LEMAITRE VASCULAR INC
Form 10-Q
August 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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)

Delaware **(State or other jurisdiction of incorporation or organization)**	**04-2825458** **(I.R.S. Employer Identification No.)**
63 Second Avenue, Burlington, Massachusetts	**01803**

(Address of principal executive offices) **(Zip Code)**

Registrant s telephone number, including area code: (781) 221-2266

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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: x No: ¨

Indicate by check mark whether the registrant is an large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule12b-2 of the Exchange Act)

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act) Yes: ¨ No: x

The registrant had 15,405,262 shares of common stock, $.01 par value per share, outstanding as of August 10, 2007

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LEMAITRE VASCULAR

FORM 10-Q

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Part I. Financial Information

Item 1 Financial Statements

LeMaitre Vascular, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 12,474	$ 15,391
Marketable securities	15,459	15,417
Accounts receivable, net of allowances of $137 and $102 at June 30, 2007 and December 31, 2006, respectively	6,080	5,060
Inventories	7,335	6,081
Prepaid expenses	951	1,296
Deferred tax asset	393	396
Total current assets	42,692	43,641
Property and equipment, net	2,352	2,389
Goodwill	9,161	8,853
Other intangibles, net	1,864	1,930
Other assets	159	150
Total assets	$ 56,228	$ 56,963
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,311	$ 818
Accrued expenses	3,562	4,528
Current portion of capital lease obligations		32
Total current liabilities	4,873	5,378
Deferred tax liabilities	833	833
Other long-term liabilities	26	53
Total liabilities	5,732	6,264
Stockholders equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized		
Common stock, $0.01 par value; 100,000,000 shares authorized, 15,406,106 shares issued at June 30, 2007 and 15,332,526 shares issued at December 31, 2006	155	153
Additional paid-in capital	60,706	60,504
Accumulated deficit	(10,348)	(9,946)
Accumulated other comprehensive income	68	73
Treasury stock (14,068 shares at June 30, 2007 and December 31, 2006), at cost	(85)	(85)

Total stockholders equity		50,496		50,699
Total liabilities and stockholders equity	$	56,228	$	56,963

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Net sales	$ 10,315	$ 8,760	$ 20,198	$ 17,331
Cost of sales	2,702	2,665	5,215	4,926
Gross profit	7,613	6,095	14,983	12,405
Operating expenses:				
Sales and marketing	4,737	3,865	9,548	7,114
General and administrative	2,206	1,742	4,576	3,514
Research and development	1,118	985	2,272	1,781
Restructuring charges (credits)	(1)	147	5	178
Impairment charge		406	7	406
Total operating expenses	8,060	7,145	16,408	12,993
Loss from operations	(447)	(1,050)	(1,425)	(588)
Other income (expense):				
Interest income (expense)	344	(54)	696	(100)
Other income	28	86	53	131
Total other income	372	32	749	31
Loss before income taxes	(75)	(1,018)	(676)	(557)
Provision (benefit) for income taxes	(302)	71	(274)	162
Net income (loss)	$ 227	$ (1,089)	$ (402)	$ (719)
Net income (loss) per share of common stock:				
Basic:	$ 0.01	$ (0.14)	$ (0.03)	$ (0.11)
Diluted:	$ 0.01	$ (0.14)	$ (0.03)	$ (0.11)
Weighted average shares outstanding	15,378	8,539	15,358	8,496
Diluted weighted average shares outstanding	15,760	8,539	15,358	8,496

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six months ended June 30, 2007	Six months ended June 30, 2006
Operating activities		
Net loss	$ (402)	$ (719)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	684	674
Stock-based compensation	239	72
Amortization of marketable securities	(97)	
Loss of sale of marketable securities	2	
Impairment charges	7	406
Loss on disposal of property and equipment	5	5
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(947)	(631)
Inventories	(1,143)	(440)
Prepaid expenses and other assets	343	(76)
Accounts payable and other liabilities	(532)	473
Net cash used in operating activities	(1,841)	(236)
Investing activities		
Purchase of property and equipment	(529)	(762)
Purchase of available-for-sale securities	(5,836)	
Maturities of available-for-sale securities	5,867	
Cash paid for business acquisition	(432)	
Other assets	1	(175)
Net cash used in investing activities	(929)	(937)
Financing activities		
Net proceeds from issuance of common stock	85	78
Proceeds from short-term debt		1,965
Principal payments of long-term debt		(216)
Principal payments on capital lease obligations	(32)	(46)
Expenses associated with equity transactions	(121)	(905)
Purchase of treasury stock		(74)
Other		17
Net cash provided by (used in) financing activities	(68)	819
Effect of exchange rate changes on cash and cash equivalents	(79)	203
Net decrease in cash and cash equivalents	(2,917)	(151)
Cash and cash equivalents at beginning of period	15,391	817
Cash and cash equivalents at end of period	$ 12,474	$ 666

Supplemental non-cash financing activities		
Increase in redemption feature of common stock awards	$	$ 215
Reclassification of deferred compensation upon adoption of SFAS No. 123R		84
Effect of adoption of SFAS No. 123R for redemption feature of common stock awards		6,474
Initial public offering costs included in accounts payable and accrued expenses		1,071
Cancellation of treasury stock		857

See accompanying notes to consolidated financial statements.

LeMaitre Vascular, Inc.

Notes to Consolidated Financial Statements

June 30, 2007

(unaudited)

1. Organization and Basis for Presentation

Description of Business

LeMaitre Vascular, Inc. (LeMaitre Vascular or the Company) and its subsidiaries develop, manufacture and market medical devices and implants used primarily in the field of vascular surgery. The Company operates in a single segment in which its principal product lines are thoracic stent grafts, abdominal stent grafts, endovascular accessories, anastomotic clips, radiopaque tape, valvulotomes, carotid shunts, balloon catheters, vein strippers, cholangiogram catheters and vascular access ports. The Company also distributes in ten European countries an abdominal stent graft manufactured by a third party.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of adjustments of a normal recurring nature) considered necessary for a fair presentation have been included. 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 and six months ended June 30, 2007 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 the Company s audited financial statements as of and for the year ended December 31, 2006, including the notes thereto, included in its Form 10-K filed with the Securities and Exchange Commission (SEC).

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, LeMaitre Vascular GmbH, LeMaitre Vascular GK, converted from LeMaitre Vascular KK in June 2007, LeMaitre UK Acquisition LLC, Vascutech Acquisition LLC, LeMaitre Acquisition LLC, LeMaitre Vascular SAS, incorporated in June 2007, and LeMaitre Vascular Limited, dissolved in 2006. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB issued Statement of Financial Accounting Standards, or SFAS No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice. SFAS No. 157 is effective with fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that the implementation of SFAS No. 157 may have on its consolidated results and financial position.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact this adoption will have on its consolidated financial statements.

In June 2007, the FASB ratified the consensus reached on EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007, which will be the Company s fiscal year 2008. The Company does not expect that the adoption of EITF 07-3 will have an impact on the Company s consolidated financial statements.

3. Income Taxes

In July 2006, the FASB issued Interpretation No. 48 (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within twelve months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no adjustment in the liability for unrecognized income tax benefits.

The Company operates in multiple taxing jurisdictions, both within the United States and outside of the United States, and is or may be subject to audits from various tax authorities regarding transfer pricing, the deductibility of certain expenses, intercompany transactions as well as other matters. Within specific countries, the Company may be subject to audit by various tax authorities, operating within the country and may be subject to different statute of limitations expiration dates. As of June 30, 2007, the liability for unrecognized tax benefits was approximately $0.6 million for the matters described below of which $0.3 million was provided during the three months ended June 30, 2007. The Company has identified no uncertain tax position for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the twelve months following the date of adoption of FIN 48, except with respect to matters which may be identified under audit (discussed below) which the Company cannot reasonably estimate. The Company remains subject to examination until the statute of limitations expires for each respective tax jurisdiction.

The Company has also made an evaluation of the potential impact of state taxes being assessed by jurisdictions in which the Company does not believe that nexus exists. However the Company believes that it is more likely than not that taxing jurisdictions may adopt a position adverse to the Company and, accordingly, has recorded a liability of approximately $0.1 million as of June 30, 2007.

The Company was examined by the Internal Revenue Service (IRS) for the Company s 2004 and 2005 income tax returns. The IRS proposed and management agreed to the final adjustment to the Company s previously reported returns resulting in a payment of $0.4 million in April 2007, for which provision had been previously made as of December 31, 2006. In July 2007, the Company received notification from the German tax authorities of an audit of the Company s 2004 through 2006 tax filings.

As of January 1, 2007, a summary of the tax years that remain subject to examination in the Company s most significant tax jurisdictions are:

United States - Federal	2006 and forward
Germany	1998 and forward
Japan	2004 and forward

The Company s policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense, which is consistent with that of prior years.

4. Inventories

Inventories are stated at the lower of cost or market value, determined on a first in, first out basis. Inventories consist of the following:

(in thousands)	June 30, 2007	December 31, 2006
Raw materials	$ 1,973	$ 2,368
Work-in-process	681	481
Finished products	4,681	3,232
	$ 7,335	$ 6,081

5. Acquisition

On April 25 2007, the Company acquired certain assets and assumed certain liabilities of Cardiovascular Innovations, LLC (CVI), a privately held medical device company located in Athens, Texas, for consideration of $0.4 million. CVI had marketed a hand-powered contrast injector for use in a variety of endovascular procedures. The consideration consisted of $400,000 in cash paid at the closing and 32,000 of acquisition-related transaction costs. The acquisition was determined to be a purchase of a business and the results of the operations from the acquired business have been included in the consolidated financial statements from the date of acquisition.

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The purchase price allocation was recorded in the second quarter of 2007, and resulted in $308,000 of goodwill and $60,000 of other acquired intangible assets, primarily consisting of patents and customers relationships. The purchase price allocation is subject to adjustment as additional information with respect to certain intangibles is finalized. The purpose of the acquisition was to acquire the patents, regulatory approvals and customer relationships to allow the Company to enter the hand-powered contrast injector market. The Company believes that it can leverage its existing trade name and sales and marketing infrastructure to improve the revenue generating potential of the business. Furthermore, the Company believes its can take advantage of its manufacturing, finance and administration infrastructure to improve the financial results of the acquired business. These factors support the Company s belief that CVI s value is higher as a business acquired by the Company than as an independent business, and resulted in goodwill to be recognized in the transaction.

Based on the purchase price allocation, the purchase price was allocated as follows:

	(in thousands)
Goodwill	$ 308
Patents	50
Customer relationships	10
Inventory	54
Accounts receivable	20
Accounts payable and accrued expenses	(10)
Total purchase price allocation	$ 432

Intangible asset attributable to patents and customer relationships are being amortized over their estimated useful lives over a weighted average useful life of 8.5 years.

6. Goodwill and other Intangibles

The balances of goodwill and intangibles are as follows:

	June 30, 2007			December 31, 2006		
(in thousands)	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Patents	$ 1,584	$ (604)	$ 980	$ 1,534	$ (520)	$ 1,014
Trademarks and technology license	891	(161)	730	898	(141)	757
Customer relationships	223	(69)	154	213	(54)	159
Gross intangibles	$ 2,698	$ (834)	$ 1,864	$ 2,645	$ (715)	$ 1,930
Goodwill	$ 9,161			$ 8,853		

Goodwill represents the amount of consideration paid in connection with business acquisitions in excess of the fair value of assets acquired and liabilities assumed. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is evaluated for impairment annually or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist. The Company evaluates the carrying value of its goodwill annually on a single segment basis in its fourth quarter.

Other intangible assets primarily consist of patents, trademarks, technology licenses and customer relationships acquired in connection with business acquisitions and are amortized over their estimated useful lives, ranging from 5 to 17 years. Amortization expense, which is included in general and administrative expense, amounted to $118,000 and $120,000 for the six months ended June 30, 2007 and 2006, respectively. For the three months ended June 30, 2007 and 2006, amortization expenses amounted to $63,000 and $64,000, respectively.

Estimated amortization expense for the remainder of 2007 and each of the five succeeding fiscal years is as follows:

	(in thousands)
2007	$ 125
2008	230
2009	229
2010	218
2011	198
2012	180

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7. Financing Arrangements

The Company maintains a $5.5 million revolving line of credit with Brown Brothers Harriman & Co., which expires on February 8, 2008 with interest at the bank s base rate or LIBOR plus 300 basis points, at the Company s discretion. The Company s revolving line of credit is collateralized by substantially all of the assets of the Company. To maintain an outstanding balance, the Company is required to meet certain financial and operating covenants. As of June 30, 2007 and December 31, 2006, the Company did not have an outstanding balance under this facility and was not in compliance with certain of these covenants.

8. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Compensation and related taxes	$ 2,319	$ 2,270
Income and other taxes	151	963
Professional fees	253	439
Other	839	856
	$ 3,562	$ 4,528

9. Restructuring Charges

The Company closed its Arizona manufacturing operations in 2006, and as a result, incurred severance and other costs. These costs amounted to $5,000 for the six months ended June 30, 2007. The Company estimates any additional exit activity cost to be less than $0.1 million.

Activity related to restructuring costs is as follows:

(in thousands)	
Balance at January 1, 2007	$ 46
Plus:	
Current period restructuring costs	5
Less:	
Payment of employee severance costs	(34)
Balance at June 30, 2007	$ 17

10. Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets (primarily property and equipment and intangible assets) to assess the recoverability of these assets when indicators of impairment occur. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Impairment is measured based on the fair market value of the affected asset using discounted cash flows.

During the second quarter of 2006, the Company determined that an impairment charge of $0.4 million was required based upon the analysis of unfavorable preliminary data from its U.S. clinical study of the Expedial Vascular Access Graft. As a result of the Company s review of the primarily clinical data, the Company decided to forego further enrollment in the clinical study and cease the production and sales of this device. The Company determined that the future cash flows from the related patents and equipment were less than their carrying value. Fair value was determined by prices of similar products. Consequently, impairment charges to reduce the carrying value of these assets to fair value and related inventory to net realizable value totaled $0.7 million of which $0.3 million related to the impairment of other intangible assets relating to the Expedial Vascular Access Graft product line patents, approximately $64,000 related to the write-down of related production equipment and $0.3 million related to inventory write-offs charged against cost of sales.

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11. Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and displaying comprehensive income (loss) and its components in the consolidated financial statements. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources such as foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Total comprehensive income (loss) for the three and six months ended June 30, 2007 and 2006, was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(in thousands)		(in thousands)	
Net income (loss)	$ 227	$ (1,089)	$ (402)	$ (719)
Unrealized loss on available-for-sales securities	(44)		(23)	
Foreign currency translation adjustment	(27)	21	18	35
Total comprehensive income (loss)	$ 156	$ (1,068)	$ (407)	$ (684)

12. Commitments and Contingencies

The Company conducts certain of its operations in leased facilities, which are accounted for as operating leases. Certain leases include renewal options. In addition, the Company leases automobiles and capital equipment under operating leases. The minimum rental commitments under all non-cancelable operating leases with initial or remaining terms of more than one year, for the remainder of 2007 and each of the following fiscal years are as follows:

	(in thousands)
2007	$ 475
2008	826
2009	417
2010	120
2011	27
2012	25
	$ 1,890

13. Segment and Enterprise-Wide Disclosures

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information regarding operating segments. 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. The Company views its operations and manages its business as one operating segment. No discrete operating information other than product sales is prepared by the Company, except by geographic location, for local reporting purposes. All revenues were generated in the United States, Europe and Japan, and substantially all assets are located in the United States.

14. Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share Based Payment* (SFAS No. 123R). Under SFAS No. 123R, the Company is required to recognize, as expense, the estimated fair value of all share-based payments to employees. In accordance with this standard, the Company has elected to recognize the compensation cost of its share-based awards on a straight-line basis over the vesting period of the award. The Company adopted SFAS No. 123R under the prospective-transition method, as required by the standard, using a Black-Scholes model to value stock options. Under this method, the Company recognized compensation cost for all share-based payments to employees based on the grant date estimate of fair value for those awards, beginning on January 1, 2006. No stock grants occurred during the six months ended June 30, 2007. The weighted-average fair value per share of restricted stock units granted amounted to $6.08 per share for the six months ended June 30, 2007, which was the fair value of the Company s common stock as of the grant date.

The Company has never declared cash dividends and does not expect to do so in the foreseeable future.

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The amount of cash received from the exercise of stock options for the six months ended June 30, 2007 was $85,000. There was no tax benefit resulting from the exercise of stock options during the period.

In periods in which the Company grants stock options, fair value assumptions are based on volatility, interest and expected term over which the options will be outstanding. The computation of expected volatility is based on a study of historical volatility rates of comparable companies during a period comparable to the expected option term. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury risk-free interest rate in effect at the time of grant. The computation of expected option term is based on an average of the vesting term and the maximum contractual life of the Company s stock options and restricted stock units. Computation of expected forfeitures is based on historical forfeiture rates of the Company s stock options and restricted stock units. Share-based compensation charges will be adjusted in future periods to reflect the results of actual forfeitures and vesting.

The Company expects to recognize the unamortized portion of share-based compensation expense for existing stock options and restricted stock units outstanding of $1.3 million at June 30, 2007 over a weighted-average period of three years.

15. Net Income (Loss) Per Share

Until January 1, 2007, the Company calculated net income (loss) per share in accordance with SFAS No. 128, *Earnings Per Share*, and Emerging Issues Task Force (EITF) 03-6, *Participating Securities and the Two Class Method Under FASB Statement No. 128, Earnings Per Share*. EITF 03-6 clarified the use of the two-class method of calculating earnings per share as originally prescribed in SFAS No. 128. Effective for periods beginning after March 31, 2004, EITF 03-6 provides guidance on how to determine whether a security should be considered a participating security for purposes of computing earnings per share and how earnings should be allocated to a participating security when using the two-class method for computing earnings per share.

Under the two-class method, basic net income (loss) per share is computed by dividing the net income (loss) applicable to common stockholders by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income (loss) per share is computed using the more dilutive of (a) the two-class method or (b) the if-converted method. Under EITF 03-6, the Company had determined that its Series A convertible preferred stock (Series A preferred stock) and, upon the adoption of SFAS 123R, that certain options and shares of common stock (common stock awards) subject to a repurchase feature at other than fair value were participating securities. The Company s Series A preferred stock provided for a dividend in the event of the Company s liquidation or in the event a dividend was declared on the Company s common stock. Effective January 1, 2006, common stock awards subject to repurchase were allocated to net income based on the change in the repurchase value during each reporting period. The remaining income (loss) was then allocated to preferred and common stockholders, pro rata, based on ownership interests since the preferred stock participates in dividends on the same basis in which the preferred shares convert to common stock. Net losses were not allocated to participating securities. For the three and six months ended June 30, 2006 presented, the application of the two-class method was more dilutive than the if-converted method. Diluted net income (loss) per share gives effect to all potentially dilutive securities, including stock options and restricted units using the treasury method, unless anti-dilutive.

In connection with the Company s initial public offering in October 2006, all outstanding shares of Series A preferred stock were automatically converted into shares of common stock and the repurchase feature of common stock terminated. Accordingly, effective January 1, 2007, the two class method no longer applies.

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Net income (loss) per share is based on the following:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Numerator:				
Net income (loss) as reported	$ 227	$ (1,089)	$ (402)	$ (719)
Allocation of net income (loss):				
Basic:				
Redemption value of common stock awards		96		215
Net income applicable to participating stockholders		96		215
Net income (loss) applicable to common stockholders	227	(1,185)	(402)	(934)
Net income (loss)	$ 227	$ (1,089)	$ (402)	$ (719)
Diluted:				
Redemption value of common stock awards		96		215
Net income applicable to participating stockholders		96		215
Net income (loss) applicable to common stockholders	227	(1,185)	(402)	(934)
Net income (loss)	$ 227	$ (1,089)	$ (402)	$ (719)
Denominator:				
Weighted-average shares of common stock outstanding	15,378	8,539	15,358	8,496
Weighted-average shares of common stock issuable upon exercise of outstanding stock options	382			
Shares used in computing diluted net income (loss) per common share, if dilutive	15,760	8,539	15,358	8,496

The computation of basic and diluted net income (loss) per share is as follows:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Basic:				
Net income (loss) available for common stockholders	$ 227	$ (1,185)	$ (402)	$ (934)
Weighted average shares outstanding	15,378	8,539	15,358	8,496
Net income (loss) per share	$ 0.01	$ (0.14)	$ (0.03)	$ (0.11)
Diluted:				
Net loss available for common stockholders	$ 227	(1,185)	$ (402)	$ (934)
Weighted-average shares of common stock	15,760	8,539	15,358	8,496
Net income (loss) per share	$ 0.01	$ (0.14)	$ (0.03)	$ (0.11)

For the three months and six months ended June 30, 2006, diluted net loss excluded 642,667 and 623,474, respectively, of common stock equivalents, as the effect of including those shares would have been anti-dilutive. Basic and diluted net income per share of the common stock awards that were subject to redemption features in 2006, amounted to $0.35 for the three month and six month period.

For the three months and six months ended June 30, 2007, diluted net loss excluded 792,005 and 1,212,648, respectively, of common stock equivalents, as the effect of including those shares would have been anti-dilutive.

16. Stockholders Equity

Undesignated Preferred Stock

The Company has 5,000,000 shares of undesignated preferred stock authorized. There were no shares designated, issued or outstanding as of June 30, 2007 and December 31, 2006.

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Stock Option Plans

The Company s 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, (RSUs), unrestricted stock awards and deferred stock awards to officers, employees, directors, and consultants of the Company. The Company has reserved for issuance an aggregate of 750,000 shares of common stock under the 2006 Plan. In connection with the adoption of the 2006 Plan, no new further option grants were permitted under the 1997, 1988, 2000, and 2004 stock option plans and any expirations, cancellations or terminations under the previous plans became available for issuance under the 2006 plan. The stock options provide the holder the right to purchase common stock at an exercise price not less than the fair market value of the stock on the date of grant and the expected term will not exceed ten years. The Company may satisfy awards upon the exercise of stock options or vesting of RSUs with either newly issued or treasury shares.

A summary of the Company s stock option activity for all plans and related information is as follows for the six months ended June 30, 2007:

	Number of shares	Option Prices	Weighted-average exercise price	Aggregate intrinsic value	Weighted-average contractual term
Balance outstanding at December 31, 2006	1,586,770	$ 0.10 - $ 12.37	$ 6.03		
Granted					