

LEMAITRE VASCULAR INC  
Form 10-Q  
May 11, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

Or

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

For the transition period from            to            .

Commission File Number 001-33092

**LEMAITRE VASCULAR, INC.**

(Exact name of registrant as specified in its charter)

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)           | <b>04-2825458</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>63 Second Avenue, Burlington, Massachusetts</b><br>(Address of principal executive offices) | <b>01803</b><br>(Zip Code)                                   |
| <b>(781) 221-2266</b><br>(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  No

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

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

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

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

The registrant had 15,464,074 shares of common stock, \$.01 par value per share, outstanding as of May 5, 2011.

**Table of Contents**

**LEMAITRE VASCULAR**

**FORM 10-Q**

**TABLE OF CONTENTS**

|  | Page  |
|--|-------|
| Part I. Financial Information:   |       |
| Item 1. <u>Financial Statements</u>  |       |
| <u>Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010</u>                        | 3     |
| <u>Unaudited Consolidated Statements of Operations for the three-month periods ended March 31, 2011 and 2010</u> | 4     |
| <u>Unaudited Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2011 and 2010</u> | 5     |
| <u>Notes to Unaudited Consolidated Financial Statements</u>  | 6-15  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>             | 16-25 |
| Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>   | 25    |
| Item 4. <u>Controls and Procedures</u>   | 25-26 |
| Part II. Other Information:  |       |
| Item 1. <u>Legal proceedings</u>   | 26    |
| Item 1A. <u>Risk Factors</u>   | 26    |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                       | 26    |
| Item 6. <u>Exhibits</u>  | 27    |
| <u>Signatures</u>  | 28    |
| <u>Index to Exhibits</u>   |       |

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****LeMaitre Vascular, Inc.****Consolidated Balance Sheets**

|   | (unaudited)<br><b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|--|------------------------------|
|   | (in thousands, except share data)        |                              |
| <b>Assets</b>   |  |                              |
| Current assets:   |  |                              |
| Cash and cash equivalents   | \$ 19,103                                | \$ 22,614                    |
| Accounts receivable, net of allowances of \$290 at March 31, 2011 and \$184 at December 31, 2010  | 9,371                                    | 8,475                        |
| Inventory   | 9,118                                    | 8,375                        |
| Prepaid expenses and other current assets   | 3,478                                    | 3,447                        |
| <b>Total current assets</b>   | <b>41,070</b>                            | <b>42,911</b>                |
| Property and equipment, net   | 4,115                                    | 3,806                        |
| Goodwill  | 11,917                                   | 11,917                       |
| Other intangibles, net  | 3,458                                    | 3,686                        |
| Deferred tax assets   | 144                                      | 134                          |
| Other assets  | 348                                      | 820                          |
| <b>Total assets</b>   | <b>\$ 61,052</b>                         | <b>\$ 63,274</b>             |
| <b>Liabilities and stockholders' equity</b>   |  |                              |
| Current liabilities:  |  |                              |
| Accounts payable  | \$ 1,726                                 | \$ 1,320                     |
| Accrued expenses  | 6,223                                    | 8,628                        |
| Acquisition-related obligations   | 268                                      | 441                          |
| <b>Total current liabilities</b>  | <b>8,217</b>                             | <b>10,389</b>                |
| Deferred tax liabilities  | 443                                      | 443                          |
| Other long-term liabilities   | 82                                       | 86                           |
| <b>Total liabilities</b>  | <b>8,742</b>                             | <b>10,918</b>                |
| Stockholders' equity:   |  |                              |
| Preferred stock, \$0.01 par value; authorized 5,000,000 shares; none outstanding  |  |                              |
| Common stock, \$0.01 par value; authorized 100,000,000 shares; issued 16,144,485 shares at March 31, 2011, and 16,117,201 shares at December 31, 2010 | 161                                      | 161                          |
| Additional paid-in capital  | 64,921                                   | 64,642                       |
| Accumulated deficit   | (8,829)                                  | (8,583)                      |
| Accumulated other comprehensive loss  | (132)                                    | (429)                        |
| Treasury stock, at cost; 693,155 shares at March 31, 2011, and 637,916 shares at December 31, 2010  | (3,811)                                  | (3,435)                      |
| <b>Total stockholders' equity</b>   | <b>52,310</b>                            | <b>52,356</b>                |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 61,052</b>                         | <b>\$ 63,274</b>             |

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See accompanying notes to consolidated financial statements.

**Table of Contents****LeMaitre Vascular, Inc.****Consolidated Statements of Operations****(unaudited)**

|  | <b>For the three months ended<br/>March 31,</b> |               |
|--|---|---------------|
|  | <b>2011</b>                                     | <b>2010</b>   |
|  | (in thousands, except per share data)           |               |
| Net sales                                | \$ 14,598                                       | \$ 13,815     |
| Cost of sales                            | 4,447   | 3,497         |
| <b>Gross profit</b>                      | <b>10,151</b>                                   | <b>10,318</b> |
| Sales and marketing                      | 4,973   | 4,894         |
| General and administrative               | 2,848   | 2,614         |
| Research and development                 | 1,272   | 1,540         |
| Restructuring charges                    | 1,005   |               |
| Impairment charges                       | 83  |               |
| <b>Total operating expenses</b>          | <b>10,181</b>                                   | <b>9,048</b>  |
| Income (loss) from operations            | (30)  | 1,270         |
| Other income (expense):                  |   |               |
| Interest income                          | 1   | 7             |
| Interest expense                         |   | (4)           |
| Foreign currency gain                    | 139   | 19            |
| Other income, net                        | 8   | 7             |
| Income before income taxes               | 118   | 1,299         |
| Provision for income taxes               | 54  | 278           |
| Net income                               | \$ 64   | \$ 1,021      |
| Net income per share of common stock:    |   |               |
| Basic                                    | \$  | \$ 0.07       |
| Diluted                                  | \$  | \$ 0.06       |
| Weighted-average shares outstanding:     |   |               |
| Basic                                    | 15,465  | 15,679        |
| Diluted                                  | 16,038  | 16,036        |
| Cash dividends declared per common share | \$ 0.02   | \$            |

See accompanying notes to consolidated financial statements.



**Table of Contents****LeMaitre Vascular, Inc.****Consolidated Statements of Cash Flows****(unaudited)**

|   | <b>For the three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                                     | <b>2010</b> |
|   | (in thousands)                                  |             |
| <b>Operating activities</b>   |   |             |
| Net income  | \$ 64   | \$ 1,021    |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |   |             |
| Depreciation and amortization   | 461   | 347         |
| Stock-based compensation  | 263   | 215         |
| Impairment charges  | 83  |             |
| Provision for losses in accounts receivable   | 103   | 28          |
| Provision for inventory write-downs   | 246   | 208         |
| Provision for deferred income taxes   |   | 70          |
| Noncash restructuring charges   | 709   |             |
| Foreign currency transaction gain   | (200)   | (13)        |
| Changes in operating assets and liabilities:  |   |             |
| Accounts receivable   | (768)   | (514)       |
| Inventory   | (791)   | (178)       |
| Prepaid expenses and other assets   | (112)   | (171)       |
| Accounts payable and other liabilities  | (2,162)   | (194)       |
| Net cash provided by (used in) operating activities   | (2,104)   | 819         |
| <b>Investing activities</b>   |   |             |
| Purchases of property and equipment   | (515)   | (269)       |
| Payments related to acquisitions  | (271)   |             |
| Receipts related to divestitures  | 6   |             |
| Purchase of technology and licenses   | (19)  | (34)        |
| Sales and maturities of marketable securities   |   | 367         |
| Net cash provided by (used in) investing activities   | (799)   | 64          |
| <b>Financing activities</b>   |   |             |
| Proceeds from issuance of common stock  | 16  |             |
| Payments of Italian government loan   |   | (28)        |
| Purchase of treasury stock  | (376)   | (320)       |
| Common stock cash dividend paid   | (310)   |             |
| Net cash used in financing activities   | (670)   | (348)       |
| Effect of exchange rate changes on cash and cash equivalents                                | 62  | (65)        |
| Net increase (decrease) in cash and cash equivalents  | (3,511)   | 470         |
| Cash and cash equivalents at beginning of period  | 22,614  | 23,192      |
| Cash and cash equivalents at end of period  | \$ 19,103                                       | \$ 23,662   |

Supplemental disclosures of cash flow information (see Note 14)

See accompanying notes to consolidated financial statements.





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**Table of Contents**

**LeMaitre Vascular, Inc.**

**Notes to Consolidated Financial Statements**

**March 31, 2011**

**(unaudited)**

**1. Organization and Basis for Presentation**

*Description of Business*

Unless the context requires otherwise, references to LeMaitre Vascular, we, our, and us refer to LeMaitre Vascular, Inc. and our subsidiaries. We develop, manufacture, and market medical devices and implants used primarily in the field of vascular surgery. We operate in a single segment in which our principal product lines are balloon catheters, carotid shunts, laparoscopic cholecystectomy devices, radiopaque tape, remote endarterectomy devices, valvulotomes, vascular grafts, vascular patches, and vessel closure systems. We also have rights to distribute in several European countries an abdominal stent graft manufactured by a third party through June 30, 2013. In addition, we have rights to exclusively distribute in the United States and most of Europe a biologic vascular patch manufactured by a third party through January 26, 2016. Our offices are located in Burlington, Massachusetts, Sulzbach, Germany, Milan, Italy, Laguna Hills, California and Tokyo, Japan.

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U. S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments considered necessary for a fair presentation of the results of these interim periods have been included. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, sales returns and discounts, share-based compensation, and income taxes are updated as appropriate. The results for the three months ended March 31, 2011 are not necessarily indicative of results to be expected for the entire year. The information contained in these interim financial statements should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2010, including the notes thereto, included in our Form 10-K filed with the Securities and Exchange Commission (SEC).

*Consolidation*

Our consolidated financial statements include the accounts of LeMaitre Vascular and the accounts of our wholly-owned subsidiaries, LeMaitre Vascular GmbH, LeMaitre Vascular GK, Vascutech Acquisition LLC, LeMaitre Acquisition LLC, LeMaitre Vascular SAS, Biomateriali S.r.l., LeMaitre Vascular S.r.l., and LeMaitre Vascular Spain SL. All significant intercompany accounts and transactions have been eliminated in consolidation.

**2. Income Tax Expense**

As part of the process of preparing our consolidated financial statements we are required to determine our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing temporary differences resulting from recognition of items for income tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from taxable income during the carryback period or in the future; and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must reflect this increase as an expense within the tax provision in the statement of operations. We do not provide for income taxes on undistributed earnings of foreign subsidiaries, as our current intention is to permanently reinvest these earnings.

**Table of Contents**

We recognize, measure, present and disclose in our financial statements, uncertain tax positions that we have taken or expect to take on a tax return. We operate in multiple taxing jurisdictions, both within the United States and outside of the United States and may be subject to audits from various tax authorities regarding transfer pricing, the deductibility of certain expenses, intercompany transactions, and other matters. Within specific countries, we may be subject to audit by various tax authorities operating within the country and may be subject to different statutes of limitation expiration dates. Management's judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, liabilities for uncertain tax positions, and any valuation allowance recorded against our net deferred tax assets. We will continue to monitor the realizability of our deferred tax assets and adjust the valuation allowance accordingly.

Our policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense. This policy has been consistently applied in all periods.

We have reviewed the tax positions taken, or to be taken, in our tax returns for all tax years currently open to examination by a taxing authority. As of March 31, 2011, the gross amount of unrecognized tax benefits exclusive of interest and penalties was \$277,000. We have identified no uncertain tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the 12 months ending March 31, 2012. There was no change in the liability during the three months ended March 31, 2011. We remain subject to examination until the statute of limitations expires for each respective tax jurisdiction. The Federal statute of limitations will be open with respect to these tax positions until 2014.

As of March 31, 2011, a summary of the tax years that remain subject to examination in our most significant tax jurisdictions is as follows:

|                       |                  |
|-----------------------|------------------|
| United States Federal | 2007 and forward |
| Germany               | 2007 and forward |
| Italy                 | 2006 and forward |
| Japan                 | 2004 and forward |

**3. Inventories**

Inventories consist of the following:

|                   | March 31, 2011 | December 31, 2010 |
|-------------------|----------------|-------------------|
|                   | (in thousands) |                   |
| Raw materials     | \$ 2,280       | \$ 2,219          |
| Work-in-process   | 1,623          | 1,469             |
| Finished products | 5,215          | 4,687             |
| Total inventory   | \$ 9,118       | \$ 8,375          |

**4. Goodwill and Other Intangibles**

There were no changes in the goodwill carrying amount of \$11.9 million during the three months ended March 31, 2011.

**Table of Contents**

The components of our identifiable intangible assets were as follows:

|   | Gross<br>Carrying<br>Value | March 31, 2011              |  | Net<br>Carrying<br>Value<br>(in thousands) | December 31, 2010           |                 | Net<br>Carrying<br>Value |
|---|----------------------------|-----------------------------|--|--|-----------------------------|-----------------|--------------------------|
|   |                            | Accumulated<br>Amortization |  |  | Accumulated<br>Amortization |                 |                          |
| Patents                                     | \$ 3,822                   | \$ 1,725                    |  | \$ 2,097                                   | \$ 3,761                    | \$ 1,529        | \$ 2,232                 |
| Trademarks and technology licenses          | 1,279                      | 773                         |  | 506  | 1,271                       | 735             | 536                      |
| Customer relationships                      | 1,561                      | 772                         |  | 789  | 1,662                       | 848             | 814                      |
| Other intangible assets                     | 212                        | 146                         |  | 66   | 312                         | 208             | 104                      |
| <b>Total identifiable intangible assets</b> | <b>\$ 6,874</b>            | <b>\$ 3,416</b>             |  | <b>\$ 3,458</b>                            | <b>\$ 7,006</b>             | <b>\$ 3,320</b> | <b>\$ 3,686</b>          |

Intangible assets are amortized over their estimated useful lives, ranging from 2 to 15 years. Amortization expense amounted to approximately \$223,000 and \$168,000 for the three months ended March 31, 2011 and 2010, respectively. Amortization expense is included in general and administrative expense. Estimated amortization expense for the remainder of 2011 and each of the five succeeding fiscal years is as follows:

|                           | (in thousands) |
|---------------------------|----------------|
| 2011 (remaining 9 months) | \$ 676         |
| 2012                      | 792            |
| 2013                      | 731            |
| 2014                      | 529            |
| 2015                      | 434            |
| 2016                      | 101            |

During the three months ended March 31, 2011, we determined that certain patents within our portfolio in the United States and Europe had no value based upon an analysis of expected economic benefits. As a result, we recorded an impairment charge of \$0.1 million for the write-down of these patents.

**5. Financing Arrangements**

As part of the purchase of Biomateriali S.r.l, we assumed a loan from the Italian government under a program that provides funding to certain businesses in Italy through a combination of grants and loans if certain requirements are met. The loan was stated to be payable in ten annual payments through 2018 of principal and interest at an interest rate of 0.74%. The present value of the loan was recorded as of the date the proceeds were received using our incremental borrowing rate. Interest was imputed on the loan and the amortization was recorded as interest expense. In March 2011, the Italian government informed us that the loan and grants had become due in full as a result of the Biomateriali S.r.l plant closure. We expect to repay the Italian government approximately \$0.3 million related to the previous grants, the imputed interest on the outstanding loan balance, and certain additional interest and penalties, all of which has been recorded as restructuring expense for the year ended December 31, 2010. The outstanding amount of the accelerated loan and grant repayment was approximately \$0.4 million as of March 31, 2011 and December 31, 2010 and has been recorded in our balance sheet in accrued expenses. We expect that this matter will be settled in 2011.

**Table of Contents****6. Accrued Expenses**

Accrued expenses consist of the following:

|                                | March 31, 2011  | December 31, 2010 |
|--------------------------------|-----------------|-------------------|
|                                | (in thousands)  |                   |
| Compensation and related taxes | \$ 2,664        | \$ 4,116          |
| Income and other taxes         | 880             | 802               |
| Factory build-out costs        |                 | 791               |
| Restructuring                  | 620             | 922               |
| Professional fees              | 295             | 441               |
| Dividend Payable               | 310             |                   |
| Other                          | 1,454           | 1,556             |
| <b>Total</b>                   | <b>\$ 6,223</b> | <b>\$ 8,628</b>   |

**7. Restructuring Charges**

In October 2010, we adopted a reorganization plan (the Plan) that is designed to eliminate redundant costs resulting from our 2007 acquisition of Biomateriali and to improve efficiencies in manufacturing operations. We are transitioning the production of our AlboGraft Vascular Graft to our existing corporate headquarters in Burlington, Massachusetts. The Plan provides for the termination of 29 employees at our Biomateriali subsidiary, relocation of manufacturing equipment, the eventual dissolution of our Biomateriali subsidiary, and the hiring of approximately 12 employees to staff the required functions in Burlington. In 2010, we incurred \$1.4 million of severance charges, of which \$0.9 million was paid in December 2010, \$0.3 million of charges related to the repayment of grants and loans received from the Italian government associated with business incentive programs for the Biomateriali facility (see Note 5), and incurred \$0.1 million of charges related to the abandonment of fixed assets and legal fees associated with the negotiation of the severance agreements. In 2011, we incurred \$0.3 million of charges associated with the transfer of manufacturing equipment to our Burlington factory and \$0.7 million of non cash charges related to the write-down of an asset for deferred rent, which was triggered by our exit of the Biomateriali facility during the three months ending March 31, 2011. We paid \$0.3 million of severance related charges in January 2011 and will pay the remaining \$0.2 million in December 2011. The timing of the repayment of the grants and loans will be determined by the Italian government. We expect to incur approximately \$0.2 million of additional restructuring charges related to this program in 2011. We expect the liquidation and dissolution process to be completed by mid-2012.

The components of our restructuring charges are as follows:

|                                     | Three months<br>ended<br>March 31,<br>2011 |
|-------------------------------------|--|
|                                     | (in thousands)                             |
| Transfer of manufacturing equipment | \$ 280                                     |
| Non-cash asset write-off            | 709  |
| Other                               | 16   |
| <b>Total</b>                        | <b>\$ 1,005</b>                            |

We did not incur restructuring charges during the three months ended March 31, 2010.

**Table of Contents**

Activity related to accrued restructuring costs is as follows:

|   | <b>Three months<br/>ended<br/>March 31, 2011</b><br>(in thousands) |
|---|--|
| Balance at beginning of period                          | \$ 922   |
| Plus:   |  |
| Current period restructuring costs                      | 1,005  |
| Less:   |  |
| Payment of employee severance costs                     | 339  |
| Payments related to transfer of manufacturing equipment | 221  |
| Other   | 38   |
| Non cash restructuring charges                          | 709  |
| <br>  |  |
| Balance at end of period                                | \$ 620   |

There was no activity related to accrued restructuring costs during the three months ended March 31, 2010.

**8. Comprehensive Income**

The components of other comprehensive income generally include foreign exchange translation and unrealized gains and losses on marketable securities. The computation of comprehensive income was as follows:

|  | <b>Three months ended<br/>March 31</b> |             |
|--|--|-------------|
|  | <b>2011</b>                            | <b>2010</b> |
|  | (in thousands)                         |             |
| Net income                                       | \$ 64                                  | \$ 1,021    |
| Other comprehensive income (loss):               |  |             |
| Unrealized loss on available-for-sale securities |  | (3)         |
| Foreign currency translation adjustment          | 297                                    | (548)       |
| <br>   |  |             |
| Total other comprehensive income (loss)          | 297                                    | (551)       |
| <br>   |  |             |
| Comprehensive income                             | \$ 361                                 | \$ 470      |

**9. Commitments and Contingencies***Purchase Commitments*

As part of our normal course of business, we have purchase commitments to purchase \$13.8 million of inventory through 2016 as of March 31, 2011.

*Acquisition Payments*

In 2007, we purchased certain patent applications and in-process research and development which included earn-out payments associated with the commercialization of The UnBalloon Non-Occlusive Modeling Catheter in the European Union and the United States as part of the consideration. The earn-out payments are payable quarterly at approximately the rate of two times sales. The European earn-out period was measured from December 23, 2009 through December 22, 2010 for which we recorded an intangible asset of approximately \$27,000. The

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United States earn-out period will be measured for four quarters following the first commercial sale in the United States. We consider the earn-out payments associated with the commercialization of the products in Europe and the United States to be contingent consideration that will be recorded as additional intangible assets in the periods that the contingency is resolved.

## **Table of Contents**

We have deferred payments related to our November 2010 acquisition of the LifeSpan Vascular Graft of approximately \$0.3 million, as of March 31, 2011, payable to Angiotech Pharmaceuticals (US), Inc. in November 2011. We paid approximately \$0.2 million of previously deferred payments to Edwards Lifesciences Corporation in February 2011. The deferred payments have been included in Acquisition-related obligations in our consolidated balance sheets.

### *Termination of Distributor Arrangements*

On December 28, 2010, we agreed with our Spanish distributor to terminate our relationship on June 30, 2011. Our distributor will provide transition services from April 1, 2011 through June 30, 2011. We will acquire customer relationships, a non-compete agreement, and inventory from our Spanish distributor upon the transition. In May 2011, we made a first payment of \$0.4 million in exchange for some of these deliverables. We will pay our distributor remaining \$0.5 million in 2011 under the terms of this agreement. Additionally, we have entered into a one-year consulting agreement beginning July 1, 2011 with an employee of our distributor for \$0.2 million. Pursuant to this agreement, the assets are to be transferred and services are to be performed commencing in the three months ending June 30, 2011, and as such we have not accrued the associated liabilities as of March 31, 2011.

On December 27, 2010, we agreed with our Danish distributor to terminate our relationship on June 30, 2011. Our distributor will provide transition services from January 1, 2011 through June 30, 2011. We will acquire customer relationships, a non-compete agreement, and inventory from our Danish distributor upon the transition. We paid our distributor \$0.1 million in February 2011 and will pay the remaining \$0.1 million in 2011 under the terms of this agreement. Pursuant to this agreement, the assets are to be transferred and services are to be performed commencing in the three months ending June 30, 2011, and as such we have not accrued the associated liabilities as of March 31, 2011.

We expect to incur \$0.7 million of restructuring related charges associated with the termination of our Spanish and Danish distributors in the three months ending June 30, 2011.

### *Sale of Assets*

On June 1, 2010, we sold our OptiLock Implantable Port product line to Minvasive Ltd. (Minvasive). In exchange for consideration of approximately \$0.2 million, Minvasive received our existing inventory, tangible and intangible assets, and a customer list associated with the product line. Payment terms included \$30,000 due at signing, with the remaining balance to be paid in the form of a royalty of 30% of Minvasive's OptiLock Implantable Port sales until the total consideration is paid in full. In 2014, any outstanding balance will become due in full. As a result of the transaction, we recorded the estimated present value of amounts due as a \$0.1 million receivable in other long term assets. All royalty payments received from Minvasive will be applied to the receivable, and any payments received in excess of the outstanding receivable balance will be recognized as a gain on disposition in the periods in which they are received.

## **10. Segment and Enterprise-Wide Disclosures**

The Financial Accounting Standards Board (the FASB) establishes standards for reporting information regarding operating segments in annual financial statements. Operating segments are identified as components of an enterprise about which separate, discrete financial information is available for evaluation by the chief operating decision-maker in making decisions on how to allocate resources and assess performance. We view our operations and manage our business as one operating segment. No discrete operating information is prepared by us except for product sales by product line and by geographic location for local reporting purposes.



**Table of Contents**

Most of our revenues were generated in the United States, Europe, and Japan, and substantially all of our assets are located in the United States. We analyze our sales using a number of approaches, including sales by legal entity. Our German subsidiary (LeMaitre Vascular GmbH) records all sales in Europe and to distributors worldwide, excluding sales in North, South and Central America (LeMaitre Vascular, Inc.); France (LeMaitre Vascular SAS); Italy (LeMaitre Vascular S.r.l.); Japan, Korea, and Taiwan (LeMaitre Vascular GK). Net sales to unaffiliated customers by legal entity were as follows:

|                         | <b>Three months ended<br/>March 31,</b> |               |
|-------------------------|---|---------------|
|                         | <b>2011</b>                             | <b>2010</b>   |
|                         | (in thousands)                          |               |
| LeMaitre Vascular, Inc. | \$ 9,002                                | \$ 8,048      |
| LeMaitre Vascular GmbH  | 3,735                                   | 4,269         |
| Other entities          | 1,861                                   | 1,498         |
| <br>Total               | <br>\$ 14,598                           | <br>\$ 13,815 |

We sell products in three product categories, Vascular, Endovascular, and Other. Net sales in these product categories were as follows:

|              | <b>Three months ended<br/>March 31,</b> |               |
|--------------|---|---------------|
|              | <b>2011</b>                             | <b>2010</b>   |
|              | (in thousands)                          |               |
| Vascular     | \$ 10,760                               | \$ 9,557      |
| Endovascular | 2,901                                   | 3,292         |
| Other        | 937                                     | 966           |
| <br>Total    | <br>\$ 14,598                           | <br>\$ 13,815 |

**11. Share-based Compensation**

Our 2006 Stock Option and Incentive Plan (the 2006 Plan) allows for granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock units, unrestricted stock awards, and deferred stock awards to our officers, employees, directors, and consultants.

The components of share-based compensation expense were as follows:

|                                    | <b>Three months ended<br/>March 31,</b> |             |
|------------------------------------|---|-------------|
|                                    | <b>2011</b>                             | <b>2010</b> |
|                                    | (in thousands)                          |             |
| Stock option awards to employees   | \$ 133                                  | \$ 91       |
| Restricted common stock awards     | 130                                     | 124         |
| <br>Total share-based compensation | <br>\$ 263                              | <br>\$ 215  |

**Table of Contents**

We have computed the fair values of employee stock options for option grants issued during the three months ended March 31, 2010, respectively, using the Black-Scholes option model with the following assumptions:

|  | <b>2010</b> |
|--|-------------|
| Dividend yield   | 0.0%        |
| Volatility   | 75.7%       |
| Risk-free interest rate                                  | 2.3%        |
| Weighted average expected option term (in years)         | 5.0         |
| Weighted average fair value per share of options granted | \$ 2.94     |

We did not issue option grants in the three months ended March 31, 2011.

We did not issue restricted stock units in the three months ended March 31, 2011 and 2010.

**12. Net Income per Share**

The computation of basic and diluted net income per share was as follows:

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
|  | (in thousands, except per share data)   |             |
| <b>Basic:</b>  |   |             |
| Net income available for common stockholders                 | \$ 64                                   | \$ 1,021    |
| Weighted average shares outstanding                          | 15,465                                  | 15,679      |
| Basic net income per share                                   | \$ 0.00                                 | \$ 0.07     |
| <b>Diluted:</b>  |   |             |
| Net income available for common stockholders                 | \$ 64                                   | \$ 1,021    |
| Weighted-average shares outstanding                          | 15,465                                  | 15,679      |
| Common stock equivalents, if dilutive                        | 573                                     | 357         |
| Shares used in computing diluted net income per common share | 16,038                                  | 16,036      |
| Diluted net income per share                                 | \$ 0.00                                 | \$ 0.06     |

For the three months ended March 31, 2011, 67,977 weighted-average shares of restricted common stock units and options to purchase common stock, were excluded from the computation of diluted net income per share, as their effect would have been anti-dilutive. For the three months ended March 31, 2010, 12,572 weighted-average shares of restricted common stock units and options to purchase common stock, were excluded from the computation of diluted net income per share, as their effect would have been anti-dilutive.

**Table of Contents****13. Stockholders Equity****Stock Repurchase Plan**

In July 2009, our Board of Directors authorized the repurchase of up to \$1.0 million of our common stock from time to time on the open market or in privately negotiated transactions. In October 2009, our Board of Directors increased this amount to \$2.0 million, and in July 2010, our Board of Directors further increased this amount to \$5.0 million. The timing and number of any shares repurchased will be determined based on our evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The repurchase program may be suspended or discontinued at any time and will conclude no later than December 31, 2011, unless otherwise extended by our Board of Directors. The repurchase program is being funded using our available cash and cash equivalents. We repurchased 54,424 shares for \$0.4 million in the three months ended March 31, 2011. We repurchased 66,072 shares for \$0.3 million in the three months ended March 31, 2010. We have the authority to purchase \$1.9 million of common stock remaining under the repurchase program as of March 31, 2011.

**Dividends**

On February 28, 2011, our Board of Directors approved a policy for the payment of quarterly cash dividends on our common stock of \$0.02 per share. The first quarterly dividend was paid on April 5, 2011, to stockholders of record at the close of business on March 22, 2011, and was approximately \$0.3 million. On April 26, 2011, our Board of Directors approved a second quarterly cash dividend on our common stock of \$0.02 per share. The quarterly dividend is payable on June 6, 2011, to stockholders of record at the close of business on May 20, 2011, and will be approximately \$0.3 million. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by our Board of Directors on a quarterly basis.

**14. Supplemental Cash Flow Information**

|  | <b>For the three months ended</b> |             |
|--|-----------------------------------|-------------|
|  | <b>March 31,</b>                  |             |
|  | <b>2011</b>                       | <b>2010</b> |
|  | (in thousands)                    |             |
| Cash paid for income taxes, net                    | \$ 59                             | \$ 67       |
| <b>Supplemental non-cash financing activities:</b> |                                   |             |
| Common stock repurchased for RSU tax withholdings  | \$ 6                              | \$ 4        |

**15. Fair Value Measurements**

The fair value accounting guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

**Table of Contents**

As of March 31, 2011, we had cash equivalents in repurchase agreements and U.S. treasury notes that were valued using Level 1 inputs (quoted market prices for identical assets) as follows (in thousands):

|                       |           |
|-----------------------|-----------|
| Repurchase agreements | \$ 11,600 |
| US Treasury Notes     | 5,000     |
|                       | \$ 16,600 |

We had no Level 2 or Level 3 assets being measured at fair value on a recurring basis as of March 31, 2011.

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

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements other than statements of historical fact contained in this Quarterly Report, including statements about: our plans to transition production of our AlboGraft Vascular Graft from Brindisi, Italy to Burlington, Massachusetts, estimates of resulting restructuring charges, and any anticipated resulting benefits; our plans to begin direct sales in Spain and Denmark; our anticipated increases in research and development expenses; the liquidity of our investment portfolio; anticipated profitability in 2011 and thereafter and the adequacy of our cash reserves for the next twelve months. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by such forward-looking statements. Moreover, the forward-looking statements represent our estimates and assumptions only as of the date hereof. Forward-looking statements are subject to risks and uncertainties; our failure to manage the anticipated growth of our business; and the unavailability of additional, required capital on acceptable terms. Further information on potential risk factors that could affect our business and financial results is detailed in Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q. Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included in this report and our other SEC filings, including our audited consolidated financial statements and the related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 31, 2011.*

*Unless the context requires otherwise, references to LeMaitre Vascular, we, our, and us in this Quarterly Report on Form 10-Q refer to LeMaitre Vascular, Inc. and its subsidiaries.*

*LeMaitre, AlboGraft, AnastoClip, AnastoClip GC, EndoHelix, EndoRE, Expandable LeMaitre Valvulotome, Flexcel, Glow N Tell, Grice, Inahara-Pruitt, InvisiGrip, LeverEdge, LifeSpan, MollRing Cutter, NovaSil, Periscope, Pruitt, Pruitt F3, Pruitt-Inahara, Reddick, TAArgot, TT, UniFit, VasculTape, XenoSure, and the LeMaitre Vascular logo are registered trademarks of LeMaitre Vascular, and AlboSure, Martin, Reddick-Saye, UnBalloon and VCS are unregistered trademarks of LeMaitre Vascular. This Quarterly Report on Form 10-Q also includes the registered and unregistered trademarks of other persons.*

**Overview**

We are a medical device company that develops, manufactures, and markets medical devices and implants for the treatment of peripheral vascular disease. Our principal product offerings are sold throughout the world, primarily in the United States, the European Union and, to a lesser extent, Japan. We estimate that the annual worldwide market addressed by our core product lines approximates \$750 million and that the annual worldwide market for all peripheral vascular devices approximates \$3 billion. We have used acquisitions as a primary means of further accessing the larger peripheral vascular device market, and we expect to continue to pursue this strategy in the future. We currently manufacture most of our product lines in our Burlington, Massachusetts, headquarters.

Our products are used by vascular surgeons who treat peripheral vascular disease through both open surgical methods and more recently adopted endovascular techniques. In contrast to interventional cardiologists and interventional radiologists, neither of whom are typically certified to perform open surgical procedures, vascular surgeons can perform both open surgical and minimally invasive endovascular procedures, and are therefore uniquely positioned to provide a wider range of treatment options to patients.

Below is a listing of our principal product lines and product categories:

Our **Vascular** product category includes our balloon catheters, carotid shunts, remote endarterectomy devices, valvulotomes, vascular grafts, and vessel closure systems. We also report the results of our distribution of the Xenosure Biologic Patch and ArterX Vascular Sealant within this category.

Our **Endovascular** product category includes our aortic stent grafts and radiopaque marking tape. We also report the results of our distribution of the Endologix Powerlink System within this category.

## Table of Contents

Our **Other** product category consists of our laparoscopic cholecystectomy devices and any private-label manufacturing, which we may engage from time to time.

We evaluate the sales performance of our various product lines utilizing criteria that vary based upon the position of each product line in its expected life cycle. For established products, we typically review unit sales and selling prices. For newer or faster growing products, we typically also focus upon new account generation and customer retention.

Our business opportunities include the following:

the addition of complementary products through acquisitions;

the updating of existing products and introduction of new products through research and development;

the long-term growth of our sales force in North America, Europe and Japan; and

the introduction of our products in new markets upon obtainment of regulatory approvals in these markets.

We are currently pursuing each of these opportunities.

To assist us in evaluating our business strategies, we regularly monitor long-term technology trends in the peripheral vascular device market. Additionally, we consider the information obtained from discussions with the medical community in connection with the demand for our products, including potential new product launches. We also use this information to help determine our competitive position in the peripheral vascular device market and our manufacturing capacity requirements.

We sell our products primarily through a direct sales force. As of March 31, 2011 our sales force was comprised of 66 sales representatives in North America, the European Union and Japan. We also sell our products in other countries through a network of distributors. Our worldwide headquarters are located in Burlington, Massachusetts. Our international operations are headquartered in Sulzbach, Germany. We also have sales offices located in Tokyo, Japan, and Milan, Italy, and a manufacturing facility in Laguna Hills, California. For the three months ended March 31, 2011, approximately 94% of our net sales were generated in markets in which we employ direct sales representatives.

In recent years we have experienced comparatively greater success in product markets characterized by low or limited competition, for example the market for remote endarterectomy devices. In these markets, we believe that we have been able to increase selling prices without sacrificing material market share, to the benefit of our rate of net sales growth, although there can be no assurance that we will not meet resistance to increased selling prices in the future. In contrast, we have experienced comparatively lesser success in highly competitive product markets such as aortic stent grafts, where we face intense competition from larger companies with greater resources. While this latter trend may moderate as we continue to grow our organization, and while we believe that this trend can be mitigated by our strong relationships with our vascular surgeon customers, there can be no assurance that we will be successful in highly competitive markets.

Because we believe that direct-to-hospital sales engender closer customer relationships, and allow for higher selling prices and gross margins, we periodically enter into transactions with our distributors to transition their sales of our medical devices to our direct sales organization:

In December 2010, we entered into a definitive agreement with Cardiva, S.L. to terminate its distribution of our products in Spain effective as of June 30, 2011. The agreement requires us to pay approximately \$0.9 million in exchange for this early termination, the purchase of their Spanish customer list for our products, certain customer contracts, and their provision of sales and marketing services. We are also required to repurchase certain inventory. In May 2011, we made a first payment of \$0.4 million in exchange for some of these deliverables.

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In December 2010, we entered into a definitive agreement with Marcom Medical ApS to terminate its distribution of our products in Denmark effective as of June 30, 2011. The agreement requires us to pay approximately \$0.2 million in exchange for this early termination, the purchase of their Danish customer list for our products, certain customer contracts, and their provision of sales and marketing services. We are also required to repurchase certain inventory. In February 2011, we made a first payment of \$0.1 million.

**Table of Contents**

We anticipate that the expansion of our direct sales organization to Spain, and to a lesser extent, Denmark may result in increased sales and marketing expenses during the second half of 2011.

Our strategy for growing our business includes the acquisition of complementary product lines and companies and occasionally the discontinuance or divestiture of products or activities that are no longer complementary:

In March 2010, we discontinued our Aspire Stent.

In June 2010, we divested our OptiLock Implantable Port to Minvasive Ltd. for \$0.2 million.

In November 2010, we acquired our LifeSpan ePTFE Vascular Graft from affiliates of Angiotech Pharmaceuticals, Inc. for \$2.8 million and related assets from Edwards Lifesciences for \$1.2 million.

These activities may affect the comparability of our financial results from period to period and may cause substantial fluctuations from period to period. In particular, we expect that the LifeSpan acquisition will increase our sales by approximately \$1.7 million in 2011.

In October 2010, we discontinued research and development activities and suspended clinical studies related to our TAArget and UniFit aortic stent grafts, and in January 2011 we initiated a process to potentially divest these products. There can be no assurance that we will be successful in divesting these products on terms acceptable to us. We had revenues from these products of approximately \$2.6 million in 2010.

In October 2010, we adopted a reorganization plan that was designed to eliminate redundant costs resulting from our 2007 acquisition of Biomateriali and to improve efficiencies in manufacturing operations. We are transitioning the production of our AlboGraft Vascular Graft to our existing corporate headquarters in Burlington, Massachusetts.

Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies, primarily the euro, affect our financial results. For the three months ended March 31, 2011, approximately 38% of our sales were from outside the Americas. We expect that foreign currencies will continue to represent a similarly significant percentage of our sales in the future. Selling, marketing, and administrative costs related to these sales are largely denominated in the same respective currency, thereby partially mitigating our transaction risk exposure. We therefore believe that the risk of a significant impact on our operating income from foreign currency fluctuations is moderated. However, most of our foreign sales are denominated in local currency, and if there is an increase in the rate at which a foreign currency is exchanged for U.S. dollars, it will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases we will receive less in U.S. dollars than we did before the rate increase went into effect.



**Table of Contents**

The following table indicates the impact of foreign currency fluctuations and strategic changes to our business activities for each quarter during 2011 and the two most recently completed fiscal years:

(amounts in thousands)

(unaudited)

|  | 2011<br>Q1 | Q4     | 2010<br>Q3 | Q2     | Q1     | Q4     | 2009<br>Q3 | Q2     | Q1     |
|--|------------|--------|------------|--------|--------|--------|------------|--------|--------|
| Total net sales  | 14,598     | 14,431 | 13,656     | 14,158 | 13,815 | 13,584 | 13,346     | 12,630 | 11,348 |
| Impact of currency exchange rate fluctuations (1)  | 10         | (420)  | (418)      | (336)  | 314    | 613    | (215)      | (699)  | (622)  |
| Net impact of acquisitions, distributed sales and discontinued products, excluding currency exchange rate fluctuations (2) | 283        | 56     | (105)      | (65)   | 95     | 397    | 333        | 234    | 101    |

- Represents the impact of the change in foreign exchange rates compared to the corresponding quarter of the prior year based on the weighted average exchange rate for each quarter.
- Represents the impact of sales of products of acquired businesses and distributed sales of other manufacturers' products, net of sales related to discontinued products and other activities, based on 12 months' sales following the date of the event or transaction, for the current period only.

**Results of Operations**

**Comparison of the three months ended March 31, 2011 to the three months ended March 31, 2010**

The following tables set forth, for the periods indicated, our results of operations, net sales by product category, net sales by geography, and the change between the specified periods expressed as a percent increase or decrease:

| (unaudited)                    | Three months ended March 31, |           | Percent change |
|--------------------------------|------------------------------|-----------|----------------|
|                                | 2011                         | 2010      |                |
|                                | (\$ in thousands)            |           |                |
| Net sales                      | \$ 14,598                    | \$ 13,815 | 6%             |
| Net sales by product category: |                              |           |                |
| Vascular                       | \$ 10,760                    | \$ 9,557  | 13%            |
| Endovascular                   | 2,901                        | 3,292     | (12%)          |
| Other                          | 937                          | 966       | (3%)           |
| Total                          | \$ 14,598                    | \$ 13,815 | 6%             |
| Net sales by geography:        |                              |           |                |
| Americas                       | \$ 9,002                     | \$ 8,048  | 12%            |
| International                  | 5,596                        | 5,767     | (3%)           |
| Total                          | \$ 14,598                    | \$ 13,815 | 6%             |

**Net sales.** Net sales increased 6% to \$14.6 million for the three months ended March 31, 2011, compared to \$13.8 million for the three months ended March 31, 2010. Business development activities increased net sales by 2% and consisted primarily of the acquisition of the LifeSpan graft in November 2010 offset by the divestiture of the Optilock Implantable Port in May 2010. Changes in foreign currency exchange rates did

not affect net sales materially.

**Table of Contents**

Sales increases for the three months ended March 31, 2011 were largely driven by higher average selling prices across nearly all product lines, particularly in the United States and Europe, sales of the LifeSpan Vascular Graft of \$0.3 million as well as increased sales in vessel closure systems of \$0.2 million and biologic patches of \$0.2 million. These increases were partially offset by decreases in selected product lines specifically TAArget and UniFit stent grafts sales of \$0.4 million, a decrease of 51%. We expect that our TAArget and UniFit sales will continue to decline in 2011 as we divert corporate resources to other product lines.

Direct-to-hospital net sales were 94% for the three months ended March 31, 2011, up from 93% for the three months ended March 31, 2010. The increase was largely due to strong results from our Vascular products in the Americas. The Americas represented 62% of the consolidated net sales for the three months ended March 31, 2011, up from 58% in the prior year quarter.

**Net sales by geography.** Net sales in the Americas increased \$1.0 million for the three months ended March 31, 2011. The increase was largely the result of higher average selling prices across nearly all product lines and increases in nearly all Vascular category products including the vessel closure systems and the biologic patches. International net sales decreased \$0.2 million for the three months ended March 31, 2011. The decline was primarily driven by decreases in the TAArget and UniFit stent grafts sales and was partially offset by sales of LifeSpan Vascular Grafts.

International direct-to-hospital net sales increased to 88% of total international net sales for the three months ended March 31, 2011, up from 84% for the three months ended, March 31, 2010. Increases in the percent of international direct-to-hospital net sales were primarily due to weak distributor sales primarily related to TAArget and UniFit stent grafts.

| (unaudited)  | Three months ended March 31, |           |           | Percent change |
|--------------|------------------------------|-----------|-----------|----------------|
|              | 2011                         | 2010      | \$ Change |                |
| Gross profit | \$ 10,151                    | \$ 10,318 | \$ (167)  | (1.6%)         |
| Gross margin | 69.5%                        | 74.7%     | *         | (5.2%)         |

\* Not applicable

**Gross Profit.** Gross profit decreased 1.6% to \$10.2 million for the three months ended March 31, 2011, while gross margin decreased 5.2% to 69.5% in the same period. The gross margin decrease was largely the result of start-up manufacturing costs in Burlington, Massachusetts and wind-down costs in Brindisi, Italy associated with the transfer of the polyester graft manufacturing from Italy to the United States, increased manufacturing costs, and the amortization of the LifeSpan Vascular Graft inventory purchase accounting step-up. The gross margin decrease was partially offset by higher average selling prices across nearly all product lines.

**Table of Contents**

| (unaudited)                | Three months ended March 31, |          |           | Percent change |
|----------------------------|------------------------------|----------|-----------|----------------|
|                            | 2011                         | 2010     | \$ change |                |
|                            | (\$ in thousands)            |          |           |                |
| Sales and marketing        | \$ 4,973                     | \$ 4,894 | \$ 79     | 2%             |
| General and administrative | 2,848                        | 2,614    | 234       | 9%             |
| Research and development   | 1,272                        | 1,540    | (268)     | (17%)          |
| Restructuring charges      | 1,005                        |          | 1,005     | *              |
| Impairment charge          | 83                           |          | 83        | *              |
| Total                      | \$ 10,181                    | \$ 9,048 | \$ 1,133  | 13%            |

|                            | Three months ended March 31,      |                                |        |
|----------------------------|-----------------------------------|--------------------------------|--------|
|                            | 2011 as a %<br>of<br>Net<br>Sales | 2010 as a %<br>of Net<br>Sales | Change |
| Sales and marketing        | 34%                               | 35%                            | (1%)   |
| General and administrative | 20%                               | 19%                            | 1%     |
| Research and development   | 9%                                | 11%                            | (2%)   |
| Restructuring charges      | 7%                                | 0%                             | 7%     |
| Impairment charge          | 1%                                | 0%                             | 1%     |

\* Not a meaningful percentage relationship.

**Sales and marketing.** For the three months ended March 31, 2011 sales and marketing expenses increased 2% to \$5.0 million. Selling expenses increased \$0.2 million while marketing expenses decreased \$0.1 million. Selling expense increases were largely driven by additional sales personnel at our Japanese and Italian sales offices of \$0.1 million, and \$0.1 million of transition services costs resulting from our acquisition of the LifeSpan Vascular Graft. Marketing expense decreases were driven by general reductions in spending, primarily trade shows and marketing research. As a percentage of net sales, sales and marketing expenses were 34% in the three months ended March 31, 2011, a decrease of 1% from the prior year quarter.

**General and administrative.** For the three months ended March 31, 2011, general and administrative expenses increased 9% to \$2.8 million. The increase was largely the result of higher administrative costs associated with our French and Spanish subsidiaries of \$0.1 million and higher amortization costs of \$0.1 million related to LifeSpan Vascular Graft intangible assets, and was partially offset by general expense reductions. As a percentage of net sales, general and administrative expenses were 20% and 19% for the three months ended March 31, 2011 and 2010, respectively.

**Research and development.** For the three months ended March 31, 2011, research and development costs decreased 17% to \$1.3 million. As a percentage of net sales, research and development expense decreased to 9% for the three months ended March 31, 2011 from 11% in the comparable prior year period. Product development expenses decreased \$0.2 million primarily due to reduced testing associated with obtaining regulatory approvals for new products. The timing and extent of this testing fluctuates based upon product development cycles and the approval path required for each product. In the three months ended March 31, 2010, we incurred approximately \$0.2 million of these expenses primarily related to the AnastoClip GC Vessel Closure System. Clinical and regulatory expenses decreased \$0.1 million, primarily due to the reduction of outside services following the suspension of enrollment of our UNITE and ENTRUST trials in October 2010. We expect clinical and regulatory expenses will continue to decline as expenses associated with our clinical trials abate; however, we intend to allocate a portion of these savings to additional product development in 2011.

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## **Table of Contents**

**Restructuring.** In 2010, we commenced the closure of our Biomateriali manufacturing facility in Brindisi, Italy and the related transition of production to our existing corporate headquarters in Burlington, Massachusetts. For the three months ended March 31, 2011, restructuring charges were \$1.0 million which consisted of approximately \$0.3 million associated with the transfer of manufacturing equipment and \$0.7 million related to deferred rent charges upon exiting the Biomateriali facility in March 2011. We did not incur any restructuring charges in the three months ended March 31, 2010. We expect to incur approximately \$0.2 million of additional restructuring charges associated with the closure of our Biomateriali manufacturing facility in the remainder of 2011. We expect to incur approximately \$0.7 million of restructuring charges associated with the termination of our Spanish and Danish distributors in the three months ending June 30, 2011.

**Impairment charge.** Impairment charges were \$0.1 million for the three months ended March 31, 2011 as we determined that certain patents within our portfolio in the U.S. and Europe had no value based upon an analysis of expected economic benefits. We did not incur any impairment charges in the three months ended March 31, 2010.

**Foreign exchange gains / losses.** Foreign exchange gains for the three months ended March 31, 2011 were \$0.1 million. Foreign exchange gains for the three months ended March 31, 2010 were not material.

**Income tax expense.** We recorded a provision for taxes of \$54,000 on pre-tax income of \$0.1 million for the three months ended March 31, 2011, compared to \$0.3 million on a pre-tax income of \$1.3 million for the three months ended March 31, 2010. Our current period provision is based on the estimated annual effective tax rate for 2011 of 34.8%, which includes estimated federal and state income taxes of approximately \$25,000, as well as foreign income taxes of \$29,000. Our income tax expense for the current period varies from the statutory rate amounts mainly due to the generation of United States research and development tax credits and from lower statutory rates at our foreign German entity. Our March 31, 2010 income tax provision was comprised of federal and state income taxes of approximately \$0.2 million and foreign income taxes of approximately \$0.1 million. We monitor the mix of profitability by tax jurisdiction and adjust our annual expected rate on a quarterly basis as needed. While it is often difficult to predict the final outcome or timing of the resolution of any particular tax matter, we believe that our tax reserves reflect the probable outcome of known contingencies.

We have assessed the need for a valuation allowance against our deferred tax assets at March 31, 2011 and concluded that we continue to carry a valuation allowance against \$4.3 million of state and foreign deferred tax assets, which based on the weight of available evidence, we believe it is more likely than not that such assets will not be realized. We emerged from a cumulative loss position in the fourth quarter of 2010 in the United States and released the valuation allowance related to the United States deferred tax assets as a result of emerging from the cumulative loss position.

We expect that our effective tax rate will remain fairly constant throughout 2011.

## **Liquidity and Capital Resources**

At March 31, 2011, our cash, cash equivalents and marketable securities were \$19.1 million as compared to \$22.6 million at December 31, 2010. Our cash and cash equivalents are highly liquid investments with maturities of 90 days or less at the date of purchase and consist of time deposits, fully collateralized overnight repurchase agreements, and U.S. government obligations, and are stated at cost, which approximates fair value. We did not hold any marketable securities nor any mortgage asset-backed or auction-rate securities in our investment portfolio as of March 31, 2011. In the event of a temporary decline in market value, we have the intent and ability to hold our investments for a sufficient period of time to allow for recovery of the principal amounts invested. We continually monitor the asset allocation of our holdings in an attempt to mitigate our credit and interest rate exposures, and we intend to continue to closely monitor developments in the credit markets and make appropriate changes to our investment policy as necessary.

## **Operating and Capital Expenditure Requirements**

We require cash to pay our operating expenses, make capital expenditures, and pay our long-term liabilities. Since our inception, we have funded our operations through public offerings and private placements of equity securities, short-term borrowings, and funds generated from our operations.

## **Table of Contents**

We recognized an operating loss of \$30,000 for the three months ended March 31, 2011. For the year ended December 31, 2010, we recognized operating income of \$4.0 million. Although it is our intention to generate an operating profit on an ongoing basis, excluding the impact of acquisitions, distributor terminations, and operational restructurings, there can be no assurance that we will do so in the future due to our continued investment in growing our business as well as the cost of operating as a public company. We expect to fund any increased costs and expenditures from our existing cash and cash equivalents and marketable securities, though our future capital requirements depend on numerous factors. These factors include, but are not limited to, the following:

the revenues generated by sales of our products;

the ongoing transfer of our AlboGraft Vascular Graft manufacturing from Brindisi, Italy to Burlington, Massachusetts;

the termination of distributor agreements in Spain and Denmark and subsequent start-up costs associated with going direct in those markets;

payments associated with potential future quarterly cash dividends to our common stockholders;

payments associated with our stock repurchase plan;

payments associated with U.S income taxes;

the costs associated with expanding our manufacturing, marketing, sales, and distribution efforts;

the rate of progress and cost of our research and development activities;

the costs of obtaining and maintaining FDA and other regulatory clearances of our existing and future products;

the effects of competing technological and market developments;

remaining payment obligations associated with the LifeSpan Vascular Graft acquisition; and

the number, timing, and nature of acquisitions and other strategic transactions

We believe that our cash, cash equivalents, investments and the interest we earn on these balances will be sufficient to meet our anticipated cash requirements for at least the next twelve months. If these sources of cash are insufficient to satisfy our liquidity requirements beyond the next twelve months, we may seek to sell additional equity or debt securities or borrow from a financial institution. The sale of additional equity and debt securities may result in dilution to our stockholders. If we raise additional funds through the issuance of debt securities, such securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all.

## ***Credit Facility***

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As part of the purchase of Biomateriali S.r.l, we assumed a loan from the Italian government under a program that provides funding to certain businesses in Italy through a combination of grants and loans if certain requirements are met. The loan was stated to be payable in ten annual payments through 2018 of principal and interest at an interest rate of 0.74%. The present value of the loan was recorded as of the date the proceeds were received using our incremental borrowing rate. Interest was imputed on the loan and the amortization was recorded as interest expense. In March 2011, the Italian government informed us the loan and grants had become due in full as a result of the Biomateriali S.r.l plant closure. We expect to repay the Italian government approximately \$0.3 million related to the previous grants, the imputed interest on the outstanding loan balance, and certain additional interest and penalties, all of which has been recorded as restructuring expense for the year ended December 31, 2010. The outstanding amount of the accelerated loan and grant repayment was approximately \$0.4 million as of March 31, 2011 and December 31, 2010 and has been recorded in our balance sheet in accrued expenses. We expect that this matter will be settled in 2011.

### *Dividends*

On February 28, 2011, our Board of Directors approved a policy for the payment of quarterly cash dividends on our common stock of \$0.02 per share. The first quarterly dividend was paid on April 5, 2011, to stockholders of record at the close of business on March 22, 2011, and was approximately \$0.3 million. On April 26, 2011, our Board of Directors approved a second quarterly cash dividend on our common stock of \$0.02 per share. The quarterly dividend is payable on June 6, 2011, to stockholders of record at the close of business on May 20, 2011, and will be approximately \$0.3 million. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by our Board of Directors on a quarterly basis.

**Table of Contents****Cash Flows**

|                                   | Three months ended March 31,<br>(in thousands) |           |            |
|-----------------------------------|--|-----------|------------|
|                                   | 2011   | 2010      | Net Change |
| Cash and cash equivalents         | \$ 19,103                                      | \$ 23,662 | \$ (4,559) |
| Cash flows provided by (used in): |  |           |            |
| Operating activities              | \$ (2,104)                                     | \$ 819    | \$ (2,924) |
| Investing activities              | (799)  | 64        | (863)      |
| Financing activities              | (670)  | (348)     | (321)      |

**Net cash provided by (used in) operating activities.** Net cash used in operating activities was \$2.1 million for the three months ended March 31, 2011, and consisted of \$0.1 million net income, adjusted for non-cash items of \$1.9 million (including the noncash restructuring charges associated with our exit of our Brindisi, Italy factory of \$0.7 million, depreciation and amortization of \$0.5 million, stock-based compensation of \$0.3 million, provision for inventory write-offs of \$0.3 million, and impairment charges of \$0.1 million) and was offset by changes in working capital of \$3.8 million. The net cash used by changes in working capital was principally the result of an increase in accounts payable and other liabilities, primarily due to annual bonus payments, as well as an increase in inventories and accounts receivable.

Net cash provided by operating activities was \$0.8 million for the three months ended March 31, 2010, and consisted of \$1.0 million net income, adjusted for non-cash items of \$0.9 million (including depreciation and amortization of \$0.3 million, stock-based compensation of \$0.2 million, provision for inventory write-offs of \$0.2 million, and provision for income taxes of \$0.1 million) and was partially offset by changes in working capital of \$1.1 million. The net cash used by changes in working capital was principally the result of an increase in accounts receivable and inventories as well as a decrease in accounts payable and other liabilities.

**Net cash provided by (used in) investing activities.** Net cash used in investing activities was \$0.8 million for the three months ended March 31, 2011. This was due to the purchase of property and equipment of \$0.5 million, primarily related to transfer of our manufacturing plant in Brindisi, Italy to Burlington, Massachusetts and \$0.3 million of acquisition related payments, primarily related to the LifeSpan Vascular Graft acquisition.

Net cash provided by investing activities was \$0.1 million for the three months ended March 31, 2010. The increase was primarily due to sales and maturities of marketable securities of \$0.4 million, partially offset by the purchase of property and equipment of \$0.3 million.

**Net cash used in financing activities.** Net cash used in financing activities was \$0.7 million for the three months ended March 31, 2011 which was primarily driven by the purchase of \$0.4 million of our outstanding shares under our stock repurchase plan and the payment of a common stock dividend of \$0.3 million.

Net cash used in financing activities was \$0.3 million for the three months ended March 31, 2010 which was primarily driven by the purchase of \$0.3 million of our outstanding shares under our stock repurchase plan.



**Table of Contents**

**Contractual obligations.** Our principal contractual obligations consist of operating leases, inventory purchase commitments, payments to terminate distributors, acquisition related liabilities, and income tax obligations for unrecognized tax benefits. The following table summarizes our commitments to settle contractual obligations as of March 31, 2011:

| Contractual obligations                    | Total         | Less           | 1-3          | 3-5          |
|--|---------------|----------------|--------------|--------------|
|  |               | than           | years        | years        |
|  |               | 1 year         |              |              |
|  |               | (in thousands) |              |              |
| Operating leases                           | \$ 4,707      | \$ 1,263       | \$ 1,839     | \$ 1,605     |
| Purchase commitments for inventory         | 13,770        | 4,883          | 7,229        | 1,658        |
| Payments to terminate foreign distributors | 1,178         | 1,178          |              |              |
| Acquisition related liabilities            | 268           | 268            |              |              |
| Unrecognized tax benefits                  | 277           | 277            |              |              |
| <br>Total contractual obligations          | <br>\$ 20,200 | <br>\$ 7,869   | <br>\$ 9,068 | <br>\$ 3,263 |

The commitments under our operating leases consist primarily of lease payments for our Burlington, Massachusetts, corporate headquarters and manufacturing facility, expiring in 2017; our Sulzbach, Germany office, expiring in 2016; our Tokyo, Japan office, expiring in 2013; and our Milan, Italy office, expiring in 2016.

The purchase commitments for inventory are intended to be used in operations in the normal course of business and do not represent excess commitments or loss contracts.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of March 31, 2011. We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As a result, we are not materially exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in these relationships.

**Critical Accounting Policies and Estimates**

We have adopted various accounting policies to prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Our most significant accounting policies are described in note 1 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. There have been no material changes in our critical accounting policies during the three months ended March 31, 2011. The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, sales returns and discounts, and income taxes are reviewed on an ongoing basis and updated as appropriate. Actual results may differ from those estimates.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

This item is not applicable to us as a smaller reporting company.

**Item 4. Controls and Procedures  
Disclosure Controls and Procedures**

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We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934 is reported, processed, and summarized within the time periods specified in the SEC's rules and forms. As of March 31, 2011, or the Evaluation Date, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable assurance level.

## **Table of Contents**

### **Changes in Internal Control**

There have been no changes in our internal control over financial reporting for the quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations of Internal Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Part II. Other Information**

### **Item 1. Legal Proceedings.**

In the ordinary course of business, we are from time to time involved in lawsuits, claims, investigations, proceedings, and threats of litigation relating to intellectual property, commercial arrangements and other matters. While the outcome of these proceedings and claims cannot be predicted with certainty, there are no matters, as of March 31, 2011, that, in the opinion of management, might have a material adverse effect on our financial position, results of operations or cash flows.

### **Item 1A. Risk Factors**

In Part I-Item 1A ( Risk Factors ) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the Securities and Exchange Commission on March 30, 2011, we describe risk factors related to LeMaitre Vascular.

There have been no substantive changes from the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Recent Sales of Unregistered Securities**

None

**Table of Contents****Issuer Purchases of Equity Securities**

| Period                                     | Total<br>Number<br>of<br>Shares (or Units)<br>Purchased (1) | Average<br>Price<br>Paid Per<br>Share (or Unit) | Issuer Purchases of Equity Securities   |   |
|--|---|---|---|---|
|  |   |   | Total Number of<br>Shares (or Units)<br>Purchased as<br>Part of<br>Publicly<br>Announced Plans<br>or Program<br>(2) | Maximum Number<br>(or Approximate<br>Dollar Value) of<br>Shares (or Units)<br>that may yet be<br>Purchased under<br>the Plans or<br>Program |
| January 1, 2011 through January 31, 2011   |   | \$  | 32,724  | \$ 2,010,640  |
| February 1, 2011 through February 28, 2011 | 815   | \$ 6.86   |   | \$ 2,010,640  |
| March 1, 2011 through March 31, 2011       |   | \$  | 21,700  | \$ 1,863,015  |
| Total                                      | 815   | \$ 6.86   | 54,424  | \$ 1,863,015  |

- (1) For the three months ended March 31, 2011, we repurchased 815 shares of our common stock in conjunction with the tender of shares to satisfy the employees' obligations with respect to withholding taxes in connection with the vesting of restricted stock units.
- (2) In July 2009, our Board of Directors authorized the repurchase of up to \$1.0 million of our common stock from time to time on the open market or in privately negotiated transactions. In October 2009, our Board of Directors increased this amount to \$2.0 million, and in July 2010, our Board of Directors further increased this amount to \$5.0 million. The expiration date of this program is December 31, 2011.

**Use of Proceeds from the Sale of Registered Securities**

None

**Item 6. Exhibits**

| Exhibit<br>Number | Exhibit Description  | Incorporated by<br>Reference |      |        | Filed<br>Herewith |
|-------------------|--|------------------------------|------|--------|-------------------|
|                   |  | Form                         | Date | Number |                   |
| 31.1              | Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).   |                              |      |        | X                 |
| 31.2              | Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).   |                              |      |        | X                 |
| 32.1              | Certification by the Chief Executive Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 36 of Title 18 of the United States Code (18 U.S.C. §1350).* |                              |      |        | X                 |
| 32.2              | Certification by the Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 36 of Title 18 of the United States Code (18 U.S.C. §1350).* |                              |      |        | X                 |

\* The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the SEC and are not to be incorporated by reference into any filing of LeMaitre Vascular, Inc. under the Securities Act of 1933, as amended,

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or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**Table of Contents**

**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 on May 11, 2011.

LEMAITRE VASCULAR, INC.

*/s/ George W. LeMaitre*  
George W. LeMaitre  
Chairman and Chief Executive Officer

*/s/ Joseph P. Pellegrino, Jr.*  
Joseph P. Pellegrino, Jr.  
Chief Financial Officer

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit</b> | <b>Exhibit Description</b>   | <b>Incorporated by Reference</b> |             |               | <b>Filed</b>    |
|----------------|--|----------------------------------|-------------|---------------|-----------------|
|                |  | <b>Form</b>                      | <b>Date</b> | <b>Number</b> | <b>Herewith</b> |
| 31.1           | Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).   |                                  |             |               | X               |
| 31.2           | Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).   |                                  |             |               | X               |
| 32.1           | Certification by the Chief Executive Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 36 of Title 18 of the United States Code (18 U.S.C. §1350).* |                                  |             |               | X               |
| 32.2           | Certification by the Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 36 of Title 18 of the United States Code (18 U.S.C. §1350).* |                                  |             |               | X               |

\* The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the SEC and are not to be incorporated by reference into any filing of LeMaitre Vascular, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.