MICRUS ENDOVASCULAR CORP
Form 10-Q
February 11, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

Or

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

For the transition period from _____ to _____

Commission File Number: 000-51323

Micrus Endovascular Corporation

(Exact name of registrant as specified in its charter)

Delaware	**23-2853441**
(State or other jurisdiction of incorporation or organization)	(I.R.S. 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 þ No o

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):

o Large accelerated filer þ Accelerated filer o Non-accelerated filer o 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 o No þ

As of February 1, 2008, there were 15,549,623 shares of common stock, par value $0.01, of the registrant outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	December 31, 2007	March 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 25,343	$ 34,536
Accounts receivable, net of allowance for doubtful accounts of $234 at December 31, 2007 and March 31, 2007	10,984	8,168
Inventories	11,418	9,049
Prepaid expenses and other current assets	1,322	1,340
Deferred tax assets	45	102
Assets held for sale (Note 4)	1,146	
Total current assets	50,258	53,195
Property and equipment, net	5,243	4,648
Goodwill	5,552	5,552
Intangible assets, net	7,589	9,405
Other assets	291	297
Total assets	$ 68,933	$ 73,097
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,738	$ 1,660
Accrued payroll and other related expenses	6,216	6,145
Accrued liabilities	4,893	6,288
Total current liabilities	12,847	14,093
Deferred tax liabilities	402	570
Other non-current liabilities	3,578	2,140
Total liabilities	16,827	16,803
Commitments and contingencies (Note 6)		
Stockholders Equity:		
Common stock, $0.01 par value; Authorized: 50,000,000 shares Issued and outstanding: 15,545,137 shares at December 31, 2007 and 15,249,057 shares at March 31, 2007	155	152
Additional paid-in capital	117,811	111,920
Deferred stock-based compensation	(25)	(164)

Accumulated other comprehensive loss	(624)	(512)
Accumulated deficit	(65,211)	(55,102)
Total stockholders equity	52,106	56,294
Total liabilities and stockholders equity	$ 68,933	$ 73,097

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,	
	2007	**2006**	**2007**	**2006**
Revenues	$ 18,343	$ 15,544	$ 49,495	$ 42,754
Cost of goods sold	5,049	4,192	11,935	11,348
Gross profit	13,294	11,352	37,560	31,406
Operating expenses:				
Research and development	5,553	1,769	10,135	6,025
Sales and marketing	7,530	5,992	21,441	17,199
General and administrative	6,076	5,273	17,722	14,166
Total operating expenses	19,159	13,034	49,298	37,390
Loss from operations	(5,865)	(1,682)	(11,738)	(5,984)
Interest and investment income	304	426	1,015	1,211
Interest expense		(5)	(2)	(5)
Other income, net	67	221	427	554
Loss before income taxes	(5,494)	(1,040)	(10,298)	(4,224)
Provision for (benefit of) income taxes	210	(38)	(189)	(112)
Net loss	$ (5,704)	$ (1,002)	$ (10,109)	$ (4,112)
Net loss per share:				
Basic and diluted	$ (0.37)	$ (0.07)	$ (0.66)	$ (0.28)
Weighted-average number of shares used in per share calculations:				
Basic and diluted	15,516	14,766	15,399	14,466

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,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (10,109)	$ (4,112)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,383	1,364
Provision for doubtful accounts	(7)	(12)
Loss on disposal of property and equipment	23	
Provision for excess and obsolete inventories	655	191
Realized gain on investments		(4)
Stock-based compensation	3,501	1,629
Deferred tax benefit	(194)	
Changes in operating assets and liabilities:		
Accounts receivable	(2,439)	(298)
Inventories	(3,421)	(2,232)
Prepaid expenses and other current assets	63	(391)
Other assets	16	27
Accounts payable	40	(399)
Accrued payroll and other related expenses	(14)	1,179
Accrued liabilities	861	2,530
Other non-current liabilities	1,437	(139)
Net cash used in operating activities	(7,205)	(667)
Cash flows from investing activities:		
Proceeds from maturities of available-for-sale securities		1,000
Acquisition of property and equipment	(1,657)	(967)
Proceeds from sale of property and equipment	107	
Purchase of VasCon, LLC, net of cash acquired		(2,736)
Earn-out payment in connection with acquisition of Neurologic UK Ltd.	(2,232)	(1,414)
Payment to Biotronik AG for developed technology		(835)
Net cash used in investing activities	(3,782)	(4,952)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs		2,043
Proceeds from exercise of stock options	1,956	1,367
Proceeds from employee stock purchase plan	513	379
Net cash provided by financing activities	2,469	3,789

Effect of foreign exchange rate changes on cash and cash equivalents	(675)	(694)
Net decrease in cash and cash equivalents	(9,193)	(2,524)
Cash and cash equivalents at beginning of period	34,536	36,104
Cash and cash equivalents at end of period	$ 25,343	$ 33,580
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock for purchase of VasCon, LLC	$	$ 2,972

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

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 and neurosurgeons for the treatment of hemorrhagic and ischemic stroke.

Interim unaudited financial information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) 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 generally accepted accounting principles 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 only of normal recurring adjustments) considered necessary for a fair presentation. 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, 2007 which was filed with the SEC on June 7, 2007.

The results of operations for the interim periods ended December 31, 2007 may not necessarily be indicative of the results that may be expected for the fiscal year ended March 31, 2008, or any future period.

Revisions to fiscal year 2007 quarterly cash flows presentations

The consolidated cash flow statement for the nine months ended December 31, 2006 has been revised from that previously reported in the Company s Form 10-Q for the period ended December 31, 2006 to correct the classification of the payment of an earn-out amount of approximately $1.4 million made in April 2006 in connection with the acquisition of Neurologic UK Ltd. (Neurologic) that had been accrued as of March 31, 2006, and correctly excluded, as it was a non-cash item, from the fiscal 2006 full year statement of cash flows included in the fiscal 2006 and 2007 annual reports on Form 10-K. The Company had previously incorrectly presented in its quarterly reports on Form 10-Q for the first, second and third quarters of fiscal 2007 the payment as an operating cash outflow (decrease in accrued liabilities) which resulted in an overstatement of the reported amount of cash used in operating activities with a corresponding understatement of the cash used in investing activities. This item has been adjusted in this Form 10-Q and in the previously filed Form 10-Q for the first and second quarters of fiscal 2008. The impact on the Company s cash flow data is as follows:

	As Previously Reported	As Revised
Nine months ended December 31, 2006		
Cash flows from operating activities:		
Accrued liabilities	$ 1,127	$ 2,530
Net cash used in operating activities	$ (2,070)	$ (667)
Cash flows from investing activities:		
Purchase of Neurologic UK Ltd., net of cash acquired	$ (11)	$(1,414)
Net cash used in investing activities	$ (3,549)	$(4,952)

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Note 2 Summary of Significant Accounting Policies

Principles of consolidation

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

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

Use of estimates

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

Cost of goods sold

The Company s cost of goods sold includes the cost of products sold to customers including materials, direct labor, depreciation, overhead costs associated with manufacturing, impairments of inventory and warranty expenses. Additionally, beginning with the quarter ended December 31, 2006, cost of goods sold includes amortization of capitalized license technology in connection with the Biotronik AG (Biotronik) agreement and acquired intangible assets in connection with the acquisition of VasCon, LLC (VasCon).

Comprehensive loss

Comprehensive 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, 2007 and March 31, 2007 was comprised entirely of foreign currency translation adjustments. Total comprehensive loss for the three and nine months ended December 31, 2007 was $5.7 million and $10.2 million, respectively. This included other comprehensive loss of zero and $112,000 respectively, related to foreign currency translation adjustments. Total comprehensive loss for the three and nine months ended December 31, 2006 was $1.1 million and $4.4 million, respectively. This included other comprehensive loss of $100,000 and $315,000, respectively, related to the Company s unrealized gains and losses on its available-for-sale securities and foreign currency translation adjustments.

Net loss per share

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

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

	as of December 31,	
	2007	**2006**
Shares issuable upon exercise of common stock options	3,492	3,204
Shares issuable upon settlement of restricted stock units	7	10
Shares issuable under employee stock purchase plan	18	20
	3,517	3,234

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Stock-based compensation

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

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

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

Income taxes

Effective April 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainties in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 5 for further information regarding the adoption of FIN 48.

Recent accounting pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. Certain provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 but does not expect the adoption of SFAS 157 to have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, which expands opportunities to use fair value measurements in financial reporting and permits entities to

choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 159 but does not expect the adoption of SFAS 159 to have a material impact on its consolidated financial position, results of operations or cash flows.

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In June 2007, the FASB issued Emerging Issue Task Force (EITF) No. 07-03 (EITF 07-03), Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. EITF 07-03 provides that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. If, subsequently, based on management s assessment, it is no longer expected that the goods will be delivered or services will be rendered, then EITF 07-3 requires that the capitalized advance payment be charged to expense. EITF 07-03 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of EITF 07-03 but does not expect the adoption of EITF 07-03 to have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 141R (revised 2007), Business Combinations, which replaces SFAS 141. SFAS 141R requires the acquiring entity in a business combination to recognize at full fair value all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to business combinations completed on or after the date of adoption.

Note 3 Balance Sheet Components

Inventories

Inventories consisted of the following (in thousands):

	December 31, 2007	March 31, 2007
Raw materials	$ 1,801	$ 1,862
Work-in-progress	1,778	1,413
Finished goods	4,050	3,005
Consigned inventory	3,564	2,622
Inventory held by distributors	225	147
	$ 11,418	$ 9,049

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

Inventory held by distributors at December 31, 2007 consists of $157,000 in inventory that was held by the Company s Latin American distributors and $68,000 in inventory that was held by the Company s Chinese distributor. Inventory held by distributors at March 31, 2007 was all held by the Company s Latin American distributors.

Property and equipment, net

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

	December 31, 2007	March 31, 2007
Computer equipment and software	$ 1,754	$ 1,210
Furniture, fixtures and equipment	5,197	4,701
Leasehold improvements	985	936
Construction in progress	340	148

Total cost	8,276	6,995
Less accumulated depreciation and amortization	(3,033)	(2,347)
	$ 5,243	$ 4,648

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Goodwill

On September 20, 2005, the Company entered into a Share Purchase Agreement acquiring all of the outstanding capital stock of Neurologic, a privately held distributor of the Company s products in the United Kingdom. The transaction included an initial cash payment in addition to future multi-year revenue based earn-out payments. The Company has recorded goodwill of $5.6 million associated with the purchase of Neurologic. At March 31, 2007, the Company accrued for additional consideration of approximately $2.2 million for the second year earn-out payment, which was added to goodwill. The Company paid the second year earn-out in April 2007.

Intangible assets, net

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

	Useful	Gross Carrying Amount				Accumulated Amortization				Net	
	Life	March 31,	Additions	Assets Held For Sale	December 31,	March 31,	(Additions)	Assets Held For Sale	December 31,	December 31,	March 31,
	(Years)	2007			2007	2007			2007	2007	2007
Existing process technology	7	$ 4,590	$	$	$ 4,590	$ (219)	$ (492)	$	$ (711)	$ 3,879	$ 4,371
Distribution agreements	5	2,300			2,300	(704)	(345)		(1,049)	1,251	1,596
Capitalized license fee	7	1,565			1,565	(112)	(168)		(280)	1,285	1,453
Patents - microcoil	10	1,100			1,100	(770)	(82)		(852)	248	330
Non-compete agreements	6	700			700	(177)	(88)		(265)	435	523
Customer relationships	5	900			900	(274)	(135)		(409)	491	626
Patents - catheter	7	300		(300)		(14)	(25)	39			286
Existing product technology	2	260		(260)		(40)	(70)	110			220
		$ 11,715	$	$ (560)	$ 11,155	$ (2,310)	$ (1,405)	$ 149	$ (3,566)	$ 7,589	$ 9,405

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Cost of goods sold	$ 234	$ 124	$ 755	$ 124
Operating expenses	217	217	650	664
	$ 451	$ 341	$ 1,405	$ 788

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

For Years Ended March 31,	Amortization

2008 (remaining 3 months)	$	436
2009		1,746
2010		1,746
2011		1,298
2012		935
Thereafter		1,428
	$	7,589

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Accruals

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

	December 31, 2007	March 31, 2007
Bonuses	$ 2,200	$ 2,646
Vacation	1,654	1,333
Commissions	1,291	725
Salaries	527	702
Payroll taxes	521	739
401(k) payable	23	
	$ 6,216	$ 6,145

Accrued liabilities consisted of the following (in thousands):

	December 31, 2007	March 31, 2007
Professional fees	$ 1,771	$ 1,069
VAT payable	569	438
Minimum milestone payment to The Cleveland Clinic Foundation	500	
Earn-out payment in connection with Neurologic acquisition		2,232
Other	2,053	2,549
	$ 4,893	$ 6,288

Other non-current liabilities

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

	December 31, 2007	March 31, 2007
Contingent purchase price	$ 1,596	$ 1,596
Minimum milestone payments to The Cleveland Clinic Foundation	1,500	
Deferred revenue from Japan distribution agreement	309	375
Other non-current liabilities	173	169
	$ 3,578	$ 2,140

Note 4 Assets Held for Sale

On November 2, 2007, the Company signed a non-binding term sheet to sell its non-neurological cardiac and peripheral catheter assets and technology for $3.0 million to Merit Medical Systems, Inc. (Merit). The decision to sell the non-neurological cardiac and peripheral catheter assets and technology was a result of management s desire to focus resources on the Company s neurological products.

In accordance with the provision of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reclassified certain assets into assets held for sale and recorded them at the lower of their carrying value or fair value less costs to sell. The majority of these assets were originally acquired by the Company in connection

with the acquisition of VasCon in November 2006. The following table details the components of the assets held for sale as of December 31, 2007:

	Amount
Inventories	$ 717
Property and equipment, net	18
Intangible assets, net	411
	$ 1,146

The sale was completed on January 31, 2008.

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Note 5 Income Taxes

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

The Company has incurred net operating losses for both federal and state purposes since inception and, as a result, the Company has paid no federal or state income tax. For the three and nine months ended December 31, 2007, the Company recorded an income tax expense of approximately $210,000 and an income tax benefit of $189,000, respectively. The income tax expense for the three months ended December 31, 2007 includes income tax expense of $273,000 for its Swiss subsidiary operating profits and a non-current tax benefit of approximately $63,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for its United Kingdom subsidiary. The income tax benefit for the nine months ended December 31, 2007 includes an income tax benefit of $10,000 related to net operating losses for its Swiss subsidiary and a non-current tax benefit of $179,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for its United Kingdom subsidiary.

As of March 31, 2007, the Company had federal, state and foreign net operating loss carryforwards (NOLs) that are available to reduce future taxable income of approximately $35.5 million, $25.9 million and $0.9 million, respectively. The federal NOLs will expire at various dates beginning in 2012, state NOLs will expire beginning in 2008 and the foreign NOLs will expire beginning in 2013. The Company also has federal and state tax research and development credit carryforwards of approximately $1.1 million and $1.0 million, respectively. The federal tax credit carryforwards will expire beginning in 2012. The state tax credit carryforwards can be carried forward indefinitely. Due to the uncertainty of its ability to generate sufficient taxable income to realize the carryforwards prior to their expiration, the Company has recorded a valuation allowance at December 31, 2007 to offset its federal and state deferred tax assets.

Note 6 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.

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Litigation

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

FCPA investigation

In August 2004, the Company identified certain payments made to physicians located in France, Germany, Spain and Turkey that are likely to have violated the Foreign Corrupt Practices Act (FCPA) and the laws of such countries as well as possibly the laws of Switzerland, where the Company s Swiss subsidiary is located. The Company s audit committee immediately directed internal legal counsel to conduct an internal investigation into these payments. In September 2004, the Company voluntarily disclosed to the United States Department of Justice (DOJ) the factual information obtained in the Company s internal investigation of potential violations of the FCPA. In February 2005, the DOJ and the Company entered into an agreement pursuant to which the DOJ agreed not to prosecute the Company for conduct disclosed to the DOJ, provided that the Company accepted responsibility for the actions of its employees and officers, paid a monetary penalty of $450,000, continues to cooperate with the DOJ in its investigation, including the waiver of legal privileges, establishes policies and procedures to assure compliance with the FCPA and other relevant bribery laws, retains and pays for an independent monitor, which shall report to the DOJ for a period of three years to assure compliance with the agreement with the DOJ and the Company s implementation and adherence to FCPA compliance policies and procedures, and cooperates fully with the DOJ, the independent monitor and the SEC. The Company must remain in compliance with these conditions for a period of two years following February 28, 2005 or face the filing of a criminal complaint by the DOJ. The independent monitor is assessing the Company s compliance with the terms of the agreement, and the Company currently expects that the monitor will file his final report with the DOJ before the end of February 2008. The monetary penalty was accrued in fiscal 2005 and was paid in April 2005. The ongoing cost of compliance with the DOJ agreement will be recorded as an expense as incurred.

The payments made to physicians in France, Germany, Spain and Turkey also may likely have violated the applicable laws in those foreign jurisdictions and may possibly have violated laws in Switzerland, where the Company s Swiss subsidiary is located. The Company is not able to determine at this time what penalties or other sanctions, if any, authorities in France, Germany, Spain, or Turkey may impose as a result of such violations. Such amounts could be material to the financial position, results of operations or cash flows of the Company. The Company has been notified by the Swiss Federal Prosecutor that it does not intend to bring any action or impose any penalties on the Company relating to its activities in Switzerland.

Patent litigation

In September 2004, Boston Scientific Corporation and Target Therapeutics, Inc., a subsidiary of Boston Scientific Corporation, (collectively Boston Scientific), filed a patent infringement suit in the United States District Court for the Northern District of California, alleging that the Company s embolic coil products infringe two patents held by Boston Scientific and that this infringement is willful. Sales of the Company s embolic coil products currently represent virtually all of the Company s revenues. Boston Scientific is a large, publicly-traded corporation with significantly greater financial resources than the Company.

In November 2004, the Company answered Boston Scientific s complaint and counterclaimed, alleging that Boston Scientific s embolic coil products, and their use, infringe three of the Company s patents. In addition, the Company alleged that Boston Scientific has violated United States antitrust laws, and has violated certain California state laws by committing unfair business practices, disparaging its products, and interfering with its prospective economic advantage. In January 2005, Boston Scientific filed a motion to dismiss the Company claims for disparagement, interference with prospective economic advantage and unfair business practices. That motion has been fully briefed but no oral argument has been heard or scheduled and the Court has not ruled on the motion.

In November 2006, the Company withdrew one of its three asserted patents from the litigation to pursue a reissue application filed with the United States Trademark and Patent Office (USPTO). Each party seeks an injunction preventing the making, using, selling, offering to sell, importing into the U.S. or exporting from the U.S., of the other s embolic coil products in the United States, damages for past infringement, which may be trebled, and payment of its legal fees and costs. In addition, each party seeks a declaration that the patents of the other are invalid and not

infringed and has alleged that certain of the asserted patents of the other are unenforceable due to inequitable conduct.

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Boston Scientific has also been a party in two other lawsuits against Cordis and ev3/Micro Therapeutics, Inc. (ev3) in which the Boston Scientific patents, which are the basis of Boston Scientific s suit against the Company, are also at issue. An outcome of either of these lawsuits adverse to Cordis or ev3., and related to the same patent claims Boston Scientific asserts against the Company, could have an adverse impact on certain of the Company defenses in its litigation with Boston Scientific.

In November, 2007, press reports reported that Boston Scientific and ev3 had reached settlement terms and would dismiss their lawsuits against each other with prejudice. The Company does not know if a final settlement agreement has been reached between Boston Scientific and ev3. On January 25, 2008, in the Cordis case, the district court granted Boston Scientific s motion for summary judgment against Cordis that claims 10 and 35 of the 385 patent, and claims 1, 3, 7, 9, and 10 of the 498 patent, are not invalid for having been on-sale or in public use before the statutory bar period. Boston Scientific is asserting these same claims against the Company in its lawsuit with Boston Scientific and, like Cordis, the Company is alleging that these claims are invalid for having been on-sale or in public use before the statutory bar period.

In October 2004, Cordis requested *ex parte* reexamination of certain claims in Boston Scientific s 385 and 498 patents. In February 2006, the USPTO issued a Notice of Intent to Issue Ex Parte Reexamination Certificate for one of the two patents, apparently confirming all of the claims of that patent. In February 2006, the USPTO also issued an Office Action in which it apparently confirmed the patentability of certain of the claims in the second patent, but rejected the remainder.

A hearing on claim construction was held on June 1, 2007. The Court has not issued a claim construction order or calendared any other dates.

Securities litigation

On October 3, 2007, a purported securities class action complaint (the Complaint) was filed in the United States District Court for the Southern District of Florida against the Company and certain of its directors and officers (the Defendants). The Complaint alleges that the Company and the individual defendants made materially false and/or misleading statements or omissions in violation of the federal securities laws during the period of February 12, 2007 through September 16, 2007 (the Class Period). The Complaint seeks to recover damages on behalf of anyone who purchased or otherwise acquired the Company s stock during the Class Period. On January 22, 2008, the Court appointed lead class plaintiff, and on February 6, 2008, plaintiffs filed their Consolidated Complaint. The Company intends to take all appropriate action in response to this lawsuit.

The Company is unable at this time to determine the outcome of any such litigation. As such, no provision for any liability that may result upon resolution of these matters has been made in the accompanying financial statements. If the litigation is protracted or results in an unfavorable outcome to the Company, the impact to the financial position, results of operations or cash flows of the Company could be material.

Note 7 Stock-based Compensation

Stock options

The Company s stock option program is a long-term retention program that is intended to attract, retain and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. The Company considers the stock option program critical to its operations and productivity. As of December 31, 2007, the Company has three stock option plans: the 1996 Stock Option Plan (the 1996 Plan), the 1998 Stock Plan (the 1998 Plan), and the 2005 Equity Incentive Plan (the 2005 Plan). Currently, the Company grants options from the 2005 Plan, which permits the Company to grant options to all employees, including executive officers, and outside consultants, and directors. Effective June 16, 2005, no new options may be granted under the 1996 Plan or the 1998 Plan. As of December 31, 2007, there were no outstanding options under the 1996 Plan and 1,095,643 outstanding options under the 1998 Plan. As of December 31, 2007, there were 3,654,426 remaining shares reserved for issuance under the 2005 Plan, of which 1,251,005 were available for grant, 2,396,755 shares were subject to outstanding options and 6,666 shares were subject to outstanding restricted stock units. 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.

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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, 2007, there were 503,679 shares reserved for issuance under the Purchase Plan.

Stock-based compensation

On April 1, 2006, the Company adopted the provisions of SFAS 123R. The Company s financial statements for the three and nine months ended December 31, 2007 and 2006 reflect the impact of SFAS 123R. 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:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	**2006**	**2007**	**2006**
Employee Stock Option Plans				
Expected term (in years)	6	6	6	6
Volatility	41%	45%	41%	45%
Risk-free interest rate	4.0%	4.6%	4.4%	4.7%
Expected dividend yield	0%	0%	0%	0%
Weighted average fair value at date of grant	$8.25	$8.54	$9.60	$7.69
Employee Stock Purchase Plan				
Expected term (in years)	0.5	0.5	0.5	0.5
Volatility	44%	49%	44%	42%
Risk-free interest rate	3.8%	5.1%	4.2%	5.1%
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, 2007 and 2006 was estimated at the date of grant using the Black-Scholes option pricing model, and is not subject to revaluation as a result of subsequent stock price fluctuations.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	**2006**	**2007**	**2006**
Cost of goods sold	$ 103	$ 58	$ 310	$ 126
Research and development	151	55	379	117
Sales and marketing	379	178	932	467
General and administrative	651	366	1,737	628
Total	$ 1,284	$ 657	$ 3,358	$ 1,338

Additionally, approximately $181,000 and $61,000 in stock-based compensation expense related to SFAS 123R has been capitalized in inventory as of December 31, 2007 and 2006, respectively.

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As of December 31, 2007, there was approximately $13.3 million of total stock-based compensation expense, after estimated forfeitures, related to unvested employee stock options and restricted stock units, which is expected to be recognized over an estimated weighted average amortization period of 2.6 years.

Stock-based compensation expense recognized for the three months ended December 31, 2007 and 2006 related to the amortization of deferred stock-based compensation was $40,000 and $56,000, respectively. For the nine months ended December 31, 2007 and 2006, the amortization of deferred stock-based compensation expense was $139,000 and $168,000, respectively. The Company anticipates recording the remaining amortization of deferred stock-based compensation of $25,000 in the quarter ending March 31, 2008. This deferred stock-based compensation expense will be reduced in the period of forfeiture for any accrued but unvested compensation arising from early termination of an option holder s services.

In previous years, certain stock options were issued to non-employees, generally in exchange for consulting services related to patient studies or marketing analysis. The stock options are recorded at their fair value on the date of vesting and recognized over the respective service or vesting period. The fair value of the stock options granted was calculated at each reporting date using the Black-Scholes option pricing model using the following assumptions:

	Three Months Ended December 31, 2006	Nine Months Ended December 31,	
		2007	2006
Expected term (in years)	5	5	5
Volatility	43%	40%	43%
Risk-free interest rate	4.7%	4.6%	4.7%
Expected dividend yield	0%	0%	0%

Stock-based compensation expense recognized for the three months ended December 31, 2007 and 2006 related to non-employee options was ($2,000) and $14,000, respectively. For the nine months ended December 31, 2007 and 2006, the stock-based compensation expense recognized related to non-employee options was $4,000 and $123,000, respectively. There were no unvested non-employee options for the three months ended December 31, 2007.

Total 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,	
	2007	2006	2007	2006
Cost of goods sold	$ 105	$ 64	$ 324	$ 145
Research and development	151	55	379	135
Sales and marketing	382	190	943	578
General and administrative	684	418	1,855	771
Total	$ 1,322	$ 727	$ 3,501	$ 1,629

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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, 2007:

	Shares (in thousands)	Weighted-Average Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Beginning outstanding at March 31, 2007	3,182	$ 10.71		
Granted	741	$ 20.38		
Exercised	(248)	$ 7.89		
Forfeited	(182)	$ 15.77		
Expired	(1)	$ 12.20		
Ending outstanding at December 31, 2007	3,492	$ 12.70	8.1	$ 25,915
Options exercisable at December 31, 2007	1,510	$ 8.51	7.2	$ 16,883

The total aggregate intrinsic value of options exercised during the three months ended December 31, 2007 and 2006 was $567,000 and $4.0 million, respectively. For the nine months ended December 31, 2007 and 2006, the total aggregate intrinsic value of options exercised was $3.3 million and $4.7 million, respectively. The market value of a share of the Company s common stock as of December 31, 2007 was $19.68 per share as reported by The NASDAQ Stock Market.

The options outstanding and currently exercisable by exercise price at December 31, 2007 are as follows (in thousands, except per share data):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.68 - $1.01	106	4.1	$ 0.81	106	$ 0.81
$1.15 - $1.15	99	6.1	$ 1.15	97	$ 1.15
$5.63 - $8.44	739	7.0	$ 5.68	560	$ 5.65
$8.62 - $12.66	821	8.1	$10.09	375	$ 9.96
$12.72 - $18.37	942	8.7	$15.73	314	$14.73
$18.40 - $22.23	510	9.2	$20.19	54	$19.11
$22.35 - $24.75	275	9.3	$23.86	4	$22.35
$0.68 - $24.75	3,492	8.1	$12.70	1,510	$ 8.51

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The following table sets forth the summary of restricted stock units activity for the nine months ended December 31, 2007:

	Shares	Weighted-Average Purchase Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Non-vested restricted stock units at March 31, 2007	10	$		
Awarded		$		
Released	(3)	$		
Forfeited		$		
Non-vested restricted stock units at December 31, 2007	7	$	1.0	$ 131

Note 8 Technology Acquisition

ReVasc Technologies, Inc.

On October 26, 2007, the Company entered into a Stock Purchase Agreement (the Agreement) with The Cleveland Clinic Foundation (The Cleveland Clinic) and ReVasc Technologies, Inc. (ReVasc), a wholly-owned subsidiary of The Cleveland Clinic, pursuant to which it acquired all of the outstanding stock of ReVasc from The Cleveland Clinic for an aggregate up-front purchase price of $1.0 million. Pursuant to the Agreement, the Company also agreed to pay The Cleveland Clinic up to an additional $5.0 million in payments upon the achievement of certain milestones set forth in the Agreement, with minimum milestone payments of at least $2.0 million due to The Cleveland Clinic upon the third anniversary of the closing of the purchase.

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

The Company acquired only pre-regulatory approved technology and did not assume any other assets or liabilities in connection with the acquisition of ReVasc. Accordingly, the Agreement has been accounted for as a purchase of in-process research and development and $3.0 million, representing the up-front purchase price of $1.0 million plus future minimum milestone payments of $2.0 million, was recorded as research and development expense during the quarter ended December 31, 2007.

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

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Note 9 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,	
	2007	2006	2007	2006
United States	$ 7,942	$ 7,824	$ 24,389	$ 20,743
Japan	2,989	2,420	4,128	7,479
United Kingdom	2,333	1,508	6,853	4,464
Rest of the world	5,079	3,792	14,125	10,068
Total revenues	$ 18,343	$ 15,544	$ 49,495	$ 42,754

The Company s long lived assets by geographic area were as follows (in thousands):

	December 31, 2007	March 31, 2007
United States	$ 4,947	$ 4,342
United Kingdom	115	120
Rest of the world	181	186
	$ 5,243	$ 4,648

The Company identifies its operating segments based on how management views and evaluates the Company s operations, which is primarily based on geographic location. For all periods presented, the Company operated in the following three business segments: the Americas, Europe and Asia Pacific. The products sold by each segment are substantially the same and the Company evaluates performance and allocates resources primarily based on revenues and gross profit. Revenues and gross profit for these segments were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Revenues:				
Americas	$ 9,077	$ 8,457	$ 27,015	$ 22,554
Europe	6,074	4,423	17,464	12,115
Asia Pacific	3,192	2,664	5,016	8,085
Total	$ 18,343	$ 15,544	$ 49,495	$ 42,754
Gross Profit:				
Americas	$ 6,730	$ 6,596	$ 21,794	$ 18,211
Europe	4,482	3,089	12,597	8,085
Asia Pacific	2,082	1,667	3,169	5,110
Total	$ 13,294	$ 11,352	$ 37,560	$ 31,406

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

	December 31, 2007	March 31, 2007
Americas	$ 50,427	$ 56,507
Europe	18,506	16,590
	$ 68,933	$ 73,097

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Note 10 Subsequent Events

On January 16, 2008, the Company entered into a license, development and commercialization agreement with Genesis Medical Interventional, Inc. (Genesis). Under the terms of the agreement, the Company will license the rights to Genesis s F.A.S.T. Funnel Catheter and clot retrieval system for the treatment of ischemic stroke. The transaction includes an initial upfront payment of $750,000, a future development milestone payment of $150,000 payable upon the earlier to occur of the date of first commercial sale or September 30, 2008 and royalty on potential future product sales.

On January 31, 2008, the Company entered into an Asset Purchase and Supply Agreement (the Purchase Agreement) with Merit pursuant to which the Company sold its non-neurological cardiac and peripheral catheter assets and technology (the Merit Transaction). The majority of the assets sold were originally acquired by the Company in November 2006 in connection with its purchase of VasCon, LLC (VasCon). Under the terms of the Purchase Agreement, the Company also agreed to manufacture and supply certain guide catheters to Merit for a period of up to one year following the closing. Pursuant to the Purchase Agreement, the Company received an up-front payment of $1.5 million and will receive an additional $1.5 million upon the earlier to occur of the date that Merit can independently manufacture, validate and commercially produce certain guide catheters or the one year anniversary of the closing. In connection with the Merit Transaction, the Company also entered into a License Agreement granting Merit the right to use certain non-patented intellectual property in the cardiology and peripheral radiology fields and a Non-Competition Agreement, whereby the Company agreed not to engage in certain competitive business activities in the fields of cardiology and peripheral radiology for a period of five years.

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

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the 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 Securities and Exchange Commission. This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in the forward-looking statements due to a number of factors, including those discussed in Part II, Item 1A Risk Factors in this Quarterly Report on Form 10-Q.

Overview

We develop, manufacture and market both implantable and disposable medical devices used in the treatment of cerebral vascular diseases. Our products are used by interventional neuroradiologists and neurosurgeons for the treatment of hemorrhagic and ischemic stroke. Both hemorrhagic and ischemic stroke are significant causes of death 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 our products provide a safe and reliable alternative to more invasive neurosurgical procedures for treating aneurysms. Our proprietary three-dimensional, embolic coils are unique in that they automatically 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, 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 and neurosurgeons, and by entering new geographic territories such as Asia where we commenced selling our products in Japan through our distribution partner, Goodman, CO., LTD (Goodman) in March 2006. Additionally, on July 31, 2007, we entered into an exclusive distribution agreement with Beijing Tianxinfu Medical appliances Co., LTD (TXF Medical) to market our products in the Chinese market. We will begin distributing our products through TXF Medical in the Chinese market upon receiving regulatory approvals.

Our revenues are derived primarily from sales of our microcoils. We also sell stents, access products and accessories for use with our microcoils, which accounted for approximately 5% of our revenues for both the third quarter and the first nine months of fiscal 2008. Geographically, our revenues are generally from sales to customers in the Americas, Europe and Asia. Our products are shipped from our facilities in the United States, Switzerland, United Kingdom, and a logistics facility in the Netherlands, to either hospitals or distributors. We invoice our customers upon

shipment. In select hospitals, our products are held on consignment, and remain on site, free of charge until used.

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We anticipate that our cost of goods sold will generally increase in absolute dollars during those quarters in which our sales increase or we incur additional manufacturing costs in anticipation of the commercial introduction of new products. Furthermore, our gross margin percentage may decrease in those quarters in which we initiate sales of new products or product lines, or enter new geographic territories.

Our product development efforts are primarily focused on expanding our current line of microcoils and broadening our product offerings in the hemorrhagic and ischemic stroke markets. In August 2004, we introduced our Cerecyte® microcoil product line and we have launched eight new products in the last 24 months, including microcoils, stents, microcatheters and guidewires. During the first quarter of fiscal 2008, we introduced two new products the Cashmere microcoil system and the ENZO deflectable microcatheter. The Cashmere is a stretch-resistant microcoil designed to provide stable framing or filling of aneurysms that may require a softer microcoil, such as those with irregular shapes or ruptured aneurysms. The ENZO deflectable microcatheter is designed to offer improved maneuverability through the brain s tortuous vasculature and to enable in vivo repositioning of the microcatheter in the aneurysm, allowing physicians to more efficiently fill aneurysms, which may lead to improved outcomes. We intend to continue this product line expansion with the goal of continuing to increase our per-procedure revenue.

We also intend to continue to expand our direct sales force in the United States and Europe as necessary and enter the Asian markets through distributors. In March 2006, we launched our sales and marketing efforts in Japan through our distributor, Goodman. We recorded product sales to Goodman of $2.2 million and $8.7 million in fiscal 2006 and 2007, respectively, and $4.1 million in the first nine months of fiscal 2008. Sales to Goodman have been lower than anticipated in the first nine months of fiscal 2008 as compared to the first nine months of fiscal 2007 due to regulatory approvals delay in Japan. In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan. We continue to work with regulatory officials in Japan to gain approval for our Cerecyte® microcoils. The delay in these product approvals has had an adverse impact on the revenues previously anticipated from sales in Japan for fiscal 2008. Goodman is required to purchase a minimum of $5.5 million of Micrus products during fiscal 2008 and they have purchased regulatory approved products in the amount of $4.1 million which we have recognized as revenue during the first nine months of fiscal 2008. We are also preparing to enter the Chinese market and have selected TXF Medical to be our distributor in China. We will begin selling our products in China upon receiving regulatory approvals. However, the timing of these approvals are uncertain due to a pending review by the Chinese State Food and Drug Administration (SFDA) of drug and medical device approvals granted during the term of the former SFDA minister. We believe this review process along with more stringent approval procedures will delay review and approval of applications for new products. Therefore, we do not expect to recognize revenues from sales in China this fiscal year.

We currently anticipate that the broadening of our product line, the worldwide expansion of our direct sales force and our entry into the Asian market will be primarily funded with our currently available cash and cash expected to be generated from product sales.

We introduced our first proprietary, three-dimensional microcoil in May 2000. Our revenues have grown from $1.8 million in fiscal 2001 to $58.8 million in fiscal 2007. Our revenues were $49.5 million in the first nine months of fiscal 2008.

Since inception, we have been unprofitable. We have incurred net losses of $6.7 million in fiscal 2005, $8.3 million in fiscal 2006, $5.5 million in fiscal 2007 and $10.1 million in the first nine months of fiscal 2008. As of December 31, 2007, we had cash and cash equivalents of $25.3 million. We believe that our current cash position and the cash expected to be generated from product sales will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. There is no assurance that we will be profitable in the foreseeable future as we expand our manufacturing and sales activities and expand geographically. As of December 31, 2007, we had an accumulated deficit of $65.2 million.

Recent Developments

On July 31, 2007, we entered into a five-year, exclusive distribution agreement with TXF Medical. Under the terms of the distribution agreement, TXF Medical will promote and market our full line of products, as such products are approved, in China and is required to purchase a minimum of $53.5 million of such products over the five year term of the agreement commencing upon regulatory approvals in order to maintain its exclusive distributor status in

China, ranging from $2.5 million during fiscal 2008 to $16.5 million during fiscal 2012. We will begin distributing our products through TXF Medical in the Chinese market upon receiving regulatory approvals.

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On October 26, 2007, we entered into a Stock Purchase Agreement (the Agreement) with The Cleveland Clinic Foundation (The Cleveland Clinic) and ReVasc Technologies Inc. (ReVasc), a wholly-owned subsidiary of The Cleveland Clinic, pursuant to which we acquired all of the outstanding stock of ReVasc from The Cleveland Clinic for an aggregate up-front purchase price of $1.0 million. Pursuant to the Agreement, we also agreed to pay The Cleveland Clinic up to an additional $5.0 million in payments upon the achievement of certain milestones set forth in the Agreement, with minimum milestone payments of at least $2.0 million due to The Cleveland Clinic upon the third anniversary of the closing of the purchase.

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

We acquired only pre-regulatory approved technology and did not assume any other assets or liabilities in connection with the acquisition of ReVasc. Accordingly, the Agreement has been accounted for as a purchase of in-process research and development and $3.0 million, representing the up-front purchase price of $1.0 million plus future minimum milestone payments of $2.0 million, was recorded as research and development expense during the third quarter of fiscal 2008.

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

On January 16, 2008, we entered into a license, development and commercialization agreement with Genesis Medical Interventional, Inc. (Genesis). Under the terms of the agreement, we will license the rights to Genesis s F.A.S.T. Funnel Catheter and clot retrieval system for the treatment of ischemic stroke. The transaction includes an initial upfront payment of $750,000, a future development milestone payment of $150,000 payable upon the earlier occurrence of the date of first commercial sale or September 30, 2008 and royalty on potential future product sales.

On January 29, 2008, we entered into agreements with certain executive officers (the Accelerated Employees) to accelerate the vesting of options to purchase our Common Stock issued under our 2005 Equity Incentive Plan and/or 1998 Stock Plan held by such Accelerated Employees if, following a change of control or sale of substantially all of our assets, an Accelerated Employee ceases being employed by us because either such Accelerated Employee is involuntary terminated from our company (or any subsidiary) without cause or such Accelerated Employee voluntarily quits within 60 days of an event which constitutes good reason.

On January 31, 2008, we entered into an Asset Purchase and Supply Agreement (the Purchase Agreement) with Merit Medical Systems, Inc. (Merit) pursuant to which we sold our non-neurological cardiac and peripheral catheter assets and technology (the Merit Transaction). The majority of the assets sold were originally acquired by us in November 2006 in connection with our purchase of VasCon, LLC (VasCon). Under the terms of the Purchase Agreement, we also agreed to manufacture and supply certain guide catheters to Merit for period of up to one year following the closing. Pursuant to the Purchase Agreement, we received an up-front payment of $1.5 million and will receive an additional $1.5 million upon the earlier to occur of the date that Merit can independently manufacture, validate and commercially produce certain guide catheters or the one year anniversary of the closing. In connection with the Merit Transaction, we also entered into a License Agreement granting Merit the right to use certain non-patented intellectual property in the cardiology and peripheral radiology fields and a Non-Competition Agreement, whereby we agreed not to engage in certain competitive business activities in the fields of cardiology and peripheral radiology for a period of five years.

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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, 2007 and 2006:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Consolidated Statement of Operations Data:				
Revenues	100%	100%	100%	100%
Cost of goods sold	28%	27%	24%	27%
Gross profit	72%	73%	76%	73%
Operating expenses:				
Research and development	30%	11%	21%	14%
Sales and marketing	41%	39%	43%	40%
General and administrative	33%	34%	36%	33%
Total operating expenses	104%	84%	100%	87%
Loss from operations	(32%)	(11%)	(24%)	(14%)
Interest and investment income	2%	3%	2%	3%
Interest expense	0%	0%	0%	0%
Other income, net	0%	2%	1%	1%
Loss before income taxes	(30%)	(6%)	(21%)	(10%)
Provision for (benefit of) income taxes	1%	0%	(0%)	0%
Net loss	(31%)	(6%)	(21%)	(10%)

Three Months Ended December 31, 2007 and 2006

Revenues

	Three Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Americas	$ 9,077	$ 8,457	$ 620	7%
Europe	6,074	4,423	1,651	37%
Asia Pacific	3,192	2,664	528	20%
Total Revenues	$ 18,343	$ 15,544	$ 2,799	18%

Our revenues are derived primarily from sales of our microcoils used in the treatment of cerebral vascular diseases. We also sell stents, access products and accessories for use with our microcoils, which accounted for 5% of our revenues for the third quarter of fiscal 2008. The increase in total revenues in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 was due to an increase in the number of microcoil products sold in the third quarter of fiscal 2008 as compared to the same period in fiscal 2007. In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan. We continue to work with regulatory officials in Japan to gain approval for our Cerecyte® microcoils. We sold $3.0 million of our regulatory approved products in Japan in the third quarter

of fiscal 2008. Our distributor, Goodman, is required to purchase a minimum of $5.5 million of Micrus products during fiscal 2008 and they have purchased regulatory approved products in the amount of $4.1 million which we have recognized as revenue during the first nine months of fiscal 2008.

We introduced two new products, the Cashmere microcoil system and the ENZO deflectable microcatheter in fiscal 2008. Products introduced in the past 24 months comprised 24% of our revenues in the third quarter of fiscal 2008.

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Revenues from our non-embolic and accessories products were $0.9 million in the third quarter of fiscal 2008 compared with revenues of $399,000 in the third quarter of fiscal 2007. We expect our embolic and non-embolic sales to increase in the future as a result of market growth, continued market penetration of products released during the past two years and the introduction of new products.

We are also preparing to enter the Chinese market through our distribution partner, TXF Medical. We will begin selling our products in China upon receiving regulatory approvals. However, the timing of product approvals in China will be delayed due to a pending review by the SFDA of drug and medical device approvals granted during the term of the former SFDA minister. We currently believe this review process along with more stringent approval procedures will delay review and approval of applications for new products. Therefore, we do not expect to recognize revenues from sales in China this fiscal year.

Gross Profit

	Three Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Cost of goods sold	$ 5,049	$ 4,192	$ 857	20%
Gross profit	13,294	11,352	1,942	17%

Cost of goods sold consists primarily of materials, direct labor, depreciation, overhead costs associated with manufacturing, impairments of inventory, warranty expenses, amortization of intangible assets that were acquired by us as part of the acquisition of VasCon, amortization of capitalized license technology associated with our stent product and royalties related to certain access device products. The increase in cost of goods sold during the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007 was primarily due to an increase of $364,000 resulting from an increase in sales of our products as well as an increase of $176,000 in provision for excess and expired inventories resulting from slower consignment inventory turns, an increase of $110,000 in amortization of intangible assets and an increase of $58,000 in royalties. Cost of goods sold in the third quarter of fiscal 2008 and 2007 includes $177,000 and $68,000, respectively, related to the amortization of intangibles acquired from the acquisition of VasCon on November 30, 2006.

Gross margin was 72% in the third quarter of fiscal 2008 and 73% in the third quarter of fiscal 2007. The decrease was primarily due to an increase in provision for excess and expired inventories resulting from slower consignment inventory turns, an increase in amortization of intangible assets resulting from the acquisition of VasCon and higher distributor sales of lower margin products primarily in Japan and certain European markets. We expect our gross margin to fluctuate in future periods based on the mix of our product sales.

Operating Expenses

Research and Development

	Three Months Ended December 31		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Research and development	$5,553	$1,769	$3,784	214%

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 increased in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 primarily due to a charge of $3.0 million for in-process research and development in connection with the acquisition of ReVasc to obtain the rights to pre-regulatory approved revascularization technology. In addition, there was an increase of $364,000 related to increased headcount, an increase of $166,000 in product testing and related consulting expense, as well as an increase of $96,000 in stock-based compensation expense. In the third quarter of fiscal 2008 and 2007, approximately 9% and 3%, respectively, of our research and development costs were attributable to our subsidiary, Micrus Design Technology Inc. (MDT), formed on November 30, 2006 in connection with the acquisition

of VasCon.

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We expect our base research and development expense to increase in absolute dollars in future periods as we hire additional development personnel, continue work on product developments, and expand our existing product line.

Sales and Marketing

	Three Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Sales and marketing	$7,530	$5,992	$1,538	26%

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 increased in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 primarily due to an increase of $1.0 million in travel and personnel costs due to an increase in sales and marketing personnel in the United States, Europe and Asia, an increase of $436,000 in sales incentives resulting from higher level of sales and changes in the sales compensation structure, an increase of $222,000 in product marketing costs, as well as an increase of $192,000 in stock-based compensation expense. These increases were partially offset by an aggregate decrease of $403,000 in tradeshow, market research, consulting and graphic design costs. We anticipate that sales and marketing expenses will increase in absolute dollars in future periods as we continue to increase the size of our direct sales force and clinical support group, increase spending on additional sales and marketing programs and expand into additional geographic territories.

General and Administrative

	Three Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
General and administrative	$6,076	$5,273	$803	15%

General and administrative expenses consist primarily of compensation and related costs for finance, human resources, facilities, information technology, insurance, and professional services. Professional services are principally comprised of outside legal, audit, Sarbanes Oxley compliance and information technology consulting. General and administrative expenses increased in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 primarily due to an increase of $0.6 million related to higher finance and administrative personnel costs due to increased headcount, as well as an increase of $266,000 in stock-based compensation expense. In the third quarter of fiscal 2008 and 2007, approximately 7% and 2%, respectively, of our general and administrative costs were attributable to our subsidiary, MDT, formed on November 30, 2006 in connection with the acquisition of VasCon. As we incur additional expenses associated with being a public company and to the extent our business expands, we expect that general and administrative expenses will increase in absolute dollars in future periods.

Other Income, Net

	Three Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Interest and investment income	$ 304	$ 426	$ (122)	(29%)
Interest expense		(5)	5	
Other income, net	67	221	(154)	(70%)
Total other income, net	$ 371	$ 642	$ (271)	(42%)

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Other income, net consists primarily of investment income and foreign currency gains and losses. Total other income, net decreased in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 primarily due to higher foreign exchange losses related to a loan made to Micrus SA and a decrease in interest and investment income resulting from lower average cash and investment balances earning interest, partially offset by an increase in foreign exchange gains resulting from differences in exchange rates between the time of the recording of the transaction and settlement of foreign currency denominated receivables and payables.

Income Taxes

Effective April 1, 2007, we adopted FIN 48, which requires that we recognize the financial statement effects of a tax position when it becomes more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result of the implementation of FIN 48, we recognized a $192,000 increase in our unrecognized tax benefits. None was accounted for as an increase in the April 1, 2007 balance of accumulated deficit since the benefit relates to attribute carryovers for which the related deferred tax asset was subject to a full valuation allowance. At the adoption date of April 1, 2007 and at December 31, 2007, we had no accrued interest or penalties related to tax contingencies. Since the unrecognized tax benefit relates to attribute carryover for which the related deferred tax asset was subject to a full valuation allowance, the recognition of the unrecognized tax benefits will not affect our effective tax rate. We have elected to include interest and penalties as a component of tax expense. We do not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at March 31, 2007 will significantly increase or decrease within the next 12 months. Because of net operating loss and credit carryforwards, substantially all of our tax years, dating to inception in 1996, remain open to federal tax examination. Most state and foreign jurisdictions have 3 to 10 open tax years at any point in time.

We have incurred net operating losses for both federal and state purposes since inception and, as a result, we have paid no federal or state income tax. In the third quarter of fiscal 2008, we recorded an income tax expense of approximately $210,000. The income tax expense includes income tax expense of $273,000 for our Swiss subsidiary s operating profits and a non-current tax benefit of approximately $63,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for our United Kingdom subsidiary.

As of March 31, 2007, we had federal, state and foreign NOLs that are available to reduce future taxable income of approximately $35.5 million, $25.9 million and $0.9 million, respectively. The federal NOLs will expire at various dates beginning in 2012, state NOLs will expire beginning in 2008 and the foreign NOLs will expire beginning in 2013. We also have federal and state tax research and development credit carryforwards of approximately $1.1 million and $1.0 million, respectively. The federal tax credit carryforwards will expire beginning in 2012. The state tax credit carryforwards can be carried forward indefinitely. Due to the uncertainty of our ability to generate sufficient taxable income to realize the carryforwards prior to their expiration, we have recorded a valuation allowance at December 31, 2007 to offset our federal and state deferred tax assets.

Nine Months Ended December 31, 2007 and 2006

Revenues

	Nine Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Americas	$ 27,015	$ 22,554	$ 4,461	20%
Europe	17,464	12,115	5,349	44%
Asia Pacific	5,016	8,085	(3,069)	(38%)
Total Revenues	$ 49,495	$ 42,754	$ 6,741	16%

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The increase in total revenues in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 was due to an increase in the number of microcoil products sold, an increase in revenues from our Latin American distributors due to higher collections and to a lesser extent an increase in average selling price of our microcoil products sold. Total revenues in the first nine months of fiscal 2008 increased primarily due to the introduction of new products including microcoils and microcatheter products. This increase was partially offset by a decrease in revenues from Asia Pacific. Revenues from Asia Pacific were $5.0 million in the first nine months of fiscal 2008, and included sales of $4.1 million to our distributor in Japan, compared with revenues of $8.1 million for the same period in the prior year, which included sales of $7.5 million to our distributor in Japan. The decline in revenues from Japan was primarily a result of product approvals delay in Japan. In December 2007, we received regulatory approval to sell our stretch-resistant microcoils in Japan. We continue to work with regulatory officials in Japan to gain approval for our Cerecyte® microcoils. The delay in these product approvals has had an adverse impact on the revenues previously anticipated from sales in Japan for fiscal 2008. Our distributor in Japan is required to purchase a minimum of $5.5 million of Micrus products during fiscal 2008 and they have purchased regulatory approved products in the amount of $4.1 million which we have recognized as revenue during the first nine months of fiscal 2008.

We introduced two new products, the Cashmere microcoil system and the ENZO deflectable microcatheter in fiscal 2008. Products introduced in the past 24 months comprised 18% of our revenues in the first nine months of fiscal 2008.

Revenues from our non-embolic and accessories products were $2.5 million in the first nine months of fiscal 2008 compared with revenues of $0.8 million in the first nine months of fiscal 2007.

We are also preparing to enter the Chinese market through our distribution partner, TXF Medical. We will begin selling our products in China upon receiving regulatory approvals. However, the timing of product approvals in China will be delayed due to a pending review by the SFDA of drug and medical device approvals granted during the term of the former SFDA minister. We believe this review process along with more stringent approval procedures will delay review and approval of applications for new products. Therefore, we do not expect to recognize revenues from sales in China this fiscal year.

Gross Profit

	Nine Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Cost of goods sold	$11,935	$11,348	$ 587	5%
Gross profit	37,560	31,406	6,154	20%

The increase in cost of goods sold during the first nine months of fiscal 2008 as compared to the first nine months of fiscal 2007 was primarily due to an increase of $458,000 in provision for excess and expired inventories resulting from slower consignment inventory turns, an increase of $0.6 million in amortization of intangible assets and an increase of $125,000 in royalties, partially offset by manufacturing efficiencies that have lowered per unit costs. The cost of goods sold in the first nine months of fiscal 2008 and 2007 includes $0.6 million and $68,000, respectively, related to the amortization of intangibles acquired from the acquisition of VasCon on November 30, 2006 and $168,000 and $56,000, respectively, related to the amortization of capitalized license fees which we started to amortize in the third quarter of fiscal 2007 when we began selling the Pharos stent product.

Gross margin was 76% in the first nine months of fiscal 2008 and 73% in the first nine months of fiscal 2007. The increase was primarily due to an increase in revenue from sales of higher margin products as well as increased manufacturing efficiencies that have lowered per unit costs, and fewer distributor sales of lower margin products primarily as a result of lower product sales to Japan in the first nine months of fiscal 2008.

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Operating Expenses

Research and Development

	Nine Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Research and development	$10,135	$6,025	$4,110	68%

Research and development expenses increased in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 primarily due to an increase of $1.5 million in technology acquisition costs primarily for in-process research and development in connection with the acquisition of ReVasc to obtain the rights to pre-regulatory approved revascularization technology, an increase of $1.3 million related to increased headcount, an increase of $355,000 in product testing and related consulting expense, as well as an increase of $244,000 in stock-based compensation expense. In the first nine months of fiscal 2008 and 2007, approximately 15% and 1%, respectively, of our research and development costs were attributable to our subsidiary, MDT, formed on November 30, 2006 in connection with the acquisition of VasCon.

Sales and Marketing

	Nine Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
Sales and marketing	$21,441	$17,199	$4,242	25%

Sales and marketing expenses increased in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 primarily due to an increase of $2.2 million in travel and personnel costs due to an increase in sales and marketing personnel in the United States, Europe and Asia, an increase of $0.7 million in sales incentives on higher levels of sales and changes in the sales compensation structure, an increase of $0.6 million in meetings, conferences and tradeshows, an increase of $365,000 in stock-based compensation expense, an increase of $354,000 in product marketing costs, as well as an increase of $349,000 primarily associated with the randomized post-marketing study of our Cerecyte® product. These increases were partially offset by a decrease of $247,000 in product marketing consulting expenses.

General and Administrative

	Nine Months Ended December 31,		Change	
(Dollars in thousands)	**2007**	**2006**	**$**	**%**
General and administrative	$17,722	$14,166	$3,556	25%

General and administrative expenses increased in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 primarily due to an increase of $2.1 million related to higher finance and administrative personnel costs due to increased headcount, an increase of $1.1 million in stock-based compensation expense, and an increase of $146,000 in legal fees primarily associated with our FCPA compliance. In the first nine months of fiscal 2008 and 2007, approximately 7% and 1%, respectively, of our general and administrative costs were attributable to our subsidiary, MDT, formed on November 30, 2006 in connection with the acquisition of VasCon.

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Other Income, Net

(Dollars in thousands)	Nine Months Ended December 31, 2007	2006	Change $	%
Interest and investment income	$ 1,015	$ 1,211	$ (196)	(16%)
Interest expense	(2)	(5)	3	60%
Other income, net	427	554	(127)	(23%)
Total other income, net	$ 1,440	$ 1,760	$ (320)	(18%)

Total other income, net decreased in the first nine months of fiscal 2008 compared to the first nine months in fiscal 2007 primarily due to lower interest and investment income resulting from lower average cash and investment balances earning interest and an increase in foreign exchange losses resulting from differences in exchange rates between the time of the recording of transactions and settlement of foreign currency denominated receivables and payables.

Income Taxes

In the first nine months of fiscal 2008, we recorded an income tax benefit of $10,000 related to net operating losses for our Swiss subsidiary and a non-current tax benefit of $179,000 for the tax effect of the amortization related to the intangible assets acquired in the Neurologic transaction which is not deductible and the tax benefit of operating losses for our United Kingdom subsidiary.

Liquidity and Capital Resources

	Nine Months Ended December 31, 2007	2006
	(Dollars in thousands)	
Cash flow activities:		
Net cash used in operating activities	$(7,205)	$ (667)
Net cash used in investing activities	$(3,782)	$(4,952)
Net cash provided by financing activities	$ 2,469	$ 3,789

Since our inception, we have funded our operations primarily through issuances of stock and related warrants.

As of December 31, 2007, we had cash and cash equivalents of $25.3 million, compared to $34.5 million at March 31, 2007. We believe that our current cash position and the cash expected to be generated from product sales will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

Net cash used in operating activities was $7.2 million during the first nine months of fiscal 2008 compared to $0.7 million during the first nine months of fiscal 2007. Net cash used in operating activities during the first nine months of fiscal 2008 resulted primarily from operating losses, an increase in inventory due to an increase in the number of consignment locations, an increase in the number of units in existing consignment locations due to new products released and the buildup of finished goods inventory in anticipation of future sales upon regulatory approvals in Japan, an increase in accounts receivable resulting from an increase in number of microcoil products sold and a decrease in accrued payroll and related expenses. These factors were partially offset by an increase in accounts payable due to timing of payments made to our vendors, a decrease in prepaid expenses and other current assets, an increase in accrued liabilities and other non-current liabilities due to accrued milestone payments to ReVasc, and non-cash items such as stock-based compensation expense primarily due to SFAS 123R, depreciation and amortization, deferred tax benefit and provision for excess and obsolete inventories.

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Net cash used in operating activities during the first nine months of fiscal 2007 resulted primarily from operating losses, an increase in accounts receivable due to an increase in number of microcoil products sold, an increase in inventory primarily due to an increase in the number of consignment locations, an increase in prepaid expenses and other current assets primarily related to the payment of directors and officers insurance premiums, and a decrease in accounts payable due to timing of payments made to our vendors. These factors were partially offset by an increase in accrued payroll and related expenses attributable to increased headcount and the timing of payroll payments, an increase in accrued liabilities due to higher accrued professional fees associated with legal fees and SOX compliance and higher VAT payables, and noncash items such as stock-based compensation expense primarily due to the adoption of SFAS 123R, depreciation and amortization, and provision for impairment of inventory.

Net cash used in investing activities was $3.8 million during the first nine months of fiscal 2008 compared to $5.0 million during the first nine months of fiscal 2007. Net cash used in investing activities during the first nine months of fiscal 2008 was related to the earn-out payment associated with the purchase of Neurologic and the purchase of capital equipment partially offset by proceeds from sale of property and equipment.

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

Net cash provided by financing activities was $2.5 million during the first nine months of fiscal 2008 compared to $3.8 million during the first nine months of fiscal 2007. Net cash provided by financing activities during the first nine months of fiscal 2008 consisted of proceeds from the exercise of stock options and the employee stock purchase plan.

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

On January 31, 2008, we signed the asset purchase and supply agreement with Merit. Under the terms of the agreement, we received an up-front payment of $1.5 million and will receive an additional $1.5 million upon the earlier to occur of the date that Merit can independently manufacture, validate and commercially produce coronary guide catheter or one year anniversary of the closing.

To the extent that existing cash and cash equivalents and cash from operations are insufficient to fund our future activities, we may need to 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, which could require us to seek additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Critical Accounting Policies and Estimates

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

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, 2007, that was filed with the SEC on June 7, 2007 except for a description of our income taxes critical accounting policy and our adoption of FIN 48 on April 1, 2007, the beginning of our 2008 fiscal year. See Notes 2 and 5 in this Quarterly Report for further information

regarding the adoption of FIN 48.

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Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. Certain provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 157, but do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 159, but do not expect the adoption of SFAS 159 to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2007, the FASB issued Emerging Issue Task Force (EITF) No. 07-03 (EITF 07-03), Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. EITF 07-03 provides that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. If, subsequently, based on management s assessment, it is no longer expected that the goods will be delivered or services will be rendered, then EITF 07-3 requires that the capitalized advance payment be charged to expense. EITF 07-03 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact of EITF 07-03 but do not expect the adoption of EITF 07-03 to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 141R (revised 2007), Business Combinations, which replaces SFAS 141. SFAS 141R requires the acquiring entity in a business combination to recognize at full fair value all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to business combinations completed on or after the date of adoption.

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, 2007, our contractual commitments were as follows:

		Payments Due by Period			
Contractual obligations:	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Beyond 5 years**
Non-cancelable operating lease obligations	$ 4,002	$ 684	$ 1,995	$ 892	$ 431
Purchase commitments	3,731	3,731			
Minimum milestone payments to The Cleveland Clinic Foundation	2,000	500	1,500		
Total	$ 9,733	$ 4,915	$ 3,495	$ 892	$ 431

We are required to pay future earn-out amounts associated with the purchase of Neurologic. The future earn-out payments will be one-third of Neurologic s product sales during specified periods. We paid the first and second year earn-out payments in April 2006 and April 2007.

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We are required to pay future earn-out amounts associated with the purchase of VasCon. The future earn-out payments will be an amount not to exceed $10.0 million based on the sales and manufacturing performance of Micrus Design Technology, Inc. as set forth in the asset purchase agreement. No earn-out payment has been accrued or paid to date.

We are required to pay The Cleveland Clinic Foundation up to $5.0 million in payments upon the achievement of certain milestones set forth in the stock purchase agreement, with minimum milestone payments of at least $2.0 million to The Cleveland Clinic Foundation upon the third anniversary of the closing of the acquisition of ReVasc stock.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Market Risks. Historically, we have been exposed to risks from fluctuations in currency exchange rates due to intercompany loans made to Micrus SA, our Swiss subsidiary, in 2001 in connection with its incorporation. These loans are denominated in Swiss francs and will fluctuate in value against the U.S. dollar, causing us to recognize foreign exchange gains and losses. The functional currency of our Swiss subsidiary is the Swiss franc. The functional currency of our UK subsidiary is the pound sterling. In Europe, our revenues are denominated in Swiss francs, euros, pounds sterling 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 $180,000 related to our loan with Micrus SA and a $23,000 decrease in our comprehensive loss from our investment in Micrus SA as of December 31, 2007. A hypothetical 10% decline in the value of the pound sterling versus the U.S. dollar would cause us to recognize a $245,000 decrease in our comprehensive loss from our investment in Micrus UK as of December 31, 2007. A hypothetical 10% decline in the value of the Euro versus the Swiss franc would cause us to recognize a loss of $246,000 based on our foreign denominated receivables as of December 31, 2007.

In the first nine months of fiscal 2008, approximately 37% of our revenues were denominated in currencies other than the U.S. dollar. In future periods, we believe 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. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if we believe our currency exposure merits, we may consider entering into transactions to help mitigate that risk.

Interest Rate Market 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.

Item 4. Controls and Procedures

(1) *Disclosure controls and procedures*

Our management, with the participation of our Chairman of the Board of Directors and Chief Executive Officer, John T. Kilcoyne, and our Chief Financial Officer, Gordon T. Sangster, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on their evaluation, they concluded that our disclosure controls and procedures as of December 31, 2007 were effective in providing reasonable assurance that material information relating to our company is made known to management on a timely basis during the period when our periodic reports are being prepared.

(2) *Changes in internal controls*

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, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II OTHER INFORMATION

Item 1. Legal Proceedings.

FCPA Investigation

See the risk factor regarding international operations on page 38 below for a discussion of the FCPA investigation we carried out in 2004 and our resulting agreement with the Department of Justice.

Patent Litigation

See the risk factor regarding patent litigation below on page 34 for a detailed discussion of our patent litigation with Boston Scientific Corporation.

Discovery is ongoing in the patent litigation with Boston Scientific Corporation. A hearing on claim construction was held on June 1, 2007. The Court has not calendared any other dates.

Securities Litigation

See the risk factor regarding securities litigation below on page 34 for a detailed discussion of this litigation.

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, continues, plans, believes, or projects, or statements concerning potential or oppor 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:

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

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

The number of interventional neuroradiologists and neurosurgeons trained to conduct embolic coiling procedures is relatively small, both in the United States and abroad. There are currently approximately 300 neurointerventionalists in the United States who perform embolic coiling procedures. We believe 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 2008, a substantial portion of our product sales were to approximately 99 hospitals in the United States. The growth in the number of interventional neuroradiologists and neurosurgeons in the United States is constrained by the lengthy training programs required to educate these physicians. Accordingly, our revenue growth will be primarily dependent on our ability to increase sales of our products to our existing customers and to increase sales of products to trained neurointerventionalists that currently use products offered by our competitors. We believe that neurointerventionalists who do not currently use our products will not widely adopt our products unless they determine, based on experience, clinical data and published peer reviewed journal articles, that our products provide benefits or an attractive alternative to the clipping of aneurysms or the use of competitors products. We believe neurointerventionalists base their decision to use an alternative procedure or product on the following criteria, among others:

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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.

We are party to securities litigation, which, if determined adversely to us, could materially harm our business and financial results.

On October 3, 2007, a purported securities class action complaint (the Complaint) was filed in the United States District Court for the Southern District of Florida against Micrus and certain of our directors and officers (the Defendants). The Complaint alleges that Micrus and the individual defendants made materially false and/or misleading statements or omissions in violation of the federal securities laws during the period of February 12, 2007 through September 16, 2007 (the Class Period). The Complaint seeks to recover damages on behalf of anyone who purchased or otherwise acquired our stock during the Class Period. On January 22, 2008, the Court appointed lead class plaintiff, and on February 6, 2008, plaintiffs filed their Consolidated Complaint. We intend to take all appropriate action in response to this lawsuit. With this litigation in its earliest stages, we are unable to estimate any possible loss at this time, and there can be no assurance that this action will be resolved in our favor. Claims successfully asserted against us may cause us to pay substantial damages or result in other injunctive relief. Further, defending the action will likely be time-consuming and may result in the diversion of management s time and attention away from business operations, which could harm our business and financial results. In addition, costs of defense and any damages resulting from the litigation may materially adversely affect our business and financial results. The litigation may also harm our relationships with existing customers and subject us to negative publicity, each of which could harm our business and financial results.

We are currently involved in a patent litigation action involving Boston Scientific Corporation and, if we do not prevail in this action, we could be liable for past damages and be prevented from making, using, selling, offering to sell, importing into the U.S. or exporting from the U.S., our microcoils, our primary product line.

In September 2004, Boston Scientific Corporation and Target Therapeutics, Inc., a subsidiary of Boston Scientific Corporation, (collectively Boston Scientific), filed a patent infringement suit in the United States District Court for the Northern District of California, alleging that our embolic coil products infringe two patents held by Boston Scientific and that this infringement is willful. Sales of our embolic coil products currently represent virtually all of our revenues. Boston Scientific is a large, publicly-traded corporation with significantly greater financial resources than us.

In November 2004, we answered Boston Scientific s complaint and counterclaimed, alleging that Boston Scientific s embolic coil products, and their use, infringe three of our patents. In addition, we alleged that Boston Scientific has violated United States antitrust laws, and has violated certain California state laws by committing unfair business practices, disparaging our products, and interfering with our prospective economic advantage. In January 2005, Boston Scientific filed a motion to dismiss our claims for disparagement, interference with prospective economic advantage and unfair business practices. That motion has been fully briefed but no oral argument has been heard or scheduled and the Court has not ruled on the motion.

In November 2006, we withdrew one of our three asserted patents from the litigation to pursue a reissue application filed with the United States Patent and Trademark Office (USPTO). Each party seeks an injunction preventing the making, using, selling, offering to sell, importing into the U.S. or exporting from the U.S., of the other s

embolic coil products in the United States, damages for past infringement, which may be trebled, and payment of its legal fees and costs. In addition, each party seeks a declaration that the patents of the other are invalid and not infringed and has alleged that certain of the asserted patents of the other are unenforceable due to inequitable conduct.

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Boston Scientific has also been a party in two other lawsuits against Cordis and ev3/Micro Therapeutics, Inc (ev3). in which the Boston Scientific patents, which are the basis of Boston Scientific s suit against us, are or were also at issue. An outcome of either of these lawsuits adverse to Cordis or ev3., and related to the same patent claims Boston Scientific asserts against us, could have an adverse impact on certain of our defenses in our litigation with Boston Scientific.

In November, 2007, press reports reported that Boston Scientific and ev3 had reached settlement terms and would dismiss their lawsuits against each other with prejudice. We do not know if a final settlement agreement has been reached between Boston Scientific and ev3. On January 25, 2008, in the Cordis case, the district court granted Boston Scientific s motion for summary judgment against Cordis that claims 10 and 35 of the 385 patent, and claims 1, 3, 7, 9, and 10 of the 498 patent, are not invalid for having been on-sale or in public use before the statutory bar period. Boston Scientific is asserting these same claims against us in our lawsuit with Boston Scientific and, like Cordis, we are alleging that these claims are invalid for having been on-sale or in public use before the statutory bar period.

In October 2004, Cordis requested *ex parte* reexamination of certain claims in Boston Scientific s 385 and 498 patents. In February 2006, the USPTO issued a Notice of Intent to Issue Ex Parte Reexamination Certificate for one of the two patents, apparently confirming all of the claims of that patent. In February 2006, the USPTO also issued an Office Action in which it apparently confirmed the patentability of certain of the claims in the second patent, but rejected the remainder.

A hearing on claim construction was held on June 1, 2007. The Court has not issued a claim construction order or calendared any other dates.

We are unable at this time to determine the likely outcome of the patent litigation. Patent lawsuits involve complex legal and factual issues which can take a number of years and a great deal of expense and management attention to resolve. We may also be subject to negative publicity due to the litigation. In the event it is determined that we infringe patent claims asserted by Boston Scientific and that those claims are not invalid and not unenforceable we may, among other things, be required to do one or more of the following:

- pay damages, including up to treble damages and Boston Scientific s attorney s fees and costs, which may be substantial;
- cease, because of an injunction, the making, using, selling, offering to sell, importing into the U.S. or exporting from the U.S. of our embolic coil products, which currently represent virtually all of our revenues, found to infringe the patent claims asserted by Boston Scientific;
- expend significant resources to redesign our technology so that it does not infringe the patent claims asserted by Boston Scientific, which may not be possible;
- discontinue manufacturing or other processes that incorporate technology that infringes the patent claims asserted by Boston Scientific;
- become subject to a compulsory license order under which we would be required to pay Boston Scientific a royalty on future sales of our products; and/or
- obtain a license from Boston Scientific to use the relevant patents, which may not be available to us on acceptable terms, or at all.

If our embolic coil products were found to infringe, any development or acquisition of products or technologies that do not infringe the patent claims asserted by Boston Scientific could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results. If we were required to but could not obtain a license under the patent claims asserted by Boston Scientific, we would likely be prevented from commercializing or further commercializing the relevant products. We believe that it is unlikely that we would be able to obtain a license under the patent claims being asserted by Boston Scientific. If we need to redesign our products to avoid the patent claims being asserted by Boston Scientific, we may suffer significant regulatory delays

associated with conducting additional studies or submitting technical, manufacturing or other information related to the redesigned product and, ultimately, in obtaining approval.

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As a result of Boston Scientific s answer to our counterclaim that Boston Scientific infringes our two remaining patents-in-suit, the validity of those patents is now at issue in the lawsuit. The Court could find that those patents are invalid, which would prevent us from asserting those patents against third parties.

An unfavorable outcome for us in this patent litigation would significantly harm our business and may cause us to materially change our business model.

We have a limited operating history, have incurred significant operating losses since inception, and expect to continue to incur losses, and we cannot assure you that we will achieve profitability.

We were incorporated in the State of Delaware in 1996, and began commercial sales of our microcoil products in 2000. We have yet to demonstrate that we can generate sufficient sales of our products to become profitable. The extent of our future operating losses and the timing of profitability are uncertain, and we may never achieve profitability. We have incurred significant net losses since our inception, including losses of approximately $5.5 million, $8.3 million and $6.7 million for the fiscal year ended March 31, 2007, 2006 and 2005, respectively. We incurred a net loss of $10.1 million in the first nine months of fiscal 2008. At December 31, 2007, we had an accumulated deficit of $65.2 million. It is possible that we will never generate sufficient revenues from product sales to achieve profitability. Even if we do achieve significant revenues from our product sales, we expect our operating expenses to increase as we, among other things:

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

As a result of these activities, we may never become profitable. Even if we do achieve profitability, 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 cerebral aneurysms;

results of clinical research and trials on our existing products and products in development;

demand for, and pricing of, our products;

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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 approvals or clearances for our products;

inventory adjustments we may have to make in any quarter;

interruption in the manufacturing or distribution of our products;

our ability to maintain and expand our sales force and operational personnel;

the ability of our suppliers to timely provide us with an adequate supply of materials and components; and

amount and timing of capital expenditures and other costs relating to any potential expansion of our operations.

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

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

Our success will depend in part on our ability to develop and introduce new products and enhancements to our existing products. We cannot assure you 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 interventionalist and patient needs;

develop new products or enhancements in a timely manner;

obtain the necessary regulatory approvals for new products or product enhancements;

provide adequate training to potential users of our products;

receive adequate reimbursement for our procedures; and

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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 international operations and our relationships with physicians and other consultants require us to comply with a number of U.S. and international regulations.

We are required to comply with a number of international regulations related to sales of medical devices and contractual relationships with physicians in countries outside of the United States. In addition, we must comply with the Foreign Corrupt Practices Act (FCPA) which prohibits U.S. 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.

In August 2004 while reviewing our sales and payment procedures, we identified certain payments we made to physicians outside the United States that may have violated the FCPA and the laws of certain foreign countries. Following an internal investigation, we voluntarily disclosed to the United States Department of Justice (DOJ) the factual information obtained in our internal investigation of potential violations of the FCPA.

After reviewing the results of the internal investigation and the compliance procedures implemented by us, the DOJ entered into an agreement (the DOJ Agreement) with us in February 2005. Pursuant to that agreement, the DOJ will not prosecute us for the conduct disclosed to the DOJ, and we agreed to various conditions, including establishing policies and procedures to assure compliance with the FCPA and other relevant anti-bribery laws, retaining an independent law firm to act as a monitor for purposes of reporting to the DOJ for a period of three years as to our compliance with the DOJ Agreement and to monitor our implementation of and adherence to FCPA compliance policies and procedures, and fully cooperating with the DOJ, the independent monitor, and the Securities and Exchange Commission (SEC). We must remain in complete compliance with these conditions for a period of two years, or face the filing of a criminal complaint against us. The independent monitor is assessing our compliance with the terms of the agreement, and we currently expect that the monitor will file his final report with the DOJ before the end of February 2008. The terms of the DOJ Agreement will bind our successors, or any merger partners, as long as the DOJ Agreement is in effect.

The payments we made to physicians in France, Germany, Spain and Turkey are also likely to 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.

Though we have adopted a number of compliance procedures, including a Foreign Corrupt Practices Act Policy and related procedures, and appointed a Compliance Officer, we cannot assure you that we will be able to comply with the various regulations in foreign jurisdictions, which vary from country to country. Implementing and monitoring such compliance procedures in a number of foreign jurisdictions can be very expensive and time-consuming. Any failure by us to adopt appropriate compliance procedures and ensure that our employees and agents comply with applicable laws and regulations in foreign jurisdictions could result in substantial penalties and/or restrictions in our ability to sell products in certain foreign jurisdictions.

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

The market for medical devices for treatment of cerebral vascular diseases is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. We compete primarily with the Target Therapeutics division of Boston Scientific Corporation, the market leader, as well as Cordis, ev3/Micro Therapeutics and Terumo/MicroVention. At any time, other companies may develop alternative treatments, products or procedures for the treatment of cerebral aneurysms that compete directly or indirectly with our products. If alternative treatments prove to be superior to our microcoil or other products,

continued use or adoption of our products could be negatively affected and our future revenues could suffer.

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

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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-U.S. jurisdictions;

greater resources for product research and development;

greater experience in, and resources for, launching, marketing, distributing and selling products; and

broader product lines.

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

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

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

A substantial portion of our revenues are derived from outside the U.S. For the fiscal years ended March 31, 2007, 2006 and 2005, revenues from customers outside the U.S. represented approximately 51%, 53% and 48%, respectively, of our revenues. For the first nine months of fiscal 2008, revenues from customers outside the U.S. 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 2008, approximately 37% of our revenues were denominated in currencies other than the U.S. dollar.

The functional currency of our Swiss subsidiary is the Swiss franc. In Europe, our revenues are denominated in Swiss francs, euros, pounds sterling 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 pound sterling, 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 will fluctuate in value against the U.S. dollar, causing us to recognize foreign exchange gains and losses. Foreign exchange gains or losses as a result of exchange rate fluctuations in any given period could harm our operating results and negatively impact our revenues. Additionally, if the effective price of our products were to increase as a result of fluctuations in foreign currency exchange rates, demand for our products could decline and adversely affect our results of operations and financial condition. We currently do not enter into foreign currency forward contracts and other arrangements intended to hedge our exposure to adverse fluctuations in exchange rates.

We are subject to various additional risks as a consequence of doing business internationally, and, in particular in Argentina, Brazil, Chile, Columbia, Costa Rica, Mexico, Peru, Venezuela, Greece and Turkey, each of which could

harm our business, including the following:

- unexpected delays or changes in regulatory requirements;

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local economic and political instability or other potentially adverse conditions;

lack of experience in certain geographical markets;

increased difficulty in collecting accounts receivables in certain foreign countries;

delays and expenses associated with tariffs and other trade barriers;

difficulties and costs associated with attracting and maintaining third party distributors;

compliance with foreign laws and regulations; and

adverse tax consequences or overlapping tax structures.

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

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

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

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

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

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

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

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

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We completed our assessment of our internal control over financial reporting as required by Section 404 for the fiscal year ended March 31, 2007. Our assessment, testing and evaluation resulted in our conclusion that as of March 31, 2007, our internal control over financial reporting was effective. Our independent registered accounting firm has also expressed the opinion that our internal controls over financial reporting were effective during that period. However, our controls, may not prove to be adequate for the future periods and we cannot predict the outcome of our testing in future periods. If our internal controls are deemed to be ineffective in future periods, our financial results or the market price of our stock could be adversely affected. In any event, we will incur additional expenses and commitment of management s time in connection with further evaluations, which may adversely affect our future operating results and financial condition.

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

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

the revenues generated by sales of our products;

the costs associated with expanding our sales and marketing efforts;

the expenses we incur in manufacturing and selling our products;

the costs of developing and or 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;

costs associated with our litigation with Boston Scientific and our securities litigation;

the expenses we incur related to compliance with the U.S. FCPA and laws and regulations in non-U.S. jurisdictions;

costs associated with compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations affecting public companies recently 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.

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

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

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

We rely on third-party suppliers for components and materials used in our products and rely on single sources for many of the microcoil and delivery system components, including tubing, connectors and sterilization services. Our dependence on third-party suppliers involves several risks, including limited control over pricing, availability, quality, delivery schedules and supplier compliance with regulatory requirements. Any delays in delivery of such components or provision of such services or shortages of such components could cause delays in the shipment of our products, which could significantly harm our business. We generally acquire our single source components pursuant to purchase orders placed in the ordinary course of business, and we have no guaranteed supply arrangements with any of our single source suppliers. Because of our reliance on these vendors, we may also be subject to increases in component costs. These increases could significantly harm our business. For us to be successful, our third-party suppliers must also be able to provide us with the materials and components of our products in substantial quantities, in compliance with regulatory requirements, in accordance with agreed upon specifications, at acceptable cost and on a timely basis. Our anticipated growth may strain the ability of suppliers to deliver an increasingly large supply of materials and components. If we are unable to obtain sufficient quantities of high quality components and materials to meet customer demand on a timely basis, we could lose customers, our reputation may be harmed and our business could suffer. If any one or more of our third-party suppliers cease to provide us with sufficient quantities of our materials or components in a timely manner or on terms acceptable to us, we would have to seek alternative sources of supply. We could incur delays while we locate and engage alternative qualified suppliers and we might be unable to engage alternative suppliers on favorable terms. Any such disruption or increased expenses could harm our commercialization efforts and adversely affect our ability to generate revenues.

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

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

We currently conduct our manufacturing, development and management activities at two locations in Silicon Valley, California, near known earthquake fault zones and in Doral, 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.

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

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

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

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

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. As we have discussed above with respect to our current litigation with Boston Scientific, whether a product or method infringes a patent involves complex legal and factual issues rendering the outcome of any patent dispute largely unpredictable. In the future, other 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 U.S. 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.

As we have discussed above with respect to our litigation with Boston Scientific, 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.

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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 U.S. 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, such as is being attempted by Boston Scientific in our presently ongoing litigation. 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.

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 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 you that any new products or any product enhancements we develop will be subject to the shorter 510(k) clearance process instead of the more lengthy PMA requirements. Additionally, certain of our products under development may involve both device and drug or biologic regulation and we will need to comply with drug and biologic regulations in addition to medical device requirements. Accordingly,

we anticipate that the regulatory review and approval process for some of our future products or product enhancements may take significantly longer than anticipated or that we have experienced in the past. We will also be required to pay a medical device user fee and may also be required to pay a drug or biologic user fee. There is no assurance that the FDA will not require that a certain new product or product enhancement go through the lengthy and expensive PMA approval process. We have no experience in obtaining PMA approval. We also have no experience in obtaining drug or biologic approval, and will need to rely on third party assistance in navigating the regulatory approval pathway for future combination products.

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

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

Any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a change in its intended use, requires a new 510(k) clearance or, possibly, PMA approval. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review a manufacturer s decision. The FDA may not agree with any of our past or future decisions regarding whether new clearances or approvals are necessary. If the FDA requires us to seek 510(k) clearance or PMA approval for any modification to a previously cleared product, we may be required to cease marketing and/or to recall the modified product until we obtain clearance or approval, and we may be subject to significant regulatory fines or penalties. Further, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe, including but not limited to new safety data from use of the product, or manufacturing defects. Any recall or FDA requirement that we seek additional approvals or clearances could result in delays, fines, costs associated with modification of a product, loss of revenue and potential operating restrictions imposed by the FDA.

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

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

If interventionalists 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 providers 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. Neurointerventionalists are unlikely to use our products if they do not receive reimbursement adequate to cover the cost of our products and related procedures.

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

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

Future reimbursement may be subject to increased restrictions both in the United States and in international markets. Third-party reimbursement and coverage may not be available or adequate in either the United States or international markets. Future legislation, regulation or reimbursement policies of third-party payors may adversely

affect the demand for our existing products or our products currently under development and limit our ability to sell our products on a profitable basis.

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The adoption of Statement of Financial Accounting Standard No. 123R and changes to existing accounting pronouncements or taxation rules or practices may affect how we conduct our business and affect our reported results of operations.

On April 1, 2006, we adopted the provisions of, and account for stock-based compensation in accordance with, the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards No. 123-revised 2004 (SFAS 123R), Share-Based Payment, which replaced Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The effective date of this new standard under these new rules for our financial statements was April 1, 2006. Adoption of this statement has had a significant impact on our consolidated financial statements, as we are now required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan rather than disclose the impact on our net loss within our footnotes. The impact of SFAS 123R on our consolidated financial statements and related disclosures is, and is expected to continue to be, material to our results of operations. Our future stock-based compensation expense will be dependent on a number of factors, including the amount of awards granted and the fair value of those awards at the time of grant, as well as any changes in variables or underlying assumptions used to determine fair value under our pricing model.

In addition, other new accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practice have occurred and may occur in the future. A change in accounting pronouncements 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, future changes, if any, or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

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

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

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

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

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

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

volume and timing of orders for our products;

the introduction of new products or product enhancements by us or our competitors;

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disputes or other developments with respect to intellectual property rights;

our ability to develop, obtain regulatory clearance for, and market, new and enhanced products on a timely basis;

product liability claims or other litigation;

quarterly variations in our or our competitors results of operations;

sales of large blocks of our common stock, including sales by our executive officers and directors;

changes in governmental regulations or in the status of our regulatory approvals or applications;

changes in the availability of third-party reimbursement in the United States or other countries;

changes in 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 will be able to exert control over us and our significant corporate decisions.

Based on shares outstanding at December 31, 2007, our executive officers, directors, and stockholders holding more than 5% of our outstanding common stock and their affiliates, in the aggregate, beneficially owned approximately 57% of our outstanding common stock. As a result, these persons, acting together, may have the ability to determine the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentration of ownership may harm the market price of our common stock by, among other things:

delaying, deferring or preventing a change in control of our company;

impeding a merger, consolidation, takeover or other business combination involving our company; or

causing us to enter into transactions or agreements that are not in the best interests of all stockholders.

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

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

We have registered 6,749,963 shares of common stock that we may issue under our 1998 Stock Plan, 2005 Equity Incentive Plan and 2005 Employee Stock 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.

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We may incur increased costs as a result of recently enacted and proposed changes in laws and regulations.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the SEC and by The NASDAQ Stock Market, could result in increased costs to us.

The new rules could make it more difficult or more costly for us to obtain certain types of insurance, including directors and officers liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs.

We do not intend to pay cash dividends.

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

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

The stock market in general, The NASDAQ Stock Market and the market for medical device companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. 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. As noted above, we are currently involved in securities litigation as a defendant in the United States District Court in the Southern District of Florida. We may become involved in more of this type of litigation in the future. Litigation often is expensive and diverts management s attention and resources, which could materially harm our financial condition and results of operations.

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

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

- authorize the issuance of preferred stock which can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of the common stock;
- provide for a classified board of directors, with each director serving a staggered three-year term;
- prohibit our stockholders from filling board vacancies, calling special stockholder meetings, or taking action by written consent;
- prohibit our stockholders from making certain changes to our amended and restated certificate of incorporation or bylaws except with 66 2/3% stockholder approval; and
- require advance written notice of stockholder proposals and director nominations.

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

Item 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.

Date: February 11, 2008

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

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	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)
10.29#**	Stock Purchase Agreement, dated October 26, 2007, between Micrus Endovascular Corporation, ReVasc Technologies, Inc. and The Cleveland Clinic Foundation which includes as an exhibit thereto the Amended and Restated License Agreement, dated October 26, 2007, between ReVasc Technologies, Inc. and The Cleveland Clinic Foundation
10.30#	Letter Agreement dated November 12, 2007 with Gordon Sangster
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

Filed herewith

** Confidential treatment requested for certain portions of this Exhibit pursuant to Rule 24b-2

promulgated under the Securities Exchange Act, which portions are omitted and filed separately with the Securities and Exchange Commission.