

MICRUS ENDOVASCULAR CORP

Form 10-K

June 11, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2009

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 000-51323  
Micrus Endovascular Corporation  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

23-2853441  
(I.R.S. Employer  
Identification No.)

821 Fox Lane  
San Jose, California  
(Address of principal executive offices)

95131  
(Zip Code)

(408) 433-1400  
(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:  
None

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 reports pursuant to Section 13 or Section 15(d) of the Exchange 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

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

As of September 30, 2008, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$104.6 million based on the closing sale price of such stock as reported on the NASDAQ Global Market. Shares of common stock held by each officer and director as of that date and by each person who owned 5% or more of the registrant's outstanding common stock as of September 30, 2008 have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of May 29, 2009 registrant had outstanding 15,842,052 shares of common stock, \$0.01 par value per share.

#### DOCUMENTS INCORPORATED BY REFERENCE

The Registrant has incorporated by reference portions of its Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this annual report.

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FORWARD-LOOKING STATEMENTS

Certain information contained in or incorporated by reference in this Report contains forward-looking statements that involve risks and uncertainties. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A, Risk Factors, and elsewhere in this Report. References herein to “Micrus,” “the Company,” “we,” “our,” “us” and similar words or phrases are references to Micrus Endovascular Corporation and its subsidiaries, unless the context otherwise requires. Unless otherwise provided in this Report, trademarks identified by ® and ™ are registered trademarks or trademarks, respectively, of Micrus Endovascular Corporation or its subsidiaries. All other trademarks are the properties of their respective owners.

PART I

Item 1. Business.

The Company

We develop, manufacture and market implantable and disposable medical devices used in the treatment of cerebral vascular diseases. Our products are used by interventional neuroradiologists, interventional neurologists and endovascular trained neurosurgeons to treat both cerebral aneurysms responsible for hemorrhagic stroke and intracranial atherosclerosis which may lead to ischemic stroke. Hemorrhagic and ischemic stroke are both significant causes of death and disability worldwide.

Our product lines consist of endovascular devices that enable a physician to gain access to the brain in a minimally invasive manner through the vessels of the arterial system. We believe that our products provide a safe and reliable alternative to more invasive neurosurgical procedures for treating aneurysms. Our proprietary line of embolic coils anatomically conform and rapidly deploy within an aneurysm, forming a scaffold and filling that conforms to a wide diversity of aneurysm shapes and sizes. In addition, our Cerecyte® microcoil product line incorporates bioactive filaments of an absorbable material called polyglycolic acid (“PGA”), which reside within the central lumen of our microcoils. We believe, based on pre-clinical data and single center peer review journal publications, that the inclusion of these bioactive filaments within the lumen of the coil may promote faster aneurysm healing and may reduce the risk of recanalization, or retreatment.

We continue to expand our product line beyond microcoils and access systems. In January 2006, we entered into a license, development and distribution agreement with Biotronik AG (“Biotronik”) which provides us with exclusive access to certain stent technologies for neurovascular applications. In February 2006, Biotronik received CE Mark authorization for the PHAROS™ stent for both the treatment of cerebral aneurysms and the treatment of ischemic disease (atherosclerosis). In March 2006, we launched our PHAROS™ stent in certain countries that recognize the CE Mark, providing us with our first commercial product for the treatment of ischemic disease. The PHAROS™ Vitesse™ is our second generation balloon-expandable stent for intracranial ischemic stenosis and wide-neck aneurysm treatment. In June 2008, we launched the PHAROS™ Vitesse™ intracranial stent for commercial distribution in the European Union and all other countries that recognize the CE Mark. In July 2008, we received U.S. Food and Drug Administration

(“FDA”) conditional approval of our investigational device exemption for the PHAROS™ Vitesse™ Intracranial Stent Study for Ischemic Therapy (“VISSIT”). The VISSIT study is the first industry-sponsored, randomized, prospective clinical trial designed to compare the clinical outcomes between patients who are stented for intracranial ischemic stenosis versus treated with medical therapy. We are in the process of initiating study sites in the United States, Europe and China.

On November 30, 2006, we completed the acquisition of VasCon, LLC (“VasCon”), a privately held company engaged in the development and manufacture of vascular access and delivery devices. The acquisition of VasCon adds expertise in developing clinically advanced access and catheter systems to our core competencies and provides us with manufacturing capabilities that will facilitate cost reductions for a wide range of our products. In connection with the acquisition, we formed Micrus Design Technology, Inc. (“MDT”) to develop and manufacture neurovascular access and delivery products for us, including our family of Courier® microcatheters and Ascent™ balloon catheter. On January 1, 2009, we merged MDT into Micrus Endovascular Corporation.

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In October 2007, we entered into a Stock Purchase Agreement with The Cleveland Clinic Foundation (“The Cleveland Clinic”) and acquired ReVasc Technologies, Inc. (“ReVasc”), a wholly-owned subsidiary of The Cleveland Clinic. This acquisition provides us with an exclusive license to revascularization technology for the treatment of intra-cranial thrombus or clot which can also cause ischemic stroke. In January 2008, we entered into a license, development and commercialization agreement with Genesis Medical Interventional, Inc. (“Genesis”). Under the terms of the agreement, we licensed the rights to Genesis’ F.A.S.T. Funnel Catheter and clot retrieval system for the treatment of ischemic stroke.

In fiscal 2008, we launched the Cashmere™ bare platinum and Cerecyte® microcoil systems and the Courier® ENZO™ deflectable microcatheter. The Cashmere™ is a conformable and stretch-resistant platinum or Cerecyte® microcoil designed to provide stable framing or filling of aneurysms that may require a softer microcoil, such as aneurysms with irregular shapes or ruptured aneurysms. The ENZO™ deflectable microcatheter is designed to offer improved maneuverability through the brain’s tortuous vasculature and to enable in vivo repositioning of the microcatheter in the aneurysm, allowing physicians to more efficiently fill aneurysms, which may lead to improved outcomes. We believe that ENZO™ is the only deflectable microcatheter available for use in the neurointerventional market.

In fiscal 2009, we launched the Neuropath® guide catheter, which combines robust proximal support with a highly flexible and visible tip designed to facilitate atraumatic vascular access. The Neuropath® guide catheter is used as a conduit for delivery of the microcatheter or other devices, such as coils, stents and balloons, to the aneurysm. We intend to continue to pursue this non-embolic product line expansion with the goal of increasing our revenue opportunity per procedure. We also launched the DeltaPaq™ bare platinum and Cerecyte® microcoil system for the treatment of cerebral aneurysms. Our DeltaPaq™ microcoil system is designed to enable physicians to achieve greater coil packing density within the aneurysm which may reduce the rate of recanalization and the need for re-treatment. The DeltaPaq™ microcoil system supplements our framing and finishing coils in the filling segment of the coil market. We also introduced a new detachment control box and remote control cable. The new ECB (electronic control box) features updated electronic controls, a new ergonomic interface as well as a single long life lithium ion battery system which obviates the need to replace batteries for each case. The new remote cable enables physicians to detach the coil using an in-the-sterile-field control system. In fiscal 2009, we received both 510(k) clearances and CE Mark authorizations for our DeltaPlush microcoils, EnPower detachment system, Ascent™ balloon catheter and One2One™ family of guidewires.

In fiscal 2009, we also completed enrollment in the Cerecyte Randomized Trial, which will evaluate the differences in clinical outcomes between our Cerecyte microcoils and bare platinum microcoils. In October 2008, we also initiated the Presidio® And Cerecyte® (“PAC”) large and giant aneurysm study, which is a prospective registry designed to evaluate the differences in clinical outcomes between our Cerecyte® microcoils and bare platinum microcoils specifically in large and giant aneurysms.

In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan and in July 2008, we received approval from Ministry of Health, Labor and Welfare (“MHLW”) to sell our Cerecyte® microcoils in Japan. We currently market our products through a direct sales force in the United States, Canada, the United Kingdom, Germany, Austria and France. We market through a network of distributors in the rest of Europe, Latin America, Asia and the Middle East, and entered into an exclusive distribution agreement with Goodman Co., Ltd. (“Goodman”) to market our products in the Japanese market.

We have executive offices in San Jose, California and sales offices in Switzerland and the United Kingdom as well as a development and manufacturing facility in Miramar, Florida. We were incorporated under the laws of the State of Delaware in 1996.



Information on revenues, gross profits and total assets for our business segments and by geographic area appears in Note 14 of the “Notes to Consolidated Financial Statements” for the year ended March 31, 2009, which are included in “Item 8 – Financial Statements and Supplementary Data” of this report and are incorporated herein by reference.

#### Industry Overview

Strokes consist of either aneurysms (hemorrhagic stroke) or blockages (ischemic stroke) of vessels within or leading to the brain often resulting in irreversible neurological impairment or death. According to the American Heart Association, stroke is the third leading cause of death in the United States. Patients who survive a stroke are often left with disabilities, including paralysis, coma, impaired cognition, decreased coordination, loss of visual acuity, loss of speech, loss of sensation or some combination of these conditions. A significant need for effective prevention and treatment of stroke exists because of the severity of the disorder, its prevalence in society, the shortcomings of current therapies and the high cost of treatment and care.

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Hemorrhagic stroke may be caused by the rupture of cerebral aneurysms. A cerebral aneurysm is an outward bulging of an artery in the brain that can develop at weak points in the arterial wall. In some cases, the patient will experience symptoms such as headache, blurred vision or dizziness as the aneurysm grows, but in many cases patients will have no symptoms. The most devastating complication of a cerebral aneurysm occurs when the aneurysm ruptures, decreasing blood flow to brain tissue and leading to increased pressure on the brain. Rupture of a cerebral aneurysm typically occurs suddenly and without warning, often leading to catastrophic brain injury or death.

Historically, patients diagnosed with a cerebral aneurysm underwent a craniotomy and aneurysmal clipping, a highly-invasive surgical procedure in which a neurosurgeon creates an opening in the skull, dissects or retracts brain tissue to gain access to the aneurysm, and places a metal clip at the base of the aneurysm to stop further blood flow into the aneurysm, halting its growth and preventing future rupture. This procedure is typically performed by a neurosurgeon at a specialized hospital or medical center. Aneurysmal clipping requires a lengthy recovery time and has the significant expense, morbidity and complication risks associated with a major neurosurgical procedure.

In the 1990s, interventional neuroradiologists and to a lesser extent endovascularly trained neurosurgeons, who collectively are referred to in the industry as “neurointerventionalists,” started using an alternative procedure to clipping, known as embolic coiling, to treat cerebral aneurysms. Rather than reaching the aneurysm by opening the skull and moving aside the brain tissue, access to the aneurysm in an embolic coiling procedure is obtained through a catheterization procedure in which the physician inserts a guidewire followed by a catheter into the femoral artery of the upper leg and threads them under fluoroscopy through the arterial system to the brain and ultimately into the opening of the aneurysm. The neurointerventionalist then advances embolic coils through the microcatheter to fill the aneurysm. Embolic coils are small platinum coils that typically range in size from approximately 1.5 mm to 20 mm and once released into the aneurysm assume complex shapes filling the aneurysm. The coils form a barrier at the neck of the aneurysm which decreases or stops blood flow into the aneurysm, enabling formation of a clot and scar tissue which prevent further growth or rupture of the aneurysm. Since the mid-1990s, embolic coiling has become a widely accepted treatment for cerebral aneurysms because it is a less invasive procedure than surgical clipping and results in lower overall treatment cost, shorter recovery times, and less trauma to the patient.

In 2002, *The Lancet*, a leading medical journal, published the results of the International Subarachnoid Aneurysm Trial, an independent, randomized clinical trial involving 2,143 patients in Europe, North America and Australia that compared aneurysm clipping with embolic coiling as a method of treating cerebral aneurysms. Known as ISAT, this trial concluded, based on a survey of patients published in *The Lancet* in October 2002, that among the patients participating in the trial, endovascular intervention with detachable platinum coils resulted in a 23% relative and 7% absolute reduction in the risk of major brain injury or death compared with neurosurgical clipping of the aneurysm at one year follow up. The seven-year follow up data published in *The Lancet* in September 2005 indicated a continued clinical advantage for patients who underwent coiling versus clipping procedures.

## Market Opportunity

According to the American Heart Association, approximately 720,000 strokes occur annually in the United States. Ischemic stroke affects approximately 620,000 patients annually while hemorrhagic stroke affects approximately 100,000 patients. We believe that a majority of the hemorrhagic strokes are caused by cerebral aneurysms. We believe that embolic coiling is being used to treat approximately 45% of the patients diagnosed with cerebral aneurysms in the United States. Industry sources also indicate that approximately 65-70% of patients diagnosed with cerebral aneurysms in certain European countries are treated using embolic coiling procedures. We believe that embolic coiling procedures can be used to treat a similar percentage of patients with cerebral aneurysms in the United States as awareness grows among patients and physicians of the advantages of embolic coiling. Industry sources estimate that

in Japan embolic coiling is growing at an annual rate of approximately 15% and in China coiling procedures appear to be growing at greater than 20% year over year. Industry sources further estimate that the worldwide sale of endovascular devices for the treatment of hemorrhagic stroke was between \$600 million to \$700 million in 2008.

We believe that growth drivers in the market for embolic coiling products include the overall trend towards less invasive procedures, an increased number of neurointerventionalists trained to perform embolic coiling procedures, and the aging population in whom aneurysms occur with greater frequency.

The key challenges of embolic coiling procedures are the following:

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**Access to the Aneurysm Site.** Specialized products are required to access the complex vasculature of the brain, properly access the aneurysm site and perform a coiling procedure. These access products include microcatheters and guidewires. In order to navigate the complex vascular anatomy of the brain, access products must have enough column strength to be pushed significant distances through this vasculature, yet be flexible enough to travel to distal portions of the brain without injuring blood vessels.

**Framing and Filling the Aneurysm.** In order to effectively treat an aneurysm, the neurointerventionalist must fill the aneurysm with a sufficient volume of coils to disrupt blood flow and occlude the aneurysm. Aneurysms vary in shape and size and, consequently, neurointerventionalists seek an embolic coiling solution that enables coils to conform to the aneurysm's shape without requiring extensive manipulation of the coil. Coils that frame, or conform to, the aneurysm wall reduce the risk of rupture and facilitate the retention of additional coils in the aneurysm.

**Coverage of the Neck of the Aneurysm.** It is important to effectively cover the neck of the aneurysm with coils to help reduce recanalization and improve the chances of a better clinical outcome.

**Deployment.** Once embolic coils are placed in the aneurysm, the neurointerventionalist must be able to quickly and reliably detach the coils from the device positioning unit ("DPU") within the aneurysm. Unreliable detachment mechanisms can lead to inadvertent retraction of the embolic coil as the neurointerventionalist withdraws the positioning unit only to discover that the coil is still attached. Further, any delay in deployment may increase procedure time and its attendant risks.

**Recanalization.** Industry sources estimate that recanalization, or the continued or renewed growth of the aneurysm, occurs in approximately 15% to 25% of aneurysms treated with embolic coiling. Experts believe that one of the reasons for recanalization is due to incomplete filling of the aneurysm with the embolic coils. Studies have shown that while the recanalization rate is higher for patients treated with embolic coiling procedures compared to aneurysm clipping, embolic coiling has been demonstrated to be a safer treatment approach for aneurysms. Therefore, embolic coiling solutions that decrease recanalization rates and reduce the need for retreatment are highly desirable.

**Risk of Rupture.** Embolic coiling solutions that enhance safety and limit the risk of rupture or re-rupture in the treatment of aneurysms are also essential. Successful framing and filling of the aneurysm requires precise placement of the embolic coil. Neurointerventionalists seek embolic coiling solutions that minimize stress on the aneurysm wall in the course of placing or repositioning the coil in order to reduce the risk of rupture.

## The Micrus Solution

We are focused on a broad range of cerebral vascular treatments and have developed a proprietary embolic coiling solution, stents and access products that are designed to effectively access and treat cerebral aneurysms and ischemic disease. Complimenting our bare platinum microcoil product line, we have also developed a line of microcoils that incorporate bioactive filaments which we believe may improve healing and reduce the need for retreatment. In addition, we have recently introduced the proprietary DeltaPaq™ microcoil system which is designed to enable physicians to achieve greater coil packing density.

Our solutions have the following key features:

**Anatomically Conforming Coils.** Our proprietary spherical MicruSphere®, Cashmere™ and Presidio® microcoils deploy into a three-dimensional configuration that assumes an aneurysm's shape upon deployment and are designed to provide uniform framing of the aneurysm. Our microcoils require very little manipulation for effective placement,

thereby reducing the need for microcoil manipulation and attendant stress on the aneurysm wall.

Enhanced Coverage of the Neck of the Aneurysm. We believe that effective neck coverage reduces the rate of recanalization. Our microcoils are designed to facilitate coverage of the neck of the aneurysm in two ways. First, the three dimensional configuration of our spherical MicruSphere®, Cashmere™ and Presidio® microcoils provide the framework to stabilize the neck of the aneurysm. Second, our UltiPaq® finishing coils and DeltaPaq™ microcoils are both soft and flexible, permitting coverage across the neck of the aneurysm.

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Unique Framing and Filling Technology Designed to Increase Packing Density. Our Presidio® 10 and 18 microcoils are each a single, stretch resistant Cerecyte® microcoil designed to deliver stable, predictable aneurysm framing and filling to increase coverage of the aneurysm wall and neck with a single coil deployment. As the Presidio® 10 and 18 are also Cerecyte® microcoils, their bioactive filament may also induce a beneficial tissue response. In addition, we have introduced a completely new coil technology to the market, called “Delta Wind.” This unique triangular shaped primary wind allows the DeltaPaq™ to change directions every .3mm, far surpassing traditional round primary winds. The Delta Wind™ technology is designed to increase packing density, which in previous studies has led to less recanalization.

Proprietary Finishing Coils. Our UltiPaq® and DeltaPlush™ microcoils are extra-soft, stretch-resistant finishing coils used to provide additional aneurysm neck coverage and to more thoroughly fill in the aneurysm after placement of one or more MicruSphere®, Presidio®, Cashmere™ and/or DeltaPaq™ microcoils. We have recently initiated beta use of our DeltaPlush™ microcoil which has been designed to be our softest finishing coil, enabling the more efficient and safe aneurysm treatment.

Deployment Technology. Our proprietary electronic microcoil deployment system employs a resistive heating fiber deployment mechanism that enables neurointerventionalists to quickly and reliably deploy the microcoil. Our electronic microcoil deployment system has been designed so that microcoil deployment time remains consistent regardless of the number of coils used in the procedure. We believe that our electronic microcoil deployment system enables neurointerventionalists to more rapidly deploy microcoils and generally reduce procedure time. We have undertaken a manufacturing automation program which we believe will provide both an enhanced delivery system and a component cost saving which is expected to be introduced in our microcoil products in fiscal year 2010.

Bioactive Technology. Cerecyte® is our proprietary microcoil product line that incorporates filaments comprised of PGA within the lumen of the microcoils. MicruSphere®, Cashmere™, Presidio®, HeliPaq® and UltiPaq®, DeltaPaq™ and DeltaPlush™ are all available in Cerecyte® versions. Initial data from single center studies presented at major scientific meetings suggest that Cerecyte® may promote more thorough aneurysm healing and may reduce the risk of recanalization or the need for retreatment. To improve on the scientific rigor of these early data points, we are conducting two post market studies, a prospective randomized trial and a registry, which will provide additional data regarding the potential benefits of Cerecyte®. Both the Cerecyte® Coil Trial (“CCT”) and Cerecyte® Registry were completed in early 2009 and the data is being assembled for submission to peer review journals in fiscal year 2010.

Stent Platform. Our PHAROS™ stent is a rapid exchange balloon-delivered device which enables the neurointerventionalist to deliver and deploy a stent in one step, eliminating the need for pre-dilation of the constricted vasculature. We believe this feature may reduce overall procedural time and cost. We believe that the balloon catheter marker bands combined with the radiopacity of the stainless steel stent provide for excellent visibility resulting in improved placement accuracy of deployment. We also believe that the combination of PHAROS™ Rapid Exchange Technology™ and trackable tip will enable a physician to effectively access the tortuous and distal anatomy of the brain. In March 2006, we launched the PHAROS™ stent in certain countries outside of the United States that recognize the CE Mark. In March 2008, we filed an Investigational Device Exemption (“IDE”) with FDA for our next generation stent, the PHAROS™ Vitesse™, for the treatment of neurovascular stenoses. In July 2008, we received FDA conditional approval of our investigational device exemption for the PHAROS™ VISSIT study. The VISSIT study is the first industry sponsored, randomized, prospective clinical trial designed to compare the clinical outcomes between patients who receive a stent for the treatment of their intracranial ischemic stenosis versus being treated with medical therapy. We are in the process of initiating study sites in the United States, Europe and China.

Improved Access Products. We launched an access product line which includes the Courier® ENZO™ deflectable microcatheter, the Courier® line of microcatheters, the Neuropath® guide catheter and the Watusi® line of guidewires. We believe that our Courier® microcatheters provide neurointerventionalists with more predictable and secure access to the complex and distal anatomy of the cerebral vasculature. The Neuropath® guide catheter combines robust proximal support with a highly flexible and visible tip designed to facilitate atraumatic vascular access. The Neuropath® guide catheter is used as a conduit for delivery of the microcatheter or other devices such as coils to the aneurysm. We intend to continue to pursue this non-embolic product line expansion with the goal of increasing our revenue opportunity per procedure.

#### Micrus Strategy

Our objective is to develop and commercialize innovative, minimally invasive medical devices that provide a comprehensive solution to physicians for the treatment of hemorrhagic and ischemic stroke. The key elements of our strategy to achieve our objective include:

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Expand Our Hemorrhagic Market Share through Continued Product Innovation. We believe that our microcoils, catheters, wires, and stents offer safer, more effective and less technically demanding treatment options for neurointerventionalists which have resulted in the rapid growth of our revenues. We believe that continued product innovations such as the introductions of our Cerecyte® line of bioactive microcoils, Cashmere™ microcoils, the Presidio® microcoils, the DeltaPaq™ microcoils and DeltaPlush™ microcoils, ENZO™ deflectable catheter, Ascent™ balloon catheter and Neuropath® guide catheters will allow us to further grow our market share. We are continuing to develop new technologies which we believe may further enhance aneurysm occlusion and reduce the rate of recanalization.

Increase Our Per-Procedure Revenues. 6% of our revenue for fiscal 2009 has come from the sale of non-embolic products. This product line expansion includes stents, microcatheters and guidewires and accessories that we believe have increased our per-procedure revenue opportunity from approximately 40% to 80% of every procedure dollar.

Enter the Ischemic Stroke Market. Through our agreement with Biotronik, we launched our first product addressing the ischemic stroke market, our PHAROS™ stent. We intend to continue developing additional stent platforms for this market. In October 2007, we acquired an exclusive license to revascularization technology for the treatment of ischemic stroke through the acquisition of ReVasc from The Cleveland Clinic. In January 2008, we entered into a license, development and commercialization agreement with Genesis. Under the terms of the agreement, we licensed the rights to Genesis' F.A.S.T. Funnel Catheter and clot retrieval system for the treatment of ischemic stroke. In March 2008, we filed an IDE with the FDA for our next generation stent, the PHAROS™ Vitesse™, for the treatment of intracranial stenoses.

Leverage Our Sales and Marketing Expansion. We intend to continue to expand our direct sales force in North America, Europe and Asia as necessary and further increase our presence in the Asian markets through distributors. This expansion should provide us access to more hospitals, garner more per-procedure revenues and expand our market share.

Continue to Penetrate Asian Market. We believe that Japan and China represent significant potential markets for our products and, in March 2006, we launched our sales and marketing efforts in Japan through our distribution partner, Goodman. In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan and we received regulatory approval for our Cerecyte® microcoils in July 2008. We will begin selling our products in China upon receiving regulatory approvals.

License or Acquire Complementary Products and Technologies. In addition to growing our business through internal product development efforts, we will continue to look for opportunities to license and/or acquire technologies to provide solutions for the treatment of a variety of cerebral vascular conditions. In July 2005, we acquired certain deflectable catheter technologies from Vascular FX. In January 2006, we entered into a license, development and distribution agreement with Biotronik, a company with stent design and manufacturing expertise, pursuant to which we collaborate with Biotronik to develop certain neurovascular stent products. This agreement provides us with the exclusive worldwide right to market stent products developed jointly by Biotronik and us. In November 2006, we acquired certain neurovascular catheter patent and process technology through the acquisition of VasCon. In October 2007, we acquired an exclusive license to revascularization technology for the treatment of ischemic stroke through the acquisition of ReVasc from The Cleveland Clinic. In January 2008, we entered into a license, development and commercialization agreement with Genesis. Under the terms of the agreement, we licensed the rights to Genesis' F.A.S.T. Funnel Catheter and clot retrieval system for the treatment of ischemic stroke. In April 2008, we entered into a co-development agreement with Chemence Medical Products, Inc. ("Chemence") to jointly develop a liquid embolic product for the treatment of cerebral aneurysms using Chemence's cyanoacrylate technology, development capabilities and intellectual property. By continuing to acquire complementary products, we believe that we can address a broader



range of physician and patient needs.

#### Products

The following table shows our principal products and indicates significant applications for these products. Most of our products are intended for single use and are either disposed of or, in the case of microcoils, remain in the patient after the procedure. All of our products set forth in the following table have received CE Mark authorization and, except for our PHAROS™ stent, are covered by the FDA 510(k) process.

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Product Line	Sizes	Product Description
MicruSphere® Microcoil	2-18 mm diameter	Three-dimensional framing microcoil; stabilizes the aneurysm. Available in bare platinum and Cerecyte®.
Presidio® Microcoil	4-20 mm diameter	Framing and filling coil to deliver more neck and wall coverage in a single deployment. Available in Cerecyte®.
Cashmere™ Complex Microcoil	2-12 mm diameter	Three-dimensional framing and filling complex coil for aneurysms which require a softer coil. Available in Cerecyte® and stretch resistant platinum.
DeltaPaq™ Microcoil	1.5-10 mm diameter, up to 25cm in length	Filling microcoil featuring the new Delta Wind triangular primary wind featuring natural deflection points allowing the coil to change direction more easily, facilitating greater packing density. Available in bare platinum and Cerecyte®.
DeltaPlush™ Microcoil	1.5mm-4mm, up to 8cm in length	Designed for finishing, DeltaPlush™ microcoil combine our exclusive Delta Wind™ technology with our softest platinum wire. The result is a 10 system microcoil with the softness and flexibility to find and fill the empty gaps and open spaces, helping provide superior finishing at the aneurysm neck. Available in bare platinum and Cerecyte®.

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UltiPaq® Microcoil	2-4 mm diameter	Finishing microcoil; soft, stretch resistant, pliable microcoil designed to complete filling of the aneurysm. Available in bare platinum and Cerecyte®.
HeliPaq® HeliPaq SR® Microcoil	HeliPaq® 2-20 mm diameter; HeliPaq SR® 2-10 mm diameter	Filling microcoil; occludes aneurysm following framing. Available in bare platinum and Cerecyte®.
InterPaq® Microcoil	4 and 6 mm diameter	Filling microcoil; occludes aneurysm following framing. Available in bare platinum.
Cerecyte® Microcoil	2-20 mm diameter	Available in MicruSphere®, Cashmere™, Presidio®, UltipaQ®, DeltaPaq, DeltaPlush™ and HeliPaq SR®. Includes filaments comprised of PGA, a bioactive material.
Courier® ENZO™ Microcatheter	.0170" and 0190" inner diameter and 150 cm length	Unique deflectable device used to deliver embolics into the aneurysm.
Courier® Microcatheter	.0170" and .0190" inner diameter and 150 cm length	Device used to deliver embolics into the aneurysm.

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Neuropath® Guide Catheter

5 and 6 french internal diameter and a 90 and 100cm length

The Neuropath® guide catheter uses Progressive Shaft Technology™ to facilitate the smooth delivery of multiple devices from microcatheters, balloons, guidewires and microcoils. It comes in a variety of tip shapes and sizes.

Watusi® Guidewire

.014” diameter and 205 cm length

Device used to guide microcatheters and other devices to the aneurysm or stenosis site.

PHAROS™ Vitesse™ Stent System

2.5 mm - 4.0 mm outer diameter and 8 mm – 20 mm length

For use as scaffolding of wide-neck aneurysms to ensure that the microcoil is not dislodged and for use in opening intracranial arteries that have narrowed.

Ascent™ Balloon Catheter

4 mm diameter and higher. Multiple lengths

A coaxial dual lumen balloon catheter designed for use over any 0.014-inch guidewire. It is intended for use for temporary vascular occlusion and to assist in delivery of diagnostic and therapeutic agents.

EnPower™ Detachment Control Box and Connecting Cable

Next-generation control box provides electronic control via a lithium ion battery and initiates detachment of our proprietary microcoil system. The EnPower™ also features remote cable which enables physicians to detach the coils from the patient field.

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### Microcoil Products

We offer a range of microcoils designed to enable neurointerventionalists to treat a wide variety of aneurysms. These include our MicruSphere®, Cashmere™, DeltaPaq™, DeltaPlush™ and Ultipaq® microcoil systems which are available in bare platinum and Cerecyte® versions, and the Presidio® line of microcoils which also incorporates our proprietary Cerecyte® technology. All of our microcoils utilize our rapid deployment system and perform certain specific functions:

**Frame.** Our MicruSphere®, Presidio® and Cashmere™ microcoils are typically the first microcoils used by neurointerventionalists to frame the aneurysm. The MicruSphere® microcoil folds automatically into a spherical three-dimensional shape that conforms to the shape of the aneurysm. This conforming shape reduces the need for the clinician to manipulate and reposition the coil multiple times, shortens procedure time, and reduces the potential for complications. Additional microcoils may then be placed within the first microcoil in smaller sizes in an approach known as the “Russian doll technique,” sequentially filling the aneurysm.

**Frame and Fill.** Our Presidio® and Cashmere™ microcoils feature longer lengths and their own unique shapes required to frame and fill the aneurysm. This can allow for more platinum to be deployed at the neck of the aneurysm, as well as greater packing density.

**Fill.** The Cashmere™ microcoil is a stretch resistant complex coil which may also be used as a filling coil. The Cashmere™ combines extra coil softness with a 3 dimensional secondary shape in a 14 system coil. Attributes of a 14 system coil help deliver more packing density per cm of coil compared with smaller system microcoils. The DeltaPaq™ features a completely new coil technology to the market, called “Delta Wind.” This unique triangular shaped primary wind allows the DeltaPaq™ to change directions rapidly, far surpassing traditional round primary winds. The Delta Wind technology is designed to increase packing density, which in previous studies has led to less recanalizations. Our proprietary DeltaPaq™, HeliPaq® and HeliPaq SR® products are filling microcoils used to fill gaps which may remain in the center of the aneurysm after placement of one or more of our MicruSphere® microcoils. Both the HeliPaq® and the HeliPaq SR® automatically form a helical shape upon deployment, which allows filling of complex gaps in the aneurysm. The HeliPaq SR® employs a stretch-resistant system designed to prevent the microcoil from stretching in an unwanted manner while being positioned in the aneurysm. InterPaq® microcoils are filling coils used in larger size aneurysms requiring a greater volume of coil mass in order to be adequately filled.

**Finish.** Our UltiPaq® microcoil is an extra-soft, stretch-resistant finishing coil, used to provide additional aneurysm neck coverage and to more thoroughly fill in the aneurysm after placement of one or more MicruSphere®, Presidio®, Cashmere™ and/or HeliPaq® microcoils. The DeltaPlush™ microcoil is designed to be our softest finishing coil, enabling the more efficient and safe aneurysm treatment.

**Cerecyte®.** Our proprietary Cerecyte® microcoil product line incorporates filaments comprised of PGA into most of our current line of microcoils — MicruSphere®, Presidio®, Cashmere™, DeltaPaq™, DeltaPlush™, HeliPaq®, HeliPaq SR® and UltiPaq®. Because the PGA filaments run through the center of our microcoils, our Cerecyte microcoils possess the same handling characteristics as our standard platinum microcoils. Initial data from single center studies published in peer review journals and presented at major scientific meetings suggest that Cerecyte® may improve clinical outcomes compared to bare platinum coils. We are conducting two post-market clearance studies (CCT and Cerecyte® Registry) to collect human clinical data for the purpose of demonstrating accelerated healing by our Cerecyte® microcoil product line.

In January 2009, we completed the enrollment of 500 patients in our CCT. The CCT is a prospective randomized multi-center trial which directly compares Micrus Cerecyte® bioactive coils to Micrus bare platinum coils for the treatment of intracranial aneurysms. Similarly, we also completed the enrollment of 250 patients in our Cerecyte® Registry in January 2009. The Cerecyte® Registry is a prospective non-randomized United States multi-center registry designed to document the clinical and angiographic outcomes of intracranial aneurysms treated with our Cerecyte® bioactive coils. The Cerecyte® Registry plans to enroll a total of 250 patients to assess patient outcomes one year after treatment.

#### PHAROS™ Balloon-Expandable Stent

Our PHAROS™ stent is a balloon-delivered device which can be used both to treat ischemic disease and for scaffolding of wide-neck aneurysms to ensure that the microcoil is not dislodged. For the treatment of ischemic disease, our PHAROS™ stent dilates intracranial arteries that have narrowed and allows the neurointerventionalist to deliver and deploy a stent in one step. We believe this feature will help reduce overall procedural time and cost. We believe that the balloon catheter marker bands combined with the radiopacity of the stent provide for excellent visibility resulting in improved accuracy of deployment.

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We believe that PHAROS™ Rapid Exchange Technology and trackable tip will enable a physician to access tortuous and distal anatomy. In March 2006, we launched the PHAROS™ stent in certain countries outside the United States that recognize the CE Mark. In July 2008, we received FDA conditional approval of our investigational device exemption for the PHAROS™ VISSIT study. The VISSIT study is the first industry sponsored, randomized, prospective clinical trial designed to compare the clinical outcomes between patients who are stented for intracranial ischemic stenosis versus treated with medical therapy. We are in the process of initiating study sites in the United States, Europe and China.

### Access Products

We offer the following products:

● **Courier® Microcatheter.** Our Courier® microcatheter is a device used to deliver microcoils to the aneurysm. Our Courier® microcatheter features our proprietary Endurance™ technology designed to enhance both tip shaping and tip shape retention, both of which are vital to optimal coil delivery. It is available in straight and pre-shaped configurations. Our Courier® Microcatheter has been designed to provide the neurointerventionalist with the ability to navigate the tortuous vasculature of the brain. The microcatheter's design and hydrophilic coating enable a high level of stability, tip shape retention and overall tracking.

● **NeuroPath® Guide catheter.** The NeuroPath® guide catheter uses Progressive Shaft Technology™ and facilitates the smooth delivery of multiple devices from microcatheters, balloons, guidewires and micro coils. It comes in a variety of tip shapes as well as varying sizes. It is currently available in a 5 and 6 french internal diameter and a 90 and 100cm length.

● **Courier® ENZO™ Microcatheter.** Introduced to the United States in 2007 and to Europe in January 2008, the ENZO™ deflectable tip microcatheter is designed to offer improved maneuverability through the brain's tortuous vasculature and to enable in vivo repositioning of the microcatheter in the aneurysm, allowing physicians to more efficiently fill aneurysms, which may lead to improved outcomes. We believe that ENZO™ is the only deflectable tip microcatheter available for use in the neurointerventional market.

● **Ascent™ Balloon Catheter.** The Ascent™ balloon catheter is a coaxial dual lumen balloon catheter designed for use over any 0.014 inch guidewire. It is intended to be used for temporary vascular occlusion and to assist in delivery of microcoils into the aneurysm.

### Microcoil Delivery System and Deployment Mechanism

In addition to the detachable microcoil, our microcoil delivery system is comprised of a DPU, a connecting cable and the EnPower deployment control box. Our DPU is a flexible catheter to which a Micrus microcoil is attached. The DPU allows transport of the microcoil through the vasculature to the brain and final positioning within the aneurysm. Deployment of the microcoil occurs when the neurointerventionalist activates a resistive heater at the tip of the DPU, shearing the polyethylene fiber that holds the microcoil onto the DPU. Our deployment technology results in fast and reliable deployment of the microcoil from the DPU.

### Sales and Marketing

We market our products to interventional neuroradiologists and neurosurgeons who generally practice at centers located in major metropolitan areas. There are currently approximately 300 - 400 neurointerventionalists in the United

States who perform embolic coiling procedures. We believe that less than one-third of these physicians perform a substantial majority of the total number of embolic coiling procedures performed in the United States each year.

We have developed relationships with a number of these neurointerventionalists who perform a large number of cerebral vascular procedures. In fiscal 2009, a substantial portion of our product sales in the United States was to approximately 116 hospitals. In order to encourage the continued adoption of our products, we believe that we need to continue to build and maintain relationships with these neurointerventionalists. We believe that these relationships are enhanced by the presence of our direct sales organization. Sales of embolic coiling products involve a long-term relationship between the sales representative and neurointerventionalist where the sales representative must initially be present for product demonstrations and to monitor procedures. We recruit our sales representatives based on their experience with minimally invasive devices and prior success in the medical device industry. We provide ongoing sales and product training to our employees and distributors and continually monitor their performance. We also market our products at various industry trade shows and conferences.



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In the United States and Canada, we market our products through our direct sales force to neurointerventionalists, while in Europe, we rely on both a direct sales force and a distribution network. In Asia Pacific and Latin America, we market our products through a distribution network. We currently have a North American direct sales force of 37, a European direct sales force of 18, an Asia Pacific direct sales force of four and one direct sales person in Latin America. We may add clinical and sales support personnel at both the direct and distributor level in Asia Pacific and Europe to ensure a high level of global physician support for all our products.

We have entered into agreements with distributors in Italy, Spain and other European countries, as well as portions of the Middle East, Asia and Latin America. Our distributors are experienced in the interventional device markets and have relationships with leading neurointerventionalists and institutions in those countries. Our standard distribution agreement generally (i) provides our distributors with an exclusive right to distribute our products in a certain territory; (ii) restricts them from selling products that are competitive with our products for the limited duration of our agreement with them; (iii) obligates them to obtain the necessary authorizations, licenses and approvals to import, market and distribute our products within the applicable territory; and (iv) obligates them to promote and distribute our products within the applicable territory.

We believe that Japan represents a significant market for our products. On September 30, 2005, we entered into a five-year, exclusive distribution agreement with Goodman to promote and market our products in Japan. In February 2006, we received the requisite local regulatory approvals to sell certain of our products in Japan through Goodman, and the sale of such products in Japan commenced in March 2006. On September 20, 2007, we amended the distribution agreement with Goodman to, among other things, extend the duration of the distribution agreement to six years from the original date of the distribution agreement. In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan, and we received regulatory approval for our Cerecyte® microcoils in July 2008.

Information about our revenues from sales to unaffiliated customers is included in Note 14 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data” of this report.

We generate revenues from sales to hospitals and third-party distributors. Once a sale has occurred, the customer has no right of return. We provide the customers with limited warranty privileges.

Goodman, our distributor in Japan, accounted for 12% and 15% of revenues for the years ended March 31, 2009 and 2007, respectively. No customer accounted for 10% or more of our revenues for the year ended March 31, 2008.

## Research and Development

Our product development efforts are focused on designing microcoils, guidewires, microcatheters, balloons, thrombectomy devices and stents for the treatment of hemorrhagic and ischemic stroke. We are working to develop next generation microcoils to frame and fill the aneurysm more efficiently and thoroughly. Also under development are next-generation balloon expandable stents for the treatment of intracranial atherosclerosis, self-expanding stents and covered stents as well as occlusion balloons to augment the treatment of aneurysms with microcoils.

Additionally, we are developing technologies to treat acute ischemic stroke. In October 2007, we acquired an exclusive license to revascularization technology for the treatment of ischemic stroke through the acquisition of ReVasc from The Cleveland Clinic. In January 2008, we entered into a license, development and commercialization agreement with Genesis. Under the terms of the agreement, we licensed the rights to Genesis’ F.A.S.T. Funnel Catheter

and clot retrieval system for the treatment of ischemic stroke. In April 2008, we entered into a co-development agreement with Chemence to jointly develop a liquid embolic product for the treatment of cerebral aneurysms using Chemence's cyanoacrylate technology, development capabilities and intellectual property.

As of March 31, 2009, we had 36 full-time employees engaged in research and development activities. Research and development expenses for the fiscal years ended March 31, 2009, 2008 and 2007 were \$10.2 million, \$13.7 million and \$7.9 million, respectively.

#### Biotronik Collaboration

In January 2006, we entered into a license, development and distribution agreement with Biotronik, pursuant to which we will collaborate with Biotronik to develop certain neurovascular products and we will be the exclusive worldwide distributor for jointly developed neurovascular products. Biotronik granted us an exclusive license to certain patents, know-how and other proprietary technology in the neurovascular field.

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Under the terms of our agreement, we paid an up-front licensing fee of approximately \$0.6 million to Biotronik and were required to make milestone payments to Biotronik upon receipt of approvals to market stent products we jointly developed for the treatment of neurovascular disease and royalty payments on the products sold. In February 2006, Biotronik received CE Mark authorization for the PHAROS™ stent intended for both the treatment of aneurysms and the treatment of ischemic diseases. As a consequence, we made milestone payments to Biotronik of approximately \$0.7 million in both March and April 2006. We paid an additional cost associated with the PHAROS™ stent development of \$102,000 in the first quarter of fiscal 2007. Additionally, we have incurred royalties to Biotronik of approximately \$169,000, \$150,000 and \$34,000 for the products sold in fiscal 2009, 2008 and 2007, respectively. There is no future milestone payments to Biotronik related to the PHAROS™ stent. Additionally, we will continue to fund ongoing project development based on the terms of this agreement.

### ReVasc Acquisition

In October 2007, we entered into a Stock Purchase Agreement (the “ReVasc Agreement”) with The Cleveland Clinic and acquired ReVasc, a wholly-owned subsidiary of The Cleveland Clinic for an aggregate up-front purchase price of \$1.0 million. Pursuant to the ReVasc Agreement, we also agreed to pay The Cleveland Clinic up to an additional \$5.0 million in payments upon the achievement of certain milestones set forth in the ReVasc Agreement, with minimum milestone payments of at least \$2.0 million due to The Cleveland Clinic by October 2010. The first milestone payment in the amount of \$500,000 was paid in March 2008. The remaining minimum milestone payment of \$1.5 million has been accrued at March 31, 2009.

ReVasc was a party to a license agreement with The Cleveland Clinic (the “ReVasc License Agreement”) pursuant to which The Cleveland Clinic granted ReVasc an exclusive license to its revascularization technology for the treatment of ischemic stroke. In connection with the acquisition, the parties amended the ReVasc License Agreement to provide, among other matters, for the payment to The Cleveland Clinic of certain royalties for sales of products based on the technology subject to the ReVasc License Agreement.

On December 7, 2007, we merged ReVasc into Micrus. Following the merger, Micrus became the direct recipient of the license of the revascularization technology from The Cleveland Clinic under the ReVasc License Agreement. In fiscal 2010, we plan to finalize our development and validation work and intend to perform safety studies outside the United States.

### Genesis Collaboration

In January 2008, we entered into a license, development and commercialization agreement with Genesis. Under the terms of the agreement, we licensed the rights to Genesis’ F.A.S.T. Funnel Catheter, a revascularization platform and clot retrieval system for the treatment of ischemic stroke. In fiscal 2010, we plan to finalize our development and validation work on these Ischemic products and intend to perform safety studies outside the United States. The transaction with Genesis includes an initial up-front payment of \$0.8 million, a development milestone payment of \$150,000, which was paid in October 2008, and royalties on potential future product sales. Additionally, we paid \$351,000 in consulting fees to Genesis in fiscal 2009 for the funnel catheter product development.

### Disposition of Cardiac and Peripheral Catheter Platform Assets

In January 2008, we entered into an Asset Purchase and Supply Agreement (the “Merit Agreement”) with Merit Medical Systems, Inc. (“Merit”) pursuant to which we sold certain cardiac and peripheral catheter platform assets and technology (the “Merit Transaction”). The majority of the assets sold were originally acquired by us in November 2006 in

connection with our purchase of VasCon. Pursuant to the Merit Agreement, we received an up-front payment of \$1.5 million and received an additional \$1.5 million in December 2008 upon the completion of our obligation to help Merit build a production line for coronary guide catheters. Under the terms of the Merit Agreement, we also agreed to manufacture and supply certain guide catheters to Merit for a period of up to one year following the closing. This obligation expired in January 2009, and we no longer supply guide catheters to Merit.

In connection with the Merit Transaction, we also entered into a license agreement granting Merit the right to use certain non-patented intellectual property in the cardiology and peripheral radiology fields and a non-competition agreement, whereby we agreed not to engage in certain competitive business activities in the fields of cardiology and peripheral radiology for a period of five years.

If requested by Merit, we must provide reasonable assistance to help Merit build production lines for peripheral guiding sheaths and/or cardiovascular microcatheters. Merit must inform us within six months following the completion of the coronary guide catheters production line that this assistance will be needed. In October 2008, we amended the Merit Agreement extending the termination date for this obligation to September 30, 2009.

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Though certain elements, namely the acquired assets, licensing rights and the production line assistance for coronary guide catheters, have been delivered to Merit as of March 31, 2009, we are still obligated to deliver the regulatory documentation and production line assistance for the peripheral guiding sheaths and/or cardiovascular microcatheters. We anticipate that the remaining obligations will be completed in the second quarter of fiscal 2010.

### Chemence Collaboration

In April 2008, we entered into a co-development agreement with Chemence to jointly develop a liquid embolic product for the treatment of cerebral aneurysms using Chemence's cyanoacrylate technology, development capabilities and intellectual property. We will be responsible for overseeing the regulatory and clinical process and will be the exclusive worldwide distributor for the neurovascular product developed based on this collaborative agreement. Under the terms of the agreement, we have made an up-front payment of \$100,000 to Chemence and will make additional payments of up to \$200,000 upon achieving certain development milestones.

### Physician Advisors

We rely extensively on our physician advisors to advise on our research and development efforts and to provide feedback on the clinical use of our products. Our advisors are experts in interventional neuroradiology and cerebral vascular diseases. We regularly consult with our physician advisors regarding our research and development efforts, preclinical trials and clinical trials.

Some of our physician advisors have been granted options to purchase shares of our common stock and/or receive a consulting fee. All of our physician advisors are reimbursed for reasonable expenses. In addition, our medical advisors receive compensation for clinical studies they conduct for us. All of our medical advisors are employed by other organizations and may have commitments to or have consulting arrangements with other companies, including our competitors, which may limit their availability to consult with us. Although these advisors may contribute significantly to our business, we generally do not expect them to devote more than a small portion of their time to us. We also routinely seek advice, input and feedback on our products and business from a larger broader group of physicians and advisors, some of whom may also receive appropriate compensation for their time and expert opinions.

### Manufacturing

We manufacture and/or assemble, inspect, test and package all our proprietary microcoils and microcatheters at our headquarters in San Jose, California, or in Miramar, Florida. Most of our non-embolic products are manufactured in Miramar, Florida. As of March 31, 2009, we had 153 employees in manufacturing, quality control, manufacturing engineering and materials and logistics.

We have substantial design, manufacturing and applications engineering expertise in the development of small vessel access and delivery systems and intend to continue to leverage this expertise to develop new products. By designing and manufacturing most of the components of our products, we have been able to maintain greater control of quality and manufacturing process changes. Our microcoils are very small in size, ranging from 1.0 mm to 20.0 mm in diameter and are manufactured using microfabrication techniques. We have developed proprietary manufacturing technologies and processes in the areas of platinum memory shaping, metal fabrication, balloon fabrication and microcatheter and stent fabrication.

Trained product personnel assemble and test each of our components and products in controlled environment rooms. At various assembly stages each lot of product undergoes thorough testing to ensure compliance with applicable

regulations, including Quality System Regulations (“QSR”) requirements in the United States and ISO 13485 certification standards in Europe. These standards specify the requirements necessary for a quality management system to consistently provide product that meet customer requirements and to include processes for achieving the outputs of the quality management system that are required in order to obtain a CE Mark to sell medical devices within the European Union. Our quality assurance group verifies that product fabrication and inspection process steps meet our stringent quality specifications and applicable regulatory requirements. Upon successful completion of these steps, the products are packaged, sterilized and prepared for shipment. We typically ship products as orders are received.

We have implemented quality control systems as part of our manufacturing processes, which we believe are in substantial compliance with United States Good Manufacturing Practices (“GMP”) or QSR requirements. Our San Jose facility has also been inspected by the California Department of Health Services on behalf of the State of California and under contract with the FDA, and is registered with the State of California to manufacture our products. We believe that we are in compliance with the FDA GMP for medical devices, and our facilities are subject to inspection by the FDA. The most recent of such inspections occurred in September 2008 in San Jose and in September 2007 in our Doral facility, prior to the relocation of that plant to Miramar. However, we cannot assure that we will remain in compliance with GMP and our failure to do so could have a material adverse effect on our business, operating results and financial condition.

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We purchase the raw materials required for production from various qualified outside vendors. In addition, the deployment control box is manufactured by an outside supplier. We rely on single sources for some of our critical components, including the deployment control box, the platinum used to manufacture the microcoils and certain custom hypodermic tubing material. In addition, we have a sole source subcontract arrangement for sterilization services. We believe that we have alternative sources for most of the components purchased from single sources currently and generally maintain adequate supply of products to avoid production interruptions. Where we do not have a qualified second source vendor for a product component and depending on the exact component, we believe that it would take us from two days to a month to either manufacture the product component ourselves or have a readily available new supply of the product component. Any unanticipated interruption in the supply of these components and services could have a material adverse effect on us.

### Patents and Proprietary Rights

Our success depends in part on our ability to obtain and maintain proprietary protection for our products, technology and know-how, to operate without infringing on the proprietary rights of others and to prevent others from infringing our proprietary rights. Our policy is to seek protection of our proprietary position by filing United States and foreign patent applications to protect technology, inventions and improvements that are important to our business. We also rely on trade secrets, know-how and continuing technological innovation to develop and maintain our proprietary position. We hold 70 issued United States patents and 104 issued foreign patents expiring between 2015 and 2026. In addition, we have 40 United States and 60 foreign patent applications pending covering various aspects of our products and technology.

The issued patents relate, among other things, to subject matter in the following areas:

- vaso-occlusive microcoils and devices and methods for manufacturing such coils and devices;
- microcoil deployment systems;
- bioactive microcoils;
- intracranial vascular stents;
- catheters for neurovascular intervention;
- embolic clot retrieval devices; and
- bioactive material placement systems and methods.

In addition to developing our own technology, we have obtained licenses to certain patents and other intellectual property, including for materials used as coating on our guidewires and for certain types of coils. These licenses grant us the right to use the licensed patents to make, use and sell products that contain the licensed technology. We pay for these licenses through a combination of fixed payments and royalties on sales of covered products. Each of these licenses continues until expiration of the licensed patents. Payments under these license arrangements currently do not account for a material portion of our expenses.

Although we work aggressively to protect our technology, there is no assurance that any patents will be issued from current pending patent applications or from future patent applications. We also cannot assure that the scope of any

patent protection will exclude competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged, or others will not claim rights in or ownership of our patents and proprietary rights. Furthermore, there can be no assurance that others have not developed or will develop similar products, duplicate any of our products or design around our patents.

The medical device industry has been characterized by extensive litigation regarding patents and other intellectual property rights, and many companies in the industry have employed intellectual property litigation to gain a competitive advantage. In September 2004, Boston Scientific Corporation and Target Therapeutics, Inc., a subsidiary of Boston Scientific Corporation, (collectively, “Boston Scientific”) filed a patent infringement suit against us. On September 22, 2008, we entered into a Settlement and License Agreement (the “Settlement and License Agreement”) with Boston Scientific and a Settlement and Release Agreement (the “Settlement and Release Agreement”) with The Regents of the University of California (the “Regents”) in order to resolve pending patent litigation between Boston Scientific and us (the “Patent Litigation”).



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On October 8, 2008, the Court entered an order dismissing the Patent Litigation with prejudice, as described in greater detail in “Item 3 - Legal Proceedings.” We may in the future be subject to further litigation from other companies in our industry. The defense and prosecution of patent suits, United States Patent and Trademark Office interference proceedings and related administrative proceedings can be costly and time consuming. An adverse determination in our litigation with Boston Scientific or in any other litigation or administrative proceedings with any other third party could subject us to significant liabilities or require us to seek licenses. There is no assurance that any such licenses will be available on satisfactory terms, if at all. Adverse determinations in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling our products, which would have a material adverse effect on our business, operating results and financial condition.

In addition to patents, we rely on trademark, trade secret and other intellectual property laws, nondisclosure agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop and maintain the proprietary aspects of our technologies. We require our employees, consultants and advisors to execute confidentiality agreements in connection with their employment, consulting or advisory relationships with us. We also require our employees, consultants and advisors who we expect to work on our products to agree to disclose and assign to us all inventions conceived while working for us, using our property or which relate to our business. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary.

### Competition

We compete primarily with Boston Scientific, Codman, a division of Johnson & Johnson (“Codman”), ev3/Micro Therapeutics and Terumo/MicroVention. Boston Scientific, Codman and ev3/Micro Therapeutics offer broad product lines consisting of embolic microcoils, microcatheters, stents, balloons and guidewires. Boston Scientific, Codman, ev3/Micro Therapeutics and Terumo/MicroVention currently market a variety of microcatheters which are compatible with our coil systems.

Currently, Boston Scientific is the only company besides Micrus to sell bioactive microcoils. Boston Scientific markets the Matrix coil which features a platinum core coated with an absorbable suture material intended to cause a tissue reaction. Terumo/MicroVention markets the HydroCoil® which is an embolic microcoil that swells in the presence of fluid to provide greater volumetric occlusion to an aneurysm. Codman markets a bare platinum line of microcoils but does not market bioactive or stretch resistant microcoils. Through its acquisition by Terumo, MicroVention now markets microcatheters, guide catheters and guidewires as well, joining Boston Scientific, Codman, ev3 and Micrus in this market segment. Boston Scientific has received from the FDA a Humanitarian Device Exemption (“HDE”) to market stents for the treatment of hemorrhagic and ischemic stroke. Codman has received an HDE to market a stent indicated for the treatment of hemorrhagic stroke.

Boston Scientific, Terumo/MicroVention, ev3 and Codman are all large publicly traded companies or divisions of large publicly traded companies and enjoy several competitive advantages over us, including: greater financial and personnel resources; significantly greater name recognition; established relationships with neurointerventionalists; established distribution networks; greater resources for product research and development; greater experience in, and resources for, launching, marketing, distributing and selling products; and more broad-based and deeper product lines.

We believe that the principal competitive factors in the market for medical devices used in the treatment of cerebral vascular diseases include:

- improved patient outcomes as a result of physician use of the device;

- access to and acceptance by leading physicians;
- depth of product line;
- product quality and reliability;
- ease of use for physicians;
- sales and marketing capability; and
- brand recognition and reputation.

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Our current or potential competitors may succeed in developing technologies and products that are more effective than those developed by us or that would render our products obsolete or noncompetitive. Additionally, there can be no assurance that we will be able to effectively compete with such competitors in the manufacturing, marketing and sale of our products. At any time, other companies may develop alternative treatments, products or procedures for the treatment of cerebral aneurysms that compete directly or indirectly with our products. If alternative treatments prove to be superior to our products, adoption of our products could be negatively affected and our future revenues could suffer.

Our ability to develop safe, effective and reliable products in a timely manner is the key to our competitive position. Consequently, our success will depend on how quickly we are able to respond to medical and technological changes through the development, clinical evaluation and commercialization of new products. Product development involves a high degree of risk and there can be no assurance that our research and development efforts will result in commercially successful products.

### Government Regulation

#### United States

The research, development, manufacture, labeling, distribution and marketing of our products are subject to extensive regulation by the FDA and other regulatory bodies. Our current products are regulated by the FDA as medical devices, and we are required to obtain review and clearance or approval from the FDA prior to commercializing our devices.

#### FDA's Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either prior 510(k) clearance or prior premarket approval ("PMA") from the FDA. The FDA classifies medical devices into one of three classes. Class I devices are subject to general controls (e.g. establishment registration and device listing, labeling, medical devices reporting ("MDR"), 510(k) premarket notification and prohibitions against adulteration and misbranding). Many class I devices are exempt from 510(k) premarket notification. Class II medical devices are subject to both general controls and special controls and typically require prior 510(k) clearance before they may be commercially marketed. The FDA will clear marketing of a medical device through the 510(k) process if it is demonstrated that the new product is substantially equivalent to another legally marketed device, including a 510(k)-cleared product, and otherwise meets the FDA's requirements. Devices deemed by the FDA to pose a great risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a legally marketed device are placed in class III, most of which require premarket approval. Both premarket clearance and premarket approval applications are subject to the payment of user fees, paid at the time of submission for FDA review. The FDA officially reclassified neurovascular embolization devices such as our microcoils products to class II medical devices effective January 28, 2005. For our microcoil products, catheter products and guidewire product, we have obtained multiple 510(k) clearances.

#### 510(k) Clearance

To obtain 510(k) clearance, we must submit a premarket notification demonstrating that the proposed device is substantially equivalent to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of premarket approval applications. The FDA's 510(k) clearance pathway usually takes from three to twelve months from the date the application is submitted, but it can take significantly longer.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a significant change in its intended use, will require a new 510(k) clearance or could require premarket approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or premarket approval is obtained. If the FDA requires us to seek 510(k) clearance or premarket approval for any modifications to a previously cleared product, we may be required to cease marketing or recall the modified device until we obtain this clearance or approval. Also, in these circumstances, we may be subject to significant regulatory fines or penalties.

#### Premarket Approval

A PMA application must be submitted if the device cannot be cleared through the 510(k) process. A PMA application must be supported by extensive data including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use.

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After a PMA application is accepted for filing, the FDA begins an in-depth review of the submitted information, which generally takes between one and three years, but may take significantly longer. During this review period, the FDA may request additional information or clarification of information already provided. Also during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. In addition, the FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with quality system regulations. New PMA applications or PMA supplements are required for significant modifications to the manufacturing process, labeling or design of an approved device. PMA supplements often require submission of the same type of information as a PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application, and may not require as extensive clinical data or the convening of an advisory panel.

### Continuing FDA Regulation

After a device is placed on the market, numerous regulatory requirements apply. These include:

• quality system regulation (QSR), which requires manufacturers to follow design, testing, control, documentation and other quality assurance procedures during the manufacturing process (otherwise known as Good Manufacturing Practices or GMPs);

• labeling regulations, which prohibit the promotion of products for unapproved or “off-label” uses and impose other restrictions on labeling; and

• medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- fines, injunctions, and civil penalties;
- recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing our request for 510(k) clearance or premarket approval of new products;
- withdrawing 510(k) clearance or premarket approvals that are already granted; and
- criminal prosecution.

We are also subject to unannounced inspections by the FDA and the Food and Drug Branch of the California Department of Health Services, and these inspections may include the manufacturing facilities of our subcontractors.

### International

International sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain market authorization by a foreign country may be longer or shorter than that required for FDA market authorization, and the requirements may differ. For example, in China, we have submitted market applications for our microcoils and the PHAROS™ intracranial stent. The regulatory process in China includes administrative review of technical documentation, test reports and labeling and also physical testing of products to test standards before a license for commercial distribution is granted. The regulations in Central and South American countries vary substantially from country to country. We have received market authorizations for our microcoils and certain other products in the following Central and South American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Venezuela.

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The primary regulatory environment in Europe is that of the European Union, which consists of countries encompassing most of the major countries in Europe. The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling, and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout Europe. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a “Notified Body.” This third-party assessment may consist of an audit of the manufacturer’s quality system and specific testing of the manufacturer’s product. An assessment by a Notified Body in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union.

In Japan, medical devices must be approved prior to importation and commercial sale by the MHLW. Manufacturers of medical devices outside of Japan must utilize a contractually bound Japanese entity to submit an application for device approval to the MHLW. The MHLW evaluates each device for safety and efficacy. As part of its approval process, the MHLW may require that the product be tested in Japanese laboratories. The approval process for products such as our existing microcoil products is typically 12-15 months once an application has been accepted for review. Other medical devices may require a longer review period for approval. Once approved, the manufacturer may import the device into Japan for sale by the manufacturer’s contractually bound importer or distributor.

After a device is approved for importation and commercial sale in Japan, the MHLW continues to monitor sales of approved products for compliance with labeling regulations, which prohibit the promotion of devices for unapproved uses and reporting regulations, which require reporting of product malfunctions, including serious injury or death caused by any approved device. Failure to comply with applicable regulatory requirements can result in enforcement action by the MHLW, which may include fines, injunctions, and civil penalties, recall or seizure of our products, operating restrictions, partial suspension or total shutdown of sales in Japan, or criminal prosecution.

In addition to MHLW oversight, the regulation of medical devices in Japan is also governed by the Japanese Pharmaceutical Affairs Law (“PAL”). PAL was substantially revised in July 2002, and the new provisions were implemented in stages through April 2005. Revised provisions of the approval and licensing system of medical devices in Japan, which constitutes the core of import regulations, came into effect on April 1, 2005. The revised law changes class categorizations of medical devices in relation to risk, introduces a third party certification system, strengthens safety countermeasures for biologically derived products, and reinforces safety countermeasures at the time of resale or rental. The revised law also abolishes the ICC system and replaces it with the “primary distributor” system. Under the revised PAL, manufacturers outside of Japan must now appoint a “primary distributor” located in Japan that holds a primary distributor license for medical devices to provide primary distribution services, including conducting quality assurance and safety control tasks for each product at the time an application for the approval of such product is submitted to the MHLW. We are unable at this time to determine the impact of such changes on our approved products, products for which we have already applied for approval in Japan or future products. We do not anticipate that these changes will have a material impact on our existing level of third-party reimbursement for sales of our products in Japan.

### Third-Party Reimbursement

We believe that the procedures performed using our products are generally already reimbursable under government programs and most private health insurance plans. Accordingly, we believe that providers in the United States will generally not be required to obtain new billing authorizations or codes in order to be compensated for performing medically necessary procedures using our products on insured patients or patients covered under government

programs such as Medicare and Medicaid. We also believe that our procedures will be generally reimbursable under governmental programs and private health insurance plans in Japan. In Japan, we are required to obtain regulatory clearance for our products to be eligible for reimbursements by third party payors, even though reimbursement for embolic coiling procedure is already in place. In China, there is only limited healthcare reimbursement available for the treatment of stroke.

We cannot assure that reimbursement policies of third party payors will not change in the future with respect to some or all of the procedures using our products and systems. See “Item 1A - Risk Factors” — If neurointerventionalists are unable to obtain sufficient reimbursement for procedures performed with our products, it is unlikely that our products will be widely used” for a discussion of various risks associated with reimbursement from third party payors.



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### Product Liability and Insurance

We maintain general liability insurance, product liability insurance, directors and officers liability insurance, workers compensation insurance and other insurance coverage that we believe are customary in type and amounts for the business of the type we operate. Medical device companies are subject to an inherent risk of product liability and other liability claims in the event that the use of their products results in personal injury claims. Any such claims could have an adverse impact on us. There can be no assurance that product liability or other claims will not exceed such insurance coverage limits or that such insurance will continue to be available on commercially acceptable terms, if at all.

### Environmental

Our company is subject to a variety of federal, state and local environmental protection measures. We believe that our operations comply in all material respects with applicable environmental laws and regulations. Our compliance with these requirements did not during the past fiscal year, and is not expected to have a material effect upon our capital expenditures, cash flows, earnings or competitive position. Given the scope and nature of these laws, however, there can be no assurance that our compliance with environmental laws and regulations will not have a material impact on our results of operations.

### Employees

As of March 31, 2009, in the United States we had 298 full time employees, including 52 in sales and marketing, 153 in operations and manufacturing, 36 in research and development, 18 in quality assurance and regulatory compliance, and 39 in general and administrative functions. As of March 31, 2009, we had 35 employees in Europe, including 22 in sales and marketing and 13 in general and administrative functions. None of our employees are represented by a collective bargaining agreement and we have never experienced a work stoppage.

### Seasonality

Our worldwide sales do not reflect any significant degree of seasonality; however, in Europe we traditionally experience somewhat lower demand in the second fiscal quarter than throughout the rest of the fiscal year as a result of the European summer holiday schedule.

### Available Information

We are required to file reports under the Exchange Act with the Securities and Exchange Commission (the "SEC"). You may read and copy our materials on file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information regarding the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements and other information.

You may also obtain copies of our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC free of charge by visiting the investor relations page on our website, [www.micrusendovascular.com](http://www.micrusendovascular.com). Information contained on our website is not part of this annual report on Form 10-K.

### Item 1A. Risk Factors.



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Current worldwide economic conditions may adversely affect our business, operating results and financial condition, as well as further decrease our stock price.

General worldwide economic conditions have experienced a downturn due to the effects of the subprime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Our business is not immune. Some of the procedures that use our products are elective and therefore can be deferred by patients. In light of the current economic conditions, patients who do not have insurance covering the total cost of elective procedures may chose to defer or forego them. In addition, in the U.S. and other countries where healthcare coverage is heavily dependent on employment status, increasing numbers of patients may have no or reduced healthcare coverage.

The worldwide economic crisis also may have other adverse implications on our business. For example, our customers' and distributors' ability to borrow money from their existing lenders or to obtain credit from other sources to purchase our products may be impaired. Although we maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments and such losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same loss rates that we have in the past, especially given the current turmoil in the worldwide economy. A significant change in the liquidity or financial condition of our customers could cause unfavorable trends in our receivable collections and additional allowances may be required, which could adversely affect our operating results. In addition, the worldwide economic crisis may adversely impact our suppliers' ability to provide us with materials and components, which could adversely affect our business and operating results. Like the stock prices of many other companies, our stock price has decreased substantially recently and if investors have concerns that our business, operating results and financial condition will be negatively impacted by a worldwide economic downturn, our stock price could further decrease.

Our future success is dependent on the continued growth in embolic coiling procedures and our ability to convince a concentrated customer base of neurointerventionalists to use our products as an alternative to other available products.

Our future success and revenue growth are significantly dependent upon an increase in the use of embolic coiling as a procedure to treat cerebral aneurysms. If the number of embolic coiling procedures does not increase or if a new procedure that does not employ our products becomes a more acceptable alternative among neurointerventionalists, our business would be seriously harmed.

The number of interventional neuroradiologists and neurosurgeons trained to conduct embolic coiling procedures is relatively small, both in the United States and abroad. There are currently approximately 300 neurointerventionalists in the United States who perform embolic coiling procedures. We believe that less than one-third of these physicians perform a substantial majority of the total number of embolic coiling procedures per year. For the year ended March 31, 2009, a substantial portion of our product sales in the United States were to approximately 116 hospitals. The growth in the number of interventional neuroradiologists and neurosurgeons in the United States is constrained by the lengthy training programs required to educate these physicians. Accordingly, our revenue growth will be primarily dependent on our ability to increase sales of our products to our existing customers and to increase sales of products to trained neurointerventionalists that currently use products offered by our competitors. We believe that neurointerventionalists who do not currently use our products will not widely adopt our products unless they determine, based on experience, clinical data and published peer reviewed journal articles, that our products provide benefits or an attractive alternative to the clipping of aneurysms or the use of competitors' products. We believe that neurointerventionalists base their decision to use an alternative procedure or product on the following criteria, among others:

- extent of clinical evidence supporting patient benefits;
- their level of experience with the alternative product;
- perceived liability risks generally associated with the use of new products and procedures;
- availability of reimbursement within healthcare payment systems; and
- costs associated with the purchase of new products and equipment.

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In addition, we believe that recommendations and support of our products by influential physicians are essential for market acceptance and adoption. If we do not receive continued support from such influential physicians, neurointerventionalists and hospitals may not use our products. In such circumstances, we may not achieve expected revenue levels and our business will suffer.

Our industry is experiencing increased scrutiny by governmental authorities, which has led to increased compliance costs and potentially more rigorous regulation

The medical device industry is subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. These authorities have been increasing their scrutiny of certain activities of medical device companies, including their conduct of clinical trials, their handling of conflicts of interests and financial arrangements with health care providers and consultants, and their product promotional practices. We anticipate that government authorities will continue to scrutinize our industry closely and we may be subject to more rigorous regulation by governmental authorities in the future. This increased government scrutiny has lead us to incur increased costs on compliance, human resources costs and the diversion of management and employee focus and we anticipate that such costs will continue to increase. Though we have adopted a number of compliance procedures in response to the increased scrutiny, we cannot assure that our activities will not be subject to inquiry or greater action or oversight by governmental authorities or that we will be able to comply with any new regulations. Any failure by us to adopt appropriate compliance procedures and ensure that our employees and agents comply with applicable laws and regulations could result in substantial penalties and/or restrictions in our business activities and the sales of our products.

The fourth quarter of fiscal year 2009 marked our first profitable quarter, but there is no assurance that we will continue to be profitable in the foreseeable future.

We were incorporated in the State of Delaware in 1996, and began commercial sales of our microcoil products in 2000. We have incurred annual net losses since our inception, including net losses of \$11.1 million, \$16.3 million, and \$5.5 million in fiscal 2009, 2008, and 2007, respectively. At March 31, 2009, we had an accumulated deficit of \$82.4 million. There is no assurance that we will continue to be profitable in the foreseeable future as we expect our operating expenses to increase as we, among other things:

- grow our internal and third-party sales and marketing forces to expand the sales of our products in the United States and internationally;
- increase our research and development efforts to improve upon our existing products and develop new products;
- perform clinical research and trials on our existing products and product candidates;
- expand our regulatory resources in order to obtain governmental approvals for our existing product enhancements and new products;
- acquire and/or license new technologies; and
- expand manufacturing.

As a result of these activities, we may not be able to sustain or increase profitability on an ongoing basis.

Our quarterly operating and financial results and our gross margins are likely to fluctuate significantly in future periods.

Our quarterly operating and financial results are difficult to predict and may fluctuate significantly from period to period. The level of our revenues, gross margins and results of operations at any given time will be based primarily on the following factors:

- neurointerventionalist and patient acceptance of our products;
- changes in the number of embolic coiling procedures performed to treat cerebral aneurysms;
- the seasonality of our product sales;
- the mix of our products sold;

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- stocking patterns for distributors;
- the development of new procedures to treat cerebral aneurysms;
- results of clinical research and trials on our existing products and products in development;
- demand for, and pricing of, our products;
- levels of third-party reimbursement for our products;
- timing of new product offerings, acquisitions, licenses or other significant events involving us or our competitors;
- increases in the costs of manufacturing and selling our products;
- the amount and timing of our operating expenses;
- litigation expenses;
- fluctuations in foreign currency exchange rates;
- regulatory approvals and legislative changes affecting the products we may offer or those of our competitors;
- the effect of competing technological and market developments;
- changes in our ability to obtain and maintain FDA and other domestic and foreign regulatory approval or clearance for our products;
- inventory adjustments we may have to make in any quarter;
- interruption in the manufacturing or distribution of our products;
- our ability to maintain and expand our sales force and operational personnel;
- the ability of our suppliers to timely provide us with an adequate supply of materials and components; and
- amount and timing of capital expenditures and other costs relating to any potential expansion of our operations.

Many of the products we may seek to develop and introduce in the future will require FDA approval or clearance and will be required to meet similar regulatory requirements in other countries where we seek to market our products, without which we cannot begin to commercialize them. Forecasting the timing of sales of our products is difficult due to the delay inherent in seeking FDA and other clearance or approval, or the failure to obtain such clearance or approval. In addition, we will be increasing our operating expenses as we build our commercial capabilities. Accordingly, we may experience significant, unanticipated quarterly losses. Because of these factors, our operating results in one or more future quarters may fail to meet the expectations of securities analysts or investors, which could cause our stock price to decline significantly.

We may not be able to develop new products or product enhancements that will be accepted by the market.

Our success will depend in part on our ability to develop and introduce new products and enhancements to our existing products. We cannot assure that we will be able to successfully develop or market new products or that any of our future products will be accepted by the neurointerventionalists who use our products or the payors who reimburse for many of the procedures performed with our products. The success of any new product offering or enhancement to an existing product will depend on several factors, including:

- our ability to properly identify and anticipate neurointerventionalist and patient needs;
- our ability to develop new products or enhancements in a timely manner;



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- our ability to obtain the necessary regulatory approvals for new products or product enhancements;
- our ability to provide adequate training to potential users of our products;
- our ability to receive adequate reimbursement for our procedures;
- results of clinical research and trials on our existing products and products in development;
- demand for, and pricing of, our products;
- levels of third-party reimbursement for our products; and
- our ability to develop an effective marketing and distribution network.

If we do not develop new products or product enhancements in time to meet market demand or if there is insufficient demand for our products or enhancements, we may not achieve expected revenue levels and our business will suffer.

Our relationships with physicians and other consultants require us to comply with a number of United States and international regulations.

We are required to comply with a number of United States and international laws and regulations related to our financial relationships with physicians and other healthcare providers. In addition, we must comply with the Foreign Corrupt Practices Act (“FCPA”) which prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing him or her to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. While we have taken numerous steps to ensure compliance with these laws and regulations, they are subject to evolving interpretations, making it difficult to ensure compliance. If we are found to be in violation of any of these laws or regulations, we may face serious consequences, including civil and criminal penalties for us and our officers and directors, exclusion of our products from government-funded healthcare programs, termination of customer contracts, and reputational harm.

In August 2004, while reviewing our sales and payment procedures, we identified certain payments we made to physicians located in France, Germany, Spain and Turkey that may have violated the applicable laws in those foreign jurisdictions and may possibly have violated laws in Switzerland, where our Swiss subsidiary is located. We are not able to determine at this time what penalties or other sanctions, if any, authorities in France, Germany, Spain, or Turkey may impose on us, as a result of such violations. Such amounts could be material to our financial position, results of operations or cash flows. We have been notified by the Swiss Federal Prosecutor that it does not intend to bring any action or impose any penalties on us relating to our activities in Switzerland. The payments were disclosed to the United States Department of Justice in 2004 and resulted in our entry into a Deferred Prosecution Agreement, which is described in our prior filings with the SEC and which expired in 2008.

We operate in a highly competitive market segment, face competition from large, well-established medical device manufacturers with significant resources, and may not be able to increase penetration in our markets or otherwise compete effectively.

The market for medical devices for treatment of cerebral vascular diseases is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. We compete primarily with the Target Therapeutics division of Boston Scientific, the market leader, as well as

Codman, ev3/Micro Therapeutics and Terumo/MicroVention. At any time, other companies may develop alternative treatments, products or procedures for the treatment of cerebral aneurysms that compete directly or indirectly with our products. If alternative treatments prove to be superior to our microcoil or other products, continued use or adoption of our products could be negatively affected and our future revenues could suffer.

In addition, most of our current and potential competitors are either large publicly traded or divisions or subsidiaries of large publicly traded companies and enjoy several competitive advantages over us, including:

- greater financial and personnel resources;
- significantly greater name recognition;

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- established relationships with neurointerventionalists;
- established distribution networks;
- greater experience in obtaining and maintaining FDA, and other regulatory approvals for products and product enhancements, and greater experience in developing compliance programs for compliance with numerous federal, state, local and similar laws in non-United States jurisdictions;
- greater resources for product research and development;
- greater experience in, and resources for, launching, marketing, distributing and selling products; and
- broader product lines.

Except for our agreements with our distributors, we have no material long-term purchase agreements with our customers, who may at any time switch to the use of our competitors' products.

For these reasons, we may not be able to compete successfully against our current or potential future competitors and sales of our products and our revenues may decline.

Our sales in international markets subject us to foreign currency exchange and other risks and costs that could harm our business.

A substantial portion of our revenues are derived from outside the United States. For the fiscal years ended March 31, 2009, 2008 and 2007, revenues from customers outside the United States represented approximately 50%, 51% and 51%, respectively, of our revenues. We anticipate that revenues from international customers will continue to represent a substantial portion of our revenues as we continue to expand in new international markets including China and Japan. Because we generate revenues in foreign currencies, we are subject to the effects of exchange rate fluctuations. For the fiscal year ended March 31, 2009, approximately 31% of our revenues were denominated in currencies other than the U.S. dollar. The functional currency of our Swiss subsidiary is the Swiss franc. The functional currency of our UK subsidiary is the British pound.

In Europe, our revenues are denominated in Swiss francs, euros, British pounds and U.S. dollars. Accordingly, we are exposed to market risk related to changes between the Swiss franc and these other currencies in which we conduct business. If the Swiss franc appreciates against the currencies in which our receivables are denominated, we will recognize foreign currency losses. For the preparation of our consolidated financial statements, the financial results of our Swiss and UK subsidiaries are translated into U.S. dollars based on average exchange rates during the applicable period. If the U.S. dollar appreciates against the Swiss franc and British pound, the revenues we recognize from sales by our European subsidiaries will be adversely impacted.

Historically, we have also been exposed to risks from fluctuations in currency exchange rates due to intercompany loans made to Micrus Endovascular SA ("Micrus SA"), our Swiss subsidiary, in 2001 in connection with its incorporation. These loans are denominated in Swiss francs and will fluctuate in value against the U.S. dollar, causing us to recognize foreign exchange gains and losses. Foreign exchange gains or losses as a result of exchange rate fluctuations in any given period could harm our operating results and negatively impact our revenues. Additionally, if the effective price of our products were to increase as a result of fluctuations in foreign currency exchange rates, demand for our products could decline and adversely affect our results of operations and financial condition.

In fiscal 2009, we entered into foreign currency forward contracts to buy U.S. dollars to minimize the impact of the currency movements on intercompany payables for our Micrus SA subsidiary. We use derivative instruments only for risk management purposes and do not use them for speculation or for trading. Our hedging activities involve risk and may not limit our underlying exposure from currency fluctuations or minimize our net sales and earnings volatility associated with foreign currency exchange rate changes.

We are subject to various additional risks as a consequence of doing business internationally which could harm our business, including the following:

- unexpected delays or changes in regulatory requirements;

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- local economic and political instability or other potentially adverse conditions;
- lack of experience in certain geographical markets;
- increased difficulty in collecting accounts receivables in certain foreign countries;
- delays and expenses associated with tariffs and other trade barriers;
- difficulties and costs associated with attracting and maintaining third party distributors;
- compliance with foreign laws and regulations; and
- adverse tax consequences or overlapping tax structures.

If we fail to increase our direct sales force in a timely manner, our business could suffer.

We have a limited domestic and international direct sales force. We also have a distribution network for sales in the major markets in Europe, Latin America, Asia and the Middle East. As we launch new products and increase our marketing efforts with respect to existing products, we will need to expand the number of our direct sales personnel on a worldwide basis. The establishment and development of a more extensive sales force will be expensive and time consuming. There is significant competition for sales personnel experienced in interventional medical device sales. If we are unable to attract, motivate and retain qualified sales personnel and thereby increase our sales force, we may not be able to increase our revenues.

If we fail to properly manage our anticipated growth, our business could suffer.

We have experienced, and may continue to experience, periods of rapid growth and expansion, which have placed, and will likely continue to place, a significant strain on our limited personnel and other resources. In particular, the expansion of our fabrication facility and the continuing expansion of our direct sales force will require significant management, technical and administrative resources. Any failure by us to manage our growth effectively could have an adverse effect on our ability to achieve our development and commercialization goals.

To achieve our revenue goals, we must successfully increase production in our fabrication facility as required by customer demand. We may in the future experience difficulties in increasing production, including problems with production yields and quality control and assurance and in satisfying and maintaining compliance with regulatory requirements. These problems could result in delays in product availability and increases in expenses. Any such delay or increased expense could adversely affect our ability to generate revenues.

Future growth will also impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees. In addition, rapid and significant growth will place a strain on our administrative and operational infrastructure. In order to manage our operations and growth we will need to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy and our operating results and business could suffer.

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and are exposed to future risks of non compliance.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”), we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. The report must also contain a statement that our independent registered public accounting firm has issued an attestation report on the effectiveness of internal control over financial reporting.

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We completed our assessment of our internal control over financial reporting as required by Section 404 for the fiscal year ended March 31, 2009. Our assessment, testing and evaluation resulted in our conclusion that as of March 31, 2009, our internal control over financial reporting was effective. Our independent registered accounting firm has also expressed the opinion that our internal controls over financial reporting were effective during that period. However, our controls may not prove to be adequate for the future periods, and we cannot predict the outcome of our testing in future periods. If our internal controls are deemed to be ineffective in future periods, our financial results or the market price of our stock could be adversely affected. In any event, we will incur additional expenses and commitment of management's time in connection with further evaluations, which may adversely affect our future operating results and financial condition.

Our future capital needs are uncertain and we may need to raise additional funds in the future, and such funds may not be available on acceptable terms or at all.

We believe that our current cash position, together with the cash to be generated from expected product sales and the funds available under our credit facility (subject to compliance with conditions and covenants of the credit agreement) will be sufficient to meet our projected operating requirements for at least the next 12 months. However, after such period we may be required to seek additional funds from public and private stock or debt offerings, borrowings under lease lines or other sources. Our capital requirements will depend on many factors, including:

- the revenues generated by sales of our products;
- the costs associated with expanding our sales and marketing efforts;
- the expenses we incur in manufacturing and selling our products;
- the costs of developing and acquiring new products or technologies;
- the cost of obtaining and maintaining FDA and other domestic and foreign approval or clearance of our products and products in development;
- the expenses we incur related to compliance with the United States FCPA and laws and regulations in non-United States jurisdictions;
- costs associated with compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations affecting public companies promulgated by the SEC and The NASDAQ Stock Market;
- the costs associated with our facilities expansion, if any; and
- the costs associated with increased capital expenditures.

As a result of these factors, we may need to raise additional funds, and such funds may not be available on favorable terms, or at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our potential products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities,

or respond to competitive pressures or unanticipated customer requirements. In these events, our ability to achieve our development and commercialization goals would be adversely affected.

We face a risk of non-compliance with certain financial covenants in our credit agreement with Wells Fargo Bank. If we are unable to meet the financial or other covenants under the credit agreement or negotiate future waivers or amendments of the covenants, an event of default would occur under the credit agreement, which would give Wells Fargo Bank a range of remedies, including without limitation declaring all outstanding debt to be immediately due and payable, foreclosing on the assets securing the obligation arising under the credit agreement and/or ceasing to provide the additional revolving loans, which could have a material adverse effect on us.

On November 5, 2008, we entered into a credit agreement with Wells Fargo Bank to provide us with a revolving line of credit (the "Credit Agreement"). The Credit Agreement provides for maximum borrowings outstanding at any time in an amount of up to \$15.0 million. As of March 31, 2009, we had outstanding borrowings of \$2.5 million under the Credit Agreement. If borrowings under the Credit Agreement exceed \$7.5 million, all borrowings are subject to a borrowing base which is based on eligible accounts receivable.



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Borrowings are secured by a first priority security interest in all of our assets (except for certain permitted liens that are senior to the Wells Fargo Bank's security interest). At our option, borrowings bear interest at either 2.25% over the bank's prime rate or 3.50% over the one-month, two-month or three-month LIBOR. The Credit Agreement requires that we comply with certain financial and other covenants for borrowings to be permitted. The more significant financial covenants include (i) maintaining a minimum modified quick ratio and (ii) achieving not more than a certain amount of loss through March 31, 2009, and thereafter a minimum profitability, in each case excluding certain non-cash items. On May 20, 2009, we amended the Credit Agreement with Wells Fargo Bank extending the maturity date to August 1, 2010 and adjusting the minimum limits for the financial covenants based on our financial forecast for fiscal 2010.

Although we were in compliance with all covenants at March 31, 2009, it is possible that we may not be in compliance or failure to comply with certain covenants or other agreements in the future. If we are unable to meet the financial or other covenants under the Credit Agreement or negotiate future waivers or amendments of such covenants, an event of default could occur under the Credit Agreement. Upon the occurrence and during the continuance of an event of default under the Credit Agreement, Wells Fargo Bank has available a range of remedies customary in these circumstances, including without limitation declaring all outstanding debt, together with accrued and unpaid interest thereon, to be immediately due and payable, foreclosing on the assets securing the obligations arising under the Credit Agreement and/or ceasing to provide additional revolving loans, which could have a material adverse effect on us.

If we choose to acquire new and complementary businesses, products or technologies instead of developing them ourselves, we may be unable to complete these acquisitions or to successfully integrate them in a cost effective and non-disruptive manner.

Our success depends on our ability to continually enhance and broaden our product offerings in response to changing customer demands, competitive pressures and technologies. We may in the future pursue the acquisition of additional complementary businesses, products or technologies instead of developing them ourselves. We do not know if we will be able to successfully complete any such acquisitions, or whether we will be able to successfully integrate any acquired business, product or technology or retain any key employees. Integrating any business, product or technology we acquire could be expensive and time consuming, disrupt our ongoing business and distract our management. If we are unable to integrate any acquired businesses, products or technologies effectively, our business will suffer. In addition, any amortization or charges resulting from the costs of acquisitions could harm our business and operating results.

Our operations are subject to environmental, health and safety, and other laws and regulations, with which compliance is costly and which expose us to penalties for non-compliance.

Our business, properties and products are subject to foreign, federal, state and local laws and regulations relating to the protection of the environment, natural resources and worker health and safety and the use, management, storage, and disposal of hazardous substances, wastes, and other regulated materials. Because we operate real property, various environmental laws also may impose liability on us for the costs of cleaning up and responding to hazardous substances that may have been released on our property, including releases unknown to us. These environmental laws and regulations also could require us to pay for environmental remediation and response costs at third-party locations where we disposed of or recycled hazardous substances. The costs of complying with these various environmental requirements, as they now exist or may be altered in the future, could adversely affect our financial condition and operating results.

We are dependent on single source suppliers for components and materials used in our devices, and the loss of any of these suppliers, or their inability to supply us with an adequate supply of materials, could harm our business.

We rely on third-party suppliers for components and materials used in our products and rely on single sources for many of the microcoil and delivery system components, including tubing, connectors and sterilization services. Our dependence on third-party suppliers involves several risks, including limited control over pricing, availability, quality, delivery schedules and supplier compliance with regulatory requirements. Any delays in delivery of such components or provision of such services or shortages of such components could cause delays in the shipment of our products, which could significantly harm our business. We generally acquire our single source components pursuant to purchase orders placed in the ordinary course of business, and we have no guaranteed supply arrangements with any of our single source suppliers. Because of our reliance on these vendors, we may also be subject to increases in component costs. These increases could significantly harm our business. For us to be successful, our third-party suppliers must also be able to provide us with the materials and components of our products in substantial quantities, in compliance with regulatory requirements, in accordance with agreed upon specifications, at acceptable cost and on a timely basis. Our anticipated growth may strain the ability of suppliers to deliver an increasingly large supply of materials and components.

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If we are unable to obtain sufficient quantities of high quality components and materials to meet customer demand on a timely basis, we could lose customers, our reputation may be harmed and our business could suffer. If any one or more of our third-party suppliers cease to provide us with sufficient quantities of our materials or components in a timely manner or on terms acceptable to us, we would have to seek alternative sources of supply. We could incur delays while we locate and engage alternative qualified suppliers and we might be unable to engage alternative suppliers on favorable terms. Any such disruption or increased expenses could harm our commercialization efforts and adversely affect our ability to generate revenues.

We rely on independent contract manufacturers for the manufacture and assembly of certain of our products and components. Reliance on independent contract manufacturers involves several risks, including the potential inadequacy of capacity, the unavailability of or interruptions in access to certain process technologies and reduced control over product quality, compliance with regulatory requirements, delivery schedules, manufacturing yields and costs. Such manufacturers have possession of and at times title to molds for certain manufactured components of our products. Shortages of raw materials, production capacity constraints or delays by our contract manufacturers could negatively affect our ability to meet our production obligations and result in increased prices for affected parts. Any such reduction, constraint or delay may result in delays in shipments of our products or increases in the prices of components, either of which could have a material adverse effect on our business, operating results and financial condition. We have no supply agreements with our current contract manufacturers and utilize purchase orders which are subject to supplier acceptance. The unanticipated loss of any of our contract manufacturers could cause delays in our ability to deliver product while we identify and qualify a replacement manufacturer. If our current or future independent contract manufacturers are unable to meet our requirements for manufactured components, our business could suffer.

Our operations are currently conducted at several locations that may be at risk from earthquakes or other natural disasters.

We currently conduct our manufacturing, development and management activities at two locations in Silicon Valley, California, near known earthquake fault zones, and in Miramar, Florida, where there is a risk of hurricanes. We have taken precautions to safeguard our facilities, including insurance, health and safety protocols, and off-site storage of computer data. However, any future natural disaster, such as an earthquake or hurricane, could cause substantial delays in our operations, damage or destroy our equipment or inventory, and cause us to incur additional expenses. A disaster could seriously harm our business and results of operations.

If we are unable to effectively manage our inventory held on consignment by our intended customers, we will not achieve our expected results.

A significant portion of our inventory is held on consignment by hospitals that purchase the inventory as they use it. In these consignment locations, we do not have physical possession of the consigned inventory. We therefore have to rely on information from our customers as well as periodic inspections by our sales personnel to determine when our products have been used. We have in the past experienced problems managing appropriate consigned inventory levels and as a result we recorded an impairment of inventory for anticipated obsolescence in fiscal 2004 and an impairment of excess inventory in both fiscal 2004 and 2005. If we are not able to effectively manage appropriate consigned inventory levels, we may suffer inventory losses that will reduce our gross profit levels. There can be no assurance that any efforts to strengthen our monitoring and management of consigned inventory will be adequate to meaningfully reduce the risk of inventory loss.

We are dependent on our senior management team, key clinical advisors and scientific personnel, and the loss of any of them could harm our business.

Our continued success depends in part upon the continued availability and contributions of our senior management team and the continued participation of our key clinical advisors. We have entered into agreements with certain members of our senior management team, but none of these agreements guarantee the services of the individual for a specified period of time. We also rely on the skills and talents of our scientific personnel because of the complexity of our products. The loss of members of our senior management, key clinical advisors or scientific personnel, or our inability to attract or retain other qualified personnel or advisors could have a material adverse effect on our results of operations and financial condition.

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The medical device industry is characterized by patent litigation, which could be costly, result in the diversion of management's time and efforts and require us to pay damages.

The medical device industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Accordingly, we may in the future be subject to further litigation and administrative proceedings over such rights with other companies in our industry. Our competitors may assert that at least one of our products, its components, or the methods we employ in the use or manufacture of our products are covered by and infringe the competitors' United States or foreign patents held by them. In addition, should our patents or applications have claims that encompass the same scope as claims pending or issued to a third party competitor, that third party may claim that its claims have priority over ours because they invented the claimed subject matter first. Because patent applications generally take many years to issue, there may be third party applications presently pending of which we are unaware, that may in the future result in issued patents that at least one of our products, its components, or the methods we employ in the use or manufacture of our product(s) may infringe. There could also be issued patents that one or more components of our products may inadvertently be infringing, of which we are unaware. As the number of participants in the market for cerebral vascular treatments and the number of issued patents in this technology area grows, the possibility of being charged with patent infringement increases.

Any infringement claims against us may cause us to incur substantial costs, could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. If the relevant patent claims are upheld as valid and enforceable and we are found to infringe, we could be required to pay substantial damages and/or royalties and could be prevented from selling our products unless we could obtain a license or were able to redesign our products to avoid infringement. Any such license may not be available on reasonable terms, if at all. If we fail to obtain any required licenses or make any necessary changes to our products or technologies, we may be unable to commercialize one or more of our products or practice the methods we employ in the use or manufacture of our products.

Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain.

Our success depends significantly on our ability to procure proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these legal means afford only limited protection and may not be sufficient to adequately protect our intellectual property or permit us to gain or keep any competitive advantage. For example, any of our pending United States or foreign patent applications may ultimately not issue as a patent or, alternatively, may issue with claims that are of little or no value to us. In addition, once issued, a valuable patent may be challenged successfully by third parties and invalidated. In addition, our patent protection for material aspects of our products and methods is presently being pursued with applications that have been filed but not issued, such that these material aspects are not presently protected by patents. Competitors may further be able to get around having to license our technology in order to avoid infringement by designing around our issued and published patent claims, thereby staying clear of our proprietary rights. Similarly, competitors may develop products and methods that are equivalent or superior to ours. Our confidentiality agreements and intellectual property assignment agreements with our employees, consultants and advisors may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of some foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States. Both the process of procuring patent rights and the process of managing patent disputes can be time consuming and expensive.

In the event a competitor infringes upon our patent or other intellectual property rights, enforcing those rights may be difficult and time consuming. Even if successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be prolonged, costly and could divert our management's attention. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents against a challenge.

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If we fail to obtain, or experience significant delays in obtaining, FDA clearances or approvals for our future products or product enhancements, or to comply with similar regulatory requirements in other countries where we market our products, our ability to commercially distribute and market our products could suffer.

Our medical devices are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. Our failure to comply with such regulations could lead to the imposition of injunctions, suspensions or loss of regulatory clearances or approvals, product recalls, termination of distribution or product seizures or the need to invest substantial resources to comply with various existing or new requirements. In the more egregious cases, criminal sanctions, civil penalties, disgorgement of profits or closure of our manufacturing facilities are possible. The process of obtaining regulatory clearances or approvals to market a medical device, particularly from the FDA, can be costly and time consuming, and there can be no assurance that such clearances or approvals will be granted on a timely basis, if at all. In particular, the FDA permits commercial distribution of most new medical devices only after the device has received 510(k) clearance or is the subject of an approved pre-market approval application, or PMA. The FDA will clear the marketing of a medical device through the 510(k) process if it is demonstrated that the new product has the same intended use, is substantially equivalent to another legally marketed device, including a 510(k)-cleared product, and otherwise meets the FDA's requirements. The PMA approval process is more costly, lengthy and uncertain than the 510(k) clearance process and requires the development and submission of clinical studies supporting the safety and effectiveness of the device. Product modifications may also require the submission of a new 510(k) clearance, or the approval of a PMA before the modified product can be marketed. Changes in labeling and manufacturing site for a PMA approved device may require the submission and approval of a PMA supplement. Any products we develop that require regulatory clearance or approval may be delayed, if approved at all. In addition, we believe that some of our new products will require an approved PMA before we can commercially distribute the device and we cannot assure that any new products or any product enhancements we develop will be subject to the shorter 510(k) clearance process instead of the more lengthy PMA requirements. Additionally, certain of our products under development may involve both device and drug or biologic regulation and we will need to comply with drug and biologic regulations in addition to medical device requirements. Accordingly, we anticipate that the regulatory review and approval process for some of our future products or product enhancements may take significantly longer than anticipated or that we have experienced in the past. We will also be required to pay a medical device user fee and may also be required to pay a drug or biologic user fee. There is no assurance that the FDA will not require that a certain new product or product enhancement go through the lengthy and expensive PMA approval process. We have no experience in obtaining PMA approval. We also have no experience in obtaining drug or biologic approval, and will need to rely on third party assistance in navigating the regulatory approval pathway for future combination products.

Further, pursuant to FDA regulations, we can only market our products for cleared or approved uses. Certain of our products may be used by physicians for indications other than those cleared or approved by the FDA, but we cannot promote the products for such off-label uses.

Modifications to our marketed products may require new 510(k) clearances or pre-market approvals, or may require us to cease marketing or recall the modified products until clearances are obtained.

Any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a change in its intended use, requires a new 510(k) clearance or, possibly, PMA approval. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review a manufacturer's decision. The FDA may not agree with any of our past or future decisions regarding whether new clearances or approvals are necessary. If the FDA requires us to seek 510(k) clearance or PMA approval for any modification to a previously cleared product, we may be required to cease marketing and/or to recall the modified product until we

obtain clearance or approval, and we may be subject to significant regulatory fines or penalties. Further, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe, including but not limited to new safety data from use of the product, or manufacturing defects. Any recall or FDA requirement that we seek additional approvals or clearances could result in delays, fines, costs associated with modification of a product, loss of revenue and potential operating restrictions imposed by the FDA.



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If we or our suppliers fail to comply with the FDA's quality system regulations, the manufacture of our products could be delayed.

We and our suppliers are required to comply with the FDA's quality system regulations, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of our products. The FDA enforces these quality system regulations through unannounced inspections. If we or one of our suppliers fail a quality system regulations inspection or if any corrective action plan is not sufficient, or is very expensive or time consuming to implement, the manufacture of our products could be delayed until satisfactory corrections are made, or in the event we are unable to correct the problems we may not be able to continue manufacturing and distributing the particular device or devices. Such a delay potentially could disrupt our business, harm our reputation and adversely affect our sales and revenues.

If hospitals are unable to obtain sufficient reimbursement for procedures performed with our products, it is unlikely that our products will be widely used.

Successful sales of our products will depend on the availability of adequate reimbursement from third-party payors. Healthcare institutions that purchase medical devices for treatment of their patients generally rely on third-party payors to cover the use of the product for the particular procedure and reimburse all or part of the costs and fees associated with the procedures performed with these devices. Currently, the costs of our products distributed domestically are being reimbursed by third party payors. There is no guarantee that coverage and adequate reimbursement will be available in the future for our existing and/or new products. Both public and private insurance reimbursement plans are central to new product acceptance. Hospitals are unlikely to use our products if they do not receive reimbursement adequate to cover the cost of our products and related procedures.

In international markets, market acceptance may depend, in part, upon the availability of reimbursement within prevailing healthcare payment systems. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored healthcare and private insurance. Currently, the costs of our products distributed internationally, other than in some Latin American countries, are being reimbursed by public and private healthcare insurers. We may not obtain international reimbursement approvals in a timely manner, if at all, our failure to receive international reimbursement approvals would negatively impact market acceptance of our products in the international markets in which those approvals are sought.

In addition, in certain countries, such as France, Germany, China and Japan, we are required to obtain regulatory clearance for our products to be eligible for reimbursements by third party payors, even though reimbursement for embolic coiling procedures is already in place.

Future reimbursement may be subject to increased restrictions both in the United States and in international markets. Third-party reimbursement and coverage may not be available or adequate in either the United States or international markets. Future legislation, regulation or reimbursement policies of third-party payors may adversely affect the demand for our existing products or our products currently under development and limit our ability to sell our products on a profitable basis.

Changes to existing accounting pronouncements or taxation rules or practices may affect how we conduct our business and affect our reported results of operations.

New accounting pronouncements or tax rules and varying interpretations of accounting pronouncements or taxation practice have occurred and may occur in the future. A change in accounting pronouncements or interpretations or

taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. Changes to existing rules and pronouncements, future changes, if any, or the questioning of current practices or interpretations may adversely affect our reported financial results or the way we conduct our business.

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We may become subject to product liability claims which could require us to pay damages that exceed our insurance coverage.

Our business exposes us to potential product liability claims that are inherent in the testing, manufacture and sale of medical devices for neurointerventional procedures. These procedures involve significant risk of serious complications, including intracranial bleeding, brain injury, paralysis and even death. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates or the inability to secure coverage in the future. In addition, we could have to pay an amount in excess of policy limits, which would have to be paid out of cash reserves. If longer-term patient results and experience indicate that our products or any component cause tissue damage, motor impairment or other adverse effects, we could be subject to significant liability. Finally, even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and could result in the diversion of management's attention from managing our business.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at other medical device companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees have wrongfully used or disclosed alleged trade secrets of their former employers or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize product candidates, which could severely harm our business.

The price of our common stock has fluctuated and we expect will continue to fluctuate substantially and you may not be able to sell your shares at or above your purchase price.

The market price of our common stock has been and we expect will continue to be highly volatile and may fluctuate substantially due to many factors, including:

- volume and timing of orders for our products;
- the introduction of new products or product enhancements by us or our competitors;
- disputes or other developments with respect to intellectual property rights;
- our ability to develop, obtain regulatory clearance for, and market, new and enhanced products on a timely basis;
- product liability claims or other litigation;
- quarterly variations in our or our competitors' results of operations;
- sales of large blocks of our common stock, including sales by our executive officers and directors;

- changes in governmental regulations or in the status of our regulatory approvals or applications;
- changes in the availability of third-party reimbursement in the United States or other countries;
- changes in revenues or earnings estimates or recommendations by securities analysts; and

• general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

Furthermore, to the extent there is an inactive market for our common stock, the value of your shares and your ability to sell your shares at the time you wish to sell them may be impaired. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other companies, products or technologies by using our shares as consideration.

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Because of their significant stock ownership, our executive officers, directors and principal stockholders may be able to exert control over us and our significant corporate decisions.

Based on shares outstanding at March 31, 2009, our executive officers, directors, and stockholders holding more than 5% of our outstanding common stock and their affiliates, in the aggregate, beneficially owned approximately 44% of our outstanding common stock. As a result, these persons, acting together, may have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentration of ownership may harm the market price of our common stock by, among other things:

- delaying, deferring or preventing a change in control of our company;
- impeding a merger, consolidation, takeover or other business combination involving our company; or
- causing us to enter into transactions or agreements that are not in the best interests of all stockholders.

Future sales of our common stock may depress our stock price.

Our current stockholders hold a substantial number of shares of our common stock that they are able to sell in the public market. A significant portion of these shares are held by a small number of stockholders. Sales by our current stockholders of a substantial number of shares could significantly reduce the market price of our common stock. Moreover certain holders of our common stock have the right to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

We have registered 6,749,963 shares of common stock that we may issue under our 1998 Stock Plan ("1998 Plan"), 2005 Equity Incentive Plan ("2005 Plan") and 2005 Employee Stock Purchase Plan ("Purchase Plan"). These shares can be freely sold in the public market upon issuance. The sale by any of these holders of a large number of securities in the public market could reduce the trading price of our common stock and impede our ability to raise future capital.

We do not intend to pay cash dividends.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for us in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of any future debtor credit facility may preclude us from paying any dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of potential gain for the foreseeable future.

We may become involved in securities class action litigation that could divert management's attention and harm our business.

The stock market in general, The NASDAQ Stock Market and the market for medical device companies in particular, continues to experience extreme price and volume fluctuations that are unrelated or disproportionate to companies' operating performance. Further, the market prices of securities of medical device companies have been particularly volatile. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and

resources, which could materially harm our financial condition and results of operations.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even an acquisition which would be beneficial to our stockholders, and thereby affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our amended and restated certificate of incorporation and amended bylaws contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. Some of these provisions:

- authorize the issuance of preferred stock which can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of the common stock;

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- provide for a classified board of directors, with each director serving a staggered three-year term;
- prohibit our stockholders from filling board vacancies, calling special stockholder meetings, or taking action by written consent;
- prohibit our stockholders from making certain changes to our amended and restated certificate of incorporation or bylaws except with 66 2/3% stockholder approval; and
- require advance written notice of stockholder proposals and director nominations.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our amended and restated certificate of incorporation, restated bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our worldwide headquarters are located in San Jose, California. On June 6, 2005, we entered into a non-cancelable seven-year lease pursuant to which we lease approximately 42,000 square feet of building space, which we currently use for administrative, sales, marketing, research and development, manufacturing and distribution facilities.

On March 11, 2008, we entered into a non-cancelable ten-year lease in Miramar, Florida. The facility comprises a total of approximately 27,000 square feet, which we currently use for administrative, manufacturing, research and development and distribution facilities.

On December 4, 2007, our wholly owned subsidiary, Micrus SA, entered into a non-cancelable eight-year lease for office space in Switzerland. The office space comprises a total of approximately 5,500 square feet and provides space for sales, marketing and administrative functions.

Additionally, we lease office space for our wholly-owned subsidiary, Micrus Endovascular UK Limited (“Micrus UK”), under a non-cancelable lease agreement with a term through December 2010. We use this space for our sales, marketing and administrative functions.

We otherwise believe that our existing facilities are adequate to meet our current and near term future needs.

Item 3. Legal Proceedings.

Patent Litigation

On September 22, 2008, we entered into a Settlement and License Agreement (the “Settlement and License Agreement”) with Boston Scientific Corporation and Target Therapeutics, Inc., a subsidiary of Boston Scientific Corporation (collectively “Boston Scientific”) and a Settlement and Release Agreement (the “Settlement and Release Agreement”) with The Regents of the University of California (the “Regents”) in order to resolve pending patent litigation between Boston Scientific and us (the “Patent Litigation”). On October 8, 2008, the Court entered an order dismissing the Patent Litigation with prejudice. The Patent Litigation is described in detail in our prior filings with the SEC.



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Under the Settlement and License Agreement, we agreed to cross license certain patents asserted in the Patent Litigation and release all claims (as defined in the Settlement and License Agreement) arising prior to the effective date (as defined in the Settlement and License Agreement) to which the rights, licenses, releases, and covenants expressly granted under the Settlement and License Agreement would be a complete defense had such claims arisen on or after the effective date. The Settlement and License Agreement includes a mutual release of claims and covenants not to sue with respect to certain specified patents. Boston Scientific also covenants not to sue end users of our products for claims of infringement of specified patents.

In connection with the Settlement and License Agreement, we entered into the Settlement and Release Agreement with the Regents. The Settlement and Release Agreement provided for the cash payment of approximately \$1.7 million to the Regents in exchange for a mutual release of claims and a mutual covenant not to sue with respect to certain specified patents. The Regents also agreed not to sue end users of our products for claims under the patents owned by the Regents and exclusively licensed to Boston Scientific and asserted by Boston Scientific in the Patent Litigation against us. We made the cash payment to the Regents on September 24, 2008.

The foregoing discussion of material terms does not constitute a complete summary of the terms of the Settlement and License Agreement and Settlement and Release Agreement, and reference is made to the Settlement and License Agreement and Settlement and Release Agreement which are filed as exhibits to Form 10-Q for the quarter ended September 30, 2008.

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

None.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on The NASDAQ Stock Market under the symbol "MEND." The following table sets forth the high and low daily bid prices per share of our common stock, as reported by The NASDAQ Stock Market.

Fiscal Year Ended March 31, 2009	High	Low
First Quarter	\$ 14.99	\$ 9.92
Second Quarter	\$ 16.00	\$ 10.97
Third Quarter	\$ 14.12	\$ 8.70
Fourth Quarter	\$ 11.95	\$ 4.13
Fiscal Year Ended March 31, 2008	High	Low
First Quarter	\$ 25.45	\$ 20.06
Second Quarter	\$ 26.00	\$ 15.88
Third Quarter	\$ 21.45	\$ 16.87
Fourth Quarter	\$ 20.55	\$ 10.70

The last reported sale price of our common stock on The NASDAQ Stock Market on May 29, 2009 was \$9.01 per share. As of May 29, 2009, there were approximately 56 holders of record of our common stock.

## Dividend Policy

We have never declared a dividend or paid any cash dividends on our common stock. Because we currently intend to retain any future earnings to fund the development and growth of our business, we do not anticipate paying any cash dividends in the near future.

## Unregistered Securities Sold in Fiscal 2009

None

## Issuer Purchases of Equity Securities

We do not have a stock repurchase program and did not repurchase any of our equity securities during the year ended March 31, 2009.

## Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Colum (a))
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Equity compensation plans approved by security holders	4,021,718(1)\$	12.68	1,845,686(2)
Equity compensation plans not approved by security holders	-	-	-
Total	4,021,718(1)\$	12.68	1,845,686(2)

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- (1) Includes 1,045,893 shares subject to options outstanding under our 1998 Plan and 2,975,825 shares subject to options and restricted stock units outstanding under our 2005 Plan.
- (2) Includes 1,286,846 shares of common stock reserved for future issuance under our 2005 Plan and 558,840 shares of common stock reserved for future issuance under our Purchase Plan. As of April 1, 2009, the number of shares available for issuance under the foregoing plans automatically increased to 1,953,512 shares available for issuance under the 2005 Plan and 781,062 shares available for issuance under the Purchase Plan.

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Stock Performance Graph

Notwithstanding any statement to the contrary in any of our previous or future filings with the Securities and Exchange Commission, the following information relating to the price performance of our common stock shall not be deemed “filed” with the Commission or “soliciting material” under the Securities Exchange Act of 1934 and shall not be incorporated by reference into any such filings.

The following graph shows a comparison of cumulative total return for our common stock, The NASDAQ Composite Index, The NASDAQ Medical Equipment Index and The Russell 2000 Index. Such returns are based on historical results and are not intended to suggest future performance. The graph assumes \$100 was invested in our common stock and in each of the indexes on June 16, 2005 (the date our common stock commenced trading on The NASDAQ Stock Market). Data for The NASDAQ Composite Index, The NASDAQ Medical Equipment Index and The Russell 2000 Index assume reinvestment of dividends. We have never paid dividends on our common stock and have no present plans to do so.

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## Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes thereto included in this report. The selected consolidated statements of operations data for the fiscal years ended March 31, 2009, 2008 and 2007 and the selected consolidated balance sheet data as of March 31, 2009 and 2008 are derived from the audited consolidated financial statements that are included elsewhere in this report. The selected consolidated statements of operations data for the fiscal years ended March 31, 2006 and 2005 and the selected consolidated balance sheet data as of March 31, 2007, 2006 and 2005 are derived from our audited consolidated financial statements not included in this report. The historical results are not necessarily indicative of the results of operations to be expected in any future periods. All per share amounts for all periods presented have been restated to reflect the 1-for-2.25 reverse stock split that became effective on June 10, 2005.

## Consolidated Statements of Operations

	Years Ended March 31,				
	2009 (2)	2008 (2)	2007 (2)(3)	2006 (4)	2005 (5)
	(In thousands, except per share amounts)				
Revenues	\$ 78,196	\$ 69,213	\$ 58,795	\$ 32,781	\$ 24,012
Cost of goods sold (1)	20,847	17,301	15,361	9,710	8,003
Gross profit	57,349	51,912	43,434	23,071	16,009
Operating expenses:					
Research and development (1)	10,243	13,718	7,904	6,589	2,360
Sales and marketing (1)	29,312	29,385	24,121	15,171	8,781
General and administrative (1)	26,983	26,971	19,308	10,307	11,884
Impairment of intangible assets	462	-	-	-	-
Total operating expenses	67,000	70,074	51,333	32,067	23,025
Loss from operations	(9,651)	(18,162)	(7,899)	(8,996)	(7,016)
Interest and investment income	258	1,223	1,618	1,295	177
Interest expense	(52)	(3)	(14)	(12)	(29)
Other income (expense), net	(2,111)	488	565	(632)	164
Loss before income taxes	(11,556)	(16,454)	(5,730)	(8,345)	(6,704)
Income tax benefit	(502)	(194)	(247)	(84)	-
Net loss	(11,054)	(16,260)	(5,483)	(8,261)	(6,704)
Accretion of redeemable convertible preferred stock to redemption value including beneficial conversion feature	-	-	-	(659)	(588)
Net loss attributable to common stockholders	\$ (11,054)	\$ (16,260)	\$ (5,483)	\$ (8,920)	\$ (7,292)
Net loss per share attributable to common stockholders:					
basic and diluted	\$ (0.70)	\$ (1.05)	\$ (0.38)	\$ (0.79)	\$ (5.22)
Weighted-average number of shares used in per share calculation: basic and diluted	15,692	15,438	14,621	11,240	1,397



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	2009	2008	March 31, 2007 (3)	2006 (4)	2005
(In thousands)					
Consolidated Balance Sheet Data:					
Total assets	\$ 61,506	\$ 72,332	\$ 73,097	\$ 62,114	\$ 29,774
Mandatorily redeemable convertible preferred stock	\$ -	\$ -	\$ -	\$ -	\$ 58,442
Total stockholders' equity (deficit)	\$ 42,574	\$ 48,180	\$ 56,294	\$ 51,316	\$ (37,561)
Accumulated deficit	\$ (82,416)	\$ (71,362)	\$ (55,102)	\$ (49,619)	\$ (40,975)

(1) Non-cash stock-based compensation expense included in results of operations is as follows:

	2009	2008	Years Ended March 31, 2007	2006	2005
(In thousands)					
Cost of goods sold	\$ 560	\$ 471	\$ 218	\$ 26	\$ 26
Research and development	\$ 592	\$ 533	\$ 222	\$ 22	\$ 69
Sales and marketing	\$ 1,498	\$ 1,325	\$ 802	\$ 169	\$ 134
General and administrative	\$ 2,995	\$ 2,629	\$ 1,332	\$ 172	\$ 3,210

(2) In fiscal 2009, 2008 and 2007, loss from operations, net loss and basic and diluted net loss per share include the impact of Statement of Financial Accounting Standard (“SFAS”) No. 123 (“SFAS 123R”), which was not present in prior years. Refer to Notes 2 and 12 of the “Notes to Consolidated Financial Statements.”

(3) On November 30, 2006, we completed our acquisition of VasCon. In connection with the acquisition, we formed MDT. The results of operations of MDT are included in the accompanying consolidated statements of operations for all periods or partial periods subsequent to the acquisition date. Additionally, the acquired assets and liabilities assumed in the acquisition are included in the consolidated balance sheets subsequent to the acquisition date. See Note 3 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data” of this report for further details regarding the transaction. On January 1, 2009, we merged MDT into Micrus Endovascular Corporation.

(4) On September 20, 2005, we completed our acquisition of Neurologic UK Limited (“Neurologic”). In connection with the acquisition, we formed Micrus UK, our subsidiary in the United Kingdom. The results of operations of Micrus UK are included in the accompanying consolidated statements of operations for all periods or partial periods subsequent to the acquisition date. Additionally, the acquired assets and liabilities assumed in the acquisition are included in the consolidated balance sheets subsequent to the acquisition date. See Note 3 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data” of this report for further details regarding the transaction.

(5) In fiscal 2005, loss from operations, net loss and basic and diluted net loss per share include the impact of a stock-based compensation charge of \$3.0 million related to stock options modified in connection with the settlement agreement with our former CEO.



Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations.

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report, and with other factors described from time to time in our other filings with the Securities and Exchange Commission. This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in the forward-looking statements due to a number of factors, including those discussed in Part I, Item 1A "Risk Factors" above and elsewhere in this Annual Report on Form 10-K.

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### Overview

We develop, manufacture and market implantable and disposable medical devices used in the treatment of cerebral vascular diseases. Our products are used by interventional neuroradiologists, interventional neurologists and neurosurgeons to treat both cerebral aneurysms responsible for hemorrhagic stroke and intracranial atherosclerosis which may lead to ischemic stroke. Hemorrhagic and ischemic stroke are both significant causes of death and disability worldwide. Our product lines consist of endovascular systems that enable a physician to gain access to the brain in a minimally invasive manner through the vessels of the arterial system. We believe that our products provide a safe and reliable alternative to more invasive neurosurgical procedures for treating aneurysms. Our proprietary three-dimensional, embolic coils anatomically conform and rapidly deploy within an aneurysm, forming a scaffold that conforms to a wide diversity of aneurysm shapes and sizes. We also supply accessories for use with our microcoils and other products for the treatment of neurovascular disease including microcatheters, balloon catheters, guidewires and stents. We plan on growing our business by continuing to penetrate our existing hemorrhagic and ischemic stroke markets, bringing new products and technologies to interventional neuroradiologists, interventional neurologists and neurosurgeons, and by entering new geographic territories such as Asia where we commenced selling our products in Japan through our distribution partner, Goodman, in March 2006. We also plan to market our products in China upon receiving regulatory approvals.

Our revenues are derived primarily from sales of our microcoils. We also sell stents, access products and accessories for use with our microcoils, which accounted for approximately 6%, 5% and 3% of our revenues in fiscal 2009, 2008 and 2007, respectively. Geographically, our revenues are generally from sales to customers in the Americas, Europe and Asia. Our products are shipped from our facilities in the United States, Switzerland, the United Kingdom, and a logistics facility in the Netherlands, to either hospitals or distributors. In select hospitals, our products are held on consignment, and remain on site, free of charge until used. Revenue is generally recognized upon shipment after the receipt of a purchase order. In arrangements which specify the title transfer upon delivery, revenue is not recognized until the product is delivered. In the case of consigned goods, revenue is recognized when a replenishment order is made.

We anticipate that our cost of goods sold will generally increase in absolute dollars during those quarters in which our sales increase or we incur additional manufacturing costs in anticipation of the commercial introduction of new products. Furthermore, our gross margin percentage may decrease in those quarters in which we initiate sales of new products or product lines, or enter new geographic territories. Our gross margin percentage may also decrease in those quarters in which we have a higher proportion of sales to distributors with lower average selling prices.

Our product development efforts are primarily focused on expanding our product offerings for the hemorrhagic and ischemic stroke markets. In August 2004, we introduced our Cerecyte® microcoil product line and we have launched ten new products in the last 24 months, including microcoils, stents, microcatheters, guidewires and balloon catheters. During fiscal 2009, we launched the Neuropath® guide catheter, which combines robust proximal support with a highly flexible and visible tip designed to facilitate atraumatic vascular access. The Neuropath® guide catheter is used as a conduit for delivery of the microcatheter or other devices, such as coils, stents and balloons, to the aneurysm. We intend to continue to pursue this non-embolic product line expansion with the goal of increasing our revenue opportunity per procedure. We also launched Cerecyte and stretch resistant versions of our DeltaPaq™ microcoil system for the treatment of cerebral aneurysms. Our DeltaPaq microcoil system is designed to enable physicians to achieve greater coil packing density within the aneurysm which may reduce the rate of recanalization and the need for re-treatment. The DeltaPaq microcoil system supplements our framing and finishing coils in the filling segment of the coil market. Additionally, we launched the PHAROS™ Vitesse™ intracranial stent for commercial distribution in the European Union and all other countries recognizing the CE Mark. The PHAROS™ Vitesse™ is our second generation

balloon-expandable stent for intracranial ischemic stenosis and wide-neck aneurysm treatment. We have received FDA conditional approval of our investigational device exemption for the PHAROS™ VISSIT study. The VISSIT study is the first industry sponsored, randomized, prospective clinical trial designed to compare the clinical outcomes between patients who are stented for intracranial ischemic stenosis versus treated with medical therapy. We are in the process of initiating study sites in the United States, Europe and China.

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We intend to continue to expand our direct sales force in North America, Europe and Asia as necessary and further increase our presence in the Asian markets through distributors. In March 2006, we launched our sales and marketing efforts in Japan through our distribution partner, Goodman. In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan, and in July 2008, we received regulatory approval to sell our Cerecyte microcoils in Japan. We recorded product sales to Goodman of \$9.3 million, \$6.3 million and \$8.7 million in fiscal 2009, 2008 and 2007, respectively. We plan to begin selling our products in China upon receiving regulatory approvals. The timing of these approvals is uncertain due to a pending review by the Chinese State Food and Drug Administration (“SFDA”) of drug and medical device approvals granted during the term of the former SFDA minister. We believe that this review process, along with more stringent approval procedures, will delay review and approval of applications for new products. As a result, we did not recognize revenues from sales in China during fiscal 2009 and we may not recognize revenues from China in fiscal 2010.

We currently anticipate that the broadening of our product line and our further expansion into the Asian market will be primarily funded with our currently available cash and cash expected to be generated from operations. We introduced our first proprietary, three-dimensional microcoil in May 2000. Our revenues have grown from \$1.8 million in fiscal 2001 to \$78.2 million in fiscal 2009.

We have incurred annual net losses since our inception, including net losses of \$11.1 million, \$16.3 million, and \$5.5 million in fiscal 2009, 2008, and 2007, respectively. However, in the fourth quarter of fiscal 2009 we achieved our first profitable quarter of \$0.6 million as a result of our revenue growth and expense management, and we expect to achieve profitability for the full year in fiscal 2010. As of March 31, 2009, we had cash and cash equivalents of \$17.1 million. We believe that our current cash position and the cash expected to be generated from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. There is no assurance that we will continue to be profitable in the foreseeable future as we expand our research and development, manufacturing, and sales activities and expand geographically. As of March 31, 2009, we had an accumulated deficit of \$82.4 million.

### Recent Developments

On September 22, 2008, we entered into a Settlement and License Agreement (the “Settlement and License Agreement”) with Boston Scientific Corporation and Target Therapeutics, Inc., a subsidiary of Boston Scientific Corporation (collectively “Boston Scientific”) and a Settlement and Release Agreement (the “Settlement and Release Agreement”) with The Regents of the University of California (the “Regents”) in order to resolve pending patent litigation between Boston Scientific and us (the “Patent Litigation”). On October 8, 2008, the Court entered an order dismissing the Patent Litigation with prejudice. For further discussion of the Settlement and License Agreement, please see “Patent Litigation” under “Item 3 – Legal Proceedings,” above.

On November 5, 2008, we entered into a credit agreement with Wells Fargo Bank to provide us with a revolving line of credit (the “Credit Agreement”). The Credit Agreement provides for maximum borrowings in the amount of up to \$15.0 million. If borrowings under the Credit Agreement exceed \$7.5 million, all borrowings are subject to a borrowing base which is based on eligible accounts receivable. Borrowings are secured by a first priority security interest in all of our assets (except for certain permitted liens that are senior to the bank’s security interest). At our option, borrowings bear interest at either 2.25% over the bank’s prime rate or 3.50% over the one-month, two-month or three-month LIBOR. The Credit Agreement requires that we comply with certain financial and other covenants for borrowings to be permitted. The more significant financial covenants include (i) a minimum modified quick ratio and (ii) a minimum profitability, excluding certain non-cash items. On May 20, 2009, we amended the Credit Agreement with Wells Fargo Bank extending the maturity date to August 1, 2010 and adjusting the minimum limits for the

financial covenants based on our financial forecast for fiscal 2010.

On January 1, 2009, we merged MDT into Micrus Endovascular Corporation.

On July 28, 2005, we entered into a Technology Transfer Agreement with Vascular FX, a Delaware limited liability company (“Vascular FX”), pursuant to which we purchased the intellectual property of Vascular FX. The transaction included a cash purchase price of \$1.5 million paid at closing followed by milestone payments of \$2.5 million paid on January 31 and May 31, 2006, and royalty payments on potential future product sales. There are no future milestone payments to Vascular FX under the terms of the agreement.

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On January 28, 2009, we amended the Technology Transfer Agreement with Vascular FX to modify the royalty provision and eliminate the claw-back provisions that would have required us to license back the acquired technology to Vascular FX under certain circumstances. Under the amended agreement, we will pay Vascular FX a royalty equal to 25% of the aggregate net sales of deflectable catheter products sold during the royalty period subject to the mandatory minimum provision not less than \$250,000 per year. The royalty period is six years beginning from November 1, 2007.

## Results of Operations

The following table sets forth the results of our operations, expressed as percentages of revenues, for the fiscal years ended March 31, 2009, 2008 and 2007:

	Years Ended March 31,		
	2009 %	2008 %	2007 %
Consolidated Statements of Operations Data:			
Revenues	100%	100%	100%
Cost of goods sold	27%	25%	26%
Gross profit	73%	75%	74%
Operating expenses:			
Research and development	13%	20%	13%
Sales and marketing	37%	42%	41%
General and administrative	35%	39%	33%
Impairment of intangible assets	1%	0%	0%
Total operating expenses	86%	101%	87%
Loss from operations	(13) %	(26) %	(13) %
Interest and investment income	0%	2%	3%
Interest expense	(0) %	0%	0%
Other income (expense), net	(2) %	1%	1%
Loss before income taxes	(15) %	(23) %	(9) %
Income tax benefit	(1) %	0%	0%
Net loss	(14) %	(23) %	(9) %

## Fiscal Years Ended March 31, 2009 and 2008

## Revenues

	Years Ended March 31,		Change \$	%
	2009	2008		
(In thousands, except percentages)				
Americas	\$ 44,067	\$ 37,565	\$ 6,502	17%
Europe (excluding the United Kingdom)	15,930	15,095	835	6%
United Kingdom	7,531	9,100	(1,569)	(17) %
Asia Pacific	10,668	7,453	3,215	43%
	\$ 78,196	\$ 69,213	\$ 8,983	13%

Our revenues are derived primarily from sales of our microcoils used in the treatment of cerebral vascular diseases. The overall increase in revenues in fiscal 2009 compared to fiscal 2008 was primarily due to an increase in the number of microcoil products sold. Factors driving the increase included growth in the overall market for embolic coils, an increase in market share in both the Americas and Asia Pacific, and the introduction of new products.

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Revenues from the Americas increased 17% to \$44.1 million and revenues from Europe increased 6% to \$15.9 million, both compared to fiscal 2008. Revenues from the United Kingdom decreased 17% to \$7.5 million as compared with \$9.1 million for fiscal 2008, primarily due to the unfavorable impact on revenues from the weakening of the British pound against the U.S. dollar. Revenues from Asia Pacific increased 43% to \$10.7 million and included product sales to our distributor in Japan of \$9.3 million, compared with revenues of \$7.5 million for fiscal 2008 which included sales to our distributor in Japan of \$6.3 million. We plan to begin selling our products in China upon receiving regulatory approvals. We did not recognize revenues from sales to China during fiscal 2009.

Revenues from Latin America increased to \$3.1 million in fiscal 2009 compared with revenues of \$1.6 million in fiscal 2008 due to an overall increase in product sales to our distributors in the region and a change in our revenue recognition policy for sales made to Latin American distributors from a cash collection basis to upon shipment basis (see Note 2 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data”). As a result of the change in our revenue recognition policy for sales made to Latin American distributors, we recognized approximately \$0.7 million of Latin American deferred revenue in the first quarter of fiscal 2009.

Revenues from embolic coils increased 12% to \$73.1 million for fiscal 2009 as compared to fiscal 2008 primarily due to the launch of the DeltaPaq™ microcoil system and increased market penetration of both the Cashmere™ and the Presidio® microcoil systems, partially offset by the unfavorable impact of foreign currency exchange rates, most notably the weakening of the British pound against the U.S. dollar. Revenues from our non-embolic and accessories products increased to \$4.9 million in fiscal 2009 compared with revenues of \$3.7 million in fiscal 2008 primarily due to the launch of the Neuropath® guide catheter and PHAROS™ Vitesse™ stent, and volume increases across multiple product lines. We expect our embolic and non-embolic sales to increase in the future as a result of market growth, continued market penetration of products released during the past two years, including our launch of the next-generation DeltaPaq™ microcoil system and an Ascent™ balloon catheter family.

New products continue to represent an important component of our growth strategy, with 16% of our revenues in fiscal 2009 coming from products introduced in the past 24 months. Among these, our Cashmere microcoil line represented 8% of the total revenue for fiscal 2009. We are also pleased with the strong reception for our newly launched DeltaPaq microcoil system, which comprised 6% of fiscal year 2009 revenues. With the launch of the Neuropath® guide catheter and the Ascent™ balloon catheter, we are now in a position to capture a significantly greater portion of hemorrhagic procedure revenues.

## Gross Profit

	Years Ended March 31,		Change	
	2009	2008	\$	%
	(In thousands, except percentages)			
Cost of goods sold	\$ 20,847	\$ 17,301	\$ 3,546	20%
Gross profit	\$ 57,349	\$ 51,912	\$ 5,437	10%

Cost of goods sold consists primarily of materials, direct labor, depreciation, overhead costs associated with manufacturing, impairments of inventory, warranty expenses, amortization of intangible assets that were acquired by us as part of the acquisition of VasCon, amortization of capitalized license technology associated with our PHAROS™ stent product and royalties related to certain access device products. The increase in cost of goods sold during fiscal 2009 as compared to fiscal 2008 was primarily related to the increase in sales of our products as well as an increase of \$235,000 in royalties.



Gross margin was 73% in fiscal 2009 and 75% in fiscal 2008. The decrease was primarily due to higher levels of distributor sales of lower margin products primarily in Japan and certain European markets. We expect our gross margin to fluctuate in future periods based on the mix of our product sales.

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## Operating Expenses

## Research and Development

	Years Ended March 31,			Change	
	2009	2008	\$		%
	(In thousands, except percentages)				
Research and development	\$ 10,243	\$ 13,718	\$ (3,475)		(25) %

Research and development expenses consist primarily of costs associated with the design, development, and testing of new products. Such costs are expensed as they are incurred and include salaries and related personnel costs, fees paid to outside consultants, and other direct and indirect costs related to research and product development. Research and development expenses decreased in fiscal 2009 compared to fiscal 2008 primarily due to a decrease of \$3.9 million in technology acquisition costs mainly due to a \$3.0 million charge in fiscal 2008 for in-process research and development in connection with the acquisition of ReVasc Technologies, Inc. to obtain the rights to pre-regulatory approved revascularization technology and a \$0.9 million charge in fiscal 2008 associated with the acquisition of thrombectomy technologies from Genesis. In addition, there was a decrease in outside services of \$0.9 million primarily associated with the development of our stent product. This decrease was partially offset by an increase of \$0.9 million in personnel cost due to increased headcount at our Florida operations as we ramp up research and development efforts for neurovascular access and delivery products, and an increase of \$303,000 in consulting fees.

## Sales and Marketing

	Years Ended March 31,			Change	
	2009	2008	\$		%
	(In thousands, except percentages)				
Sales and marketing	\$ 29,312	\$ 29,385	\$ (73)		0%

Sales and marketing expenses consist primarily of compensation costs of our direct sales force and marketing personnel, as well as overhead costs related to these activities. Also included are costs associated with promotional literature and videos, trade show participation, and education and training of physicians. Sales and marketing expenses decreased slightly in fiscal 2009 compared to fiscal 2008 primarily due to termination costs of \$0.7 million related to sales personnel in Europe in fiscal 2008, as well as a decrease of \$232,000 in recruiting expense and a decrease of \$154,000 in education and training expense. These decreases were partially offset by higher sales incentives compensation of \$0.6 million resulting from higher level of sales and changes in the sales compensation structure, an increase of \$213,000 in product samples and an increase of \$174,000 in stock-based compensation expense.

## General and Administrative

	Years Ended March 31,			Change	
	2009	2008	\$		%
	(In thousands, except percentages)				
General and administrative	\$ 26,983	\$ 26,971	\$ 12		0%

General and administrative expenses consist primarily of compensation and related costs for finance, human resources, facilities, information technology, insurance, and professional services. Professional services are principally comprised of outside legal, audit, Sarbanes Oxley compliance and information technology consulting. General and

administrative expenses remained essentially unchanged in fiscal 2009 compared to fiscal 2008. General and administrative expenses included increases of \$1.7 million in patent litigation settlement cost in connection with the patent litigation with Boston Scientific, higher finance and administrative personnel costs of \$1.2 million due to increased headcount and salary increases for current employees, additional expense of \$0.5 million for estimated sales tax in certain states and an increase of \$367,000 in stock-based compensation expense. These increases were partially offset by a decrease of \$3.7 million in legal fees primarily resulting from the settlement of the patent litigation with Boston Scientific in September 2008 and the conclusion of the United States Department of Justice monitorship in July 2008.

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## Impairment of Intangibles Assets

In the fourth quarter of fiscal 2009, we performed an assessment of our intangible assets acquired from Neurologic. Management concluded from the assessment that an impairment existed for the intangible asset group (distribution agreement, customer relationships and non-compete agreements) as the undiscounted value was less than its carrying value. As a result, we recorded an impairment charge of \$462,000 for this asset group based on the amount by which the carrying amount of these assets exceeded their fair value. There was no impairment charges related to intangible assets in fiscal 2008.

## Other Income (Expense), Net

	Years Ended March 31,		Change	
	2009	2008	\$	%
	(In thousands, except percentages)			
Interest and investment income	\$ 258	\$ 1,223	\$ (965)	(79) %
Interest expense	(52)	(3)	(49)	1633 %
Other income (expense), net	(2,111)	488	(2,599)	(533) %
Total other income (expense), net	\$ (1,905)	\$ 1,708	\$ (3,613)	(212) %

Interest and investment income consists of interest earned on interest bearing accounts. Interest and investment income decreased in fiscal 2009 compared to fiscal 2008 due to lower cash and investment balances earning interest.

Other income (expense), net consists primarily of foreign exchange gains and losses resulting from differences in exchange rates between the time of recording of the transaction and the settlement of foreign currency denominated receivables and payables. Other income (expense), net decreased in fiscal 2009 compared to fiscal 2008 primarily due to foreign exchange losses resulting from the re-measurement of foreign currency transactions, most notably the impact of the weakening of the British pound against the U.S. dollar.

## Income Taxes

	Years Ended March 31,	
	2009	2008
	(In thousands, except percentages)	
Income tax benefit	\$ (502)	\$ (194)
Effective tax rate	(4) %	(1) %

We have incurred net operating losses for both federal and state purposes since inception and, as a result, we have paid no federal or state income taxes. We had an income tax benefit of approximately \$502,000 and \$194,000 in fiscal 2009 and 2008, respectively. The net income tax benefit in fiscal 2009 consists primarily of deferred tax benefit for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible, the reduction in deferred tax liability due to the impairment of such intangible assets, and losses from our United Kingdom subsidiary. The net income tax benefit in fiscal 2008 includes a deferred income tax expense of approximately \$72,000 for the Swiss subsidiary's operating profits and a deferred tax benefit of approximately \$266,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for our United Kingdom subsidiary.

As of March 31, 2009, we had federal, state and foreign net operating loss carryforwards (“NOLs”) of approximately \$40.5 million, \$30.5 million and \$4.6 million, respectively. The federal NOLs will expire at various dates beginning in 2012, the state NOLs expire beginning in 2013 and the foreign NOLs will expire beginning in 2013. We also had federal and state research and development tax credit carryforwards of approximately \$1.3 million and \$1.3 million, respectively, as of March 31, 2009. The federal credits will expire beginning in 2012 and the state credits can be carried forward indefinitely. Due to the uncertainty of our ability to generate sufficient taxable income to realize the carryforwards prior to their expiration, we have recorded a valuation allowance at March 31, 2009 to offset our federal, state and Swiss deferred tax assets.

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Fiscal Years Ended March 31, 2008 and 2007

## Revenues

	Years Ended March 31,		Change	
	2008	2007	\$	%
	(In thousands, except percentages)			
Americas	\$ 37,565	\$ 31,618	\$ 5,947	19%
Europe (excluding the United Kingdom)	15,095	11,226	3,869	34%
United Kingdom	9,100	6,448	2,652	41%
Asia Pacific	7,453	9,503	(2,050)	(22)%
	\$ 69,213	\$ 58,795	\$ 10,418	18%

Our revenues are derived primarily from sales of our microcoils used in the treatment of cerebral vascular diseases. The overall increase in revenues in fiscal 2008 compared to fiscal 2007 was primarily due to an increase in the number of microcoil products sold during this period. Factors driving the increase included growth in the overall market for embolic coils, an increase in our share of both the domestic and foreign markets in which we participate, expansion of our direct and distributor sales force and the introduction of new products.

Revenues from embolic coils increased 15% to \$65.4 million for fiscal 2008 as compared to fiscal 2007 primarily due to the launch of the Cashmere™ microcoil system and increased market penetration of the Presidio® microcoil system. Revenues from our non-embolic and accessories products increased to \$3.7 million in fiscal 2008 compared with revenues of \$1.6 million in fiscal 2007 primarily due to the launch of the ENZO™ deflectable microcatheter and volume increases across multiple product lines including our guiding catheters, guidewires and stents. Additionally, the increase in revenues was partially due to higher average selling prices as a result of increased sales of our more expensive Cerecyte® product sales in fiscal 2008. Products introduced in the past 24 months comprised 21% of our revenues in fiscal 2008.

In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan. In July 2008, we received regulatory approval for our Cerecyte® microcoils. The delay in these product approvals had an adverse impact on the revenues previously anticipated from sales in Japan for fiscal 2008. We sold \$6.3 million of our regulatory approved products in Japan in fiscal 2008, compared with revenues of \$8.7 million in fiscal 2007.

We plan to begin selling our products in China upon receiving regulatory approvals. We did not recognize revenues from sales in China in fiscal 2008.

## Gross Profit

	Years Ended March 31,		Change	
	2008	2007	\$	%
	(In thousands, except percentages)			
Cost of goods sold	\$ 17,301	\$ 15,361	\$ 1,940	13%
Gross profit	\$ 51,912	\$ 43,434	\$ 8,478	20%

The increase in cost of goods sold during fiscal 2008 as compared to fiscal 2007 was primarily due to an increase of \$0.8 million resulting from an increase in sales of our products as well as an increase of \$0.6 million in amortization of intangible assets and an increase of \$187,000 in royalties. Cost of goods sold in fiscal 2008 and 2007 includes

\$0.8 million and \$273,000, respectively, related to the amortization of intangibles acquired from the acquisition of VasCon on November 30, 2006. Additionally, stock-based compensation expense included in cost of goods sold was \$471,000 and \$218,000 in fiscal 2008 and 2007, respectively.

Gross margin was 75% in fiscal 2008 and 74% in fiscal 2007. The increase was primarily due to an increase in revenue from sales of higher margin products, partially offset by higher levels of distributor sales of lower margin products primarily in Japan and certain European markets.

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## Operating Expenses

## Research and Development

	Years Ended March 31,		Change	%
	2008	2007	\$	
	(In thousands, except percentages)			
Research and development	\$ 13,718	\$ 7,904	\$ 5,814	74%

Research and development expenses increased in fiscal 2008 compared to fiscal 2007 primarily due to an increase of \$2.4 million for technology acquisition costs related to an in-process research and development charge in connection with the acquisition of ReVasc to obtain the rights to pre-regulatory approved revascularization technology and the costs associated with the acquisition of occlusion technology from Genesis. In addition, there was an increase of \$1.6 million related to increased headcount, an increase of \$1.1 million related to product testing, outside services and supplies, as well as an increase of \$311,000 in stock-based compensation expense. In fiscal 2008 and 2007, approximately 16% and 4%, respectively, of our research and development costs were attributable to our subsidiary, MDT, formed on November 30, 2006 in connection with the acquisition of VasCon.

## Sales and Marketing

	Years Ended March 31,		Change	%
	2008	2007	\$	
	(In thousands, except percentages)			
Sales and marketing	\$ 29,385	\$ 24,121	\$ 5,264	22%

Sales and marketing expenses increased in fiscal 2008 compared to fiscal 2007 primarily due to an increase of \$3.6 million in travel, recruiting and personnel costs due to an increase in sales and marketing personnel in the North America, Europe and Asia, an increase of \$0.9 million in sales incentives resulting from higher level of sales and changes in the sales compensation structure, an increase of \$0.8 million in trade show, meeting and conference costs, an increase of \$0.7 million in market research costs, as well as an increase of \$523,000 in stock-based compensation expense. These increases were partially offset by an aggregate decrease of \$340,000 in outside service, consulting and graphic design costs.

## General and Administrative

	Years Ended March 31,		Change	%
	2008	2007	\$	
	(In thousands, except percentages)			
General and administrative	\$ 26,971	\$ 19,308	\$ 7,663	40%

General and administrative expenses increased in fiscal 2008 compared to fiscal 2007 primarily due to an increase of \$2.6 million related to higher finance and administrative personnel costs due to increased headcount, as well as an increase of \$2.6 million in legal fees primarily related to professional fees for the services of attorneys and third-party accountants in connection with the United States Department of Justice monitorship. In fiscal 2008, we incurred professional fees of \$3.7 million related to the United States Department of Justice monitorship, which was concluded in July 2008. Stock based compensation expense increased \$1.3 million in fiscal 2008 as compared to fiscal 2007. In fiscal 2008 and 2007, approximately 7% and 3%, respectively, of our general and administrative costs were



attributable to our subsidiary, MDT.

Other Income, Net

	Years Ended March 31,		Change	
	2008	2007	\$	%
(In thousands, except percentages)				
Interest and investment income	\$ 1,223	\$ 1,618	\$ (395)	(24)%
Interest expense	(3)	(14)	11	(79)%
Other income, net	488	565	(77)	(14)%
Total other income, net	\$ 1,708	\$ 2,169	\$ (461)	(21)%

Interest and investment income decreased in fiscal 2008 compared to fiscal 2007 due to lower cash and investment balances earning interest.

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Other income, net decreased in fiscal 2008 compared to fiscal 2007 primarily due to higher foreign exchange losses related to a loan made to Micrus SA, partially offset by an increase in foreign exchange gains resulting from differences in exchange rates between the time of the recording of the transaction and settlement of foreign currency denominated receivables and payables.

## Income Taxes

	Years Ended March 31,	
	2008	2007
	(In thousands, except percentages)	
Income tax benefit	\$ (194)	\$ (247)
Effective tax rate	(1)%	(4)%

We had an income tax benefit of approximately \$194,000 and \$247,000 in fiscal 2008 and 2007, respectively. The net income tax benefit in fiscal 2008 includes a deferred income tax expense of approximately \$72,000 for the Swiss subsidiary's operating profits and a deferred tax benefit of approximately \$266,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for our United Kingdom subsidiary. The net income tax benefit in fiscal 2007 includes a current tax benefit of approximately \$63,000 arising from losses in the UK and a deferred tax benefit of approximately \$184,000 primarily attributable to the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which are not deductible for tax purposes.

## Liquidity and Capital Resources

	Years Ended March 31,		
	2009	2008	2007
	(In thousands)		
Cash flow activities:			
Net cash used in operating activities	\$ (9,279)	\$ (7,524)	\$ (556)
Net cash used in investing activities	\$ (5,007)	\$ (3,437)	\$ (5,451)
Net cash provided by financing activities	\$ 4,128	\$ 3,165	\$ 5,098

Since our inception, we have funded our operations primarily through issuances of stock and related warrants, and product sales. As of March 31, 2009, we had cash and cash equivalents of \$17.1 million, compared to \$25.5 million at March 31, 2008. We believe that our current cash position and the cash expected to be generated from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

Net cash used in operating activities during fiscal 2009 was \$9.3 million as compared to \$7.5 million and \$0.6 million during fiscal 2008 and 2007, respectively. Net cash used in operating activities during fiscal 2009 resulted primarily from: operating losses; an increase in accounts receivable which resulted from the sale of a greater number of microcoil products and timing of collections for those sales; an increase in inventory resulting from an increase in the number of consignment locations due to the addition of new customers and the launch of new products; a decrease in accounts payable due to the timing of payments to our vendors; a decrease in accrued payroll and other related expenses primarily due to lower accrued bonuses and accrued commissions; a decrease in accrued liabilities and other non-current liabilities primarily due to lower accrued legal fees primarily resulting from the settlement of the patent litigation with Boston Scientific and the conclusion of the United States Department of Justice monitorship. These factors were partially offset by a decrease in prepaid expense and non-cash items such as stock-based compensation

expense, depreciation and amortization, deferred income taxes and impairment of intangible assets.

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Net cash used in operating activities during fiscal 2008 resulted primarily from: operating losses; an increase in accounts receivable which resulted from the sale of a greater number of microcoil products and timing of collections for those sales; an increase in inventory due to an increase in the number of consignment locations and the buildup of finished goods in anticipation of future sales; an increase in prepaid expenses and other current assets, primarily due to deposits paid in advance of our global sales meeting; and an increase in other non-current assets, primarily due to payments of a broker's commission and a security deposit in connection with the lease at our new Florida facility. These factors were partially offset by an increase in accounts payable due to the timing of our payments to our vendors; an increase in accrued payroll and other related expenses which was attributable to increased headcount and the timing of payroll payments; an increase in accrued liabilities and other non-current liabilities primarily due to accrued milestone payments to ReVasc and Genesis and higher accrued professional fees associated with legal fees; and non-cash items such as stock-based compensation expense, depreciation and amortization and our provision for excess and obsolete inventories.

Net cash used in operating activities during fiscal 2007 resulted primarily from: operating losses; an increase in inventory due to the buildup of finished goods in anticipation of future sales and an increase in the number of consignment locations; an increase in prepaid expenses and other current assets primarily related to the payment of directors and officers insurance premiums; a decrease in accounts payable due to the timing of our payments to our vendors; and a decrease in other non current liabilities. These factors were partially offset by a decrease in accounts receivable due to improved collection efforts which resulted in lower days sales outstanding; an increase in accrued payroll and related expenses which was attributable to increased headcount and the timing of payroll payments; an increase in accrued liabilities due to higher accrued professional fees associated with legal fees and Sarbanes Oxley compliance and higher VAT payables; and non-cash items such as stock-based compensation expense primarily due to the adoption of SFAS 123R in fiscal 2007, depreciation and amortization, and our provision for excess and obsolete inventories.

Net cash used in investing activities during fiscal 2009 was \$5.0 million as compared to \$3.4 million and \$5.5 million during fiscal 2008 and 2007, respectively. Net cash used in investing activities during fiscal 2009 was related to the earn-out payments associated with the purchase of Neurologic and VasCon and the purchase of capital equipment, partially offset by proceeds from the sale of certain assets and technologies to Merit and the sale of property and equipment to third parties.

Net cash used in investing activities during fiscal 2008 was related to the earn-out payment associated with the purchase of Neurologic, the purchase of capital equipment and prepayments made related to leasehold improvements in connection with the lease at our new Florida facility, partially offset by proceeds from the sale of certain assets and technologies to Merit and the sale of property and equipment to third parties.

Net cash used in investing activities during fiscal 2007 was primarily related to the purchase of VasCon, the earn-out payment associated with the purchase of Neurologic, the milestone payment to Biotronik which has been capitalized as licensed technology and the purchase of capital equipment, partially offset by proceeds from the sale of marketable securities.

Net cash provided by financing activities during fiscal 2009 was \$4.1 million as compared to \$3.2 million and \$5.1 million during fiscal 2008 and 2007, respectively. Net cash provided by financing activities during fiscal 2009 consisted of borrowings under the line of credit with Wells Fargo Bank, exercise of stock options and the purchase of common stock under our employee stock purchase plan.

Net cash provided by financing activities during fiscal 2008 consisted of proceeds from the exercise of stock options and the purchase of common stock under our employee stock purchase plan.

Net cash provided by financing activities during fiscal 2007 consisted of net proceeds from the exercise of the over-allotment option by the underwriters in connection with our secondary offering, and proceeds from the exercise of stock options and the purchase of common stock under our employee stock purchase plan.

As discussed in Note 7 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data”, on November 5, 2008, we entered into a Credit Agreement with Wells Fargo Bank to provide us with a revolving line of credit. The Credit Agreement provides for maximum borrowings in an amount up to \$15.0 million. If borrowings under the Credit Agreement exceed \$7.5 million, all borrowings are subject to a borrowing base which is based on eligible accounts receivable. The Credit Agreement requires that we comply with certain financial and other covenants for borrowings to be permitted. At March 31, 2009, we had outstanding borrowings of \$2.5 million under the line of credit and were in compliance with all covenants of the Credit Agreement. On May 20, 2009, we amended the Credit Agreement with Wells Fargo Bank extending the maturity date to August 1, 2010, and adjusting the minimum limits for the financial covenants based on our financial forecast for fiscal 2010. We believe that we will be able to maintain compliance with the debt covenants of the credit agreement for at least the next twelve months from March 31, 2009.

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To the extent that existing cash and cash generated from operations are insufficient to fund our future activities, we would seek to borrow funds under our credit facility. However, given that certain financial and other covenants of the credit agreement are required to be met, these funds may not be available to us. Accordingly, we may need to reduce discretionary spending and raise additional funds through public or private equity or debt financing. Although we are currently not a party to any definitive agreement with respect to potential investments in, or acquisitions of, complementary businesses, services or technologies, we may enter into such agreements in the future. Additional funds may not be available on terms favorable to us, or at all. Failure to manage the discretionary spending or raise additional capital as required may adversely impact our ability to achieve our intended business objectives.

### Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”). In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss below. Our management has reviewed our critical accounting policies and estimates with our accounting advisors, audit committee and board of directors.

Although our significant policies are more fully described in Note 2 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data,” we believe that the following accounting policies to be critical to the judgment and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition.** Our revenues are derived primarily from the sale of our microcoil product line to hospitals and third-party distributors. We also sell access products and accessories for use with our microcoils. Revenues are recognized when evidence of an arrangement exists, delivery to the customer has occurred, the selling price is fixed or determinable and collectibility is reasonably assured. Revenue is generally recognized upon shipment after the receipt of a purchase order. In arrangements which specify the title transfer upon delivery, revenue is not recognized until the product is delivered. In the case of consigned goods, revenue is recognized when a replenishment order is made. Sales to our Latin American distributors are made according to similar contractual terms as sales to other distributors. However, due to historically longer delays in receiving payments and a higher level of receivable write-offs relating to our Latin American distributors, we had concluded that through March 31, 2008 collectibility was not reasonably assured at the time that the distributor took title to the inventory. Accordingly, we had recognized revenues from sales to Latin American distributors when cash was collected. We have evaluated our experience with Latin American distributors and have concluded that collectibility is now reasonably assured upon shipment, and began recognizing revenue upon shipment to these distributors beginning in the first quarter of fiscal 2009. Revenue recognized upon shipment to our Latin American distributors was \$2.5 million for fiscal 2009. Additionally, the deferred revenue balance at March 31, 2008 of \$0.7 million for these distributors and the related cost of goods sold of \$273,000 that had been deferred has been recognized as revenue and cost of goods sold, respectively, in the first quarter of fiscal 2009. Revenue recognized on a cash basis on sales made to our Latin American distributors was \$1.6 million for fiscal 2008.

**Allowance for Doubtful Accounts.** In estimating the collectibility of our accounts receivable, we analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends, and changes in customer payment terms. We regularly review the adequacy of our accounts receivable allowance after considering changes in customers' financial condition and the aging of account receivable balances. If there are unanticipated future events, this allowance may need to be adjusted.

**Excess and Obsolete Inventory.** We calculate an inventory provision for estimated obsolescence or excess inventories based upon historical scrap rates and assumptions about future demand for our products and market conditions. Our microcoil products have a five-year shelf life and our access products have a shelf life between one and three years. Our products are subject to demand fluctuations based on the availability and demand for alternative products. Our inventory, which consists primarily of microcoils, is at risk of obsolescence following the introduction and development of new or enhanced products. Our estimates and assumptions for excess and obsolete inventory are reviewed and updated on a quarterly basis. The estimates we use for demand are also used for near-term capacity planning and inventory purchasing and are consistent with our revenue forecasts. Future product introductions and related inventories may require additional provision based upon changes in market demand or introduction of competing technologies. Provision for excess and obsolete inventories result in a corresponding expense to cost of goods sold.

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Valuation of Goodwill and Intangibles. When we acquire another company, the purchase price is allocated, as applicable, between acquired in-process research and development, other identifiable intangible assets, tangible net assets and goodwill as required by GAAP. In-process research and development is the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. In-process research and development is recorded as a charge on the date of acquisition. Through March 31, 2009, there has been no in-process research and development acquired by us in a business combination. Goodwill is capitalized, subject to periodic review for impairment. Under our accounting policy, we perform an annual review of goodwill in the fourth quarter of each fiscal year, or more often if indicators of impairment exist. We evaluate our identifiable intangible assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be recoverable. Evaluations of possible impairment and, if applicable, adjustments to carrying values require us to estimate, among other factors, future cash flows over the life of the assets being evaluated, useful lives, and fair market values of our reporting units and assets. When we conduct our evaluation of goodwill, the fair value of goodwill is assessed using valuation techniques that require management judgment and actual results may differ from assumed or estimated amounts. Should conditions be different from management's last assessment, significant write-downs of goodwill may be required. Through March 31, 2009, we determined that there has been no impairment related to goodwill. However, we determined that \$462,000 of intangible assets related to the acquisition of Neurologic in September 2005 were impaired and recorded a non-cash impairment charge. Our impairment testing conducted in fiscal 2008 and 2007 indicated no such impairment. See Note 6 of the "Notes to Consolidated Financial Statements," which are included in "Item 8 – Financial Statements and Supplementary Data" for further discussion of the impairment charges.

Accounting for Income Taxes. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance on our federal, state and Swiss net deferred tax assets as of March 31, 2009 and our federal and state net deferred tax assets as of March 31, 2008 due to the uncertainties related to our ability to utilize our deferred tax assets in the foreseeable future. These deferred tax assets primarily consist of certain net operating loss carry forwards and accruals deductible in different periods.

Stock-based Compensation. We adopted the provisions of, and account for stock-based compensation in accordance with, SFAS 123R on April 1, 2006. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period.

Due to the adoption of SFAS 123R, some exercises result in tax deductions in excess of previously recorded benefits based on the option value at the time of grant ("windfall" tax benefits). We recognize windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for net operating loss carryforwards resulting from windfall tax benefits occurring from April 1, 2006 onward. A windfall tax benefit occurs when the actual tax benefit realized by the company upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that the company had recorded. When assessing whether a tax benefit relating to share-based compensation has been realized, we have elected to follow the tax law ordering method, under which current year share-based compensation deductions are assumed to be utilized before net operating loss carryforwards and other tax attributes. Also, we have elected to ignore the indirect tax effects of share-based compensation deductions in computing our research and development tax credit. We will recognize the full effect of these deductions in the statements of operations when the valuation allowance is released.



The fair value of stock options and employee stock purchase plan shares is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model requires that we make certain assumptions that are factored into the valuation analysis, including estimating the length of time employees will retain their vested stock options before exercising them (“expected term”) and the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the consolidated statements of income.

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We determine expected volatilities based on median results of a peer group analysis of companies similar in size and financial leverage to us. We have elected to use the simplified method for estimating our expected term as allowed by Staff Accounting Bulletin (“SAB”) 107, and extended by SAB 110. SAB 110 permits the use of the “simplified” method under certain conditions including a company’s inability to rely on historical exercise data. We will continue to use the simplified method until we have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of our options. The risk-free rate is indexed to the five-year Treasury note interest at the date of grant and expected forfeiture rate is based on our historical forfeiture information.

All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. See Note 12 of the “Notes to Consolidated Financial Statements,” which are included in “Item 8 – Financial Statements and Supplementary Data” for further information regarding the SFAS 123R.

### Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities,” which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 became effective for us on April 1, 2008. The adoption of SFAS 159 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R (“SFAS 141R”), “Business Combinations,” which replaces SFAS 141. SFAS 141R requires the acquiring entity in a business combination to recognize at full fair value all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to business combinations completed on or after the date of adoption. This provision will only impact our accounting for any acquisition after April 1, 2009.

In February 2008, the FASB issued FASB Staff Position (“FSP”) SFAS No. 157-2 (“FSP SFAS 157-2”), “Effective Date for FASB Statement No. 157.” This FSP permits the delayed application of SFAS No. 157, “Fair Value Measurements,” (“SFAS 157”) for all nonrecurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. We are currently evaluating the impact of adopting the provisions of FSP SFAS 157-2 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

In March 2008, the FASB issued SFAS No. 161 (“SFAS 161”), “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.” SFAS 161 requires enhanced disclosures about a company’s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of the adoption of the enhanced disclosures requirements of SFAS 161 and do not expect the adoption to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3 (“FSP SFAS 142-3”), “Determination of the Useful Life of Intangible Assets.” FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, “Business Combinations” and other GAAP. FSP SFAS 142-3 is effective for us on April 1, 2009. We are currently

evaluating the impact of adopting FSP SFAS 142-3 on our consolidated financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162 (“SFAS 162”), “The Hierarchy of Generally Accepted Accounting Principles,” which becomes effective 60 days following the SEC’s approval of the PCAOB amendments to U.S. AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This standard is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

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In April 2009, the FASB issued FSP SFAS No. 157-4 (“FSP SFAS 157-4”), “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” which addresses the determination of fair values when there is no active market or where the price inputs represent distressed sales. FSP SFAS 157-4 reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP SFAS 157-4 is effective for financial statements issued for interim and annual periods ending after June 15, 2009. We are currently evaluating the impact of adopting FSP SFAS 157-4 on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board (“APB”) No. 28-1 (“FSP SFAS 107-1 and APB 28-1”), “Interim Disclosures about Fair Value of Financial Instruments.” FSP SFAS 107-1 and APB 28-1 enhance consistency in financial reporting by increasing the frequency of fair value disclosures to a quarterly instead of annual basis for any financial instruments that are not currently reflected on the balance sheet at fair value. FSP SFAS 107-1 and APB 28-1 are effective for financial statements issued for interim and annual periods ending after June 15, 2009. We are currently evaluating the impact of adopting FSP SFAS 107-1 and APB 28-1 on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2 (“FSP SFAS 115-2 and SFAS 124-2”), “Recognition and Presentation of Other-Than-Temporary Impairments.” FSP SFAS 115-2 and SFAS 124-2 provide additional guidance designed to create greater consistency to the timing of impairment recognition and provide greater clarity about the credit and noncredit components of impaired debt securities that are not expected to be sold. FSP SFAS 115-2 and SFAS 124-2 are effective for financial statements issued for interim and annual periods ending after June 15, 2009. We are currently evaluating the impact of adopting FSP SFAS 115-2 and SFAS 124-2 on our consolidated financial position, results of operations and cash flows.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as of March 31, 2009.

## Contractual Obligations

We have obligations under non-cancelable operating leases with various expiration dates through 2013 and purchase commitments for inventory, capital equipment and operating expenses, such as materials for research and development and consulting.

As of March 31, 2009, our contractual obligations were as follows (in thousands):

	Total	Payments Due by Period			
		Less than 1 year	1-3 years	3-5 years	Beyond 5 years
Contractual obligations:					
Non-cancelable operating lease obligations	\$ 6,452	\$ 1,038	\$ 2,910	\$ 1,003	\$ 1,501
Purchase obligations	3,373	3,373	-	-	-
Minimum milestone payments to The Cleveland Clinic	1,500	1,500	-	-	-
Royalty payments to Vascular FX, LLC	1,250	250	750	250	-
Total	\$ 12,575	\$ 6,161	\$ 3,660	\$ 1,253	\$ 1,501

The future earn-out payments to the former VasCon shareholders will be an amount not to exceed \$10.0 million based on the sales and manufacturing performance as set forth in the asset purchase agreement. These future earn-out payments will be paid over three years. As of March 31, 2009, we have accrued for the second year earn-out payment of \$0.9 million. We paid the first year earn-out amount of \$378,000 in April 2008.

We are required to pay The Cleveland Clinic up to \$5.0 million in payments upon the achievement of certain milestones set forth in the ReVasc Agreement, with minimum milestone payments of at least \$2.0 million to The Cleveland Clinic upon the earlier of achieving the milestones or October 26, 2010. The first milestone payment in the amount of \$500,000 was paid in March 2008.

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We are required to pay Vascular FX, LLC a royalty equal to 25% of the greater of (i) the applicable aggregate mandatory minimum sales of \$1.0 million or (ii) the actual net sales of our deflectable catheter product, both on an annual basis. The royalty period is six years beginning in November 2007. As of March 31, 2009, we accrued royalty payments of approximately \$87,000 to Vascular FX.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

**Foreign Currency Exchange Risks.** Historically, we have been exposed to risks from fluctuations in currency exchange rates due to intercompany loans made to Micrus SA, our Swiss subsidiary, in 2001 in connection with its incorporation. These loans are denominated in Swiss francs and will fluctuate in value against the U.S. dollar, causing us to recognize foreign exchange gains and losses. The functional currency of our Swiss subsidiary is the Swiss franc. The functional currency of our UK subsidiary is the British pound. In Europe, our revenues are denominated in the Swiss franc, euro, British pound and other currencies. Accordingly, we are exposed to market risk related to changes between the Swiss franc and these other currencies. If the Swiss franc appreciates against the currencies in which our receivables are denominated, we will recognize foreign currency losses. For the preparation of our consolidated financial statements, the financial results of our Swiss subsidiary are translated into U.S. dollars based on average exchange rates during the applicable period. A hypothetical 10% decline in the value of the Swiss franc versus the U.S. dollar would cause us to recognize a loss of \$177,000 related to our loan with Micrus SA and a \$184,000 decrease in our comprehensive loss from our investment in Micrus SA as of March 31, 2009. A hypothetical 10% decline in the value of the British pound versus the U.S. dollar would cause us to recognize a \$447,000 increase in our comprehensive loss from our investment in Micrus UK as of March 31, 2009. A hypothetical 10% decline in the value of the euro versus the Swiss franc would cause us to recognize a loss of \$279,000 based on our foreign denominated receivables as of March 31, 2009.

In fiscal 2009, approximately 31% of our revenues were denominated in currencies other than the U.S. dollar. In future periods, we believe that a greater portion of our revenues could be denominated in currencies other than the U.S. dollar, thereby increasing our exposure to exchange rate gains and losses on non-U.S. currency transactions.

In fiscal 2009, we entered into foreign currency forward contracts to buy U.S. dollars to minimize the impact of the currency movements on intercompany payables for our Micrus SA subsidiary. The use of foreign currency forward contracts allows us to offset exposure to rate fluctuations because the gains or losses incurred on the derivative instruments will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. We use derivative instruments only for risk management purposes and do not use them for speculation or for trading.

As of March 31, 2009, we had outstanding foreign currency forward contracts to sell 0.6 million euro for approximately \$0.8 million, expiring through June 19, 2009. If we were to settle our euro-based contracts at the reporting date, an immaterial unrealized income or expense would need to be recognized. A sensitivity analysis of changes in the fair value of our euro forward contracts at March 31, 2009 indicates that, if the U.S. dollar uniformly strengthened/weakened by 10% against the euro, the fair value of these contracts would decrease/increase by \$80,000, respectively.

**Interest Rate Risk.** Our cash is invested in bank deposits and money market funds denominated in U.S. dollars. The carrying value of these cash equivalents approximates fair market value. Our investments in marketable securities are subject to interest rate risk, which is the risk that our financial condition and results of operations could be adversely affected due to movements in interest rates.

At March 31, 2009, our cash and cash equivalent balance was \$17.1 million. Based on our annualized average interest rate, a 10% decrease in the interest rate on such balances would result in a reduction in interest income of approximately \$10,000 on an annual basis.

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Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of Micrus Endovascular Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Micrus Endovascular Corporation and its subsidiaries at March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 8 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in fiscal year 2008.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
June 10, 2009

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## MICRUS ENDOVASCULAR CORPORATION

## Consolidated Balance Sheets

	March 31,	
	2009	2008
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 17,050	\$ 25,526
Accounts receivable, net of allowance for doubtful accounts of \$119 and \$95 at March 31, 2009 and 2008, respectively	12,205	11,297
Inventories	11,857	11,495
Prepaid expenses and other current assets	1,237	1,570
Total current assets	42,349	49,888
Property and equipment, net	6,982	5,285
Goodwill	6,762	8,549
Intangible assets, net	4,684	7,153
Deferred tax assets	260	9
Other assets	469	1,448
Total assets	\$ 61,506	\$ 72,332
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 2,138	\$ 3,680
Accrued payroll and other related expenses	5,515	7,930
Deferred tax liabilities	-	43
Short-term borrowings	2,500	-
Accrued liabilities	7,877	9,431
Total current liabilities	18,030	21,084
Deferred tax liabilities	-	314
Other non-current liabilities	902	2,754
Total liabilities	18,932	24,152
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.01 par value;		
Authorized: 1,000,000 shares; none issued and outstanding	-	-
Common stock, \$0.01 par value;		
Authorized: 50,000,000 shares		
Issued and outstanding: 15,820,369 shares and 15,614,760 shares at March 31, 2009 and 2008, respectively	158	156
Additional paid-in capital	127,121	119,897
Accumulated other comprehensive loss	(2,289)	(511)
Accumulated deficit	(82,416)	(71,362)

Total stockholders' equity	42,574	48,180
Total liabilities and stockholders' equity	\$ 61,506	\$ 72,332

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

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## MICRUS ENDOVASCULAR CORPORATION

## Consolidated Statements of Operations

	Years Ended March 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Revenues	\$ 78,196	\$ 69,213	\$ 58,795
Cost of goods sold	20,847	17,301	15,361
Gross profit	57,349	51,912	43,434
Operating expenses:			
Research and development	10,243	13,718	7,904
Sales and marketing	29,312	29,385	24,121
General and administrative	26,983	26,971	19,308
Impairment of intangible assets	462	-	-
Total operating expenses	67,000	70,074	51,333
Loss from operations	(9,651)	(18,162)	(7,899)
Interest and investment income	258	1,223	1,618
Interest expense	(52)	(3)	(14)
Other income (expense), net	(2,111)	488	565
Loss before income taxes	(11,556)	(16,454)	(5,730)
Income tax benefit	(502)	(194)	(247)
Net loss	\$ (11,054)	\$ (16,260)	\$ (5,483)
Net loss per share:			
Basic and diluted	\$ (0.70)	\$ (1.05)	\$ (0.38)
Weighted-average number of shares used in per share calculations:			
Basic and diluted	15,692	15,438	14,621

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

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## MICRUS ENDOVASCULAR CORPORATION

## Consolidated Statements of Changes in Stockholders' Equity

	Common Shares	Stock Amount	Additional Paid-in Capital	Deferred Stock-based Compensation (In thousands)	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at March 31, 2006	14,190	\$ 142	\$ 101,430	\$ (397)	\$ (240)	\$ (49,619)	\$ 51,316
Comprehensive loss:							
Net loss	-	-	-	-	-	(5,483)	(5,483)
Translation adjustments	-	-	-	-	(283)	-	(283)
Change in unrealized loss on available-for-sale investments	-	-	-	-	11	-	11
Total comprehensive loss							(5,755)
Exercise of over-allotment by underwriters	190	2	2,037	-	-	-	2,039
Issuance of common stock in connection with VasCon acquisition	157	2	2,970	-	-	-	2,972
Exercise of common stock warrants	15	-	-	-	-	-	-
Exercise of stock options	619	6	2,298	-	-	-	2,304
Issuance of common stock under employee stock purchase plan	78	-	755	-	-	-	755
Stock-based compensation under SFAS 123R (including amount capitalized in inventory of \$89)	-	-	2,293	-	-	-	2,293
Amortization of deferred stock-based compensation	-	-	-	213	-	-	213
Deferred stock-based compensation associated with stock options forfeited	-	-	(20)	20	-	-	-

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Non-employee stock-based compensation	-	-	157	-	-	-	157
Balance at March 31, 2007	15,249	152	111,920	(164)	(512)	(55,102)	56,294
Comprehensive loss:							
Net loss	-	-	-	-	-	(16,260)	(16,260)
Translation adjustments	-	-	-	-	1	-	1
Total comprehensive loss							(16,259)
Exercise of stock options	270	3	2,152	-	-	-	2,155
Issuance of common stock under employee stock purchase plan	93	1	1,009	-	-	-	1,010
Restricted stock awards issued	1	-	21	-	-	-	21
Restricted stock units released	3	-	-	-	-	-	-
Restricted stock withheld for minimum taxes	(1)	-	(29)	-	-	-	(29)
Stock-based compensation under SFAS 123R (including amount capitalized in inventory of \$51)	-	-	4,821	-	-	-	4,821
Amortization of deferred stock-based compensation	-	-	-	163	-	-	163
Deferred stock-based compensation associated with stock options forfeited	-	-	(1)	1	-	-	-
Non-employee stock-based compensation	-	-	4	-	-	-	4
Balance at March 31, 2008	15,615	156	119,897	-	(511)	(71,362)	48,180
Comprehensive loss:							
Net loss	-	-	-	-	-	(11,054)	(11,054)
Translation adjustments	-	-	-	-	(1,705)	-	(1,705)
Swiss pension plan adjustment					(73)		(73)
Total comprehensive loss							(12,832)
	83	1	747	-	-	-	748

Exercise of stock options							
Issuance of common stock under employee stock purchase plan	120	1	879	-	-	-	880
Restricted stock awards issued	1	-	9	-	-	-	9
Restricted stock units released	3	-	-	-	-	-	-
Restricted stock withheld for minimum taxes	(2)	-	(17)	-	-	-	(17)
Stock-based compensation under SFAS 123R (including amount released from inventory of \$8)	-	-	5,606	-	-	-	5,606
Balance at March 31, 2009	15,820	\$ 158	\$ 127,121	\$ -	\$ (2,289)	\$ (82,416)	\$ 42,574

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



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## MICRUS ENDOVASCULAR CORPORATION

## Consolidated Statements of Cash Flows

	Years Ended March 31,		
	2009	2008	2007
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (11,054)	\$ (16,260)	\$ (5,483)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	3,383	3,178	2,143
Provision for doubtful accounts	49	(145)	(84)
Loss on disposal of equipment	28	35	4
Provision for excess and obsolete inventories	74	240	279
Realized gain on investments	-	-	(4)
Impairment of intangible assets	462	-	-
Stock-based compensation	5,645	4,958	2,574
Deferred income taxes	(608)	(209)	(329)
<b>Changes in operating assets and liabilities, net of effect of acquisitions:</b>			
Accounts receivable	(1,962)	(2,115)	601
Inventories	(1,041)	(2,786)	(3,810)
Prepaid expenses and other current assets	270	(156)	(545)
Other assets	(21)	(148)	19
Accounts payable	(1,425)	1,920	(437)
Accrued payroll and other related expenses	(2,077)	1,582	2,936
Accrued liabilities	(147)	1,403	1,818
Other non-current liabilities	(855)	979	(238)
Net cash used in operating activities	(9,279)	(7,524)	(556)
<b>Cash flows from investing activities:</b>			
Proceeds from maturities of available-for-sale securities	-	-	1,000
Acquisition of property and equipment	(2,688)	(2,013)	(1,343)
Advance payments for leasehold improvements at new Florida facility	-	(802)	-
Proceeds from sale of property and equipment	13	110	-
Proceeds from sale of assets and technologies	1,500	1,500	-
Purchase of VasCon, LLC, net of cash acquired	-	-	(2,860)
Earn-out payment in connection with acquisition of VasCon, LLC	(378)	-	-
Purchase of Neurologic UK Ltd., net of cash acquired	-	-	(11)
Earn-out payment in connection with acquisition of Neurologic UK Ltd.	(3,454)	(2,232)	(1,403)
Payment to Biotronik AG for developed technology	-	-	(834)
Net cash used in investing activities	(5,007)	(3,437)	(5,451)
<b>Cash flows from financing activities:</b>			
Borrowings under bank line of credit	2,500	-	-
Proceeds from exercise of stock options	748	2,155	2,304
Proceeds from employee stock purchase plan	880	1,010	755
Proceeds from issuance of common stock, net of issuance costs	-	-	2,039

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Net cash provided by financing activities	4,128	3,165	5,098
Effect of foreign exchange rate changes on cash	1,682	(1,214)	(659)
Net decrease in cash and cash equivalents	(10,158)	(7,796)	(909)
Cash and cash equivalents at beginning of year	25,526	34,536	36,104
Cash and cash equivalents at end of year	\$ 17,050	\$ 25,526	\$ 34,536
Supplemental disclosure of cash flow information:			
Interest paid	\$ 38	\$ 3	\$ 14
Supplemental schedule of non-cash investing and financing activities:			
Issuance of common stock for purchase of VasCon, LLC	\$ -	\$ -	\$ 2,972
Accrued earn-out payment in connection with the acquisition of VasCon, LLC	\$ 886	\$ 378	\$ -
Accrued earn-out payment in connection with the acquisition of Neurologic UK Ltd.	\$ -	\$ 2,997	\$ 2,232

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

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Formation and Business of the Company

Micrus Endovascular Corporation (the “Company”) was incorporated under the laws of the state of Delaware in June 1996. The Company develops, manufactures and markets both implantable and disposable medical devices used in the treatment of cerebral vascular diseases. The Company’s products are used by interventional neuroradiologists, interventional neurologists, and neurosurgeons to treat both cerebral aneurysms responsible for hemorrhagic stroke and intracranial atherosclerosis, which may lead to ischemic stroke. Hemorrhagic and ischemic stroke are both significant causes of death and disability worldwide.

Liquidity

The Company has incurred annual net losses since its inception. In the fourth quarter of fiscal 2009, the Company achieved its first profitable quarter but there are no assurances that the Company will continue to be profitable in the foreseeable future. Management believes that the Company’s current cash position as of March 31, 2009 and the cash expected to be generated from operations will be sufficient to meet the Company’s working capital and capital expenditure requirements for at least the next twelve months from March 31, 2009. To the extent that existing cash and cash generated from operations are insufficient to fund its future activities, the Company would seek to borrow funds under the credit facility. However, given that certain financial and other covenants of the credit agreement (see Note 7) are required to be met, these funds may not be available to the Company. Accordingly, the Company may need to reduce discretionary spending and raise additional funds through public or private equity or debt financing. Any additional equity financing may be dilutive to stockholders and debt financing, if available, may involve covenants that would restrict the Company. Additional funds may not be available on terms favorable to the Company or at all. Failure to manage discretionary spending or raise additional capital as required may adversely impact the Company’s ability to achieve its intended business objectives. The Company believes that it will be able to maintain compliance with the debt covenants of the credit agreement for at least the next twelve months from March 31, 2009.

Note 2 — Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company’s international subsidiaries use their local currency as the functional currency. Assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Revenue, expense, gain and loss accounts are translated at average exchange rates during the period. Resulting translation adjustments are recorded directly to accumulated other comprehensive income (loss).

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported stockholders’ equity or net loss.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates and assumptions include reserves and write-downs related to accounts receivable and inventories, the recoverability and fair value of long-term assets, and deferred tax assets and related valuation allowances.

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Revenue recognition

The Company generates revenue primarily from the sale of its microcoil product line. The Company also sells stents, access products and accessories for use with its microcoils. Revenue is generated from sales to hospitals and third-party distributors.

Revenue is recognized when evidence of an arrangement exists, delivery to the customer has occurred, the selling price is fixed or determinable and collectibility is reasonably assured. Revenue is generally recognized upon shipment after the receipt of a purchase order. In arrangements which specify the title transfer upon delivery, revenue is not recognized until the product is delivered. In the case of consigned goods, revenue is recognized when a replenishment order is made.

The evidence of an arrangement generally consists of a contract or a purchase order approved by the customer.

Delivery to the customer occurs when the customer takes title to the product. Generally title passes upon shipment, but may occur when the product is received by the customer based on the terms of the agreement with the customer.

The selling price for all sales are fixed and agreed with the customer prior to shipment and are generally based on established list prices.

The Company performs credit checks on new customers and periodic credit checks on existing customers. Accordingly, collectibility is generally assured prior to shipment. In the event a sale is made to a customer for whom collectibility is not reasonably assured, the Company either requires prepayment of the order or revenue is deferred and recognized upon collection. The Company maintains a reserve for amounts which may not be collectible.

The Company maintains inventory at various hospital locations under the custody of hospital personnel for use in procedures. The Company recognizes revenue on sales to these customers when the revenue criteria have been met, which occurs when the hospital informs the Company that product has been removed from inventory and used in a procedure.

Once a sale has occurred, the customer has no right of return.

Sales to distributors are recognized at the time of shipment, provided that the Company has received an order, the price is fixed or determinable and collectibility is reasonably assured. Non-refundable fees received from distributors upon entering into multi-year distribution agreements, where there is no culmination of a separate earnings process, are deferred and amortized over the term of the distribution agreement or the expected period of performance, whichever is longer.

Sales made to the Company's Latin American distributors are made according to similar contractual terms as sales made to other distributors. However, due to historically longer delays in receiving payments and a higher level of receivable write-offs relating to its Latin American distributors, the Company had concluded that through March 31, 2008 collectibility was not reasonably assured at the time that the distributor took title to the inventory. Accordingly, the Company had recognized revenues from sales to Latin American distributors when cash was collected. The

Company has evaluated its experience with Latin American distributors and has concluded that collectibility is now reasonably assured upon shipment, and began recognizing revenue upon shipment to these distributors beginning in the first quarter of fiscal 2009. Revenue recognized upon shipment to its Latin American distributors was \$2.5 million for fiscal 2009. Additionally, the deferred revenue balance at March 31, 2008 of \$0.7 million for these distributors and the related cost of goods sold of \$273,000 that had been deferred was recognized as revenue and cost of goods sold, respectively, in the first quarter of fiscal 2009. Revenue recognized on a cash basis on sales made to its Latin American distributors was \$1.6 million and \$1.1 million for fiscal 2008 and 2007, respectively.

#### Product warranty

The Company provides its customers with limited warranty privileges. To date, product returns under warranty have not been significant. The warranty accrual as of March 31, 2009 and 2008 was immaterial to the financial position of the Company and the change in the accrual balance for the current and two prior fiscal years was immaterial to the Company's results of operations and cash flows.

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Cost of goods sold

The Company's cost of goods sold includes the cost of products sold to customers including materials, direct labor, depreciation, overhead costs associated with manufacturing, impairments of inventory and warranty expenses. Cost of goods sold also includes amortization of capitalized license technology and acquired intangible assets resulting from transactions with Biotronik AG ("Biotronik") and VasCon, LLC ("VasCon"), respectively (see Note 3).

Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various major financial institutions. Deposits in these banks may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company grants credit to its customers, which are primarily located in the United States, Europe, Asia Pacific and Latin America, and performs ongoing credit evaluations on its customers and collateral is generally not required for trade receivables. The Company maintains an allowance for potential credit losses and such losses have been within the Company's expectations.

The Company had one customer which accounted for 12% of revenues for the year ended March 31, 2009 and had one customer which accounted for 20% of accounts receivable at March 31, 2009. The Company had no customer which accounted for more than 10% of revenues for the year ended March 31, 2008 and one customer which accounted for 15% of revenues for the year ended March 31, 2007. The Company had one customer which accounted for 16% of accounts receivable at March 31, 2008 and none which accounted for more than 10% of accounts receivable at March 31, 2007.

Certain significant risks and uncertainties

Most of the Company's products require approval from the Food and Drug Administration and foreign regulatory agencies prior to commercialized sale and are subject to continued regulations once approved. There can be no assurance that the Company's new products or new versions of previous products will receive these required approvals. If the Company was denied such approvals or such approvals were delayed, it could have a materially adverse impact on the Company.

A portion of the Company's sales operations are based outside of the United States, principally in Europe, Asia Pacific and Latin America. As a result, the Company must comply with a wide variety of foreign laws and regulations. In particular, the Company may be materially adversely affected by changes in the political, social and economic conditions in these countries, and by changes in government policies with respect to such matters as laws and regulations, methods to address inflation, currency conversion and restrictions and rates and methods of taxation.

Certain of the components and materials used in the Company's devices are provided by single source suppliers. The loss of any of these suppliers, or their inability to supply the Company with an adequate supply of materials could have a materially adverse impact on the Company.

#### Cash and cash equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents are generally invested in money market funds. Cash equivalents are carried at cost, which approximates fair value.

#### Fair value of financial instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities, approximate fair value due to their short maturities.

#### Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company provides an allowance for specific customer accounts where collection is doubtful and also provides an allowance for other accounts based on historical collection and write-off experience. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.



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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Inventories

Inventories of raw materials, work-in-progress and finished goods are stated at the lower of cost or market, cost being determined under a standard cost method, which approximates actual cost on a first-in, first-out basis.

The Company calculates an inventory provision for estimated obsolescence or excess inventories based upon historical scrap rates and assumptions about future demand for its products and market conditions. The Company's microcoil products have a five-year shelf life and its stents and access products have a shelf life between one and three years. The Company's products are subject to demand fluctuations based on the availability and demand for alternative products. The Company's inventory, which consists primarily of microcoils, is at risk of obsolescence following the introduction and development of new or enhanced products. The Company's estimates and assumptions for excess and obsolete inventory are reviewed and updated on a quarterly basis. The estimates that the Company uses for demand are also used for near-term capacity planning and inventory purchasing and are consistent with its revenue forecasts. Future product introductions and related inventories may require additional provision based upon changes in market demand or introduction of competing technologies. Provision for excess and obsolete inventories result in a corresponding expense to cost of goods sold.

Property and equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which is generally three to seven years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets. Construction in progress is not depreciated until the related asset is placed in service. Upon sale or retirement of assets, the costs and related accumulated depreciation and amortization are removed from the consolidated balance sheets and the resulting gain or loss is reflected in the statements of operations. Maintenance and repairs are expensed as incurred.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of in-process research and development, and the net tangible and identifiable intangible assets acquired in a business combination. Negative goodwill represents the excess fair value of the net assets acquired in a business combination over the purchase price. If the acquisition involves contingent consideration, the negative goodwill is recorded as a deferred credit in the consolidated balance sheet and is reduced by the contingent consideration that is paid, with any additional contingent consideration being recorded as goodwill. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill is not subject to amortization.

In-process research and development is the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. In-process research and development is recorded as a charge on the date of acquisition.

Intangible assets resulting from acquisitions are estimated by management based on the fair value of the assets received. Intangible assets from acquisitions are comprised of existing process technology, distribution agreements,

non-compete agreements and customer relationships, and are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over their estimated useful lives ranging from five to seven years.

Intangible assets not resulting from acquisitions are comprised of patents and licensed technology, and are carried at cost less accumulated amortization. Amortization of patents is computed using the straight-line method over their estimated useful lives of ten years. Patent application, maintenance costs and costs incurred in obtaining the license rights to technology in the research phase are expensed as incurred. Amortization of licensed technology is computed using the straight-line method over its estimated useful life of seven years when the Company began selling the product and generating revenue, which was essentially when it became available for its intended use.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Impairment of long-lived assets

The Company evaluates its goodwill for possible impairment on an annual basis or more frequently when events or changes in circumstances indicate that the carrying amounts may not be fully recoverable. The Company performs the impairment test annually in the fourth quarter of its fiscal year. Any impairment charges resulting from the application of this test are immediately recorded as a charge to earnings in the Company's consolidated statements of operations. Through March 31, 2009, there has been no impairment charges related to goodwill.

The Company reviews long-lived assets, excluding goodwill, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Any impairment charges are immediately recorded as a charge to earnings in the Company's consolidated statements of operations. As discussed in Note 6, the Company recorded a non-cash impairment charge of \$462,000 in the fourth quarter of fiscal 2009 related to intangible assets acquired from Neurologic UK Limited ("Neurologic").

## Comprehensive loss

Comprehensive loss generally represents all changes in stockholders' equity except those resulting from investments or contributions by stockholders. The Company's foreign currency translation adjustments and the Swiss pension plan benefit adjustment represent the only components of comprehensive loss excluded from reported net loss. These components of comprehensive loss are presented in the statements of stockholders' equity.

The balance of accumulated other comprehensive loss consisted of the following components:

	March 31,	
	2009	2008
Foreign currency translation adjustments	\$ (2,216)	\$ (511)
Swiss pension plan benefit adjustment (Note 13)	(73)	-
	\$ (2,289)	\$ (511)

## Research and development

Research and development costs are charged to operations as incurred and consist primarily of costs associated with evaluating in-process technology, purchases of intellectual property, personnel costs and supplies.

## Advertising costs

Advertising costs are expensed as incurred and are included in sales and marketing expenses.

## Shipping and handling of products

Amounts billed to customers for shipping and handling of products are included in revenues. Costs incurred related to shipping and handling of products are included in cost of goods sold.

Foreign currency transactions

Other income (expense), net, includes foreign currency gains or losses related to a loan with the Company's Swiss subsidiary, and currency gains or losses resulting from differences in exchange rates between the time of recording of the transaction and the cash settlement of foreign currency denominated receivables and payables. The Company recorded currency gains (losses) for the years ended March 31, 2009, 2008 and 2007 of \$(2.1 million), \$546,000 and \$0.7 million, respectively.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Income taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to effect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

## Net loss per share

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by giving effect to all potential dilutive common shares, including stock options and restricted stock units. There is no difference between basic and diluted net loss per share for all periods presented due to the Company's net losses.

## Anti-dilutive securities

The following outstanding stock options and restricted stock units were excluded from the computation of diluted net loss per common share for the periods presented because their impact would have been anti-dilutive (in thousands):

	Years Ended March 31,		
	2009	2008	2007
Shares issuable upon exercise of common stock options	4,018	3,656	3,182
Shares issuable upon settlement of restricted stock units	4	7	10
	4,022	3,663	3,192

## Stock-based compensation

The Company has adopted various stock plans that provide for the grant of stock awards to employees, non-employee directors and consultants. The Company also has an employee stock purchase plan which enables employees to purchase the Company's common stock.

On April 1, 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123 — revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The Company elected the modified-prospective method of transition, under which prior periods were not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding prior to the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date is recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures.

#### Recent accounting pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities,” which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 became effective for the Company on April 1, 2008. The adoption of SFAS 159 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R (“SFAS 141R”), “Business Combinations,” which replaces SFAS 141. SFAS 141R requires the acquiring entity in a business combination to recognize at full fair value all the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to business combinations completed on or after the date of adoption. This provision will only impact the Company’s accounting for any acquisition after April 1, 2009.

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In February 2008, the FASB issued FASB Staff Position (“FSP”) SFAS No. 157-2 (“FSP SFAS 157-2”), “Effective Date for FASB Statement No. 157.” This FSP permits the delayed application of SFAS No. 157, “Fair Value Measurements,” (“SFAS 157”) for all nonrecurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of adopting the provisions of FSP SFAS 157-2 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

In March 2008, the FASB issued SFAS No. 161 (“SFAS 161”), “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.” SFAS 161 requires enhanced disclosures about a company’s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the adoption of the enhanced disclosures requirements of SFAS 161 and does not expect the adoption to have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3 (“FSP SFAS 142-3”), “Determination of the Useful Life of Intangible Assets.” FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, “Business Combinations” and other GAAP. FSP SFAS 142-3 is effective for the Company beginning on April 1, 2009. The Company is currently evaluating the impact of adopting FSP SFAS 142-3 on the Company’s consolidated financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162 (“SFAS 162”), “The Hierarchy of Generally Accepted Accounting Principles,” which becomes effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to U.S. Auditing Standards (“AU”) Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This standard is not expected to have an impact on the Company’s consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP SFAS No. 157-4 (“FSP SFAS 157-4”), “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” which addresses the determination of fair values when there is no active market or where the price inputs represent distressed sales. FSP SFAS 157-4 reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP SFAS 157-4 is effective for financial statements issued for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the impact of adopting FSP SFAS 157-4 on the Company’s consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board (“APB”) No. 28-1 (“FSP SFAS 107-1 and APB 28-1”), “Interim Disclosures about Fair Value of Financial Instruments.” FSP SFAS 107-1 and APB 28-1 enhance consistency in financial reporting by increasing the frequency of fair value disclosures to a quarterly instead

of annual basis for any financial instruments that are not currently reflected on the balance sheet at fair value. FSP SFAS 107-1 and APB 28-1 are effective for financial statements issued for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the impact of adopting FSP SFAS 107-1 and APB 28-1 on the Company's consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2 ("FSP SFAS 115-2 and SFAS 124-2"), "Recognition and Presentation of Other-Than-Temporary Impairments." FSP SFAS 115-2 and SFAS 124-2 provide additional guidance designed to create greater consistency to the timing of impairment recognition and provide greater clarity about the credit and noncredit components of impaired debt securities that are not expected to be sold. FSP SFAS 115-2 and SFAS 124-2 are effective for financial statements issued for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the impact of adopting FSP SFAS 115-2 and SFAS 124-2 on the Company's consolidated financial position, results of operations and cash flows.



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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 3 — Business Combinations, Assets Disposition and Technology Acquisition and License Agreements

Fiscal 2007 Business Combination

VasCon

On November 30, 2006, the Company completed the acquisition of VasCon, a privately held company engaged in the development and manufacture of vascular access and delivery devices located in Florida. The acquisition of VasCon added expertise in developing clinically advanced access and catheter systems to the Company's core competencies and provided the Company with manufacturing capabilities that will facilitate cost reductions for a wide range of the Company's products. VasCon's non-neurological cardio and peripheral catheter products were sold through non-Micrus distribution channels until the Company sold these assets and related technology to Merit Medical Systems, Inc. ("Merit") in January 2008 (see Assets Disposition – Merit below). In connection with the acquisition, the Company formed Micrus Design Technology, Inc. ("MDT") to develop and manufacture neurovascular access and delivery products including the Company's family of Courier® microcatheters and Ascent™ balloon catheter. The Company has also undertaken a manufacturing automation program at this facility which the Company believes will provide both an enhanced delivery system and a component cost savings which is expected to be introduced in the Company's microcoil products in fiscal 2010. On January 1, 2009, the Company merged MDT into Micrus Endovascular Corporation.

The acquisition of VasCon included an up-front payment and additional contingent earn-out payments. The total consideration paid of approximately \$5.9 million as of March 31, 2007, consisted of the up-front payment of approximately \$2.5 million in cash, the issuance of 156,666 shares of the Company's common stock having an aggregate value of approximately \$3.0 million calculated based on the average closing price two days before and the day of the acquisition and \$404,000 in acquisition-related closing costs. Additionally, VasCon may receive certain earn-out payments in an amount not to exceed \$10.0 million based on sales and manufacturing performance as set forth in the asset purchase agreement entered into by the parties. At March 31, 2009 and 2008, the Company accrued for the second and first year earn-out payments to the former VasCon shareholders of approximately \$378,000 and \$0.9 million, respectively, both of which were recorded as a reduction of the contingent purchase price balance. The Company paid the first year earn-out payment in April 2008. The second year earn-out will be paid in June 2009.

The results of operations of MDT are included in the accompanying consolidated statements of operations for all periods or partial periods subsequent to the acquisition date. The purchase price was allocated to the net tangible and identifiable intangible assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition as determined by management. At the acquisition date, the fair value of the net assets acquired exceeded the purchase consideration resulting in negative goodwill in the amount of \$1.6 million. Because the acquisition involved contingent consideration that may exceed the negative goodwill amount, the negative goodwill was recorded as a deferred credit in the consolidated balance sheet and is being reduced by any earned contingent consideration of up to \$10.0 million that will be paid over three years, with any additional contingent consideration being recorded as goodwill. The contingent purchase price balance as of March 31, 2009 was \$332,000 and is expected to be earned during fiscal 2010.

Fiscal 2006 Business Combination

## Neurologic

On September 20, 2005, the Company entered into a Share Purchase Agreement (“Neurologic Purchase Agreement”) acquiring all of the outstanding capital stock of Neurologic, a privately held distributor of the Company’s products in the United Kingdom (“UK”). The acquisition of Neurologic, which was the Company’s largest distributor, provided the Company with additional leverage and a strengthened presence in the UK market and the Company has used this acquisition as a platform to expand sales to existing accounts and support sales to customers using alternative procedures and competing products. Following the acquisition of Neurologic, the Company changed the acquired entity’s name to Micrus Endovascular UK Limited (“Micrus UK”).

The acquisition of Neurologic included an initial cash payment of approximately \$4.7 million, additional consideration of approximately \$131,000 as a result of certain purchase price adjustments, and future multi-year revenue based earn-out payments. All earn-out payments shall be equal to one-third of Neurologic’s product sales during specified periods. At March 31, 2008, 2007 and 2006, the Company accrued for additional considerations under the earn-out provisions of approximately \$3.0 million, \$2.2 million and \$1.4 million for the third, second and first year earn-out payments, respectively, all of which were recorded as additions to goodwill (See Note 6). The Company paid the first, second and third year earn-out payments in April 2006, April 2007 and April 2008, respectively. The final earn-out payment of \$457,000 was made in June 2008.

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Assets Disposition

Merit

On January 31, 2008, the Company entered into an Asset Purchase and Supply Agreement (the “Merit Agreement”) with Merit pursuant to which the Company sold its non-neurological cardiac and peripheral catheter assets and technology (the “Merit Transaction”). The majority of the assets sold were originally acquired by the Company in November 2006 in connection with its purchase of VasCon. Pursuant to the Merit Agreement, the Company received an up-front payment of \$1.5 million and received an additional payment of \$1.5 million in December 2008 upon the completion of its obligation to help Merit build a production line for coronary guide catheters. Under the terms of the Merit Agreement, the Company also agreed to manufacture and supply certain guide catheters to Merit for a period of up to one year following the closing. This obligation expired on January 31, 2009, and the Company no longer supplies guide catheters to Merit.

Additionally, if requested by Merit, the Company must provide reasonable assistance to help Merit build production lines for peripheral guiding sheaths and/or cardiovascular microcatheters. In October 2008, the Company amended the Merit Agreement extending the termination date for this obligation to September 30, 2009.

Though certain elements of this transaction (namely the acquired assets and licensing rights, and the production line assistance for coronary guide catheters) have been delivered as of March 31, 2009, the Company is still obligated to deliver the regulatory documentation and production line assistance for the peripheral guiding sheaths and/or cardiovascular microcatheters. The remaining obligations will expire in the second quarter of fiscal 2010. Because the Company lacks the ability to separate the multiple obligations (elements) of this transaction, the potential gain from the up-front payment of \$1.5 million and the additional payment of \$1.5 million, net of direct and incremental costs incurred and the net book value of assets transferred to Merit, has been deferred until such time as all elements of the transaction are delivered.

Technology Acquisition and License Agreements

Genesis

On January 16, 2008, the Company entered into a license, development and commercialization agreement (the “Genesis Agreement”) with Genesis Medical Interventional, Inc. (“Genesis”). Under the terms of the Genesis Agreement, the Company licensed the rights to Genesis’s F.A.S.T. Funnel Catheter and clot retrieval system for the treatment of ischemic stroke. The transaction included an initial up-front payment of \$0.8 million, a future development milestone payment of \$150,000 payable upon the earlier to occur of the date of first commercial sale or September 30, 2008 and royalties on potential future product sales. Both the initial up-front payment of \$0.8 million and future milestone payment of \$150,000 were recorded as research and development expense upon the effective date of the Genesis Agreement.

ReVasc

On October 26, 2007, the Company entered into a Stock Purchase Agreement (the “ReVasc Agreement”) with The Cleveland Clinic Foundation (“The Cleveland Clinic”) and ReVasc Technologies, Inc. (“ReVasc”), a wholly-owned

subsidiary of The Cleveland Clinic, pursuant to which the Company acquired all of the outstanding stock of ReVasc from The Cleveland Clinic for an aggregate up-front purchase price of \$1.0 million. ReVasc did not have the necessary set of activities to be considered as a business and as such this transaction was classified as a technology acquisition. Pursuant to the ReVasc Agreement, the Company also agreed to pay The Cleveland Clinic up to an additional \$5.0 million in payments upon the achievement of certain milestones set forth in the ReVasc Agreement, with minimum milestone payments of at least \$2.0 million due to The Cleveland Clinic by October 2010.

ReVasc was a party to a license agreement with The Cleveland Clinic (the "ReVasc License Agreement") pursuant to which The Cleveland Clinic granted ReVasc an exclusive license to its revascularization technology for the treatment of ischemic stroke. In connection with the acquisition, the parties amended the ReVasc License Agreement to provide, among other matters, for the payment to The Cleveland Clinic of certain royalties for sales of products based on the technology subject to the ReVasc License Agreement.

The Company acquired only pre-regulatory approved technology and did not assume any other assets or liabilities in connection with the acquisition of ReVasc. Accordingly, the ReVasc Agreement was accounted for as a purchase of in-process research and development and \$3.0 million, representing the up-front purchase price of \$1,000,000 plus future minimum milestone payments of \$2.0 million, was recorded as research and development expense during fiscal 2008. In March 2008, the Company paid the first milestone payment of \$500,000 to The Cleveland Clinic. The remaining minimum milestone payments of \$1.5 million are included in accrued liabilities at March 31, 2009 (see Note 5).

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

On December 7, 2007, the Company merged ReVasc into Micrus. Following the merger, Micrus became the direct recipient of the license of the revascularization technology from The Cleveland Clinic under the ReVasc License Agreement.

Biotronik AG

On January 6, 2006, the Company entered into a License, Development and Distribution Agreement (the "Biotronik Agreement") with Biotronik, a Swiss corporation, pursuant to which the Company will collaborate with Biotronik to develop certain neurovascular products and the Company will be the exclusive worldwide distributor for neurovascular products. Pursuant to the terms of the agreement, Biotronik granted to the Company an exclusive license to certain patents, know-how and other proprietary technology in the neurovascular field. The term of the Biotronik Agreement is perpetual unless terminated by the parties or by operation of law.

Under the terms of the Biotronik Agreement, the Company paid an up-front licensing fee of \$0.6 million, and was required to make milestone payments to Biotronik upon receipt of approvals to market stent products jointly developed for the treatment of neurovascular disease and royalty payments on the products sold. The Company recorded the up-front licensing fee as research and development expense in the fiscal year ended March 31, 2006 as there were no regulatory clearances for a product at that time. In February 2006, Biotronik met the established milestones of the agreement when it received CE Mark authorization for the PHAROS™ product intended for both the treatment of aneurysms and the treatment of ischemic diseases. As a consequence the Company paid milestone payments to Biotronik of \$0.7 million and \$0.7 million in March and April 2006, respectively. The Company recorded the milestone payments of approximately \$1.5 million as capitalized licensed technology at March 31, 2006. Under the terms of this agreement, there are no future milestone payments to Biotronik related to the PHAROS™ stent. The Company capitalized additional costs associated with the PHAROS™ stent development of \$102,000 in the first quarter of fiscal 2007. The Company commenced amortization of the capitalized licensed technology in the third quarter of fiscal 2007 when it began selling the PHAROS™ product and generating revenue, which was essentially when it became available for its intended use. This capitalized licensed technology will be amortized over its estimated useful life of seven years. Additionally, the Company incurred royalties to Biotronik of approximately \$169,000, \$150,000 and \$34,000 for the products sold in fiscal 2009, 2008 and 2007, respectively. The Company records the earned royalty as a component of its cost of goods sold.

Vascular FX

On July 28, 2005, the Company entered into a Technology Transfer Agreement with Vascular FX, a Delaware limited liability company ("Vascular FX"), pursuant to which the Company purchased the intellectual property of Vascular FX. The \$4.0 million cash purchase price included a \$1.5 million payment at closing followed by milestone payments to be made over time, in addition to royalty payments on potential future product sales. On January 31 and May 31, 2006, the Company made milestone payments of \$1.0 million and \$1.5 million, respectively. The Company recorded the initial and milestone payments in the corresponding accounting periods as research and development expense since there are currently no FDA approved products being sold and the intellectual property has no alternative future use. There are no future milestone payments to Vascular FX under the terms of the agreement.

On January 28, 2009, the Company amended the Technology Transfer Agreement with Vascular FX to modify the royalty provision and eliminate the claw-back provisions that would have required the Company to license back the acquired technology to Vascular FX under certain circumstances. Under the amended agreement, the Company will pay Vascular FX a royalty equal to 25% of the aggregate net selling price of deflectable catheter products sold during the royalty period subject to the mandatory minimum provision not less than \$250,000 per year. The royalty period is six years beginning from November 1, 2007. The Company incurred royalties to Vascular FX of approximately \$288,000 and \$75,000 for the products sold in fiscal 2009 and 2008, respectively. The Company records the earned royalty as a component of its cost of goods sold.

Note 4 — Fair Value Measurements

Effective April 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis. The adoption of the provisions of SFAS 157 did not materially impact the Company's consolidated financial position and results of operations.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 describes three levels of inputs that may be used to measure fair value:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Company's cash equivalents are classified within Level 1 of the fair value hierarchy because they are invested in money market funds and valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

In fiscal 2009, the Company entered into foreign currency forward contracts to buy U.S. dollars at fixed intervals in the retail market in an over-the-counter environment. As of March 31, 2009, the Company had foreign currency forward contracts to sell 0.6 million euros in exchange for approximately \$0.8 million U.S. dollars maturing in April through June 2009. The counterparty to these contracts is UBS AG located in Switzerland. The Company's foreign currency forward contracts are classified within Level 2 as the valuation inputs are based on quoted prices of similar instruments in active markets and do not involve management judgment. The Company recorded the fair value of the contracts in accrued liabilities on its consolidated balance sheet as of March 31, 2009. The Company recorded a net realized gain of approximately \$1,400 for the fiscal year ended March 31, 2009.

The Swiss pension plan unfunded benefit obligation is classified within Level 3 since there is no observable market for the asset or liability and requires the Company to develop its relevant assumptions.

The following table presents assets measured at fair value on a recurring basis at March 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Money market funds	\$ 9,739	\$ -	\$ -	\$ 9,739
<b>Liabilities:</b>				
Swiss pension plan unfunded benefit obligation (Note 13)	\$ -	\$ -	\$ 148	\$ 148

The following table summarizes the change in fair value of Level 3 financial liabilities (in thousands):

	Level 3
Fair value beginning of year	\$ 82
Change in benefit obligation	228
Change in plan assets	(162)
Fair value end of year	\$ 148

The fair value of foreign currency forward contracts at March 31, 2009 was not material.



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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Note 5 — Balance Sheet Components

## Inventories

Inventories consisted of the following (in thousands):

	March 31,	
	2009	2008
Raw materials	\$ 1,918	\$ 2,154
Work-in-progress	1,968	1,667
Finished goods	2,741	3,002
Consigned inventory	5,230	4,331
Inventory held by distributors	-	341
	\$ 11,857	\$ 11,495

Consigned inventory is held at customer locations, primarily hospitals, and is under the physical control of the customer. The Company retains title to the inventory until used and purchased by the customer, generally when used in a medical procedure.

No inventory was held by distributors at March 31, 2009. Inventory held by distributors at March 31, 2008 consisted of \$273,000 in inventory that was held by the Company's Latin American distributors and \$68,000 in inventory that was held by the Company's Chinese distributor.

## Property and equipment

Property and equipment consisted of the following (in thousands):

	March 31,	
	2009	2008
Computer equipment and software	\$ 1,955	\$ 1,728
Furniture, fixtures and equipment	7,542	5,403
Leasehold improvements	2,132	1,010
Construction in progress	108	447
Total cost	11,737	8,588
Less accumulated depreciation and amortization	(4,755)	(3,303)
	\$ 6,982	\$ 5,285

Depreciation and amortization expense related to property and equipment was \$1.7 million, \$1.3 million and \$0.9 million for the years ended March 31, 2009, 2008 and 2007, respectively.

## Accruals

Accrued payroll and other related expenses consisted of the following (in thousands):

	March 31,	
	2009	2008
Accrued bonuses	\$ 1,437	\$ 2,642
Accrued salaries	1,106	1,071
Accrued vacation	2,000	1,750
Accrued commissions	544	1,660
Accrued payroll taxes	428	807
	\$ 5,515	\$ 7,930

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accrued liabilities consisted of the following (in thousands):

	March 31,	
	2009	2008
Deferred gain from Merit transaction	\$ 1,866	\$ 340
Milestone payments to The Cleveland Clinic	1,500	500
Earn-out payment in connection with acquisition of VasCon	886	378
Sales tax and VAT payable	876	560
Professional fees	277	1,715
Accrued travel and entertainment	270	492
Deferred revenue from Goodman Co., Ltd. distribution agreement	113	113
Earn-out payment in connection with acquisition of Neurologic	-	2,997
Other	2,089	2,336
	\$ 7,877	\$ 9,431

Other non-current liabilities

Other non-current liabilities consisted of the following (in thousands):

	March 31,	
	2009	2008
Contingent purchase price (Note 3)	\$ 332	\$ 1,218
Milestone payments to The Cleveland Clinic	-	1,000
Deferred revenue from Goodman Co., Ltd. distribution agreement	169	281
Swiss pension plan unfunded benefit obligation	148	82
Other non-current liabilities	253	173
	\$ 902	\$ 2,754

On September 30, 2005, the Company entered into a five-year, exclusive Distribution Agreement with Goodman Co., Ltd. (“Goodman”). Under the terms of the Distribution Agreement, Goodman will promote and market the Company’s full line of products, as such products are approved, in Japan and will purchase a minimum of \$27.3 million of such products over the five year term of the agreement, ranging from \$2.0 million during the fiscal year ended March 31, 2006 to \$9.0 million during the fiscal year ending March 31, 2010. On September 20, 2007, the Company amended the distribution agreement with Goodman to, among other things, extend the duration of the distribution agreement to six years from the original date of the distribution agreement. In connection with the Distribution Agreement, Goodman paid the Company an up-front cash payment of \$0.8 million which has been recorded as deferred revenue. The Company is recognizing the deferred revenue on a straight-line basis over the six year term of the agreement.

Note 6 — Goodwill and Intangible Assets

Goodwill

Activity related to goodwill consisted of the following (in thousands):

	March 31,	
	2009	2008
Balance beginning of year	\$ 8,549	\$ 5,552
Addition related to earn-out payment in connection with acquisition of Neurologic	457	2,997
Foreign currency translation	(2,244)	-
Balance end of year	\$ 6,762	\$ 8,549

All of the Company's goodwill has been allocated to the United Kingdom business segment.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company performs its annual impairment test of goodwill in the fourth quarter of its fiscal year. Through March 31, 2009, there have been no impairment charges related to goodwill.

## Intangible assets

Intangible assets consisted of the following (in thousands):

	Useful Life (Years)	Gross Carrying Amount			Accumulated Amortization			Net			
		March 31, 2008	Foreign Impairment currency translation	March 31, 2009	March 31, 2008	Foreign (Additions) currency translation	March 31, 2009	March 31, 2009	March 31, 2008		
Existing process technology	7	\$ 4,590	\$ -	\$ 4,590	\$ (874)	\$ (656)	\$ -	\$ (1,530)	\$ 3,060	\$ 3,716	
Distribution agreements	5	2,300	(254)	(488)	1,558	(1,164)	(439)	325	(1,278)	280	1,136
Capitalized license fee	7	1,565	-	-	1,565	(336)	(223)	-	(559)	1,006	1,229
Patents - microcoil	10	1,100	-	-	1,100	(880)	(110)	-	(990)	110	220
Non-compete agreements	6	700	(108)	(148)	444	(294)	(111)	80	(325)	119	406
Customer relationships	5	900	(100)	(191)	609	(454)	(172)	126	(500)	109	446
		\$ 11,155	\$ (462)	\$ (827)	\$ 9,866	\$ (4,002)	\$ (1,711)	\$ 531	\$ (5,182)	\$ 4,684	\$ 7,153

In the fourth quarter of fiscal 2009, the Company performed an assessment of its long-lived intangible assets acquired from Neurologic. Management concluded from the assessment that impairment existed for the intangible asset group (distribution agreement, customer relationships and non-compete agreements) as the undiscounted value was less than its carrying value. As a result, the Company recorded an impairment charge of \$462,000 for this asset group based on the amount by which the carrying amount of these assets exceeded their fair value. The Company determined the fair value of the asset group using future revenue assumptions and a valuation analysis based on established valuation techniques accepted in the technology industry.

Amortization of intangible assets included in the results of operations is as follows (in thousands):

	Years Ended March 31,		
	2009	2008	2007
Cost of goods sold	\$ 879	\$ 974	\$ 385
Operating expenses	832	867	879
	\$ 1,711	\$ 1,841	\$ 1,264

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The amortization expense of the intangible assets related to existing technology in the manufacturing process and design of products resulting from the acquisition of VasCon in the amount of \$0.7 million, \$0.8 million and \$273,000 is included in cost of goods sold for fiscal 2009, 2008 and 2007.

The amortization expense related to the capitalized license technology in the amount of \$223,000, \$224,000 and \$112,000 is included in cost of goods sold for fiscal 2009, 2008 and 2007.

The expected future amortization of intangible assets is as follows (in thousands):

For Years Ending March 31,	Amortization
2010	\$ 1,302
2011	1,052
2012	902
2013	879
2014	549
	\$ 4,684

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 7— Line of Credit

On November 5, 2008, the Company entered into a credit agreement with Wells Fargo Bank to provide the Company with a revolving line of credit (the “Credit Agreement”). The Credit Agreement provides for maximum borrowings in an amount up to \$15.0 million. If borrowings under the Credit Agreement exceed \$7.5 million, all borrowings are subject to a borrowing base which is based on eligible accounts receivable. Borrowings are collateralized by a first priority security interest in all of the Company’s assets (except for certain permitted liens that are senior to the Wells Fargo Bank’s security interest). At the Company’s option, borrowings bear interest at either 2.25% over the bank’s prime rate or 3.50% over the one-month, two-month or three-month LIBOR. The Credit Agreement requires that the Company comply with certain financial and other covenants for borrowings to be permitted. The more significant financial covenants include (i) a minimum modified quick ratio and (ii) a minimum profitability, excluding certain non-cash items. At March 31, 2009, the Company had outstanding borrowings of \$2.5 million under the line of credit, and was in compliance with all covenants of the Credit Agreement. The interest rate on the borrowings as of March 31, 2009 was 6.0%.

On May 20, 2009, the Company amended the Credit Agreement with Wells Fargo Bank extending the maturity date to August 1, 2010 and adjusting the minimum limits for the financial covenants based on the Company’s financial forecast for fiscal 2010. The Company has the ability and the intent to repay the outstanding borrowings of \$2.5 million within the next twelve months from March 31, 2009.

Note 8 — Income Taxes

As of March 31, 2009, the Company had federal, state and foreign net operating loss carryforwards (“NOLs”) of approximately \$40.5 million, \$30.5 million and \$4.6 million, respectively. The federal NOLs will expire at various dates beginning in 2012, the state NOLs expire beginning in 2013 and the foreign NOLs will expire beginning in 2013. The federal and state loss carryforwards that are attributable to excess tax deductions from stock option exercises are not included in the deferred tax assets shown below. The benefit of approximately \$10.3 million and \$8.1 million of federal and state loss carryforwards, respectively, will be credited to equity when realized.

The Company also had federal and state research and development tax credit carryforwards of approximately \$1.3 million and \$1.3 million, respectively, as of March 31, 2009. The federal credits will expire beginning in 2012 and the state credits can be carried forward indefinitely.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in the case of an “ownership change” of a corporation. An ownership change, as defined, may restrict utilization of tax attribute carryforwards. The Company experienced an ownership change, as defined in Section 382 of the Internal Revenue Code, in May 2002, but the previously limited net operating loss and tax credit carryovers have now become available to offset taxable income in future periods. If an ownership change has occurred subsequent to May 2002, all net operating loss carryovers and all tax credit carryovers arising prior to the ownership change would be subject to limitation in the post change period for US tax purposes.

The related benefit from income taxes consisted of the following (in thousands):

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	Years Ended March 31,		
	2009	2008	2007
<b>Current</b>			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Foreign	73	-	(63)
<b>Total current income tax provision (benefit)</b>	<b>73</b>	<b>-</b>	<b>(63)</b>
<b>Deferred</b>			
Federal	-	-	-
State	-	-	-
Foreign	(575)	(194)	(184)
<b>Total deferred income tax benefit</b>	<b>(575)</b>	<b>(194)</b>	<b>(184)</b>
<b>Total income tax benefit</b>	<b>\$ (502)</b>	<b>\$ (194)</b>	<b>\$ (247)</b>



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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company has incurred net operating losses for both federal and state purposes since inception and, as a result, the Company has paid no federal or state income taxes. In fiscal 2009, the Company recorded an income tax benefit of approximately \$502,000. The net income tax benefit consists primarily of a deferred tax benefit for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible, the reduction in deferred tax liability due to the impairment of such intangible assets, and the United Kingdom subsidiary's operating losses. In fiscal 2008, the Company recorded an income tax benefit of approximately \$194,000. The net income tax benefit includes a deferred income tax expense of approximately \$72,000 for the Swiss subsidiary's operating profits and a deferred tax benefit of approximately \$266,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for its United Kingdom subsidiary. In fiscal 2007, the Company recorded an income tax benefit of approximately \$247,000. The net income tax benefit includes a current tax benefit of approximately \$63,000 arising from losses in the United Kingdom subsidiary and a deferred tax benefit of approximately \$184,000 primarily attributable to the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible for tax purposes.

Net deferred tax assets (liabilities) consisted of the following (in thousands):

	March 31,	
	2009	2008
Deferred tax assets:		
Net operating loss carryforwards	\$ 14,048	\$ 13,099
Basis difference in fixed assets	3,143	2,850
Accruals deductible in different periods	4,960	3,973
Credit carryforwards	2,136	1,755
Total deferred tax assets	24,287	21,677
Less valuation allowance	(23,696)	(21,419)
Net deferred tax assets	591	258
Deferred tax liabilities:		
Accruals deductible in different periods	(188)	(125)
Basis difference in fixed and intangible assets	(143)	(481)
Total deferred tax liabilities	(331)	(606)
Net deferred tax assets (liabilities)	\$ 260	\$ (348)

The Company has recorded a valuation allowance against its federal, state and Swiss deferred tax assets as of March 31, 2009 and its federal and state deferred tax assets as of March 31, 2008, due to the uncertainty surrounding the realization of such assets. Management evaluates on a periodic basis the recoverability of deferred tax assets. At such time as it is determined that it is more likely than not that deferred tax assets are realizable, the valuation allowance will be reduced.

The effective tax rate differs from the United States federal statutory rate as a result of the following:

	Years Ended March 31,		
	2009	2008	20087

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Income tax benefit at statutory rate	(35)%	(35)%	(35)%
State taxes, net of federal benefit	(5)%	(4)%	(4)%
In process research and development write-off	0%	7%	-
Technology acquisition	0%	2%	-
Non-US income taxed at different rates	9%	1%	(14)%
Change in valuation allowance	17%	24%	40%
Nondeductible deferred compensation	10%	6%	12%
Other	0%	(2)%	(3)%
Effective income tax rate	(4)%	(1)%	(4)%

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Years Ended March 31,		
	2009	2008	2007
Domestic	\$ (7,093)	\$ (15,474)	\$ (7,168)
Foreign	(4,463)	(980)	1,438
Loss before income taxes	\$ (11,556)	\$ (16,454)	\$ (5,730)

Effective April 1, 2007, the Company adopted Financial Accounting Standards Interpretation No. 48 ("FIN 48"), which requires that the Company recognize the financial statement effects of a tax position when it becomes more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result of the implementation of FIN 48, the Company recognized a \$192,000 increase in its unrecognized tax benefits. None was accounted for as an increase in the April 1, 2007 balance of accumulated deficit since the benefit relates to attribute carryovers for which the related deferred tax asset was subject to a full valuation allowance. At the adoption date of April 1, 2007 and at March 31, 2009, the Company had zero and \$9,000 of accrued interest and penalties related to tax contingencies, respectively. Prior to the fiscal year ended March 31, 2009, since the unrecognized tax benefit relates to attribute carryovers for which the related deferred tax asset was subject to a full valuation allowance, the recognition of the unrecognized tax benefits will not affect the Company's effective tax rate. For the fiscal year ended March 31, 2009, \$73,000 of the \$128,000 increase in unrecognized tax benefits will affect the Company's effective tax rate if recognized. The Company has elected to include interest and penalties as a component of tax expense. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at March 31, 2009 will significantly increase or decrease within the next 12 months. Because of net operating loss and credit carryforwards, substantially all of the Company's tax years, dating to inception in 1996, remain open to federal tax examination. Most state and foreign jurisdictions have 3 to 10 open tax years at any point in time.

Tax filings are based on tax laws which are subject to significant and varied interpretation. It is often unclear whether a particular position taken in a tax return will ultimately be sustained. The Company has reviewed its filing positions and believes that it has adequately accrued for such uncertainties.

The following table summarizes the activity related to the Company's unrecognized tax benefit for the year ended March 31, 2009 and 2008 (in thousands):

	March 31,	
	2009	2008
Unrecognized tax benefits at beginning of year	\$ 232	\$ 192
Gross increases - prior year tax positions	-	-
Gross increases - current year tax positions	128	40
Settlements with taxing authorities	-	-
Expiration of statute of limitations	-	-
Unrecognized tax benefits at end of year	\$ 360	\$ 232

Note 9 — Commitments and Contingencies

Lease commitments

On June 6, 2005, the Company entered into a non-cancelable seven-year operating lease agreement (“Lease”). Pursuant to the Lease, the Company has leased approximately 42,000 square feet of building space which is being used as the Company’s headquarters in the United States. The Lease commenced in January 2006. The Lease provides a right to extend the term for one period of sixty months that may be exercised by the Company.

The Lease provides for a base rent that increases periodically and averages approximately \$41,445 monthly over the lease period and is accounted for on a straight-line basis. The Lease also provides for certain additional payments including the Company’s share of landlord’s operating expenses, including project costs, property taxes and overhead management fees.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

On March 11, 2008, the Company entered into a non-cancelable ten-year lease in Miramar, Florida, which commenced in September 2008. The facility comprises a total of approximately 27,000 square feet. The operating lease provides for a base rent that increases periodically and averages approximately \$17,935 monthly over the lease period and is accounted for on a straight-line basis. The operating lease also provides for certain additional payments including the Company's share of landlord's operating expenses and applicable sales tax.

On December 4, 2007, the Company's wholly owned subsidiary, Micrus Endovascular SA ("Micrus SA"), entered into a non-cancelable eight-year lease for office space in Switzerland. The office space comprises a total of approximately 5,500 square feet.

Additionally, the Company leases office space for its wholly-owned subsidiary, Micrus UK, under a non-cancelable lease agreement with a term through December 2010.

The combined annual rent for Micrus SA and Micrus UK operating leases is approximately \$196,000. The leases also provide for certain additional payments including the Company's share of the landlord's operating expenses.

Future minimum lease payments are as follows (in thousands):

For Years Ending March 31,	Minimum Lease Payments
2010	\$ 1,038
2011	1,028
2012	978
2013	904
2014	496
Thereafter	2,008
	\$ 6,452

Rent expense for the years ended March 31, 2009, 2008 and 2007 was \$1.0 million, \$0.7 million and \$0.7 million, respectively.

## Indemnification

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations, and accordingly, the Company has not accrued any amounts for such indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

## Litigation

The Company is from time to time subject to various lawsuits. The Company does not believe that it is probable that resolution of pending litigation will have a material adverse effect on the Company's consolidated financial statements, however, the outcome of litigation is inherently uncertain.

#### Patent litigation

On September 22, 2008, the Company entered into a Settlement and License Agreement (the "Settlement and License Agreement") with Boston Scientific Corporation and Target Therapeutics, Inc., a subsidiary of Boston Scientific Corporation (collectively "Boston Scientific") and a Settlement and Release Agreement (the "Settlement and Release Agreement") with The Regents of the University of California (the "Regents") in order to resolve pending patent litigation between Boston Scientific and the Company (the "Patent Litigation"). On October 8, 2008, the Court entered an order dismissing the Patent Litigation with prejudice.

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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Under the Settlement and License Agreement, the Company and Boston Scientific agreed to cross license certain patents asserted in the Patent Litigation and release all claims (as defined in the Settlement and License Agreement) arising prior to the effective date (as defined in the Settlement and License Agreement) to which the rights, licenses, releases, and covenants expressly granted under the Settlement and License Agreement would be a complete defense had such claims arisen on or after the effective date. The Settlement and License Agreement includes a mutual release of claims and covenants not to sue with respect to certain specified patents. Boston Scientific also covenants not to sue end users of the Company's products for claims of infringement of specified patents.

In connection with the Settlement and License Agreement, the Company entered into the Settlement and Release Agreement with the Regents. The Settlement and Release Agreement provided for the cash payment of approximately \$1.7 million to the Regents in exchange for a mutual release of claims and a mutual covenant not to sue with respect to certain specified patents. The Regents also agreed not to sue end users of the Company's products for claims under the patents owned by the Regents and exclusively licensed to Boston Scientific and asserted by Boston Scientific in the Patent Litigation against the Company. The Company made the cash payment to the Regents on September 24, 2008.

Note 10 — Preferred Stock

The Company's Certificate of Incorporation, as amended, authorizes the Company to issue 1,000,000 shares of \$0.01 par value preferred stock. As of March 31, 2009, there are no shares of preferred stock issued or outstanding.

Note 11 — Common Stock

The Company's Certificate of Incorporation, as amended, authorizes the Company to issue 50,000,000 shares of \$0.01 par value common stock. Each holder of common stock has the right to one vote and is also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid as of March 31, 2009.

On July 19, 2006, the Company completed a secondary public offering in which certain stockholders sold 1,270,211 shares of common stock at the public offering price of \$11.89 per share. On July 19, 2006, the underwriters purchased 190,531 shares of common stock from the Company pursuant to the exercise of their over-allotment option. The Company did not receive any proceeds from the sale of common stock by the selling stockholders. The total cash proceeds from the exercise of the over-allotment option were approximately \$2.0 million, net of the underwriting discount and offering expenses. Common stock offering expenses of \$0.6 million were incurred by the Company on behalf of the selling stockholders and were expensed to general and administrative expense in the second quarter of fiscal 2007.

Note 12 — Stock Option Plans and Other Employee Benefits

Stock Option Plans

The Company's stock option program is a long-term retention program that is intended to attract, retain and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. The Company considers the stock option program critical to its operations and productivity. As of March 31, 2009, the Company has three stock option plans: the 1996 Stock Option Plan (the "1996 Plan"), the 1998 Stock Plan (the "1998 Plan"), and the 2005 Equity Incentive Plan as amended (the "2005 Plan"). Currently, the Company grants options from the 2005 Plan, which permits the Company to grant options to all employees, including executive officers, and outside consultants, and directors. Effective June 16, 2005, no new options may be granted under the 1996 plan or the 1998 Plan. Stock options issued under the Company's stock option plans generally vest based on 4 years of continuous service and have ten-year contractual terms.



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MICRUS ENDOVASCULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

1996 Stock Option Plan

As of June 16, 2005, no new stock option grants were permitted under the 1996 Plan. There are no outstanding options under the 1996 Plan and, as of the effectiveness of the Company's initial public offering ("IPO"), there were no outstanding options under the 1996 Plan.

1998 Stock Plan

As of June 16, 2005, no new stock option grants were permitted under the 1998 Plan. However, all options previously granted under the 1998 Plan continue to be administered under the 1998 Plan. As of March 31, 2009, options to purchase 1,045,893 shares of common stock were outstanding under the 1998 Plan.

2005 Equity Incentive Plan

The 2005 Plan became effective upon the Company's IPO. The 2005 Plan provides for the issuance of stock options, stock appreciation rights, stock awards (stock and stock units) and cash awards. The Company initially reserved a total of 2,395,020 shares of its common stock for issuance under the 2005 Plan. In addition, the 2005 Plan provides for an automatic annual increase in the number of shares reserved for issuance thereunder on each April 1st by an amount equal to the lesser of (i) 5% of the Company's total number of outstanding shares on the immediately preceding March 31st; (ii) 666,666 shares, or (iii) a number of shares determined by the Company's Board of Directors. The shares reserved under the 2005 Plan will also be increased as a result of the forfeiture or repurchase of shares issued under the 1998 Plan and the cancellation of unexercised options under the 1998 Plan. As of March 31, 2009, there were 4,262,671 remaining shares reserved for issuance under the 2005 Plan, of which 1,286,846 were available for grant, 2,972,492 shares were subject to outstanding options and 3,333 shares were subject to outstanding restricted stock units.

Acceleration Agreements

On January 29, 2008, the Company entered into agreements with certain executive officers (the "Accelerated Employees") to fully accelerate the vesting of options to purchase its common stock issued under the Company's 2005 Equity Incentive Plan and/or 1998 Stock Plan and held by such Accelerated Employees if, within the period 3 months prior to or 12 months following a change of control of the Company or sale of substantially all of the Company's assets, an Accelerated Employee ceases being employed by the Company because either such Accelerated Employee is involuntary terminated by the Company (or any subsidiary) without "cause" or such Accelerated Employee voluntarily quits within 60 days of an event which constitutes "good reason."

2005 Employee Stock Purchase Plan

The 2005 Employee Stock Purchase Plan (the "Purchase Plan") became effective upon the Company's IPO. The Purchase Plan provides employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions.

The Company initially reserved a total of 222,222 shares of common stock for issuance under the Purchase Plan. The Purchase Plan provides for annual increases in the total number of shares available for issuance under this plan on April 1st of each year beginning on April 1, 2006, by a number of shares that is equal to the lesser of: (1) 2% of the outstanding shares of the Company's common stock on the immediately preceding March 31st; (2) 222,222 shares; or (3) a lesser number determined by the Company's Board of Directors. As of March 31, 2009, there were 558,840 shares reserved for issuance under the Purchase Plan.

The Purchase Plan permits participants to purchase the Company's common stock through payroll deductions of up to 15% of the participant's compensation, provided that no participant may purchase shares with a value that exceeds \$25,000 per year, or more than 1,111 shares per purchase period. Amounts deducted and accumulated for the participant's account are used to purchase shares of the Company's common stock on the last trading day of each purchase period at a price of at least 85% of the lesser of the fair market values of the common stock at the beginning of the offering period or at the end of the purchase period.

The Purchase Plan provides for offering periods of 12 months and purchase periods of 6 months or such shorter period as may be established by the Company's Board of Directors. The offering periods start on April 1st and October 1st of each year. During the year ended March 31, 2009, there were 119,732 shares issued at a purchase price ranging from \$5.07 to \$10.51 per share and during the year ended March 31, 2008, there were 92,598 shares issued at a purchase price ranging from \$10.51 to \$15.53 per share under the Purchase Plan.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Stock-Based Compensation

The Company currently uses the Black-Scholes option pricing model to determine the fair value of employee stock options and employee stock purchase plan shares. The Black-Scholes model requires that the Company makes certain assumptions that are factored into the valuation analysis, including estimating the length of time employees will retain their vested stock options before exercising them (“expected term”) and the estimated volatility of its common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the consolidated statements of operations.

The Company determines expected volatilities based on median results of a peer group analysis of companies similar in size and financial leverage. The Company has elected to use the simplified method for estimating expected term as allowed by Staff Accounting Bulletin (“SAB”) 107, and extended by SAB 110. SAB 110 permits the use of the “simplified” method under certain conditions including a company’s inability to rely on historical exercise data. The Company will continue to use the simplified method until it has sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of its options. The risk-free rate is indexed to the five-year Treasury note interest at the date of grant and expected forfeiture rate is based on its historical forfeiture information.

The determination of the fair value of employee stock options and employee stock purchase plan shares has been estimated using the following weighted-average valuation assumptions:

	Years Ended March 31,		
	2009	2008	2007
<b>Employee Stock Option Plans</b>			
Expected term (in years)	6	6	6
Volatility	35%	42%	44%
Risk-free interest rate	3.2%	4.0%	4.7%
Expected dividend yield	0%	0%	0%
Weighted average fair value at date of grant	\$ 4.62	\$ 9.13	\$ 8.30
<b>Employee Stock Purchase Plan</b>			
Expected term (in years)	0.5	0.5	0.5
Volatility	45%	43%	45%
Risk-free interest rate	2.5%	3.9%	5.1%
Expected dividend yield	0%	0%	0%

The fair value of each purchase right granted under the Company’s Purchase Plan during the year ended March 31, 2009, 2008, and 2007 was estimated at the date of grant using the Black-Scholes option pricing model, and is not subject to revaluation as a result of subsequent stock price fluctuations.

The stock-based compensation expense related to SFAS 123R is as follows (in thousands):

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	Years Ended March 31,		
	2009	2008	2007
Cost of goods sold	\$ 560	\$ 457	\$ 193
Research and development	592	533	203
Sales and marketing	1,498	1,312	684
General and administrative	2,995	2,489	1,124
	\$ 5,645	\$ 4,791	\$ 2,204

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Additionally, approximately \$8,000 in stock-based compensation expense related to SFAS 123R has been released from inventory at March 31, 2009. In the prior years, approximately \$51,000 and \$89,000 in stock-based compensation expense related to SFAS 123R has been capitalized in inventory at March 31, 2008 and 2007, respectively.

As of March 31, 2009, there was approximately \$9.5 million of total stock-based compensation expense, after estimated forfeitures, related to unvested employee stock options and restricted stock units, which is expected to be recognized over an estimated weighted average amortization period 2.3 years.

Stock-based compensation expense recognized for the years ended March 31, 2008 and 2007 related to the amortization of deferred stock-based compensation was \$163,000 and \$213,000, respectively. The Company had fully recognized amortization of deferred stock-based compensation in the fourth quarter ended March 31, 2008.

Stock-based compensation expense recognized for the years ended March 31, 2008 and 2007 related to non-employee options was \$4,000 and \$157,000, respectively. All non-employee options are fully-vested as of March 31, 2008.

Total stock-based compensation expense included in results of operations is as follows (in thousands):

	Years Ended March 31,		
	2009	2008	2007
Cost of goods sold	\$ 560	\$ 471	\$ 218
Research and development	592	533	222
Sales and marketing	1,498	1,325	802
General and administrative	2,995	2,629	1,332
	\$ 5,645	\$ 4,958	\$ 2,574

## General stock option information

The following table sets forth the summary of option activity for the year ended March 31, 2009:

	Shares (in thousands)	Average Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at March 31, 2008	3,656	\$ 13.02		
Options granted	702	\$ 11.53		
Options exercised	(83)	\$ 9.01		
Options forfeited	(192)	\$ 15.84		
Options expired	(65)	\$ 13.69		
Options outstanding at March 31, 2009	4,018	\$ 12.69	7.3	\$ 1,139

Options exercisable at March 31, 2009	2,450	\$	11.22	6.6	\$	1,134
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The total aggregate intrinsic value of options exercised during the years ended March 31, 2009, 2008 and 2007 was \$322,000, \$3.5 million and \$8.5 million, respectively. The closed market value per share of the Company's common stock as of March 31, 2009 was \$5.97 as reported by The NASDAQ Stock Market.

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes information related to options outstanding and exercisable by exercise price at March 31, 2009 (in thousands, except per share data):

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.68 - \$ 1.01	81	2.9	\$ 0.81	81	\$ 0.81
\$ 1.15 - \$ 1.15	98	4.8	\$ 1.15	98	\$ 1.15
\$ 4.93 - \$ 7.40	737	5.8	\$ 5.67	726	\$ 5.66
\$ 8.62 - \$12.63	1,249	7.8	\$ 10.61	529	\$ 10.07
\$ 12.83 - \$17.68	929	7.7	\$ 15.19	580	\$ 15.17
\$ 17.74 - \$20.24	485	8.2	\$ 19.12	229	\$ 19.00
\$ 20.37 - \$24.75	439	8.1	\$ 22.81	207	\$ 22.79
\$ 0.68 - \$24.75	4,018	7.3	\$ 12.69	2,450	\$ 11.22

The following table sets forth the summary of restricted stock units activity for the year ended March 31, 2009:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Non-vested restricted stock units at March 31, 2008	7	\$ -		
Awarded	-	\$ -		
Released	(3)	\$ -		
Forfeited	-	\$ -		
Non-vested restricted stock units at March 31, 2009	4	\$ -	0.3	\$ 20

## 401(k) Savings Plan

The Company has a 401(k) income deferral plan (the "401(k) Plan"). Eligible participants may contribute up to 75% of their pretax salary up to the maximum allowed under Internal Revenue Service regulations. According to the terms of the 401(k) Plan, the Company may make discretionary matching contributions to the 401(k) Plan each year, allocable

to all plan participants. The Company made no discretionary contributions during the years ended March 31, 2009, 2008 and 2007.

Note 13 — Defined Benefit Plan

The Company has a qualified defined benefit pension plan for all eligible Swiss employees at its wholly-owned subsidiary in Switzerland, Micrus Endovascular SA. Retirement benefits are provided based on employees' years of service and earnings, or in accordance with applicable employee benefit regulations. The Company's practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations.



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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table sets forth summarized information on the defined benefit pension plan (in thousands):

	March 31,	
	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 599	\$ 334
Service cost	85	81
Interest cost	17	13
Participant contribution	62	64
Actuarial gain	(14)	54
Benefit payments	(176)	(48)
Transfers in and additional contributions	226	24
Plan amendments	109	-
Currency exchange rate changes	(81)	77
Benefit obligation at end of year	827	599
Change in plan assets:		
Fair value of plan assets at beginning of year	517	294
Actual return on plan assets	36	23
Employer contributions	84	93
Participant contributions	62	64
Benefit payments	(176)	(48)
Transfers in and additional contributions	226	24
Currency exchange rate changes	(70)	67
Fair value of plan assets at end of year	679	517
Unfunded status at end of year	\$ 148	\$ 82

The net periodic pension cost for the Swiss pension plan for fiscal 2009 and 2008 was based on long-term asset rates of return of 3.20% and 3.5%, respectively. In developing these expected long-term rate of return assumptions, consideration was given to expected returns based on the current investment policy and historical return for the asset classes.

The following table presents selected pension plan information (in thousands):

	March 31,	
	2009	2008
Projected benefit obligation	\$ 827	\$ 599
Accumulated benefit obligation	\$ 756	\$ 544
Fair value of plan assets	\$ 679	\$ 517



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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A summary of the components of net periodic benefit cost for the pension plan is as follows (in thousands):

	Years Ended March 31,	
	2009	2008
Components of net periodic benefit cost:		
Service cost	\$ 85	\$ 81
Interest cost	17	13
Expected return on plan assets	(14)	(11)
Net periodic benefit cost	88	83
Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Actuarial gain	(36)	42
Plan amendments	109	-
Total recognized in other comprehensive income	73	42
Total recognized in net periodic benefit cost and other comprehensive income	\$ 161	\$ 125

At March 31, 2009 and 2008, the assets of the plans are held in trust and allocated as follows:

	2009	2008
Equity securities	5%	16%
Debt securities	9%	13%
Cash and cash equivalents	9%	3%
Fixed interests	63%	55%
Investment in participations and associated companies	1%	1%
Real estate	11%	11%
Other investments	2%	1%

The Company may make contributions in excess of the legally required minimum contribution level. Any voluntary contributions by the Company are not expected to exceed deductible limits in accordance with Switzerland tax regulations.

The benefits expected to be paid out are as follows (in thousands):

For Years Ending March 31,	Pension Plan Benefit
2010	\$ 62
2011	\$ 62
2012	\$ 63
2013	\$ 62
2014	\$ 62

Thereafter

\$ 292

89

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Note 14 — Segments

Revenues from unaffiliated customers by geographic area, based on the customer's shipment locations, were as follows (in thousands):

	Years Ended March 31,		
	2009	2008	2007
United States	\$ 39,007	\$ 33,753	\$ 28,868
Japan	9,319	6,250	8,661
United Kingdom	7,531	9,100	6,448
Rest of the world	22,339	20,110	14,818
	\$ 78,196	\$ 69,213	\$ 58,795

The Company's long-lived assets, excluding goodwill and intangible assets, by geographic area were as follows (in thousands):

	March 31,	
	2009	2008
United States	\$ 6,691	\$ 4,907
United Kingdom	69	124
Rest of the world	222	254
	\$ 6,982	\$ 5,285

The Company identifies its operating segments based on how management views and evaluates the Company's operations, which is primarily based on geographic location. The Company has determined it operates in four business segments, the Americas, Europe (excluding the United Kingdom), the United Kingdom and Asia Pacific. The products and services sold by each segment are substantially the same and the Company evaluates performance and allocates resources primarily based on revenues and gross profit. In previous years, the Company's Europe (excluding the United Kingdom) and the United Kingdom segments were aggregated as a single business segment. Previous year information in the tables that follow has been restated to conform to the current year classification.

Revenues and gross profit for these segments were as follows (in thousands):

	Years Ended March 31,		
	2009	2008	2007
<b>Revenues:</b>			
Americas	\$ 44,067	\$ 37,565	\$ 31,618
Europe (excluding the United Kingdom)	15,930	15,095	11,226
United Kingdom	7,531	9,100	6,448
Asia Pacific	10,668	7,453	9,503
	\$ 78,196	\$ 69,213	\$ 58,795
<b>Gross Profit:</b>			
Americas	\$ 32,952	\$ 29,621	\$ 25,426
Europe (excluding the United Kingdom)	11,047	10,552	7,310

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United Kingdom	5,957	7,012	4,638
Asia Pacific	7,393	4,727	6,060
	\$ 57,349	\$ 51,912	\$ 43,434

Total assets by operating segments at March 31, 2009 and 2008 were as follows (in thousands):

	March 31,	
	2009	2008
Americas	\$ 43,537	\$ 52,043
Europe (excluding the United Kingdom)	8,739	7,265
United Kingdom	9,230	13,024
	\$ 61,506	\$ 72,332

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## MICRUS ENDOVASCULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Note 15 — Subsequent Events

On May 20, 2009, the Company amended the Credit Agreement with Wells Fargo Bank extending the maturity date to August 1, 2010 and adjusting the minimum limits for the financial covenants based on the Company's financial forecast for fiscal 2010.

## Note 16 — Quarterly Financial Information (unaudited)

The following table represents certain unaudited quarterly information for the eight quarters ended March 31, 2009. In management's opinion, this information has been prepared on the same basis as the audited financial statements and includes all the adjustments necessary to fairly state the unaudited quarterly results of operations set forth herein.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share amounts)			
2009:				
Revenues	\$ 18,324	\$ 20,792	\$ 18,322	\$ 20,758
Gross profit	\$ 13,731	\$ 15,178	\$ 13,545	\$ 14,895
Net income (loss) attributable to common stockholders	\$ (6,602)	\$ (2,736)	\$ (2,292)	\$ 576
Net income (loss) per share attributable to common stockholders basic and diluted	\$ (0.42)	\$ (0.17)	\$ (0.15)	\$ 0.04
2008:				
Revenues	\$ 16,790	\$ 14,362	\$ 18,343	\$ 19,718
Gross profit	\$ 13,055	\$ 11,211	\$ 13,294	\$ 14,352
Net loss attributable to common stockholders	\$ (1,393)	\$ (3,012)	\$ (5,704)	\$ (6,151)
Net loss per share attributable to common stockholders basic and diluted	\$ (0.09)	\$ (0.20)	\$ (0.37)	\$ (0.40)
2007:				
Revenues	\$ 12,683	\$ 14,527	\$ 15,544	\$ 16,041
Gross profit	\$ 9,421	\$ 10,633	\$ 11,352	\$ 12,028
Net loss attributable to common stockholders	\$ (2,959)	\$ (151)	\$ (1,002)	\$ (1,371)
Net loss per share attributable to common stockholders basic and diluted	\$ (0.21)	\$ (0.01)	\$ (0.07)	\$ (0.09)

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

None

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

With the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Management’s report on internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the design and operational effectiveness of our internal control over financial reporting as of March 31, 2009 based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Our management, including the CEO and CFO, does not expect our disclosure controls or our internal control over financial reporting will prevent or detect all errors or all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Based on our evaluation utilizing the criteria set forth in Internal Control — Integrated Framework issued by COSO, our management (including our CEO and CFO) concluded that our internal control over financial reporting was effective as of March 31, 2009. Our assessment of the effectiveness of internal control over financial reporting as of March 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included at “Item 8 – Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

(c) Changes in internal control over financial reporting.



There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fourth quarter of our fiscal year ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item is incorporated by reference to the Micrus Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 11. Executive Compensation.

Information required by this item is incorporated by reference to the Micrus Proxy Statement for the 2009 Annual Meeting of Stockholders.

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

Information required by this item is incorporated by reference to the Micrus Proxy Statement for the 2009 Annual Meeting of Stockholders

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

Information required by this item is incorporated by reference to the Micrus Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services.

Information required by this item is incorporated by reference to the Micrus Proxy Statement for the 2009 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements. The following statements of Micrus Endovascular Corporation and the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, are included in Part II, Item 8.

(2) Financial Statement Schedules. The following schedule is required to be filed by Item 15(b).

Schedule II — Valuation and Qualifying Accounts for each of the three years in the period ended March 31, 2009

All other schedules have been omitted because they are either inapplicable or the required information has been provided in the consolidated financial statements or the notes thereto.

(b) Exhibits. The list of exhibits on the Index to Exhibits on pages 102 through 103 of this report is incorporated herein by reference.



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## SIGNATURES

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

## MICRUS ENDOVASCULAR CORPORATION

By: */s/ JOHN T. KILCOYNE*  
John T. Kilcoyne  
Chairman and Chief Executive  
Officer

Date: June 10, 2009

## POWERS OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John T. Kilcoyne and Gordon T. Sangster, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signatures	Title	Date
<i>/s/ JOHN T. KILCOYNE</i> John T. Kilcoyne	Chairman and Chief Executive Officer (Principal Executive Officer)	June 10, 2009
<i>/s/ GORDON T. SANGSTER</i> Gordon T. Sangster	Chief Financial Officer (Principal Financial and Accounting Officer)	June 10, 2009
<i>/s/ MICHAEL EAGLE</i> Michael Eagle	Director	June 10, 2009
<i>/s/ MICHAEL R. HENSON</i> Michael R. Henson	Director	June 10, 2009
<i>/s/ FRED HOLUBOW</i> Fred Holubow	Director	June 10, 2009
<i>/s/ L. NELSON HOPKINS</i> L. Nelson Hopkins, M.D.	Director	June 10, 2009
<i>/s/ FRANCIS J. SHAMMO</i>	Director	June 10, 2009

Francis J. Shammo

/s/ JEFFREY H. THIEL  
Jeffrey H. Thiel

Director

June 10, 2009

/s/ GREGORY H. WOLF  
Gregory H. Wolf

Director

June 10, 2009

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## Schedule II – Valuation and Qualifying Accounts

	Balance At Beginning of Year	Additions/ Charged to Expenses	Deduction	Balance at End of Year
(In thousands)				
Allowance for Doubtful Accounts				
Year Ended March 31, 2009	\$ 95	\$ 49	\$ (25)	\$ 119
Year Ended March 31, 2008	\$ 234	\$ (145)	\$ 6	\$ 95
Year Ended March 31, 2007	\$ 317	\$ (84)	\$ 1	\$ 234
Valuation Allowance - Deferred Tax Assets				
Year Ended March 31, 2009	\$ 21,419	\$ 2,277	\$ -	\$ 23,696
Year Ended March 31, 2008	\$ 17,750	\$ 3,669	\$ -	\$ 21,419
Year Ended March 31, 2007	\$ 16,078	\$ 1,936	\$ (264)	\$ 17,750

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INDEX TO EXHIBITS

Exhibit

Number Description

- 3.1 Certificate of Incorporation (Filed as Exhibit 3.2 of Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on May 17, 2005 (Registration No. 333-123154) ("Amendment No. 3"), and incorporated herein by reference)
- 3.2 Bylaws (Filed as Exhibit 3.4 of Amendment No. 3, and incorporated herein by reference)
- 4.1 Specimen Stock Certificate (Filed as Exhibit 4.1 of the Company's Registration Statement on Form S-1 filed on March 4, 2005 (Registration No. 333-123154) ("Form S-1"), and incorporated herein by reference)
- 4.2 Warrant dated as of December 11, 2000 among the Registrant and Roberts Mitani Capital, LLC (Filed as Exhibit 4.2 of Form S-1, and incorporated herein by reference)
- 4.3 Amended and Restated Stockholders' Rights Agreement dated as of February 21, 2005 among the Registrant and the parties listed therein (Filed as Exhibit 4.3 of Form S-1, and incorporated herein by reference)
- 4.4 Form of Common Stock Warrant issued in connection with the Series E Preferred Stock and Warrant Purchase Agreement dated February 21, 2005, among the Company and the purchasers of the Company's Series E Preferred Stock (Filed as Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q filed on February 14, 2006, and incorporated herein by reference)
- 10.1\* 1996 Stock Option Plan (Filed as Exhibit 10.1 of Form S-1, and incorporated herein by reference)
- 10.2\* 1998 Stock Plan (Filed as Exhibit 10.2 of Form S-1, and incorporated herein by reference)
- 10.3\* 2005 Equity Incentive Plan (Filed as Exhibit 10.3 of Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on May 23, 2005 (Registration No. 333-123154) ("Amendment No. 4"), and incorporated herein by reference)
- 10.4\* 2005 Equity Incentive Plan — Form of Incentive Stock Option Agreement for Executive Officers and Directors (Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 15, 2005, and incorporated herein by reference)
- 10.5\* 2005 Equity Incentive Plan — Form of Nonstatutory Stock Option Agreement for Executive Officers and Directors (Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 15, 2005, and incorporated herein by reference)
- 10.6\* 2005 Employee Stock Purchase Plan, as amended (Filed as Exhibit 10.4 of Amendment No. 6 to the Company's Registration Statement on Form S-1 filed on June 13, 2005 (Registration No. 333-123154) ("Amendment No. 6"), and incorporated herein by reference)
- 10.7\* Letter Agreement dated November 15, 2004 with John R. Kilcoyne (Filed as Exhibit 10.7 of Form S-1, and incorporated herein by reference)
- 10.8\* Letter Agreement dated November 5, 2003 with Robert A. Stern (Filed as Exhibit 10.8 of Form S-1, and incorporated herein by reference)
- 10.9\* Letter Agreement dated June 12, 1998 with Tom M. Holdych (Filed as Exhibit 10.9 of Form S-1, and incorporated herein by reference)
- 10.10\* Letter Agreement dated May 23, 2003 with Edward F. Ruppel, Jr. (Filed as Exhibit 10.10 of Form S-1, and incorporated herein by reference)
- 10.11\* Letter Agreement dated October 25, 2004 with Eckhard H. Reitz (Filed as Exhibit 10.13 of Form S-1, and incorporated herein by reference)
- 10.12\* Letter Agreement dated February 16, 2005 with Robert C. Colloton (Filed as Exhibit 10.23 of Amendment No. 6, and incorporated herein by reference)
- 10.13

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Office Lease dated June 6, 2005 between the Registrant and WW/LJ GATEWAYS LTD., a California limited partnership, for office space located at 821 Fox Lane in San Jose, California (Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on July 5, 2005, and incorporated herein by reference)

- 10.14† Distribution Agreement, dated September 30, 2005, between Micrus Endovascular Corporation and Goodman Co., Ltd. (Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005, and incorporated herein by reference)
- 10.15 Share Purchase Agreement, dated September 20, 2005, between Mark Ellis and James Mackenzie and Micrus Endovascular Corporation (Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 26, 2005, and incorporated herein by reference)
- 10.16† License Agreement, effective July 1, 2005, between Micrus Endovascular Corporation and Micrus Endovascular SA (Filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005, and incorporated herein by reference)
- 10.17† Contract Manufacturing Agreement, effective July 1, 2005, between Micrus Endovascular Corporation and Micrus Endovascular SA (Filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005, and incorporated herein by reference)
- 10.18† Agreement for Sharing Development Costs, effective July 1, 2005, between Micrus Endovascular Corporation and Micrus Endovascular SA (Filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005, and incorporated herein by reference)
- 10.19† Support Services Agreement, effective July 1, 2005, between Micrus Endovascular Corporation and Micrus Endovascular SA (Filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005, and incorporated herein by reference)
- 10.20† Technology Transfer Agreement, effective July 28, 2005, between Micrus Endovascular Corporation and Vascular FX (Filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005, and incorporated herein by reference)



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Exhibit

Number Description

- 10.21† License, Development and Distribution Agreement, effective January 6, 2006, between Micrus Endovascular Corporation and Biotronik AG (Filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on June 16, 2006 and incorporated herein by reference)
- 10.22 Form of Director and Executive Officer Indemnification Agreement (Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on February 14, 2007)
- 10.23\* Amended and Restated Employee Cash Bonus Plan with respect to Executive Officers (Filed as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2007)
- 10.24† Amendment No. 1 to Distribution Agreement, dated September 20, 2007, between Micrus Endovascular Corporation and Goodman Co., Ltd. (Filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q filed on November 9, 2007)
- 10.25† Distribution Agreement, dated July 31, 2007, between Micrus Endovascular Corporation and Beijing Tianxinfu Medical Appliance Co. Ltd. (Filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q filed on November 9, 2007)
- 10.26† Stock Purchase Agreement, dated October 26, 2007, between Micrus Endovascular Corporation, ReVasc Technologies, Inc. and The Cleveland Clinic Foundation which includes as an exhibit thereto the Amended and Restated License Agreement, dated October 26, 2007, between ReVasc Technologies, Inc. and The Cleveland Clinic Foundation (Filed as Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q filed on February 11, 2008)
- 10.27\* Letter Agreement dated November 12, 2007 with Gordon Sangster (Filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q filed on February 11, 2008)
- 10.28\* Form of Acceleration Agreement (Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 29, 2008, and incorporated herein by reference)
- 10.29\* New Product Bonus Incentive Program (Filed as Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q filed on June 12, 2008)
- 10.30† Settlement and License Agreement, dated September 22, 2008, between Micrus Endovascular Corporation, Boston Scientific Corp. and Target Therapeutics, Inc. (Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 10, 2008)
- 10.31† Settlement and Release Agreement, dated September 22, 2008, between Micrus Endovascular Corporation and the Regents of the University of California (Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 10, 2008)
- 10.32 Credit Agreement, dated November 5, 2008, between Micrus Endovascular Corporation and Wells Fargo Bank, National Association (Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 10, 2008)
- 10.33 First Amendment to Credit Agreement, dated February 3, 2009, between Micrus Endovascular Corporation and Wells Fargo Bank, National Association (Filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on February 9, 2009)
- 10.34 Amendment to Offer Letter, dated December 15, 2008, between Micrus Endovascular Corporation and John R. Kilcoyne (Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on February 2, 2009)
- 10.35 Amendment to Offer Letter, dated December 15, 2008, between Micrus Endovascular Corporation and Robert A. Stern (Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on February 2, 2009)
- 10.36 Amendment to Offer Letter, dated December 15, 2008, between Micrus Endovascular Corporation and Carolyn M. Bruguera (Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on February 2, 2009)

- 10.37 Amendment to Offer Letter, dated December 12, 2008, between Micrus Endovascular Corporation and Robert C. Colloton (Filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on February 2, 2009)
- 10.38#\* Bonus Program with respect to Executive Officers
- 10.39#\* Amended and Restated 2005 Equity Incentive Plan
- 10.40#\* First Amendment to Technology Transfer Agreement dated January 28, 2009, between Micrus Endovascular Corporation and Vascular FX, LLC, a Delaware limited liability company
- 21.1# List of Subsidiaries
- 23.1# Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
- 24.1# Powers of Attorney (appears on the signature page of this form)
- 31.1# Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2# Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1# Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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# Filed herewith.

\* Indicates a management contract or compensatory plan or arrangement, as required by Item 15(a)3.

† Confidential treatment requested for certain portions of this Exhibit pursuant to Rule 24b-2 promulgated under the Securities Exchange Act, which portions are omitted and filed separately with the Securities and Exchange Commission.

