Cardiovascular Systems Inc
Form 10-Q
May 13, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011
Commission File No. 000-52082

CARDIOVASCULAR SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**No. 41-1698056**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**

651 Campus Drive
St. Paul, Minnesota 55112-3495
(Address of Principal Executive Offices)
Registrant s telephone number (651) 259-1600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant 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 o NO o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of shares outstanding of the registrant s common stock as of May 11, 2011 was: Common Stock, $0.001 par value per share, 16,218,170 shares.

Cardiovascular Systems, Inc.
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Cardiovascular Systems, Inc.
Consolidated Balance Sheets
(Dollars in Thousands, except per share and share amounts)
(Unaudited)

	March 31, 2011	June 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 18,618	$ 23,717
Accounts receivable, net	13,342	9,394
Inventories	4,865	4,319
Prepaid expenses and other current assets	727	1,048
Total current assets	37,552	38,478
Property and equipment, net	2,220	1,964
Patents, net	2,192	1,712
Debt conversion option and other assets	1,762	568
Total assets	$ 43,726	$ 42,722
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 3,723	$ 2,302
Accounts payable	4,488	3,353
Deferred grant incentive	717	1,181
Accrued expenses	6,519	6,569
Total current liabilities	15,447	13,405
Long-term liabilities		
Long-term debt, net of current maturities	9,598	8,985
Deferred grant incentive	1,741	2,208
Other liabilities	112	409
Total long-term liabilities	11,451	11,602
Total liabilities	26,898	25,007
Commitments and contingencies		
Stockholders equity		
Common stock, $0.001 par value; authorized 100,000,000 common shares at March 31, 2011 and June 30, 2010; issued and outstanding 16,154,321 at March 31, 2011 and 15,148,549 at June 30, 2010, respectively	16	15
Additional paid in capital	165,469	157,718
Common stock warrants	11,308	11,305

Accumulated deficit	(159,965)	(151,323)
Total stockholders equity	16,828	17,715
Total liabilities and stockholders equity	$ 43,726	$ 42,722

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

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Cardiovascular Systems, Inc.

Consolidated Statements of Operations
(Dollars in thousands, except per share and share amounts)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 20,152	$ 16,519	$ 57,073	$ 46,814
Cost of goods sold	3,949	3,847	12,063	10,850
Gross profit	16,203	12,672	45,010	35,964
Expenses				
Selling, general and administrative	16,415	16,382	46,597	47,150
Research and development	1,780	2,459	6,316	7,421
Total expenses	18,195	18,841	52,913	54,571
Loss from operations	(1,992)	(6,169)	(7,903)	(18,607)
Interest and other, net	(392)	(349)	(739)	(896)
Net loss	$ (2,384)	$ (6,518)	$ (8,642)	$ (19,503)
Net loss per common share:				
Basic and Diluted	$ (0.15)	$ (0.44)	$ (0.55)	$ (1.33)
Weighted average common shares used in computation:				
Basic and Diluted	16,146,667	14,878,859	15,778,287	14,681,014

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

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Cardiovascular Systems, Inc.

Consolidated Statements Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities		
Net loss	$ (8,642)	$ (19,503)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation and amortization of property and equipment	476	399
Provision for doubtful accounts	26	77
Amortization of patents	42	36
Amortization of (premium) discount, net	(7)	216
Debt conversion and valuation of conversion options, net	(415)	
Stock-based compensation	5,221	6,460
Other	250	
Changes in assets and liabilities		
Accounts receivable	(3,974)	(1,404)
Inventories	(546)	(1,193)
Prepaid expenses and other assets	395	77
Accounts payable	1,135	192
Accrued expenses and other liabilities	(1,111)	2,872
Net cash used in operations	(7,150)	(11,771)
Cash flows from investing activities		
Expenditures for property and equipment	(732)	(639)
Sales of investments		3,625
Costs incurred in connection with patents	(522)	(377)
Net cash (used in) provided by investing activities	(1,254)	2,609
Cash flows from financing activities		
Proceeds from employee stock purchase plan	365	702
Payment of deferred financing costs		(50)
Exercise of stock options and warrants	453	285
Proceeds from long-term debt	4,000	4,411
Payments on long-term debt	(1,513)	(6,045)
Net cash provided by (used in) financing activities	3,305	(697)
Net change in cash and cash equivalents	(5,099)	(9,859)
Cash and cash equivalents		

Beginning of period	23,717	33,411
End of period	$ 18,618	$ 23,552

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CARDIOVASCULAR SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(For the nine months ended March 31, 2011 and 2010)
(dollars in thousands, except per share and share amounts)
(unaudited)

1. Business Overview

Company Description and Merger

Cardiovascular Systems, Inc. was incorporated as Replidyne, Inc. in Delaware in 2000. On February 25, 2009, Replidyne, Inc. completed its reverse merger with Cardiovascular Systems, Inc., a Minnesota corporation incorporated in 1989 (CSI-MN), in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of November 3, 2008 (the Merger Agreement). Pursuant to the Merger Agreement, CSI-MN continued after the merger as the surviving corporation and a wholly-owned subsidiary of Replidyne. At the effective time of the merger, Replidyne, Inc. changed its name to Cardiovascular Systems, Inc. (CSI) and CSI-MN merged with and into CSI, with CSI continuing after the merger as the surviving corporation.

The Company develops, manufactures and markets devices for the treatment of vascular diseases. The Company s primary products, the Diamondback 360° PAD System, the Diamondback Predator 360° PAD System, and the Stealth 360° PAD System are catheter-based platforms capable of treating a broad range of plaque types in leg arteries both above and below the knee and address many of the limitations associated with existing treatment alternatives. Prior to the merger, Replidyne was a biopharmaceutical company focused on discovering, developing, in-licensing and commercializing innovative anti-infective products.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The Company has prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. The year-end consolidated balance sheet was derived from audited consolidated financial statements, but does not include all disclosures as required by accounting principles generally accepted in the United States of America. These interim consolidated financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly the Company s consolidated financial position, the results of its operations and its cash flows for the interim periods. These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements and the notes thereto included in the Form 10-K filed by the Company with the SEC on September 28, 2010. The nature of the Company s business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

Fair Value of Financial Instruments

Effective July 1, 2008, the Company adopted fair value guidance issued by the FASB, which provides a framework for measuring fair value under Generally Accepted Accounting Principles and expands disclosures about fair value measurements. In February 2008, the FASB provided a one-year deferral on the effective date of the guidance for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at least annually.

The fair value guidance classifies inputs into the following hierarchy:

Level 1 Inputs quoted prices in active markets for identical assets and liabilities

Level 2 Inputs observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 Inputs unobservable inputs

The following table sets forth the fair value of the Company s financial instruments that were measured on a recurring basis as of March 31, 2011. Assets are measured on a recurring basis if they are remeasured at least annually:

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	Level 3 Conversion Option
Balance at June 30, 2010	$ 388
Issuance of $4,000 in convertible notes	1,172
Change in conversion option valuation	690
Conversion of $1,500 convertible note	(594)
Balance at March 31, 2011	$ 1,656

The fair value of the conversion option is related to the loan and security agreement with Partners for Growth (described in Note 4) and has been included in debt conversion option and other assets on the balance sheet. The Monte Carlo option pricing model used to determine the value of the conversion option included various inputs including historical volatility, stock price simulations, and assessed behavior of the Company and Partners for Growth based on those simulations. Based upon these inputs, the Company considers the conversion option to be a Level 3 investment.

As of March 31, 2011, the Company believes that the carrying amounts of its other financial instruments, including accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these instruments. The carrying amount of long-term debt approximates fair value based on interest rates currently available for debt with similar terms and maturities.

Use of Estimates

The preparation of the Company s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company sells the majority of its products via direct shipment to hospitals or clinics. The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. These criteria are met at the time of delivery when the risk of loss and title passes to the customer. The Company records estimated sales returns, discounts and rebates as a reduction of net sales in the same period revenue is recognized.

Reclassifications

Certain reclassifications have been made to the June 30, 2010 balance sheet to conform to March 31, 2011 presentation. These reclassifications had no effect on net loss or stockholders equity as previously reported.

3. Selected Consolidated Financial Statement Information

Inventories

Inventories are stated at the lower of cost or market with cost determined on a first-in, first-out (FIFO) method of valuation. The establishment of inventory allowances for excess and obsolete inventories is based on estimated exposure on specific inventory items.

At March 31, 2011 and June 30, 2010, respectively, inventories were comprised of the following:

	March 31, 2011	June 30, 2010
Inventories		
Raw materials	$ 1,849	$ 1,256
Work in process	807	282
Finished goods	2,209	2,781

	$ 4,865	$ 4,319

4. Debt

Loan and Security Agreement with Silicon Valley Bank

On March 29, 2010, the Company entered into an amended and restated loan and security agreement with Silicon Valley Bank. The agreement includes a $10,000 term loan and a $15,000 line of credit. The terms of each of these loans are as follows:

The $10,000 term loan has a fixed interest rate of 9.0% and a final payment amount equal to 1.0% of the loan amount due at maturity. This term loan has a 36 month maturity, with repayment terms that include interest only payments during the first nine months followed by 30 equal principal and interest payments. This term loan also includes an acceleration provision that requires the Company to pay the entire outstanding balance, plus a penalty ranging from 1.0% to 3.0% of the principal amount, upon prepayment or the occurrence and continuance of an event of default. In connection with entering into the agreement, the Company amended a warrant previously granted to Silicon Valley Bank. The warrant provides an option to purchase 8,493 shares of common stock at an exercise price of $5.48 per share. This warrant is immediately exercisable and expires ten years after the date of amendment. The balance outstanding on the term loan at March 31, 2011 and June 30, 2010 was $8,184 and $9,588, respectively, net of the unamortized discount associated with the warrant.

The $15,000 line of credit has a two year maturity and a floating interest rate equal to Silicon Valley Bank s prime rate, plus 2.0%, with an interest rate floor of 6.0%. Interest on borrowings is due monthly and the principal balance is due at maturity. Borrowings on the line of credit are based on (a) 80% of eligible domestic receivables, plus (b) the lesser of 40% of eligible inventory or 25% of eligible domestic receivables or $2,500, minus (c) to the extent in effect, certain loan reserves as defined in the agreement. Accounts receivable receipts are deposited into a lockbox account in the name of Silicon Valley Bank. The accounts receivable line of credit is subject to non-use fees, annual fees, and cancellation fees. The agreement provides that initially 50% of the outstanding principal balance of the $10,000 term loan reduces available borrowings under the line of credit. Upon the achievement of certain financial covenants, the amount reducing available borrowings will be reduced to zero. There was not an outstanding balance on the line of credit at March 31, 2011 or June 30, 2010.

Borrowings from Silicon Valley Bank are secured by all of the Company s assets. The borrowings are subject to prepayment penalties and financial covenants, including maintaining certain liquidity and fixed charge coverage ratios, and certain three-month EBITDA targets. The Company was in compliance with all financial covenants as of March 31, 2011. The agreement also includes subjective acceleration clauses which permit Silicon Valley Bank to accelerate the due date under certain circumstances, including, but not limited to, material adverse effects on the Company s financial status or otherwise. Any non-compliance by the Company under the terms of debt arrangements could result in an event of default under the Silicon Valley Bank loan, which, if not cured, could result in the acceleration of this debt.

Loan and Security Agreement with Partners for Growth

On April 14, 2010, the Company entered into a loan and security agreement with Partners for Growth III, L.P. (PFG). The agreement provides that PFG will make loans to the Company up to $4,000. The agreement has a maturity date of April 14, 2015. The loans bear interest at a floating per annum rate equal to 2.75% above Silicon Valley Bank s prime rate, and such interest is payable monthly. The principal balance of and any accrued and unpaid interest on any notes are due on the maturity date and may not be prepaid by the Company at any time in whole or in part.

Under the agreement, PFG provided the Company with an initial loan of $1,500 (the initial loan) on April 15, 2010. During the three months ended December 31, 2010, PFG at its option converted the entire $1,500 (at par) into 276,243 shares of the Company s common stock in accordance with the conversion terms set forth in the note for the initial loan. On December 3, 2010, and January 26, 2011, the Company issued PFG additional convertible notes under the agreement of $3,500 and $500, respectively (the new loans). At any time prior to the maturity date, PFG may at its option convert any amount of the new loans into shares of the Company s common stock at $9.66 or

$12.40 per share, respectively, which equaled the ten-day volume weighted average price per share of the Company s common stock prior to the issuance date of each note. The Company may also effect at any time a mandatory conversion of amounts, subject to certain terms, conditions and limitations provided in the agreement, including a requirement that the ten-day volume weighted average price of the Company s common stock prior to the date of conversion is at least 15% greater than the conversion price. The Company may reduce the conversion price to a price that represents a 15% discount to the ten-day volume weighted average price of its common stock to satisfy this condition and effect a mandatory conversion. As a result of the conversion of the initial loan and the subsequent issuance of the

new loans the Company has reflected a net (expense) benefit of $(61) and $415 for the three and nine months ended March 31, 2011, respectively, in interest and other income (expense) which represents the net effect of (i) the write-off of the conversion option on the initial loan, (ii) the write-off of the unamortized debt premium on the initial loan and (iii) the change in fair value of the conversion options on the new loans.

The loans are secured by certain of the Company s assets, and the agreement contains customary covenants limiting the Company s ability to, among other things, incur debt or liens, make certain investments and loans, effect certain redemptions of and declare and pay certain dividends on its stock, permit or suffer certain change of control transactions, dispose of collateral, or change the nature of its business. In addition, the PFG loan and security agreement contains financial covenants requiring the Company to maintain certain liquidity and fixed charge coverage ratios, and certain three-month EBITDA targets. The Company was in compliance with all financial covenants at March 31, 2011. If the Company does not comply with the various covenants, PFG may, subject to various customary cure rights, decline to provide additional loans, require amortization of the loan over its remaining term, or require the immediate payment of all amounts outstanding under the loan and foreclose on any or all collateral, depending on which financial covenants are not maintained.

In connection with the execution of the PFG loan and security agreement, the Company issued a warrant to PFG on April 14, 2010, which allows PFG to purchase 147,330 shares of the Company s common stock at a price per share of $5.43, which price was based on the ten-day volume weighted average price per share of the Company s common stock prior to the date of the agreement. The warrant became fully vested upon the issuance of the $3,500 note. The warrant expires on the fifth anniversary of the issue date, subject to earlier expiration in accordance with the terms. The balance outstanding under the loan and security agreement at March 31, 2011 was $4,887 including the net unamortized premium associated with the warrant and Company s conversion option.

As of March 31, 2011, debt maturities were as follows:

Three months ending June 30, 2011	$ 934
2012	3,962
2013	3,589
2014	250
2015	4,000
Total	$ 12,735
Less: Current Maturities	(3,723)
Long-Term Debt (excluding net unamortized premium)	$ 9,012
Add: Net Unamortized Premium	586
Long-term debt	$ 9,598

5. Interest and Other, Net

Interest and other, net, includes the following:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Interest expense, net of premium amortization	$ (319)	$ (341)	$ (1,122)	$ (1,075)
Interest income	2	58	13	245
Change in fair value of conversion option	(61)		690	
Net write-offs upon conversion (option and unamortized premium)			(275)	
Other	(14)	(66)	(45)	(66)

Total	$ (392)	$ (349)	$ (739)	$ (896)

6. Stock Options and Restricted Stock Awards

The Company has a 2007 Equity Incentive Plan (the 2007 Plan), under which options to purchase common stock and restricted stock awards have been granted to employees, directors and consultants at exercise prices determined by the board of directors; and a 1991 Stock Option Plan (the 1991 Plan) and a 2003 Stock Option Plan (the 2003 Plan) (the 2007 Plan, the 1991 Plan and the 2003 Plan collectively, the Plans). The 1991 Plan and 2003 Plan permitted the granting of incentive stock options and nonqualified

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options. A total of 485,250 shares of common stock were originally reserved for issuance under the 1991 Plan, but with the execution of the 2003 Plan no additional options are available for grant under the 1991 Plan. A total of 2,458,600 shares of common stock were originally reserved for issuance under the 2003 Plan, but with the approval of the 2007 Plan no additional options are available for grant under the 2003 Plan. The 2007 Plan originally allowed for the granting of up to 1,941,000 shares of common stock as approved by the board of directors in the form of nonqualified or incentive stock options, restricted stock awards, restricted stock unit awards, performance share awards, performance unit awards or stock appreciation rights to officers, directors, consultants and employees of the Company. The Plan was amended in February 2009 to increase the number of authorized shares to 2,509,969. The amended 2007 Plan includes a renewal provision whereby the number of shares shall automatically be increased on the first day of each fiscal year ending on July 1, 2017, by the lesser of (i) 970,500 shares, (ii) 5% of the outstanding common shares on such date, or (iii) a lesser amount determined by the board of directors. On July 1, 2010, the number of shares available for grant was increased by 757,427 under the 2007 Plan renewal provision. The Company also maintains the 2006 Equity Incentive Plan (the 2006 Plan), relating to Replidyne activity prior to the merger in February 2009. A total of 794,641 shares were originally reserved under the 2006 Plan, but effective with the merger no additional options will be granted under it.

All options granted under the Plans become exercisable over periods established at the date of grant. The option exercise price is generally based upon the market price for the Company s common stock on the date of grant. In addition, the Company has granted nonqualified stock options to a director outside of the Plans.

Stock option activity for the nine months ended March 31, 2011 is as follows:

	Number of Options(a)	Weighted Average Exercise Price
Options outstanding at June 30, 2010	3,356,993	$ 10.49
Options exercised	(54,777)	$ 8.26
Options forfeited or expired	(105,292)	$ 12.32
Options outstanding at March 31, 2011	3,196,924	$ 10.47

(a) Includes the effect of options granted, exercised, forfeited or expired from the 1991 Plan, 2003 Plan, 2007 Plan, and options granted outside the stock option plans described above.

Options typically vest over two to three years. An employee s unvested options are forfeited when employment is terminated; vested options must be exercised at or within 90 days of termination to avoid forfeiture. The Company determines the fair value of options using the Black-Scholes option pricing model. The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on a straight-line basis over the options vesting periods.

The fair value of each restricted stock award is equal to the fair market value of the Company s common stock at the date of grant. Vesting of restricted stock awards ranges from one to three years. The estimated fair value of restricted stock awards, including the effect of estimated forfeitures, is recognized on a straight-line basis over the restricted stock s vesting period. Restricted stock award activity for the nine months ended March 31, 2011 is as follows:

	Number of Shares	Weighted Average Fair Value
Restricted stock awards outstanding at June 30, 2010	1,105,883	$ 7.69

Restricted stock awards granted	712,959	$	5.36
Restricted stock awards forfeited	(151,524)	$	7.28
Restricted stock awards vested	(355,203)	$	6.00
Restricted stock awards outstanding at March 31, 2011	1,312,115	$	6.22

7. Texas Production Facility

Effective on September 9, 2009, the Company entered into an agreement with the Pearland Economic Development Corporation (the PEDC) for the construction and lease of an approximately 46,000 square foot production facility located in Pearland, Texas. The facility will primarily serve as an additional manufacturing location for the Company.

The lease agreement provides that the PEDC will lease the facility and the land immediately surrounding the facility to the Company for an initial term of ten years, which began April 1, 2010. Monthly fixed rent payments are $35 for each of the first five

years of the initial term and $38 for each of the last five years of the initial term. The Company is also responsible for paying the taxes and operating expenses related to the facility. The lease has been classified as an operating lease for financial statement purposes. Upon an event of default under the agreement, the Company will be liable for the difference between the balance of the rent owed for the remainder of the term and the fair market rental value of the leased premises for such period.

The Company has the option to renew the lease for up to two additional periods of five years each. If the Company elects to exercise one or both of these options, the rent for such extended terms will be set at the prevailing market rental rates at such times, as determined in the agreement. After the commencement date and until shortly before the tenth anniversary of the commencement date, the Company will have the option to purchase all, but not less than all, of the leased premises at fair market value, as determined in the agreement. Further, within six years of the commencement date and subject to certain conditions, the Company has options to cause the PEDC to make two additions or expansions to the facility of a minimum of 34,000 and 45,000 square feet each.

The Company and the PEDC previously entered into a Corporate Job Creation Agreement dated June 17, 2009. The Job Creation Agreement provided the Company with $2,975 in net cash incentive funds. The Company believes it will be able to comply with the conditions specified in the grant agreement. The PEDC will provide the Company with an additional $1,700 of net cash incentive funds in the following amounts and upon achievement of the following milestones:

$1,020, upon the hiring of the 75th full-time employee at the facility; and

$680, upon the hiring of the 125th full-time employee at the facility.

In order to retain all of the cash incentives, beginning one year and 90 days after the commencement date, the Company must not have fewer than 25 full-time employees at the facility for more than 120 consecutive days. Failure to meet this requirement will result in an obligation to make reimbursement payments to the PEDC as outlined in the agreement. The Company will not have any reimbursement requirements after 60 months from the effective date of the agreement.

The Job Creation Agreement also provides the Company with a net $1,275 award, of which $510 will be funded by a grant from the State of Texas for which the Company has applied through the Texas Enterprise Fund program. As of March 31, 2011, $340 has been received and the remaining $170 will be provided upon the hiring of the 55th full-time employee at the facility. The PEDC has committed, by resolution, to guarantee the award and will make payment to the Company for the remaining $765. As of March 31, 2011, $255 has been received. The grant from the State of Texas is subject to reimbursement if the Company fails to meet certain job creation targets through 2014 and maintain these positions through 2020.

The Company has presented the net cash incentive funds as a current and long-term liability on the balance sheet. The liabilities will be reduced over a 60 month period and recorded as an offset to expenditures incurred using a systematic methodology that is intended to reduce the majority of the liabilities in the first 24 months of the agreement. As of March 31, 2011, $1,622 in expenses has reduced the deferred grant incentive liabilities, resulting in a remaining current liability of $717 and long-term liability of $1,741.

8. Commitment and Contingencies

ev3 Legal Proceedings

The Company was a party to a legal proceeding with ev3 Inc., ev3 Endovascular, Inc. and FoxHollow Technologies, Inc., together referred to as the Plaintiffs, which filed a complaint on December 28, 2007 in the Ramsey County District Court for the State of Minnesota against the Company and former employees of FoxHollow currently employed by the Company, which complaint was subsequently amended.

On October 27, 2010, the Company entered into a settlement agreement with the Plaintiffs. The agreement dismisses all claims and counterclaims in the legal proceeding between the two parties, with neither party admitting any liability or wrongdoing. Pursuant to the agreement, the Company paid ev3 $1,000, in the form of $750 cash and a $250 promissory note. The promissory note bears interest at 3.5% per annum, with principal and cumulative interest due and payable on or before January 1, 2014. The Company has received insurance proceeds of $500 related to the settlement, and has recorded a net expense of $500 in selling, general, and administrative expenses related to the

settlement during the nine months ended March 31, 2011. In addition, during the nine months ended March 31, 2011, the Company received an additional $250 of insurance proceeds related to the reimbursement of out-of-pocket costs incurred related to this litigation.

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9. Earnings Per Share

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted earnings per common share computations:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Numerator				
Net loss	$ (2,384)	$ (6,518)	$ (8,642)	$ (19,503)
Denominator				
Weighted average common shares basic	16,146,667	14,878,859	15,778,287	14,681,014
Effect of dilutive stock options and warrants (a)(b)				
Weighted average common shares outstanding diluted	16,146,667	14,878,859	15,778,287	14,681,014
Net loss per common share basic and diluted	$ (0.15)	$ (0.44)	$	