of the registrant, to which this certification is attached as an exhibit (the Report), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 21, 2007

By: /s/ William J. Volz
William J. Volz,
President and Chief Executive Officer

Dated: December 21, 2007

By: /s/ Kimiko Milheim
Kimiko Milheim,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to LOGIC Devices Incorporated and will be retained by LOGIC Devices Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.