MICRUS ENDOVASCULAR CORP
Form 10-Q
February 05, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 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 _____

000-51323
(Commission File Number)

Micrus Endovascular Corporation
(Exact name of registrant as specified in its charter)

Delaware	23-2853441
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)
821 Fox Lane, San Jose, California	95131
(Address of Principal Executive Offices)	(Zip Code)

(408) 433-1400
(Registrant's Telephone Number, Including Area Code)

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 R 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 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 R Accelerated filer £ Non-accelerated filer £ Smaller reporting company

(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 £ NoR

As of February 3, 2010, there were 16,152,675 shares of common stock, par value $0.01, of the registrant outstanding.

MICRUS ENDOVASCULAR CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MICRUS ENDOVASCULAR CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)
(In thousands, except share and per share amounts)

	December 31, 2009	March 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,633	$ 17,050
Accounts receivable, net of allowance for doubtful accounts of $154 and $119 at December 31, 2009 and March 31, 2009, respectively	13,578	12,205
Inventories	14,190	11,857
Prepaid expenses and other current assets	1,217	1,237
Total current assets	57,618	42,349
Property and equipment, net	6,100	6,982
Goodwill	7,577	6,762
Intangible assets, net	3,741	4,684
Deferred tax assets	144	260
Other assets	470	469
Total assets	$ 75,650	$ 61,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,828	$ 2,138
Accrued payroll and other related expenses	4,815	5,515
Short-term borrowings	2,500	2,500
Accrued liabilities	6,827	7,877
Total current liabilities	15,970	18,030
Other non-current liabilities	515	902
Total liabilities	16,485	18,932
Commitments and contingencies (Note 8)		
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: 16,133,999 shares and 15,820,369 shares		
at December 31, 2009 and March 31, 2009, respectively	161	158
Additional paid-in capital	133,853	127,121
Accumulated other comprehensive loss	(1,623)	(2,289)
Accumulated deficit	(73,226)	(82,416)
Total stockholders' equity	59,165	42,574
Total liabilities and stockholders' equity	$ 75,650	$ 61,506

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

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MICRUS ENDOVASCULAR CORPORATION
Condensed Consolidated Statements of Operations
(unaudited)
(In thousands, except per share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Revenues	$22,793	$18,322	$65,526	$57,438
Cost of goods sold	5,499	4,777	15,968	14,984
Gross profit	17,294	13,545	49,558	42,454
Operating expenses:				
Research and development	2,110	2,403	7,073	8,253
Sales and marketing	6,382	6,942	19,227	23,021
General and administrative	5,437	5,892	15,821	21,818
Total operating expenses	13,929	15,237	42,121	53,092
Income (loss) from operations	3,365	(1,692)	7,437	(10,638)
Interest income	10	49	38	239
Interest expense	(39)	(10)	(104)	(14)
Other income (expense), net	25	(1,006)	2,621	(1,689)
Income (loss) before income taxes	3,361	(2,659)	9,992	(12,102)
Provision (benefit) for income taxes	41	(367)	802	(472)
Net income (loss)	3,320	$(2,292)	9,190	$(11,630)
Net income (loss) per share				
Basic	$0.21	$(0.15)	$0.58	$(0.74)
Diluted	$0.20	$(0.15)	$0.56	$(0.74)
Weighted-average number of shares used in per share calculations:				
Basic	16,063	15,734	15,923	15,675
Diluted	16,768	15,734	16,435	15,675

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

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MICRUS ENDOVASCULAR CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)
(In thousands)

	Nine Months Ended December 31,	
	2009	2008 (1)
Cash flows from operating activities:		
Net income (loss)	$ 9,190	$ (11,630)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,337	2,466
Provision for doubtful accounts	31	17
Loss on disposal of equipment	43	14
Gain from sale of assets and technologies in connection with Merit Transaction	(1,866)	-
Provision for excess and obsolete inventories	482	(53)
Stock-based compensation	4,790	4,307
Effect of foreign exchange rate changes on intercompany balances	(1,478)	1,557
Deferred income taxes	149	(498)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(769)	(183)
Inventories	(2,387)	(1,186)
Prepaid expenses and other current assets	75	(131)
Other assets	16	(26)
Accounts payable	(384)	(1,157)
Accrued payroll and other related expenses	(769)	(2,072)
Accrued liabilities	1,271	(243)
Other non-current liabilities	(105)	(1,071)
Net cash provided by (used in) operating activities	10,626	(9,889)
Cash flows from investing activities:		
Acquisition of property and equipment	(461)	(2,500)
Proceeds from sale of assets and technologies in connection with Merit Transaction	-	1,500
Earn-out payment in connection with acquisition of VasCon, LLC	(882)	(378)
Earn-out payment in connection with acquisition of Neurologic UK Ltd.	-	(3,454)
Net cash used in investing activities	(1,343)	(4,832)
Cash flows from financing activities:		
Borrowings under bank line of credit	-	2,500
Proceeds from exercise of stock options	1,543	624
Proceeds from employee stock purchase plan	351	527
Net cash provided by financing activities	1,894	3,651

Effect of foreign exchange rate changes on cash and cash equivalents		406		(353)
Net increase (decrease) in cash and cash equivalents		11,177		(11,070)
Cash and cash equivalents at beginning of period		17,050		25,526
Cash and cash equivalents at end of period	$	28,633	$	14,103
Supplemental schedule of non-cash investing and financing activities:				
Accrued earn-out payment associated with the purchase of VasCon, LLC	$	309	$	-

(1) Refer to Note 1 – Formation and Business of the Company regarding the revision of prior periods' cash flow presentation.

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

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MICRUS ENDOVASCULAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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 endovascularly-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.

Interim unaudited financial information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring and out of period adjustments) considered necessary for a fair presentation of the Company's financial position as of the date of the interim balance sheet and results of operations and cash flows for the interim periods. These financial statements should be read in conjunction with the audited financial statements and notes thereto for the preceding fiscal year included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 which was filed with the SEC on June 11, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet at March 31, 2009 was derived from audited financial statements, but does not include all disclosures required by GAAP.

The results of operations for the interim periods ended December 31, 2009 may not necessarily be indicative of the results that may be expected for the fiscal year ending March 31, 2010, or any future period.

Liquidity

On a cumulative basis, the Company has incurred net losses since its inception. While the Company has been profitable in the four most recent quarters, 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 December 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. 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 its credit facility. However, given that certain financial and other covenants of the Credit Agreement (see Note 6 - Line of

Credit) are required to be met, these funds may not be available to the Company at such time. 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 through its maturity date of August 1, 2010.

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Revision of prior periods' cash flows presentations

The Company previously presented the remeasurement of foreign exchange differences on intercompany balances incorrectly in “Effect of foreign exchange rate changes on cash and cash equivalents” instead of as an “Adjustment to reconcile net income/(loss) to net cash provided by/(used in) operating activities.” Consequently, for periods presented or prior periods to be presented, the Company is revising the impact by reclassifying the resulting amounts from “Effect of foreign exchange rate changes on cash and cash equivalents” to “Cash provided by/(used in) operating activities.” This revision does not impact the Company's previously reported overall net change in cash and cash equivalents in its consolidated statements of cash flows for any period presented. The Company does not believe these adjustments are material to any of the periods impacted. This item has been adjusted in this Form 10-Q and will also be adjusted in the consolidated statements of cash flows for the fiscal years 2008 and 2009, nine months period ended December 31, 2008 and three months period ended June 30, 2009. The impact on the Company's consolidated statements of cash flows data is as follows (in thousands):

	As previously reported	As revised
Fiscal year ended March 31, 2008		
Net cash used in operating activities	$(7,524)	$(8,820)
Effect of foreign exchange rate changes on cash and cash equivalents	$(1,214)	$82
Net decrease in cash and cash equivalents	$(7,796)	$(9,092)
Fiscal year ended March 31, 2009		
Net cash used in operating activities	$(9,279)	$(7,048)
Effect of foreign exchange rate changes on cash and cash equivalents	$1,682	$(549)
Net decrease in cash and cash equivalents	$(10,158)	$(7,927)
Nine months ended December 31, 2008		
Net cash used in operating activities	$(11,446)	$(9,889)
Effect of foreign exchange rate changes on cash and cash equivalents	$1,204	$(353)
Net decrease in cash and cash equivalents	$(12,627)	$(11,070)
Three months ended June 30, 2009		
Net cash provided by operating activities	$4,268	$3,152
Effect of foreign exchange rate changes on cash and cash equivalents	$(912)	$204
Net increase in cash and cash equivalents	$3,231	$2,115

Note 2 — Summary of Significant Accounting Policies

The Company’s significant accounting policies are fully described in Note 2 to the Consolidated Financial Statements included in the Company’s annual report filed on Form 10-K for the fiscal year ended March 31, 2009, as filed with the SEC on June 11, 2009.

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 date. Revenue, expense, gain and loss accounts are translated at average exchange rates during the period. The resulting translation adjustments are recorded directly to accumulated other comprehensive income (loss).

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Out of period adjustments

During the three months ended June 30, 2009, the Company recorded adjustments to cost of goods sold, operating expenses and certain balance sheet accounts to record additional expenses primarily related to stock-based compensation expense that were not correctly recorded in prior periods. The net adjustments resulted in the Company reporting $281,000 in additional pre-tax expenses. These adjustments reduced earnings per share by $0.02 for the nine months ended December 31, 2009. These adjustments both individually and in the aggregate were not material to any of the fiscal 2009 interim or full year consolidated financial statements nor are they expected to be material to full year fiscal 2010 results.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP 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 of long-term assets, deferred tax assets and liabilities and related valuation allowances.

Revenue recognition – sales made to Latin American distributors

Sales to the Company's 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 write-offs relating to our 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 its sales to Latin American distributors when cash was collected. The Company has evaluated its experience with its 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 quarter ended June 30, 2008. Revenues recognized upon shipment to the Company's Latin American distributors were $0.8 million and $2.0 million for the three and nine months ended December 31, 2009, respectively, compared with revenues of $482,000 and $1.9 million for the three and nine months ended December 31, 2008, respectively. 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 were recognized as revenue and cost of goods sold, respectively, in the three months ended June 30, 2008.

Product warranty

Once a sale has occurred, the customer has no right of return and the Company provides its customers with limited warranty rights. To date, product returns under warranty have not been significant. The warranty accrual as of December 31, 2009 and March 31, 2009 was insignificant to the financial position of the Company and the change in the accrual for both the current-year quarter and prior-year quarter was insignificant to the Company's results of operations and cash flows.

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 losses of $40,000 for the three months ended December 31, 2009 and currency gains of $0.8 million for the nine months ended December 31, 2009 compared with currency losses of $0.9 million and $1.6 million for the three and nine months ended December 31, 2008, respectively.

Comprehensive income (loss)

Comprehensive income (loss) generally represents all changes in stockholders' equity except those resulting from investments or contributions by stockholders. Accumulated other comprehensive loss as of December 31, 2009 and March 31, 2009 was comprised of foreign currency translation adjustments and a Swiss pension plan benefit adjustment. Total comprehensive income for the three and nine months ended December 31, 2009 was $3.3 million and $9.9 million, respectively. This included other comprehensive income (loss) of ($35,000) and $0.7 million, respectively, related to foreign currency translation adjustments. Total comprehensive loss for the three and nine months ended December 31, 2008 was $3.7 million and $13.3 million, respectively. This included other comprehensive loss of $1.5 million and $1.7 million, respectively, related to foreign currency translation adjustments.

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Net income (loss) per share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by giving effect to all potential dilutive common shares, including stock options and restricted stock units.

Anti-dilutive securities

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

	December 31,	
	2009	2008
Shares issuable upon exercise of common stock options	2,021	4,059
Shares issuable upon settlement of restricted stock units	-	4
Shares issuable under employee stock purchase plan	50	28
	2,071	4,091

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 provision of, and accounts for stock-based compensation in accordance with, the Financial Accounting Standard Board's ("FASB") authoritative guidance for stock-based compensation. Under the fair value recognition provisions of the guidance, 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 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 guidance pro forma disclosures.

Recent accounting pronouncements

In December 2008, the FASB issued authoritative guidance for employers' disclosures about postretirement benefit plan assets, which provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan, including disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The guidance is effective for fiscal years ending after December 2009. The Company does not expect that the adoption of the guidance will have a material

impact on the Company's consolidated financial statements.

In August 2009, the FASB issued authoritative guidance for fair value measurements and disclosures, which provide guidance for measuring fair value of the liabilities. This guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, the reporting entity is required to measure fair value using valuation techniques such as quoted price of an identical or similar liability when traded as an asset, present value technique or a market approach technique. The guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The guidance further clarifies that if the fair value of a liability is determined by reference to a quoted price in an active market for an identical liability, that price would be considered a Level 1 measurement in the fair value hierarchy. Similarly, if the identical liability has a quoted price when traded as an asset in an active market, it is also a Level 1 fair value measurement if no adjustments to the quoted price of the asset are required. This guidance is effective for the first reporting period (including interim periods) beginning after its issuance.

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Note 3 — License and Development Agreement

On August 21, 2009, the Company entered into a License, Development and Commercialization Agreement (the "FSS Agreement") with Flexible Stenting Solutions, Inc. ("FSS"). Under the terms of the FSS Agreement, Micrus and FSS will jointly develop a flow diversion product for neurovascular indications using both Micrus and FSS technology, development capabilities and intellectual property. Micrus will be responsible for overseeing the regulatory and clinical process.

The transaction includes an initial up-front payment by the Company of $0.5 million, future development and regulatory milestone payments and royalties on potential future product sales. The initial up-front payment of $0.5 million was recorded as research and development expense upon the effective date of the FSS Agreement as the technology has yet to receive regulatory approvals and at the present time there is no commercial future use for the technology. The additional milestone payments will be recorded when triggered and the appropriate accounting treatment, whether to capitalize these costs or recognize them as expense, will be determined at that time.

Note 4 — Fair Value Measurements

Effective April 1, 2008, the Company adopted FASB's authoritative guidance for fair value measurement and disclosures 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 this guidance did not materially impact the Company's consolidated financial position and results of operations.

This guidance 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. The guidance 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. The guidance 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.

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 December 31, 2009, the Company had foreign currency forward contracts

to sell 200,000 euros in exchange for approximately $300,000 U.S. dollars maturing in January through February 2010. The counterparty to these contracts is UBS AG. 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 current assets on its consolidated balance sheet as of December 31, 2009. The Company recorded a net realized gain of approximately $24,000 and $15,000 for the three and nine months ended December 31, 2009, respectively.

The Swiss pension plan unfunded benefit obligation is classified within Level 3 since there is no observable market for the asset or liability.

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

	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$23,623	$-	$-	$23,623
Foreign currency forward contracts	-	13	-	13
	$23,623	$13	$-	$23,636
Liabilities:				
Swiss pension plan unfunded benefit obligation	$-	$-	$164	$164

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

	Level 3
Fair value at beginning of fiscal year	$ 148
Change due to foreign currency translation	16
Fair value at end of period	$ 164

Note 5 — Balance Sheet Components

Inventories

Inventories consisted of the following (in thousands):

	December 31, 2009	March 31, 2009
Raw materials	$ 2,336	$ 1,918
Work-in-progress	2,001	1,968
Finished goods	3,493	2,741
Consigned inventory	6,360	5,230
	$ 14,190	$ 11,857

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 purchased by the customer, generally when used in a medical procedure.

Property and equipment, net

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

	December 31, 2009	March 31, 2009
Computer equipment and software	$ 1,790	$ 1,955
Furniture, fixtures and equipment	7,595	7,542
Leasehold improvements	2,159	2,132
Construction in progress	242	108
Total cost	11,786	11,737
Less accumulated depreciation and amortization	(5,686)	(4,755)
	$ 6,100	$ 6,982

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Goodwill

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

	December 31, 2009	March 31, 2009
Balance at beginning of fiscal year	$ 6,762	$ 8,549
Addition related to earn-out payment in connection with acquisition of Neurologic UK Ltd.	-	457
Foreign currency translation	815	(2,244)
Balance at end of period	$ 7,577	$ 6,762

All of the Company's goodwill has been allocated to the United Kingdom reporting unit.

Intangible assets, net

Intangible assets, net, consisted of the following (in thousands):

		Gross Carrying Amount			Accumulated Amortization				Net	
	Useful Life (Years)	March 31, 2009	Foreign currency translation	December 31, 2009	March 31, 2009	(Additions)	Foreign currency translation	December 31, 2009	December 31, 2009	March 31, 2009
Existing process technology	7	$ 4,590	$ -	$ 4,590	$ (1,530)	$ (492)	$ -	$ (2,022)	$ 2,568	$ 3,060
Distribution agreements	5	1,558	187	1,745	(1,278)	(160)	(154)	(1,592)	153	280
Capitalized license fee	7	1,565	-	1,565	(559)	(168)	-	(727)	838	1,006
Patents - microcoil	10	1,100	-	1,100	(990)	(82)	-	(1,072)	28	110
Non-compete agreements	6	444	53	497	(325)	(41)	(38)	(404)	93	119
Customer relationships	5	609	75	684	(500)	(63)	(60)	(623)	61	109
		$ 9,866	$ 315	$ 10,181	$ (5,182)	$ (1,006)	$ (252)	$ (6,440)	$ 3,741	$ 4,684

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Cost of goods sold	$220	$220	$660	$660

Operating expenses	116	220	346	653
	$336	$440	$1,006	$1,313

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

For Years Ending March 31,	Amortization
2010 (remaining 3 months)	$ 335
2011	1,073
2012	905
2013	879
2014	549
	$ 3,741

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Accruals

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

	December 31, 2009	March 31, 2009
Accrued bonuses	$ 883	$ 1,437
Accrued salaries	814	1,106
Accrued vacation	2,132	2,000
Accrued commissions	616	544
Accrued payroll taxes	370	428
	$ 4,815	$ 5,515

Accrued liabilities consisted of the following (in thousands):

	December 31, 2009	March 31, 2009
Milestone payments to The Cleveland Clinic	$ 1,500	$ 1,500
Sales tax and VAT payable	1,016	876
Income taxes payable	652	-
Professional fees	553	277
Raw material inventory receipts not invoiced	457	363
Earn-out payment in connection with acquisition of VasCon	309	886
Travel and entertainment	274	270
Clinical trial expenses	268	217
Royalties	136	169
Deferred gain from Merit Transaction	-	1,866
Other	1,662	1,453
	$ 6,827	$ 7,877

On January 31, 2008, the Company entered into an Asset Purchase and Supply Agreement (the “Merit Agreement”) with Merit Medical Systems, Inc. (“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, LLC (“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 and get it fully operational. Though certain elements of this transaction (namely the acquired assets and licensing rights, and the production line assistance for coronary guide catheters) had been delivered as of March 31, 2009, the Company was still obligated to deliver the regulatory documentation and production line assistance for the peripheral guiding sheaths and/or cardiovascular microcatheters. Because the Company lacked the ability to separate the multiple obligations of this transaction, 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, had been deferred until such time as all obligations of the transaction were delivered. The Company's remaining obligations to Merit terminated on September 30, 2009 and therefore, the deferred gain of $1.9 million was recognized as other income in the quarter ended September 30, 2009.

The Company is required to pay The Cleveland Clinic Foundation ("The Cleveland Clinic") up to $5.0 million in payments upon the achievement of certain milestones set forth in the Stock Purchase Agreement with The Cleveland Clinic dated October 26, 2007 (the "ReVasc Agreement"). The Company paid a $0.5 million milestone payment in March 2008. The Company has accrued an additional $1.5 million as of December 31, 2009 for milestone payments that will become due by October 26, 2010, regardless of whether the related milestones are achieved.

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Other non-current liabilities

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

	December 31, 2009	March 31, 2009
Swiss pension plan unfunded benefit obligation	$ 164	$ 148
Income taxes payable	99	74
Deferred revenue from Goodman Co., Ltd. distribution agreement	84	169
Contingent purchase price in connection with acquisition of VasCon	-	332
Other non-current liabilities	168	179
	$ 515	$ 902

Note 6— 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 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 interest rate on the borrowings as of December 31, 2009 was 4.3%. 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. 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.

At December 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.

Note 7 — Income Taxes

The Company recorded a provision for income taxes of approximately $41,000 and $0.8 million for the three and nine months ended December 31, 2009, respectively. The provision for the three months ended December 31, 2009 was partially offset by a reduction in the U.S federal income tax due to recently passed legislation enabling the Company to utilize additional net operating loss carryforwards for Alternative Minimum Tax purposes.

As of March 31, 2009, the Company had federal, state and foreign net operating loss carryforwards ("NOLs") of approximately $49.4 million, $30.5 million and $4.6 million, respectively, which are available to reduce future taxable

income. The federal NOLs will expire at various dates beginning in 2012, and the state and foreign NOLs will expire beginning in 2013. The Company also has federal and state research and development tax credit carryforwards of approximately $1.6 million and $1.4 million, respectively. The federal tax credit carryforwards will expire beginning in 2012. The state tax credit carryforwards can be carried forward indefinitely. The Company has recorded a full valuation allowance against its U.S. federal and state gross deferred tax assets, as the Company's history of losses and all other evidence available provide uncertainty as to whether it is more likely than not that its U.S. federal and state gross deferred tax assets will be realized.

Since the adoption of the FASB’s authoritative guidance for accounting for uncertainty in income taxes, the Company has recognized a $431,000 increase in its unrecognized tax benefits. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months. At December 31, 2009, the Company had $23,000 of accrued interest or penalties related to tax contingencies.

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Note 8 — Commitments and Contingencies

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 claims or litigation will have a material adverse effect on the Company's condensed consolidated financial statements; however, the outcome of claims or litigation is inherently uncertain.

Note 9 — Stock-based Compensation

Stock options

The Company's stock option program is intended to retain our executives and other key employees and to provide them additional incentives to maximize long-term stockholder value. The Company considers the stock option program critical to its operations and productivity. As of December 31, 2009, the Company has two stock option plans: the 1998 Stock Plan (the "1998 Plan") and the 2005 Equity Incentive Plan (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 were granted under the 1998 Plan.

As of December 31, 2009, there were 896,392 outstanding options under the 1998 Plan. As of December 31, 2009, there were 4,834,280 remaining shares reserved for issuance under the 2005 Plan, of which 1,462,256 were available for grant and 3,372,024 shares were subject to outstanding options. Stock options issued under the Company's stock option plans generally vest based on 4 years of continuous service and have 10-year contractual terms.

2005 Employee Stock Purchase Plan

The 2005 Employee Stock Purchase Plan (the "Purchase Plan") became effective upon the Company's initial public offering. The Purchase Plan provides employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions. As of December 31, 2009, there were 711,990 shares reserved for issuance under the Purchase Plan.

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 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:

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	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Employee Stock Option Plans				
Expected term (in years)	6	6	6	6
Volatility	45%	40%	44%	35%
Risk-free interest rate	2.6%	2.9%	2.6%	3.2%
Expected dividend yield	0%	0%	0%	0%
Weighted average fair value at date of grant	$5.99	$4.89	$4.47	$4.65
Employee Stock Purchase Plan				
Expected term (in years)	0.5	0.5	0.5	0.5
Volatility	50%	41%	50%	45%
Risk-free interest rate	0.3%	1.9%	0.3%	2.5%
Expected dividend yield	0%	0%	0%	0%

The fair value of each purchase right granted under the Company's Purchase Plan during the three and nine months ended December 31, 2009 and 2008 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 included in the results of operations is as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Cost of goods sold	$156	$188	$457	$450
Research and development	138	95	548	435
Sales and marketing	365	272	1,231	1,112
General and administrative	793	642	2,554	2,310
	$1,452	$1,197	$4,790	$4,307

Approximately $16,000 in stock-based compensation expense has been capitalized in inventory for the nine months ended December 31, 2009 as compared to $25,000 that has been released from inventory for the nine months ended December 31, 2008.

As of December 31, 2009, there was approximately $7.8 million of total stock-based compensation expense, after estimated forfeitures, related to unvested employee stock options, which is expected to be recognized over an estimated weighted-average amortization period of 2.33 years for employee stock options.

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General stock option information

The following table sets forth the summary of stock options activity for the nine months ended December 31, 2009:

	Shares (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at March 31, 2009	4,018	$ 12.69		
Options granted	726	$ 9.77		
Options exercised	(242)	$ 6.38		
Options forfeited	(151)	$ 15.68		
Options expired	(83)	$ 18.40		
Options outstanding at December 31, 2009	4,268	$ 12.34	6.9	$ 17,074
Options exercisable at December 31, 2009	2,783	$ 12.13	6.1	$ 11,877

The total aggregate intrinsic value of options exercised during the three months ended December 31, 2009 and 2008 was $1.0 million and $22,000, respectively. The total aggregate intrinsic value of options exercised during the nine months ended December 31, 2009 and 2008 was $1.5 million and $299,000, respectively. The closing market value per share of the Company’s common stock as of December 31, 2009 was $15 per share as reported by The NASDAQ Stock Market.

The following table sets forth the summary of restricted stock units activity for the nine months ended December 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, 2009	4	$ -		
Awarded	-	$ -		
Released	(4)	$ -		
Forfeited	-	$ -		
Non-vested restricted stock units at December 31, 2009	-	$ -	0.0	$ -

Note 10 — Segment and Geographic Information

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
United States	$11,015	$9,889	$32,331	$28,906
Japan	2,460	1,477	8,247	6,302
United Kingdom	1,743	1,715	5,082	5,903
Rest of the world	7,575	5,241	19,866	16,327
	$22,793	$18,322	$65,526	$57,438

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

	December 31, 2009	March 31, 2009
United States	$ 5,830	$ 6,691
United Kingdom	64	69
Rest of the world	206	222
	$ 6,100	$ 6,982

The Company identifies its operating segments based on how management views and evaluates the Company's operations, which are primarily based on geographic location. The Company has determined it operates in three business segments: the Americas, Europe 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. Prior to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2009, the Company's Europe (excluding the United Kingdom) and the United Kingdom reporting units were segregated as two business segments. Prior year information in the tables that follow has been conformed to the current year classification.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Revenues:				
Americas	$12,554	$10,788	$36,067	$32,728
Europe	7,432	5,664	20,150	17,349
Asia Pacific	2,807	1,870	9,309	7,361
	$22,793	$18,322	$65,526	$57,438
Gross Profit:				
Americas	$10,070	$8,170	$28,850	$24,601
Europe	5,388	4,078	14,446	12,767
Asia Pacific	1,836	1,297	6,262	5,086
	$17,294	$13,545	$49,558	$42,454

The Company's total assets by operating segment were as follows (in thousands):

	December 31, 2009	March 31, 2009
Americas	$ 55,705	$ 43,537

Europe	19,945	17,969
	$ 75,650	$ 61,506

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Note 11 — Subsequent Events

The Company has performed an evaluation of subsequent events through February 5, 2010, which is the date the interim financial statements for the three and nine months ended December 31, 2009 were issued.

On January 8, 2010, the Company entered into an Exclusive License and Option Agreement (the "BSI Agreement") with Bay Street Medical, Inc. ("BSI"). Pursuant to the terms of the BSI Agreement, BSI granted the Company a worldwide exclusive license and option to purchase intellectual property assets held by BSI related to its proprietary stent delivery and locking technology (the "BSI Assets"). The transaction included an initial up-front payment of $0.5 million and the exclusive license agreement will terminate in six months following the effective date of the BSI Agreement unless the Company exercises an option to extend the exclusive license for an additional six months upon paying to BSI an option payment of $0.5 million. The Company has the option to purchase the BSI Assets before the option period ends pursuant to an Asset Purchase Agreement that will be an addendum to the BSI Agreement. Under the terms of the Asset Purchase Agreement, the Company would be required to pay an initial purchase payment of $1.0 million, a future sales-based milestone payment and royalties on future product sales.

The initial up-front payment of $0.5 million was recorded as research and development expense upon the effective date of the BSI Agreement. Any additional payments will be recorded when triggered and the appropriate accounting treatment, whether to capitalize these costs or recognize them as expense, will be determined at that time.

On January 19, 2010, the Company paid The Cleveland Clinic a milestone payment of $2.0 million pursuant to the ReVasc Agreement. The amount has been capitalized into intangible assets.

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

Forward-Looking Statements

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the condensed 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 SEC. In addition to current and historical information, this Quarterly Report on Form 10-Q contains forward-looking statements as defined in Section 27.A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that involve risks and uncertainties. These statements can, in some cases, be identified by the use of terms such as "may," "will," "expects," "anticipates," "estimates," "predicts," "continues," "plans," "believes," "projects," "should "intends" or statements concerning "potential" or "opportunity," and any variations thereof, comparable terminology or the negative thereof. 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 II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Quarterly Report to reflect actual results or future events or circumstances.

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 endovascularly-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 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, occlusion 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 endovascularly-trained neurosurgeons, and by entering new geographic territories in Asia Pacific where we commenced selling our products in Japan through our distribution partner, Goodman, Co., Ltd. ("Goodman"), in March 2006. We also plan to market our products in China upon receiving regulatory and reimbursement 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% of our revenues in the first nine months of both fiscal 2010 and 2009. Geographically, our revenues are generally from sales to customers in the Americas, Europe and Asia Pacific. Our products are shipped primarily from our facilities in the United States and a logistics facility in the Netherlands, to either hospitals or distributors. 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 select hospitals, our products are held on consignment, and remain on site, free of charge until used. 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 in which 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.

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Our development efforts are primarily focused on expanding our product offerings for the hemorrhagic and ischemic stroke markets. As of December 31, 2009, we have launched seven new products in the last 24 months, including microcoils, stents, microcatheters and guidewires. 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 microcoils, 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 bare platinum versions of our DeltaPaq™ microcoil for the treatment of cerebral aneurysms. Our DeltaPaq™ microcoil is based on the proprietary Delta Wind™ technology which 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 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 from the 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”) 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. In the fourth quarter of fiscal 2010, we are fully launching the DeltaPlush™ microcoil which has been designed to be our softest finishing coil, enabling more efficient and safe aneurysm treatment. The DeltaPlush™ microcoil combines our exclusive Delta Wind™ technology with our softest platinum wire. The result is a microcoil with the softness and flexibility to find and fill gaps, helping to provide superior finishing at the aneurysm neck. It is available in bare platinum and Cerecyte®. In January of 2010, we launched our Ascent® occlusion balloon catheter which is intended for use in the blood vessels of the peripheral and neurovasculature where temporary occlusion is desired. The Ascent® balloon catheter offers a vessel selective technique of temporary arterial occlusion which is useful in selectively stopping or controlling blood flow.

We intend to continue to expand our direct sales force in North America, Europe and Asia Pacific as necessary and further increase our presence in the Asia Pacific 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 $8.2 million in the first nine months of fiscal 2010 and $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 and reimbursement approvals. The timing of these approvals is uncertain. We did not recognize revenues from sales in China during the first nine months of fiscal 2010 and we do not anticipate recognizing revenues from sales in China in this fiscal year.

On September 30, 2009, we terminated our distribution agreement with Beijing Tian Xin Fu Medical Appliance Co. LTD (“TXF”) and entered into a Distribution Agreement (the “IDS Distribution Agreement”) with IDS (Hong Kong) Ltd. (“ IDS ”). Pursuant to the IDS Distribution Agreement, IDS will serve as our exclusive distributor to promote and market our products of implantable and disposable medical devices used in the treatment of neurovascular diseases (the “Products”) in China.

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. In the fourth quarter of fiscal 2009 we achieved our first profitable quarter with $0.6 million of net income and in the third quarter of fiscal 2010 we reported our fourth consecutive profitable quarter with $3.3 million of net income, which we achieved as result of our continued revenue growth and effective cost management. Net income for the first nine months ended December 31, 2009 was $9.2 million, and we expect to achieve profitability for the full year in fiscal 2010. 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 enter new geographic territories. As of December 31, 2009, we had an accumulated deficit of $73.2 million.

As of December 31, 2009, we had cash and cash equivalents of $28.6 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. We have a revolving line of credit with Wells Fargo Bank that provides for maximum borrowings of $15.0 million with a maturity date of August 1, 2010, amended as of May 20, 2009. As of December 31, 2009, we had outstanding borrowings of $2.5 million under the line of credit, unchanged from March 31, 2009.

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Recent Developments

On August 21, 2009, we entered into the FSS Agreement. Under the terms of the FSS Agreement, Micrus and FSS will jointly develop a flow diversion product for neurovascular indications using both Micrus and FSS technology, development capabilities and intellectual property. We will be responsible for overseeing the regulatory and clinical process and will manufacture neurovascular products developed based on this collaborative agreement. The transaction includes an initial up-front payment by the Company of $0.5 million, future development and regulatory milestone payments and royalties on potential future product sales.

On September 30, 2009, we terminated our distribution agreement with TXF and entered into a Distribution Agreement with IDS. Pursuant to the IDS Distribution Agreement, IDS will serve as our exclusive distributor of implantable and disposable medical devices used in the treatment of neurovascular diseases in China.

Pursuant to the IDS Distribution Agreement, IDS will promote and market our products in China and is required to purchase a certain amount of our products over the five year term of the agreement in order to maintain its exclusive distributor status in such territories, escalating over the five year term. The minimum purchase requirement commences on the date when our products are included in the National Reimbursement List of Interventional Medical Devices issued by the Minister of Health of the People's Republic of China. We will supply IDS with its requirements for our products and have granted IDS a license to use certain of our trademarks in connection with IDS' sale and distribution of our products in China. The term of the IDS Distribution Agreement is five years, subject to the right of the parties to terminate earlier based upon the occurrence of certain events. In connection with the IDS Distribution Agreement, we have also entered into an agreement with IDS whereby we have agreed to provide marketing and sales support to IDS.

On January 8, 2010, we entered into an Exclusive License and Option Agreement (the "BSI Agreement") with Bay Street Medical, Inc. ("BSI"). Pursuant to the terms of the BSI Agreement, BSI granted us a worldwide exclusive license and option to purchase intellectual property assets held by BSI related to its proprietary stent delivery and locking technology (the "BSI Assets"). The transaction included an initial up-front payment of $0.5 million and the exclusive license agreement will terminate in six months following the effective date of the BSI Agreement unless we exercise an option to extend the exclusive license for an additional six months upon paying to BSI an option payment of $0.5 million. We have the option to purchase the BSI Assets before the option period ends pursuant to an Asset Purchase Agreement that will be an addendum to the BSI Agreement. Under the terms of the Asset Purchase Agreement, we would be required to pay an initial purchase payment of $1.0 million, a future sales-based milestone payment and royalties on future product sales.

On January 19, 2010, we paid The Cleveland Clinic a milestone payment of $2.0 million pursuant to the ReVasc Agreement.

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Results of Operations

The following table sets forth the results of our operations, expressed as percentages of revenues, for the three and nine months ended December 31, 2009 and 2008:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
	%	%	%	%
Consolidated Statements of Operations Data:				
Revenues	100 %	100 %	100 %	100 %
Cost of goods sold	24 %	26 %	24 %	26 %
Gross profit	76 %	74 %	76 %	74 %
Operating expenses:				
Research and development	9 %	13 %	11 %	14 %
Sales and marketing	28 %	38 %	30 %	40 %
General and administrative	24 %	32 %	24 %	38 %
Total operating expenses	61 %	83 %	65 %	92 %
Income (loss) from operations	15 %	(9)%	11 %	(18)%
Interest income	0 %	0 %	0 %	0 %
Interest expense	0 %	0 %	0 %	(0)%
Other income (expense), net	0 %	(6)%	4 %	(3)%
Income (loss) before income taxes	15 %	(15)%	15 %	(21)%
Provision (benefit) for income taxes	0 %	2 %	1 %	(1)%
Net income (loss)	15 %	(13)%	14 %	(20)%

Three Months Ended December 31, 2009 and 2008

Revenues

	Three Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Americas	$ 12,554	$ 10,788	$ 1,766	16%
Europe	7,432	5,664	1,768	31%
Asia Pacific	2,807	1,870	937	50%
	$ 22,793	$ 18,322	$ 4,471	24%

Our revenues are derived primarily from sales of our microcoils used in the treatment of cerebral vascular diseases. Our total revenues in the third quarter of fiscal 2010 increased as compared with the third quarter of fiscal 2009 primarily due to an increase in the number of microcoil products sold and the introduction of new embolic coil products such as the DeltaPaq™ and the DeltaPlush™ microcoils along with the revenues generated from sales of new

non-embolic products such as the PHAROS® Vitesse™ intracranial stent.

Revenues from the Americas increased 16% to $12.6 million compared with the third quarter of fiscal 2009. Revenues from Europe increased 31% to $7.4 million compared with the third quarter of fiscal 2009. The revenues increased in the Arnericas and Europe primarily due to continued market penetration of the DeltaPaq™ microcoil and the introduction of the DeltaPlush™ microcoil. Revenues from Asia Pacific increased to $2.8 million in the third quarter of fiscal 2010 and included product sales to our distributor in Japan of $2.5 million, compared with revenues of $1.9 million in the third quarter of fiscal 2009, which included higher quarterly sales to our distributor in Japan of $1.5 million due to an increase in the number of Cerecyte® microcoil products sold during the quarter. We will also begin selling our products in China upon receiving regulatory and reimbursement approvals. We did not recognize revenues from sales to China during the third quarter of fiscal 2010, and we do not anticipate recognizing revenues from sales in China in this fiscal year.

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Revenues from sales of embolic products increased by 27% to $21.5 million for the third quarter of fiscal 2010 as compared to revenues of $16.9 million in the third quarter of fiscal 2009 primarily due to increased market penetration of the DeltaPaq™ microcoil and the introduction of the DeltaPlush™ microcoil. Sales of non-embolic products were 6% of our total revenues in the third quarter of both fiscal 2010 and 2009. We expect our embolic and non-embolic sales to increase in the future as a result of market growth and continued market penetration of products released during the past 24 months, such as our DeltaPaq™ microcoil and new products such as our DeltaPlush™ microcoil and Ascent® occlusion balloon catheter.

New products continue to represent an important component of our growth strategy, with 28% of our revenues in the third quarter of fiscal 2010 coming from products introduced in the past 24 months. We are pleased with the strong reception for our DeltaPaq™ microcoil, which comprised 18% of third quarter revenues. New products such as our DeltaPaq™ filling microcoil with proprietary Delta Wind™ technology are important to our growth. In the fourth quarter of fiscal 2010, we are fully launching our extra-soft finishing DeltaPlush™ finishing microcoil, which also incorporates our proprietary Delta Wind™ technology and our family of Ascent® occlusion balloon catheters, which will be used to assist interventionalists when delivering coils for the treatment of aneurysms. With the launch of the Neuropath® guide catheter and the Ascent® occlusion balloon catheter, we will be in a position to capture an increased percentage of the hemorrhagic procedural revenue opportunity.

Gross Profit

	Three Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Cost of goods sold	$ 5,499	$ 4,777	$ 722	15%
Gross profit	$ 17,294	$ 13,545	$ 3,749	28%

Cost of goods sold consists primarily of materials, direct labor, depreciation, overhead costs associated with manufacturing, provision for estimated obsolescence or excess inventories, 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 products and royalties related to certain access device products. The increase in cost of goods sold during the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009 was primarily due to an increase in sales of our microcoil products as well as an increase of $134,000 in inventory provisions primarily related to expiring products.

Gross margin was 76% in the third quarter of fiscal 2010 compared with 74% in the third quarter of fiscal 2009. The increase was primarily due to an increase in revenue from sales of higher margin products. We expect our gross margin to fluctuate in future periods based on the mix of our product and distributor sales.

Operating Expenses

Research and Development

	Three Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Research and development	$ 2,110	$ 2,403	$ (293)	(12)%

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 the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to a decrease of $258,000 in personnel costs due to lower headcount and a decrease of $183,000 in material and supplies expenses. These decreases were partially offset by an increase of $187,000 in consulting fees and product testing.

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Sales and Marketing

	Three Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Sales and marketing	$ 6,382	$ 6,942	$ (560)	(8)%

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 in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily as a result of our expense management efforts, including a decrease of $343,000 in travel and personnel costs, a decrease of $239,000 in meeting and conference costs and a decrease of $151,000 in consulting costs. These decreases were partially offset by an increase of $176,000 in sales incentives resulting from the higher level of sales during the quarter.

General and Administrative

	Three Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
General and administrative	$ 5,437	$ 5,892	$ (455)	(8)%

General and administrative expenses consist primarily of compensation and related costs for finance, human resources, regulatory, insurance, and professional services. Professional services principally relate to fees for outside legal, audit and compliance with the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). General and administrative expenses decreased in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to a decrease of $447,000 in legal and professional fees.

Other Income (Expense), Net

	Three Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Interest income	$ 10	$ 49	$ (39)	(80)%
Interest expense	(39)	(10)	(29)	290%
Other income (expense), net	25	(1,006)	1,031	(102)%
Total other income (expense), net	$ (4)	$ (967)	$ 963	(100)%

Interest and investment income consists of interest earned on interest bearing accounts. Interest and investment income decreased in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to lower

interest rates, partially offset by higher average cash and investment balances earning interest.

Interest expense consists of finance charges in connection with our line of credit at Wells Fargo Bank entered into in November 2008 and other financing arrangements. Interest expense increased in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to interest charges from the outstanding borrowings of $2.5 million under the line of credit.

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, increased in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to losses resulting from the remeasurement of foreign currency transactions in the third quarter of fiscal 2009.

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Income Taxes

	Three Months Ended December 31,	
	2009	2008
	(In thousands, except percentages)	
Provision (benefit) for income taxes	$ 41	$ (367)
Effective tax rate	1%	(14)%

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period in which they occur. The provision for income taxes we calculated differs from the amount if computed by applying the statutory United States federal tax rate principally due to the utilization of previously reserved net operating losses.

The increase in the effective tax rate for the third quarter of fiscal 2010 as compared to the same period of the prior year primarily resulted from an increase in income tax on profits arising in the United States and Switzerland. The provision for income tax for the three months ended December 31, 2009 was partially offset by a reduction in the U.S federal income tax due to recently passed legislation enabling us to utilize additional net operating loss carryforwards for Alternative Minimum Tax purposes.

As of March 31, 2009, we had federal, state and foreign net operating loss carryforwards ("NOLs") of approximately $49.4 million, $30.5 million and $4.6 million, respectively. The federal NOLs will expire at various dates beginning in 2012 and the state and foreign NOLs will expire beginning in 2013. We also have federal and state research and development tax credit carryforwards of approximately $1.6 million and $1.4 million, respectively. The federal tax credit carryforwards will expire beginning in 2012. The state tax credit carryforwards can be carried forward indefinitely. We have recorded a full valuation allowance against our U.S. federal and state gross deferred tax assets, as our history of losses and all other evidence available to us provide uncertainty as to whether it is more likely than not that our U.S. federal and state gross deferred tax assets will be realized.

Nine Months Ended December 31, 2009 and 2008

Revenues

	Nine Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Americas	$ 36,067	$ 32,728	$ 3,339	10%
Europe	20,150	17,349	2,801	16%
Asia Pacific	9,309	7,361	1,948	26%
	$ 65,526	$ 57,438	$ 8,088	14%

The overall increase in total revenues in the first nine months of fiscal 2010 as compared with the first nine months of fiscal 2009 was primarily due to an increase in the number of microcoil products sold during the period and the introduction of new embolic coil products such as the DeltaPaq™ and the DeltaPlush™ microcoils along with the revenues generated from sales of new non-embolic products such as the PHAROS® Vitesse™ intracranial stent.

Revenues from the Americas increased 10% to $36.1 million compared with the first nine months of fiscal 2009. Revenues from Europe increased 16% to $20.2 million compared with the first nine months of fiscal 2009. The revenues increased in the Americas and Europe primarily due to continued market penetration of the DeltaPaq™ microcoil and the introduction of the DeltaPlush™ microcoil. Revenues from Asia Pacific increased 26% to $9.3 million in the first nine months of fiscal 2010 and included product sales to our distributor in Japan of $8.2 million, compared with revenues of $7.4 million in the first nine months of fiscal 2009, which included sales to our distributor in Japan of $6.3 million. We did not recognize revenues from sales to China during the first nine months of fiscal 2010, and we do not anticipate recognizing revenues from sales in China in this fiscal year.

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Revenues from the Americas include product sales to our distributors in Latin America. Revenue from Latin America decreased to $2.0 million in the first nine months of fiscal 2010 compared with revenues of $2.6 million in the first nine months of fiscal 2009 due to a change in our revenue recognition policy in the first quarter of fiscal 2009 for sales made to Latin American distributors from a cash collection basis to upon shipment basis (see Note 2 - Summary of Significant Accounting Policies of the "Notes to Condensed Consolidated Financial Statements," which are included in "Part I, Item 1 – Condensed Consolidated Financial Statements (unaudited)"). As a result of the change in our revenue recognition policy for sales made to Latin American distributors, we recognized deferred revenue of approximately $0.7 million from Latin America in the first quarter of fiscal 2009.

Revenues from sales of embolic products increased by 15% to $61.9 million for the first nine months of fiscal 2010 as compared to revenues of $53.8 million the first nine months of fiscal 2009 primarily due to increased market penetration of the DeltaPaq™ microcoil, along with the introduction of the DeltaPlush™ microcoil. Sales of non-embolic products were 6% of total revenues in the first nine months of both fiscal 2010 and 2009.

New products represented 23% of our revenues in the first nine months of fiscal 2010 coming from products introduced in the past 24 months. Among these, our DeltaPaq™ microcoil represented 17% of total revenues in the first nine months of fiscal 2010.

Gross Profit

	Nine Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Cost of goods sold	$ 15,968	$ 14,984	$ 984	7%
Gross profit	$ 49,558	$ 42,454	$ 7,104	17%

The increase in cost of goods sold during the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009 was primarily related to the increase in sales of our microcoil products as well as an increase of $0.6 million in inventory provisions primarily related to excess inventories for certain slow moving products.

Gross margin was 76% in the first nine months of fiscal 2010 compared with 74% in the first nine months of fiscal 2009. The increase was primarily due to an increase in revenue from sales of higher margin products.

Operating Expenses

Research and Development

	Nine Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Research and development	$ 7,073	$ 8,253	$ (1,180)	(14)%

Research and development expenses decreased in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily due to a decrease of $0.9 million in personnel costs due to a change in the employee bonus program and lower headcount and a decrease of $430,000 in material and supplies expenses. These decreases were partially offset by an increase of $359,000 primarily due to a $0.5 million upfront payment to FSS to jointly develop a flow diversion product.

Sales and Marketing

	Nine Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Sales and marketing	$ 19,227	$ 23,021	$ (3,794)	(16)%

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Sales and marketing expenses decreased in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily as a result of our expense management efforts, including a decrease of $1.6 million in travel and personnel costs, a decrease of $1.0 million in meeting and conference costs and a decrease of $0.5 million in consulting costs.

General and Administrative

	Nine Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
General and administrative	$ 15,821	$ 21,818	$ (5,997)	(27)%

General and administrative expenses decreased in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily due to a $4.2 million reduction in legal and professional service fees primarily related to the settlement cost of the patent litigation with Boston Scientific and the conclusion of the United States Department of Justice monitorship, as well as a decrease of $1.2 million in personnel and travel costs due to a change in the employee bonus program and lower headcount, a decrease of $337,000 in consulting and outside services costs, as well as a decrease of $306,000 due to lower amortization of intangible assets. These decreases were partially offset by an increase of $244,000 in stock-based compensation.

Out of Period Adjustments

In the first quarter of fiscal 2010, we recorded adjustments to cost of goods sold, operating expenses and certain balance sheet accounts to record additional expenses primarily related to stock-based compensation expense that were not correctly recorded in prior periods. The net adjustments resulted in our reporting $281,000 in additional pre-tax expenses. These adjustments both individually and in the aggregate were not material to any of the fiscal 2009 interim or full year consolidated financial statements nor are they expected to be material to full year fiscal 2010 results.

Other Income (Expense), Net

	Nine Months Ended December 31,		Change	
	2009	2008	$	%
	(In thousands, except percentages)			
Interest income	$ 38	$ 239	$ (201)	(84)%
Interest expense	(104)	(14)	(90)	643%
Other income (expense), net	2,621	(1,689)	4,310	(255)%
Total other income (expense), net	$ 2,555	$ (1,464)	$ 4,019	(275)%

Interest and investment income decreased in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily due to lower interest rates, partially offset by higher average cash and investment balances earning interest.

Interest expense increased in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily due to interest charges from the outstanding borrowings of $2.5 million under the line of credit.

Other income (expense), net, increased by $4.3 million in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. This increase is primarily due to the recognition of the deferred gain of $1.9 million in connection with the sale of non-neurological, cardiac and peripheral catheter assets and technology assets to Merit and gains resulting from foreign currency translations.

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Income Taxes

	Nine Months Ended December 31,	
	2009	2008
	(In thousands, except percentages)	
Provision (benefit) for income taxes	$ 802	$ (472)
Effective tax rate	8%	(4)%

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period in which they occur. The provision for income taxes we calculated differs from the amount if computed by applying the statutory United States federal tax rate principally due to the utilization of previously reserved net operating losses.

The increase in the effective tax rate for the first nine months of fiscal 2010 as compared to the same period of the prior year primarily resulted from an increase in income tax on profits arising in the United States and Switzerland. The increase was partially offset by a reduction in the U.S federal income tax due to recently passed legislation enabling us to utilize additional net operating loss carryforwards for Alternative Minimum Tax purposes.

Liquidity and Capital Resources

	Nine Months Ended December 31,	
	2009	2008
Cash flow activities:	(In thousands)	
Net cash provided by (used in) operating activities	$ 10,626	$ (9,889)
Net cash used in investing activities	$ (1,343)	$ (4,832)
Net cash provided by financing activities	$ 1,894	$ 3,651

Since our inception, we have funded our operations primarily through issuances of stock and related warrants, and product sales. As of December 31, 2009, we had cash and cash equivalents of $28.6 million, compared to $17.1 million at March 31, 2009. 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 provided by operating activities was $10.6 million during the first nine months of fiscal 2010 compared to net cash used in operating activities of $9.9 million during the first nine months of fiscal 2009. Net cash provided by operating activities during the first nine months of fiscal 2010 resulted primarily from net income adjusted by non-cash items such as stock-based compensation expense, depreciation and amortization, provision for excess and obsolete inventories, deferred income taxes, the recognition of the deferred gain in connection with the sale of non-neurological, cardiac and peripheral catheter assets and technology assets to Merit, the effect of foreign exchange rate changes on intercompany balances, and an increase in accrued liabilities due to an increase in income taxes on

profits arising in the United States and Switzerland. These factors were partially offset by an increase in accounts receivable resulting from higher level of sales, an increase in inventory due to an increase in the number of consignment locations and an increase in the number of units in existing consignment locations primarily due to new products released, a decrease in accounts payable due to the timing of payments made to our vendors, a decrease in accrued payroll and related expenses attributable primarily to the payment of fiscal 2009 employee cash bonuses in the first quarter of fiscal 2010.

Net cash used in operating activities during the first nine months of fiscal 2009 resulted primarily from net loss adjusted by non-cash items such as stock-based compensation expense, depreciation and amortization, the effect of foreign exchange rate changes on intercompany balances and deferred tax benefit, and an increase in finished goods and consigned inventory due to the launch of new products, a decrease in accounts payable due to the timing of payments made to our vendors, a decrease in accrued payroll and related expenses attributable primarily to the payment of fiscal 2008 employee cash bonuses in the first quarter of fiscal 2009 and lower accrued commissions.

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Net cash used in investing activities was $1.3 million during the first nine months of fiscal 2010 compared to $4.8 million during the first nine months of fiscal 2009. Net cash used in investing activities during the first nine months of fiscal 2010 was related to the earn-out payment associated with the purchase of VasCon and the purchase of capital equipment.

Net cash used in investing activities during the first nine months of fiscal 2009 was related to the earn-out payment associated with the purchase of Neurologic UK Ltd. and VasCon and the purchase of capital equipment, partially offset by proceeds from the sale of certain assets and technologies in connection with the Merit Transaction.

Net cash provided by financing activities was $1.9 million during the first nine months of fiscal 2010 compared to $3.7 million during the first nine months of fiscal 2009. Net cash provided by financing activities during the first nine months of fiscal 2010 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 the first nine months of fiscal 2009 consisted of proceeds from the exercise of stock options and the purchase of common stock under our employee stock purchase plan, and borrowings under the line of credit with Wells Fargo Bank.

As discussed in Note 6 – Line of Credit of the "Notes to Condensed Consolidated Financial Statements," which are included in "Part I, Item 1 – Condensed Consolidated Financial Statements (unaudited) of this Quarterly Report, 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 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. 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. At December 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. We believe that we will be able to maintain compliance with the debt covenants of the Credit Agreement through the fiscal year ending March 31, 2010.

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 at such time. 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 our 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 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.

Our significant accounting policies are fully described in Note 2 to our Consolidated Financial Statements included in our annual report filed on Form 10-K for the fiscal year ended March 31, 2009, that was filed with the SEC on June 11, 2009.

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Recent Accounting Pronouncements

In December 2008, the FASB issued authoritative guidance for employers' disclosures about postretirement benefit plan assets, which provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan, including disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The guidance is effective for fiscal years ending after December 2009. We do not expect that the adoption of the guidance will have a material impact on our consolidated financial statements.

In August 2009, the FASB issued authoritative guidance for fair value measurements and disclosures, which provide guidance for measuring fair value of the liabilities. This guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, the reporting entity is required to measure fair value using valuation techniques such as quoted price of an identical or similar liability when traded as an asset, present value technique or a market approach technique. The guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The guidance further clarifies that if the fair value of a liability is determined by reference to a quoted price in an active market for an identical liability, that price would be considered a Level 1 measurement in the fair value hierarchy. Similarly, if the identical liability has a quoted price when traded as an asset in an active market, it is also a Level 1 fair value measurement if no adjustments to the quoted price of the asset are required. This guidance is effective for the first reporting period (including interim periods) beginning after its issuance.

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 December 31, 2009, our contractual commitments were as follows (in thousands):

		Payments due by period			
Contractual obligations:	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Non-cancelable operating lease obligations	$ 5,814	$ 1,075	$ 2,612	$ 1,036	$ 1,091
Purchase obligations	3,214	3,214	-	-	-
Milestone payments to The Cleveland Clinic	3,500	3,500	-	-	-
Royalty payments to Vascular FX, LLC	958	250	708	-	-
Earn-out payment to VasCon	309	309	-	-	-
Total	$ 13,795	$ 8,348	$ 3,320	$ 1,036	$ 1,091

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. We paid the first and second year earn-out amounts of $378,000 and $0.9

million in April 2008 and June 2009, respectively. The earn-out period ended November 30, 2009 and the final earn-out of $309,000 will be paid in the first quarter of fiscal 2011.

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. We paid a $0.5 million milestone payment in March 2008 and an additional $2.0 million milestone payment in January 2010. We have accrued an additional $1.5 million as of December 31, 2009 for milestone payments that will become due by October 26, 2010, regardless of whether the related milestones are achieved.

We are required to pay Vascular FX, LLC ("Vascular FX") 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 Courier®Enzo® deflectable catheter product, both on an annual basis. The royalty period is six years beginning in November 2007. As of December 31, 2009, we had accrued royalty payments of approximately $48,000 to Vascular FX.

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We are required to pay FSS up to $2.0 million in payments upon the achievement of certain milestones set forth in the FSS Agreement and royalties on potential future product sales. The additional milestone payments are contingent on certain events.

Item 3. 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 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. The functional currency of our Swiss subsidiary is the Swiss franc. The functional currency of Micrus Endovascular UK Limited ("Micrus UK"), 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 $196,000 related to our loan with Micrus SA and a $74,000 increase in our comprehensive loss from our investment in Micrus SA as of December 31, 2009. A hypothetical 10% decline in the value of the British pound versus the U.S. dollar would cause us to recognize a $0.5 million increase in our comprehensive loss from our investment in Micrus UK as of December 31, 2009. A hypothetical 10% decline in the value of the euro versus the Swiss franc would cause us to recognize a loss of $338,000 based on our foreign denominated receivables as of December 31, 2009.

In the first nine months of fiscal 2010, 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 the third quarter of fiscal 2010, we continued to enter 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 December 31, 2009, we had outstanding foreign currency forward contracts to sell 200,000 euros for approximately $300,000, expiring through February 25, 2010. 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 December 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 $30,000, 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 December 31, 2009, our cash and cash equivalent balance was $28.6 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 $4,000 on an annual basis.

Item 4. Controls and Procedures

(1) 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 amended (the "Exchange Act")) 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.

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(2) Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Certain Factors that May Affect Our Business and Future Results

Some of the information included herein contains forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are based on the beliefs of, estimates made by and information currently available to our management and are subject to certain risks, uncertainties and assumptions. Any statements contained herein (including, without limitation, statements to the effect that the Company, we, or management "may," "will," "expects," "anticipates," "estimates," "predicts," "continues," "plans," "believes," or "projects," "should," "could," "would," "intends concerning "potential" or "opportunity," and any variations thereof, comparable terminology or the negative thereof) that are not statements of historical fact should be construed as forward-looking statements. Our actual results may vary materially from those expected in these forward-looking statements. The realization of such forward-looking statements may be impaired by risks including, but not limited to the following:

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 choose 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.

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The number of interventional neuroradiologists and endovascular 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 first nine months of fiscal 2010, a substantial portion of our product sales in the United States were to approximately 112 hospitals. The growth in the number of interventional neuroradiologists and endovascular 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 clinical 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.

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 ("HCP"), 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 led 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 and have

trained those employees who interact with HCPs 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.

We have been profitable for each of the last four quarters, 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. In the fourth quarter of fiscal 2009 we achieved our first profitable quarter with $0.6 million of net income and in the third quarter of fiscal 2010 we reported our fourth consecutive profitable quarter with $3.3 million of net income. We had net income of $9.2 million for the first nine months of fiscal 2010. At December 31, 2009, we had an accumulated deficit of approximately $73.2 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:

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- 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;
- stocking patterns for distributors;
- the development of new procedures to treat hemorrhagic and ischemic stroke;
- 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;

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- 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;
- 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.

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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 neurovascular division of Boston Scientific, the market leader, as well as Cordis Neurovascular, ev3 Neurovascular and 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 companies 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;
- 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.

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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 is 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. For the first nine months of fiscal 2010, revenues from customers outside the United States represented 51% 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 first nine months of fiscal 2010, 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 SA, our Swiss subsidiary, in 2001 in connection with its incorporation. These loans are denominated in Swiss francs and 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.

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;

- 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.

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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 Pacific 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 and are exposed to future risks of non-compliance.

Pursuant to Section 404 of the Sarbanes-Oxley Act (“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 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.

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 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 and 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 twelve 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:

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- 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 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.

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 outstanding at any time in an amount of up to $15.0 million. As of December 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.

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 interest rate on the borrowings as of December 31, 2009 was 4.3%. 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.

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Although we were in compliance with all covenants at December 31, 2009, it is possible that we may not be in compliance or may fail 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 the 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 may also 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 could also 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 and connectors. 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.

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.

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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 our products 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. At 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 what 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 that our products are not safe for any reason 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 could potentially 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, and 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.

Healthcare costs have risen significantly over the past decade. There have been and continue to be proposals by legislators, regulators and third-party payors to keep these costs down. Certain proposals, if passed, may impose limitations on the amounts of reimbursement available for our products from governmental agencies or third-party payors, or additional taxes on medical devices. These proposals could have a negative impact on the demand for our products and services, and therefore on our financial position and results of operations.

On November 7, 2009, the U.S. House of Representatives passed the Affordable Health Care for America Act, and on December 24, 2009, the U.S. Senate passed the Patient Protection and Affordable Care Act. We cannot predict whether legislation will be enacted, the final form any legislation might take or the effects of such legislation. The current versions of both the House and Senate proposals would impose significant new taxes on medical device makers. These taxes, if implemented, would result in a significant increase in our tax burden, which could have a material, negative impact on our results of operations and our cash flows. Legislation under consideration in the U.S. Congress would, if enacted, also impose new payroll taxes, excise taxes, income taxes and other taxes; provide for taxes/fees based upon domestic sales of devices; implement changes to Medicare and Medicaid; establish a government health insurance option and allow the government to mandate minimum levels of coverage and make comparative effectiveness recommendations.

We are unable to predict what healthcare reform legislation or regulations, if any, will be enacted in the United States or elsewhere; whether other healthcare legislation or regulations affecting our business may be proposed or enacted in the future; what effect any such legislation or regulation would have on our business; or the effect ongoing uncertainty surrounding these matters will have on our customer’s purchasing decisions.

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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, possibly materially, 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. As discussed above, the pending U.S. healthcare reform bills contain a tax on medical device firms that, if implemented, could require us to pay significant additional taxes on our annual revenues, which could adversely impact our results of operations and cash flows, possibly materially.

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 that 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;

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- 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.

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 December 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 38% of our outstanding common stock. As a result, these stockholders, 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 8,527,739 shares of common stock that we may issue under the 1998 Plan, 2005 Plan and 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.

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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 and restated 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;
- 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 amended and restated 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, amended and 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.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

See the Index to Exhibits on Page 51 of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICRUS ENDOVASCULAR CORPORATION

Date: February 5. 2010	By:	/s/ John T. Kilcoyne John T. Kilcoyne Chairman and Chief Executive Officer
Date: February 5, 2010	By:	/s/ Gordon T. Sangster Gordon T. Sangster Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed on May 17, 2005 Registration No. 333-123154) ("Amendment No. 3")
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 of Amendment No. 3)
4.1	Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-1 filed on March 4, 2005 (Registration No. 333-123154) ("Form S-1")
4.2	Warrant dated as of December 11, 2000 among the Registrant and Roberts Mitani Capital, LLC (incorporated by reference to Exhibit 4.2 of Form S-1)
4.3	Amended and Restated Stockholders' Rights Agreement dated as of February 21, 2005 among the Registrant and the parties listed therein (incorporated by reference to Exhibit 4.3 of Form S-1)
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 Registrant and the purchasers of the Registrant's Series E Preferred Stock (incorporated by reference to Exhibit 4.4 of Form 10-Q filed on February 14, 2006)
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#	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