

**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, 2019

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
(Address of principal executive offices)

01803
(Zip Code)

(781) 221-2266
(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input 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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	LMAT	The Nasdaq Global Market

The registrant had 19,671,232 shares of common stock, \$.01 par value per share, outstanding as of May 2, 2019.

**LEMAITRE VASCULAR
FORM 10-Q
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Part I. Financial Information**Item 1. Financial Statements****LeMaitre Vascular, Inc.
Consolidated Balance Sheets**

	(unaudited) March 31, 2019	December 31, 2018
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,766	\$ 26,318
Short-term marketable securities	32,691	21,668
Accounts receivable, net of allowances of \$459 at March 31, 2019 and \$399 at December 31, 2018	15,460	15,721
Inventory and other deferred costs	29,408	27,388
Prepaid expenses and other current assets	3,093	2,922
Total current assets	<u>95,418</u>	<u>94,017</u>
Property and equipment, net	14,109	14,102
Right-of-use leased assets	6,266	-
Goodwill	29,880	29,868
Other intangibles, net	13,179	13,692
Deferred tax assets	1,190	1,215
Other assets	210	194
Total assets	<u>\$ 160,252</u>	<u>\$ 153,088</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,381	\$ 1,732
Accrued expenses	13,372	15,847
Acquisition-related obligations	2,194	2,179
Lease liabilities - short-term	1,438	-
Total current liabilities	<u>19,385</u>	<u>19,758</u>
Lease liabilities - long-term	5,263	-
Deferred tax liabilities	484	484
Other long-term liabilities	2,032	2,611
Total liabilities	<u>27,164</u>	<u>22,853</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value; authorized 3,000,000 shares; none outstanding	-	-
Common stock, \$0.01 par value; authorized 37,000,000 shares; issued 21,173,669 shares at March 31, 2019, and 21,110,224 shares at December 31, 2018	212	211
Additional paid-in capital	99,666	98,442
Retained earnings	47,672	45,831
Accumulated other comprehensive loss	(4,092)	(3,900)
Treasury stock, at cost; 1,502,437 shares at March 31, 2019 and 1,501,511 shares at December 31, 2018	(10,370)	(10,349)
Total stockholders' equity	<u>133,088</u>	<u>130,235</u>
Total liabilities and stockholders' equity	<u>\$ 160,252</u>	<u>\$ 153,088</u>

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2019	2018
	(in thousands, except per share data)	
Net sales	\$ 28,479	\$ 25,994
Cost of sales	9,015	7,520
Gross profit	19,464	18,474
Sales and marketing	7,845	7,090
General and administrative	4,944	4,697
Research and development	2,240	1,825
Total operating expenses	15,029	13,612
Income from operations	4,435	4,862
Other income (expense):		
Interest income	157	95
Foreign currency gain (loss)	(79)	(41)
Income before income taxes	4,513	4,916
Provision for income taxes	1,000	1,063
Net income	\$ 3,513	\$ 3,853
Earnings per share of common stock:		
Basic	\$ 0.18	\$ 0.20
Diluted	\$ 0.17	\$ 0.19
Weighted-average shares outstanding:		
Basic	19,640	19,283
Diluted	20,205	20,181
Cash dividends declared per common share	\$ 0.085	\$ 0.070

See accompanying notes to consolidated financial statements.

LeMaitre Vascular, Inc.
Consolidated Statements of Comprehensive Income
(unaudited)

	Three months ended	
	March 31,	
	2019	2018
	(in thousands)	
Net income	\$ 3,513	\$ 3,853
Other comprehensive income (loss):		
Foreign currency translation adjustment, net	(261)	328
Unrealized gain (loss) on short-term marketable securities	69	(45)
Total other comprehensive income (loss)	(192)	283
Comprehensive income	<u>\$ 3,321</u>	<u>\$ 4,136</u>

See accompanying notes to consolidated financial statements.

LeMaitre Vascular, Inc.
Consolidated Statements of Stockholders' Equity
(unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2017	20,745,041	\$ 207	\$ 93,127	\$ 28,333	\$ (2,289)	1,480,101	\$ (9,608)	109,770
Net income				3,853				3,853
Other comprehensive income					283			283
Issuance of common stock for stock options exercised	34,826	1	292					293
Stock-based compensation expense			621					621
Repurchase of common stock at cost								-
Common stock dividend accrued				(1,350)				(1,350)
Balance at March 31, 2018	20,779,867	\$ 208	\$ 94,040	\$ 30,836	\$ (2,006)	1,480,101	\$ (9,608)	\$ 113,470
Balance at December 31, 2018	21,110,224	\$ 211	\$ 98,442	\$ 45,831	\$ (3,900)	1,501,511	\$ (10,349)	\$ 130,235
Net income				3,513				3,513
Other comprehensive income					(192)			(192)
Issuance of common stock for stock options exercised	61,419	1	478					479
Vested restricted stock units	2,026	-						-
Stock-based compensation expense			746					746
Repurchase of common stock at cost						926	(21)	(21)
Common stock dividend accrued				(1,672)				(1,672)
Balance at March 31, 2019	21,173,669	212	99,666	47,672	(4,092)	1,502,437	(10,370)	133,088

See accompanying notes to consolidated financial statements.

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

	For the three months ended	
	March 31,	
	2019	2018
	(in thousands)	
Operating activities		
Net income	\$ 3,513	\$ 3,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,284	1,036
Stock-based compensation	746	621
Fair value adjustment to contingent consideration obligations	44	30
Provision for doubtful accounts	121	73
Provision for inventory write-downs	238	101
Foreign currency transaction loss	(54)	(6)
Changes in operating assets and liabilities:		
Accounts receivable	30	571
Inventory and other deferred costs	(2,370)	(808)
Prepaid expenses and other assets	(261)	360
Accounts payable and other liabilities	(3,510)	(2,080)
Net cash provided by operating activities	(219)	3,751
Investing activities		
Purchases of property and equipment and other assets	(802)	(427)
Purchases of short-term marketable securities	(10,954)	(94)
Net cash used in investing activities	(11,756)	(521)
Financing activities		
Payments of deferred acquisition consideration	(33)	(35)
Proceeds from issuance of common stock	457	292
Net cash provided by financing activities	424	257
Effect of exchange rate changes on cash and cash equivalents	(1)	198
Net increase in cash and cash equivalents	(11,552)	3,685
Cash and cash equivalents at beginning of period	26,318	19,096
Cash and cash equivalents at end of period	\$ 14,766	\$ 22,781
Supplemental disclosures of cash flow information (see Note 12)		

See accompanying notes to consolidated financial statements.

LeMaitre Vascular, Inc.
Notes to Consolidated Financial Statements
March 31, 2019
(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 also derive revenues from the processing and cryopreservation of human tissues for implantation in patients. We operate in a single segment in which our principal product lines include the following: anastomotic clips, angioscopes, balloon catheters, biologic vascular grafts, biologic vascular patches, carotid shunts, polyester vascular grafts, powered phlebectomy devices, radiopaque marking tape, remote endarterectomy devices, surgical glue and valvulotomes. Our offices are located in Burlington, Massachusetts; Fox River Grove, Illinois; Vaughan, Canada; Sulzbach, Germany; Milan, Italy; Madrid, Spain; Saint-Etienne, France; North Melbourne, Australia; Tokyo, Japan; Shanghai, China and Singapore.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (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 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, 2019 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, 2018, including the notes thereto, included in our Form 10-K filed with the Securities and Exchange Commission (SEC) on March 11, 2019.

Consolidation

Our consolidated financial statements include the accounts of LeMaitre Vascular and the accounts of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Our revenue is derived primarily from the sale of disposable or implantable devices used during vascular surgery. We sell primarily directly to hospitals and to a lesser extent to distributors, as described below, and, during the periods presented in our consolidated financial statements, entered into consigned inventory arrangements with either hospitals or distributors on a limited basis. With the acquisition of the RestoreFlow allograft business, we also derive revenues from the processing and cryopreservation of human tissues for implantation in patients. These revenues are recognized when services have been provided and the tissue has been shipped to the customer, provided all other revenue recognition criteria discussed in the succeeding paragraph have been met.

On January 1, 2018 we adopted the provisions of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. We used the modified retrospective method of adoption under which the comparative information was not restated and will continue to be reported under the standard in effect for those periods. The adoption of this standard was not material to our financial statements and there was no cumulative effect adjustment to the opening balance of retained earnings required. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard explains that to achieve the core principle, an entity should take the following actions:

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price
- Step 5: Recognize revenue when or as the entity satisfies a performance obligation

Revenue is recognized when or as a company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). In instances in which shipping and handling activities are performed after a customer takes control of the goods (such as when title passes upon shipment from our dock), we have made the policy election allowed under Topic 606 to account for these activities as fulfillment costs and not as performance obligations.

We generally reference customer purchase orders to determine the existence of a contract. Orders that are not accompanied by a purchase order are confirmed with the customer either in writing or verbally. The purchase orders or similar correspondence, once accepted, identify the performance obligations as well as the transaction price, and otherwise outline the rights and obligations of each party. We allocate the transaction price of each contract among the performance obligations in accordance with the pricing of each item specified on the purchase order, which is in turn based on standalone selling prices per our published price lists. In cases where we discount products or provide certain items free of charge, we allocate the discount proportionately to all performance obligations, unless it can be demonstrated that the discount should be allocated entirely to one or more, but not all, of the performance obligations.

We recognize revenue, net of allowances for returns and discounts, fees paid to group purchasing organizations, and any sales and value added taxes required to be invoiced, which we have elected to exclude from the measurement of the transaction price as allowed by the standard, at the time of shipment (taking into consideration contractual shipping terms), or in the case of consigned inventory, when it is consumed. Shipment is the point at which control of the product and title passes to our customers, and at which LeMaitre Vascular has a present right to receive payment for the goods.

Below is a disaggregation of our revenue by major geographic area, which is among the primary categorizations used by management in evaluating financial performance, for the periods indicated (in thousands):

	Three months ended March 31,	
	2019	2018
	(\$ in thousands)	
Americas	\$ 16,375	\$ 15,860
Europe, Middle East and Africa	10,013	8,755
Asia/Pacific Rim	2,091	1,379
Total	<u>\$ 28,479</u>	<u>\$ 25,994</u>

Except as discussed in Note 6, we do not carry any contract assets or contract liabilities, as there are generally no unbilled amounts due from customers under contracts for which we have partially satisfied performance obligations, or amounts received from customers for which we have not satisfied performance obligations. We satisfy our performance obligations under revenue contracts within a very short time period from receipt of the orders, and payments from customers are typically received within 30 to 60 days of fulfillment of the orders, except in certain geographies such as Spain and Italy where the payment cycle is customarily longer. Accordingly, there is no significant financing component to our revenue contracts. Additionally, we have elected as a policy that incremental costs (such as commissions) incurred to obtain contracts are expensed as incurred, due to the short-term nature of the contracts.

Customers returning products may be entitled to full or partial credit based on the condition and timing of the return. To be accepted, a returned product must be unopened (if sterile), unadulterated, and undamaged, must have at least 18 months remaining prior to its expiration date, or twelve months for our hospital customers in Europe, and generally be returned within 30 days of shipment. These return policies apply to sales to both hospitals and distributors. The amount of products returned to us, either for exchange or credit, has not been material. Nevertheless, we provide for an allowance for future sales returns based on historical return experience, which requires judgment. Our cost of replacing defective products has not been material and is accounted for at the time of replacement.

Recent Accounting Pronouncements

On January 1, 2019 we adopted the provisions of ASU No. 2016-02, *Leases (Topic 842)*, subsequently amended by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. Under the new guidance, we are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. As allowed by the standard, we elected to use the transition option not to apply the new lease standard to comparative periods but instead to recognize a cumulative-effect adjustment to retained earnings as of the date of adoption, January 1, 2019. Upon adoption of this standard, we recognized lease liabilities of \$7.0 million and right-of-use assets in the amount of \$6.5 million (net of the reversal of a previously recorded deferred rent liability of \$0.5 million). There was no cumulative-effect adjustment to retained earnings required. Additional disclosures required under the new standard are included in Note 6 to these financial statements.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The new standard is effective for us beginning January 1, 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In August 2018, the FASB issued ASU 2018-13 Fair Value Measurement (Topic 820), which modifies the disclosure requirements for fair value measurements. The new standard is effective for us beginning January 1, 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Other Comprehensive Income (Topic 220)*, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and is expected to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this ASU also require certain disclosures about stranded tax effects. The new standard was effective for us beginning January 1, 2019. The adoption of this standard did not have a material impact on our financial statements.

In January 2017, the FASB issued ASU 2017-04, which, among other provisions, eliminates "step 2" from the goodwill impairment test. The annual, or interim, goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for us beginning January 1, 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

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 more likely than not, 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 intention is to permanently reinvest these earnings.

We recognize, measure, present and disclose in our financial statements any uncertain tax positions that we have taken, or expect to take on a tax return. We operate in multiple taxing jurisdictions, both within and without the United States, and may be subject to audits from various tax authorities. 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 monitor the realizability of our deferred tax assets and adjust the valuation allowance accordingly.

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Our policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense. Our 2019 income tax expense varies from the statutory rate mainly due to the generation of federal and state tax credits, permanent items, and different statutory rates from our foreign subsidiaries. Additionally, in the first quarter of 2019, we recognized certain discrete items primarily related to the exercise of stock options. Our 2018 income tax expense varied from the statutory rate mainly due to federal and state tax credits, permanent items, different statutory rates from our foreign entities, and discrete stock option exercises.

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, 2019, the gross amount of unrecognized tax benefits exclusive of interest and penalties was \$722,000. We remain subject to examination until the statute of limitations expires for each respective tax jurisdiction. The statute of limitations will be open with respect to these tax positions until 2026. A reconciliation of beginning and ending amount of our unrecognized tax benefits is as follows:

	Three months ended March 31, 2019
	(in thousands)
Unrecognized tax benefits as of December 31, 2018	711
Additions for tax positions of current year	14
Additions for tax positions of prior years	(3)
Reductions for settlements with taxing authorities	-
Reductions for lapses of the applicable statutes of limitations	-
Unrecognized tax benefits as of March 31, 2019	<u>722</u>

As of March 31, 2019, a summary of the tax years that remain subject to examination in our taxing jurisdictions is as follows:

United States	2015 and forward
Foreign	2012 and forward

3. Inventories and Other Deferred Costs

Inventories and other deferred costs consist of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Raw materials	\$ 4,449	\$ 4,085
Work-in-process	5,030	5,095
Finished products	17,925	16,391
Other deferred costs	2,004	1,817
Total inventory and other deferred costs	<u>\$ 29,408</u>	<u>\$ 27,388</u>

We had inventory on consignment of \$1.8 million and \$1.7 million at March 31, 2019 and December 31, 2018, respectively.

Other deferred costs relate to our RestoreFlow allograft offering and include costs incurred for the preservation of human vascular tissues available for shipment, tissues currently in active processing, and tissues held in quarantine pending release to implantable status. By federal law, human tissues cannot be bought or sold. Therefore, the vascular tissues we preserve are not held as inventory, and the costs we incur to procure and process them are instead accumulated and deferred. These costs include fixed and variable overhead costs associated with the cryopreservation process, including primarily direct labor costs, tissue recovery fees, inbound freight charges, indirect materials and facilities costs. General and administrative expenses and selling expenses associated with the provision of these services are expensed as incurred.

4. Acquisitions and Divestitures

Acquisitions are accounted for using the acquisition method, and the acquired companies' results have been included in the accompanying consolidated financial statements from their respective dates of acquisition. In each case for the acquisitions disclosed below, pro forma information assuming the acquisition had occurred at the beginning of the earliest period presented is not included, as the impact is immaterial.

With the exception of Cardial discussed below, our acquisitions have historically been made at prices above the fair value of the acquired identifiable assets, resulting in goodwill, due to expectations of synergies that will be realized by combining businesses. These synergies include the use of our existing sales channel to expand sales of the acquired businesses' products and services, consolidation of manufacturing facilities, and the leveraging of our existing administrative infrastructure. The fair market valuations associated with these transactions fall within Level 3 of the fair value hierarchy, due to the use of significant unobservable inputs to determine fair value. The fair value measurements were calculated using unobservable inputs, primarily using the income approach, specifically the discounted cash flow method. The amount and timing of future cash flows within our analysis was based on our due diligence models, most recent operational budgets, long range strategic plans and other estimates. Our assumptions associated with these Level 3 valuations are discussed below and in Note 13 to these financial statements.

Cardial

On October 22, 2018, through a newly created subsidiary LeMaitre Cardial SAS, we entered into an agreement to acquire the business assets of Cardial, a company located in Saint-Etienne, France and formerly owned by Becton, Dickinson and Company. The Cardial business consists of the manufacturing of polyester vascular grafts, valvulotomes, surgical glue and original equipment manufacturing (OEM) services. On the same date, the parties entered into a separate agreement under which LeMaitre Cardial SAS purchased the building and land previously owned by Cardial.

The purchase price for the acquired assets, including the land and building, inventory, machinery and equipment, intellectual property, permits and approvals, data and records, and customer and supplier information, was €2.0 million (\$2.3 million). At closing, €1.1 million (\$1.3 million) was paid in cash, and €0.5 million (\$0.5 million) of liabilities were assumed by LeMaitre Cardial SAS. Another €0.4 million (\$0.4 million) is due in two installments, half to be paid twelve months after the closing date, and half eighteen months after the closing date. There are no contingencies associated with these holdback payments, although they may be reduced depending upon the results of a reconciliation of the value of inventory transferred, as outlined in the agreement, or for certain post-closing claims.

The following table summarizes the preliminary purchase price allocation:

	Allocated Fair Value (in thousands)
Inventory	€ 2,419
Land and building	750
Equipment and supplies	94
Intangible assets	623
Bargain purchase gain	(1,946)
Purchase price	<u>€ 1,940</u>

The bargain purchase gain was recorded to reflect the excess of the net assets acquired over the purchase price. We recorded deferred taxes on this gain of €0.5 million (\$0.6 million), resulting in a net gain of €1.4 million (\$1.6 million).

The following table reflects the preliminary allocation of purchase consideration to the acquired intangible assets and related estimated useful lives:

	Allocated Fair Value (in thousands)	Weighted Average Useful Life (in years)
Customer relationships	€ 250	16.0
Intellectual property	237	5.0
Non-compete agreement	46	5.0
Tradenames	90	5.0
Total intangible assets	<u>€ 623</u>	

The weighted-average amortization period of the acquired intangible assets was 9.4 years.

Applied Medical

On September 20, 2018, we entered into an agreement to acquire the assets of the embolectomy catheter business of Applied Medical Resources Corporation (Applied). The acquired business consists of several embolectomy, thrombectomy and irrigation catheter product lines which are sold worldwide (approximately 60% in the U.S. and 40% outside the U.S.). On the same date, we entered into a transition services agreement under which Applied will manufacture and supply us with inventory for a period of twelve months, unless extended in writing by both parties.

The purchase price for the acquired assets, which included inventory, machinery and equipment, intellectual property, permits and approvals, data and records, and customer and supplier information, was \$14.2 million. Of this amount, \$11 million was paid at closing, with another \$2 million due 12 months following the closing date, and the final \$1.2 million due 24 months following the closing date. The deferred amounts totaling \$3.2 million were recorded at an acquisition-date fair value of \$3.043 million using a discount rate of 3.75% to reflect the time value of money between the acquisition date and the payment due dates. There are no contingencies associated with these holdback payments, although they may be reduced for certain post-closing claims.

The following table summarizes the purchase price allocation:

	Allocated Fair Value (in thousands)
Inventory	\$ 739
Equipment and supplies	416
Intangible assets	6,527
Goodwill	6,361
	<u>14,043</u>
Purchase price	<u>\$ 14,043</u>

The goodwill results from expected synergies of combining the acquired products and customer information to our existing operations, and is deductible for tax purposes over 15 years.

The following table reflects the allocation of purchase consideration to the acquired intangible assets and related estimated useful lives:

	Allocated Fair Value (in thousands)	Weighted Average Useful Life (in years)
Customer relationships	\$ 4,475	16.0
Intellectual property	1,316	7.0
Non-compete agreement	530	5.0
Tradenames	206	7.0
	<u>6,527</u>	
Total intangible assets	<u>\$ 6,527</u>	

The weighted-average amortization period of the acquired intangible assets was 13.0 years.

Reddick Divestiture

On April 5, 2018, we entered into an asset purchase agreement with Specialty Surgical Instrumentation, Inc. to sell the inventory, intellectual property and other assets associated exclusively with our Reddick cholangiogram catheter and Reddick-Saye screw product lines for \$7.4 million. Concurrent with this divestiture we entered into a transition services agreement under which we will continue to manufacture and supply these products to the buyer for a period of up to two years unless extended by both parties, as well as a balloon supply agreement under which we will supply balloons, a component of the cholangiogram catheters, to the buyer for a period of up to six years unless extended by both parties. We recorded a gain in connection with these agreements of \$5.9 million. The following table summarizes the allocation of consideration received:

	Allocated Fair Value (in thousands)
Inventory	\$ 308
Deferred revenue - transition services agreement	1,081
Goodwill	135
Gain on divestiture	5,876
	<hr/>
Consideration received	\$ 7,400

Under the terms of the transition services agreement, we have agreed to manufacture the Reddick products for the buyer at prices at or in some cases below our cost. We allocated a portion of the consideration received to this agreement to reflect it at fair value and recorded it as deferred revenue. As the products are sold to the buyer, we amortize a portion of the deferred revenue to adjust the gross margin on the sale to fair value on a specific identification basis. Additionally, as the Reddick product lines that were divested constituted a business, we allocated a portion of our goodwill to this divestiture based on the fair value of the business sold in relation to the fair value of the business that will be retained.

RestoreFlow Allografts

On November 10, 2016, we entered into an agreement to acquire the assets of Restore Flow Allografts, LLC, a provider of human vascular tissue processing and cryopreservation services, for an initial purchase price of \$12 million, with three additional payments of up to \$2 million each (\$6 million in total), depending upon the satisfaction of certain contingencies. One payment of \$2 million was due not later than 15 days following the expiration of the 18 month period following the closing date, subject to reductions as specified in the agreement for each calendar month that certain retained employees were not employed by us due to resignation without good reason, or termination for cause, both as defined in the agreement. The portion of this payment that was to be paid to retained employees and that was contingent on their continued employment, estimated at \$0.9 million, was accounted for as post-combination compensation expense rather than purchase consideration. The remaining \$1.1 million that was payable to non-employee investors but that was also contingent on the continued employment of the retained employees was accounted for as contingent purchase consideration, at an acquisition-date fair value of \$0.9 million. In May 2018 we paid this \$2 million liability as the contingency was met.

There were also two potential earn-out payments under the agreement. The first earn-out was calculated at 50% of the amount by which net revenue in the first 12 months following the closing exceeded \$6 million, with such payout not to exceed \$2 million. The second earn-out was calculated at 50% of the amount by which net revenue in the second 12 months following the closing exceeded \$9 million, with such payout not to exceed \$2 million. These earn-outs were accounted for as contingent consideration, at an acquisition-date fair value of \$0.1 million for the two earn-outs combined. This valuation was derived by utilizing an option pricing model technique incorporating, among other inputs, management's forecasts of future revenues, the expected volatility of revenues, and an estimated weighted average cost of capital of 14.1% to account for the risk of achievement of the revenue forecasts as well as the time value of money between acquisition date and the payment date. These milestones were not met and no amount was paid out.

The RestoreFlow business derives revenue from human tissue preservation services, in particular the processing and cryopreservation of veins and arteries. By federal law, human tissues cannot be bought or sold. Therefore, the tissues we obtain and preserve are not held as inventory, and the costs we incur to procure and process vascular tissues are instead accumulated and deferred. Revenues are recognized for the provision of cryopreservation services rather than product sales.

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The acquired assets included intellectual property, permits and approvals, data and records, equipment and furnishings, accounts receivable, inventory, literature, and customer and supplier information. We also assumed certain accounts payable. We accounted for the acquisition as a business combination.

The following table summarizes the final purchase price allocation:

	Allocated Fair Value (in thousands)
Accounts receivable	\$ 394
Deferred cryopreservation costs	2,583
Equipment and supplies	125
Accounts payable	(286)
Intangible assets	4,544
Goodwill	5,599
Purchase price	<u>\$ 12,959</u>

The goodwill is deductible for tax purposes over 15 years.

The following table reflects the allocation of purchase consideration to the acquired intangible assets and related estimated useful lives:

	Allocated Fair Value (in thousands)	Weighted Average Useful Life (in years)
Non-compete agreements	\$ 180	5.0
Tradenname	271	9.0
Procurement contracts	617	9.0
Technology	2,793	10.5
Customer relationships	683	12.5
Total intangible assets	<u>\$ 4,544</u>	

The weighted-average amortization period of the acquired intangible assets was 10.3 years.

ProCol Biologic Graft

On March 18, 2016, we acquired the ProCol biologic vascular graft (“ProCol”) business for \$2.7 million from Hancock Jaffe Laboratories, Inc. (HJL) and CryoLife, Inc. (CRY). HJL was the owner and manufacturer of ProCol and CRY was the exclusive distributor of the ProCol graft. CRY also owned an option to purchase the ProCol business, which we acquired from CRY. We bought finished goods inventory and other ProCol related assets from CRY for \$2.0 million, which was paid in full at closing. We bought other ProCol assets from HJL for \$0.7 million, 50% of which was paid at closing, with the remainder paid at subsequent dates as specified in the agreement. Additional consideration was payable to HJL for a three-year period following the closing, calculated at 10% of ProCol revenues. This additional consideration was initially valued at \$0.3 million and is being re-measured each reporting period until the payment requirement ends, with any adjustments reported in income from operations. To date, these adjustments have not been material.

Assets acquired included inventory, intellectual property and a related license, the ProCol trade name, customer lists, non-compete agreements and certain equipment and supplies. We did not assume any liabilities. We accounted for the acquisition as a business combination.

The following table summarizes the purchase price allocation:

	Allocated Fair Value (in thousands)
Inventory	\$ 2,080
Manufacturing equipment and supplies	25
Intangible assets	620
Goodwill	318
Purchase price	<u>\$ 3,043</u>

The goodwill is deductible for tax purposes over 15 years.

The following table reflects the allocation of the acquired intangible assets and related estimated useful lives:

	Allocated Fair Value (in thousands)	Weighted Average Useful Life (in years)
Non-compete agreement	\$ 84	5.0
Tradenname	109	9.5
Technology	277	9.0
Customer relationships	150	9.0
Total intangible assets	\$ 620	

The weighted-average amortization period of the acquired intangible assets was 8.6 years.

5. Goodwill and Other Intangibles

Goodwill consists of the following as of March 31, 2019:

	(in thousands)
Balance at December 31, 2018	\$ 29,868
Effects of currency exchange	12
Balance at March 31, 2019	\$ 29,880

Other intangible assets consist of the following:

	March 31, 2019			December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(in thousands)					
Product technology and intellectual property	\$ 11,728	\$ 5,989	\$ 5,739	\$ 11,728	\$ 5,726	\$ 6,002
Trademarks, tradenames and licenses	2,246	1,593	653	2,246	1,561	685
Customer relationships	10,083	3,987	6,096	10,065	3,806	6,259
Other intangible assets	2,142	1,451	691	2,145	1,399	746
Total identifiable intangible assets	\$ 26,199	\$ 13,020	\$ 13,179	\$ 26,184	\$ 12,492	\$ 13,692

These intangible assets are being amortized over their useful lives ranging from 2 to 16 years. The weighted-average amortization period for these intangibles as of March 31, 2019 is 9.7 years. Amortization expense is included in general and administrative expense and was as follows for the periods indicated.

Three months ended March 31,	
2019	2018
(in thousands)	

Amortization expense	\$ 555	\$ 419
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We estimate that amortization expense for the remainder of 2019 and for each of the five succeeding fiscal years will be as follows:

	Year ended December 31,					
	2019	2020	2021	2022	2023	2024
	(in thousands)					
Amortization expense	\$ 1,588	\$ 1,857	\$ 1,624	\$ 1,420	\$ 1,346	\$ 1,182

6. Leases

We conduct the majority of our operations in leased facilities, all of which are accounted for as operating leases, as they do not meet the criteria for finance leases. Our principal worldwide executive, distribution, and manufacturing operations are located at three adjacent 27,098 square foot, 27,289 square foot and 15,642 square foot leased facilities, as well as a fourth nearby 12,878 square foot leased facility, in Burlington, Massachusetts. Each of our Burlington leases expires in December 2023. In addition, our international operations are headquartered at a 16,470 square foot leased facility located in Sulzbach, Germany, including approximately 3,630 square feet added in 2019, under a lease which expires in August 2023. This lease contains two five-year renewal options. In addition, we have smaller long-term leased sales, marketing and other facilities located in Japan, Canada, Australia and China, and short-term leases in Italy, Spain and Singapore, as well as in Fox River Grove, Illinois. Our lease in Canada contains a five-year renewal option exercisable in February 2023. Our leases in Germany and Australia are subject to periodic rent increases based on increases in the consumer price index as measured each September and May, respectively, with such increases applicable to the subsequent twelve months of lease payments. None of our noncancelable lease payments include non-lease components such as maintenance contracts; we generally reimburse the landlord for direct operating costs associated with the leased space. We have no subleases, and there are no residual value guarantees associated with, or restrictive covenants imposed by, any of our leases. There were no assets held under capital leases at March 31, 2019.

We also lease automobiles under operating leases in the U.S. as well as certain of our international subsidiaries. The terms of these leases are generally three years, with older vehicles replaced by newer vehicles from time to time.

As discussed above under Recent Accounting Pronouncements, on January 1, 2019 we adopted the provisions of ASU No. 2016-02, *Leases (Topic 842)*, subsequently amended by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. Under the new guidance, we are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Our most significant judgment involved in determining the amounts to initially record as lease liabilities and right-of-use assets was the estimation of a discount rate; because we have no debt we have no incremental borrowing rate to reference. We therefore estimated an incremental borrowing rate using quotes from potential lenders as the primary inputs, augmented by other available information. The resulting rate selected was 5.25%. We determined that it was appropriate to apply this single rate to our portfolio of leases worldwide, as the lease terms and conditions are substantially similar, and because we believe our subsidiaries would be unable to obtain borrowings on their own without a commitment of parent company support.

Additional information with respect to our leases is as follows:

	Three months ended March 31, 2019 <u>(in thousands)</u>
Lease cost	
Operating lease cost	\$ 422
Short-term lease cost	68
Total lease cost	<u>\$ 490</u>
Other information	
Cash paid for amounts included in the measurement of operating lease liabilities	<u>\$ 514</u>
Right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ 217</u>
Weighted average remaining lease term - operating leases (in years)	4.2
Weighted average discount rate - operating leases	5.25%

At March 31, 2019, the minimum noncancelable operating lease rental commitments with initial or remaining terms of more than one year are as follows:

Remainder of 2019	\$ 1,391
Year ending December 31,	
2020	1,812
2021	1,662
2022	1,407
2023	1,247
Adjustment to net present value as of March 31, 2019	(818)
Minimum noncancelable lease liability	<u>\$ 6,701</u>

7. Accrued Expenses and Other Long-term Liabilities

Accrued expenses consist of the following:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(in thousands)	
Compensation and related taxes	\$ 4,533	\$ 7,973
Income and other taxes	2,052	2,927
Professional fees	98	43
Deferred revenue	368	552
Dividend payable	1,672	-
Other	4,649	4,352
	<u> </u>	<u> </u>
Total	<u>\$ 13,372</u>	<u>\$ 15,847</u>

As discussed in Note 4 above, deferred revenue relates to our divestiture of the Reddick product line and an associated transition services agreement that we entered into contemporaneously with the divestiture, under which we agreed to manufacture and sell product to the buyer at prices at or below our cost. We allocated a portion of the consideration received from the divestiture to this transition services agreement to reflect it at fair value and recorded it as deferred revenue. As the products are sold to the buyer, which we expect will occur over approximately the next six to nine months, we amortize a portion of the deferred revenue to adjust the gross margin on the sale to fair value on a specific identification basis. The following table summarizes the changes in the deferred revenue balance during the three months ended March 31, 2019:

	<u>March 31, 2019</u>
	(in thousands)
Beginning contract liability balance	\$ 552
Revenue recognized upon satisfaction of performance obligations in the period	(184)
	<u> </u>
Ending balance	<u>\$ 368</u>

Other long-term liabilities consist of the following:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(in thousands)	
Acquisition-related liabilities	\$ 1,340	\$ 1,326
Deferred rent	-	530
Income taxes	555	559
Other	137	196
	<u> </u>	<u> </u>
Total	<u>\$ 2,032</u>	<u>\$ 2,611</u>

8. Segment and Enterprise-Wide Disclosures

Under Accounting Standards Codification Topic 280, *Segment Reporting*, operating segments are defined as components of an enterprise for which separate, discrete financial information is available and evaluated 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 sales by product line and by legal entity for local reporting purposes.

Most of our revenues are generated in the United States, Germany, and other European countries as well as in Canada, Japan and China. Substantially all of our assets are located in the United States. Net sales to unaffiliated customers by country were as follows:

	Three months ended March 31,	
	2019	2018
	(in thousands)	
United States	\$ 14,758	\$ 14,820
Germany	3,080	3,106
Other countries	10,641	8,068
Net Sales	<u>\$ 28,479</u>	<u>\$ 25,994</u>

9. Share-based Compensation

Our Third Amended and Restated 2006 Stock Option and Incentive 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:

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Stock option awards	\$ 447	\$ 389
Restricted stock units	299	232
Total share-based compensation	<u>\$ 746</u>	<u>\$ 621</u>

Stock-based compensation is included in our statements of operations as follows:

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Cost of sales	\$ 82	\$ 64
Sales and marketing	158	138
General and administrative	419	351
Research and development	87	68
Total stock-based compensation	<u>\$ 746</u>	<u>\$ 621</u>

We did not grant any options or issue any awards of restricted stock during the three-month periods ended March 31, 2019 or 2018.

We issued approximately 63,000 and 35,000 shares of common stock following the exercise or vesting of underlying stock options or restricted stock units during the three months ended March 31, 2019 and 2018, respectively.

10. Net Income per Share

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

	Three months ended	
	March 31,	
	2019	2018
	(in thousands, except per share data)	
Basic:		
Net income available for common stockholders	\$ 3,513	\$ 3,853
Weighted average shares outstanding	19,640	19,283
Basic earnings per share	\$ 0.18	\$ 0.20
Diluted:		
Net income available for common stockholders	\$ 3,513	\$ 3,853
Weighted-average shares outstanding	19,640	19,283
Common stock equivalents, if dilutive	565	898
Shares used in computing diluted earnings per common share	20,205	20,181
Diluted earnings per share	\$ 0.17	\$ 0.19
Shares excluded in computing diluted earnings per share as those shares would be anti-dilutive	542	218

11. Stockholders' Equity

Share Repurchase Program

On February 14, 2019, our Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock through transactions on the open market, in privately negotiated purchases or otherwise. The repurchase program may be suspended or discontinued at any time and will conclude on February 14, 2020, unless extended by the Board.

Dividends

In February 2011, our Board of Directors approved a policy for the payment of quarterly cash dividends on our common stock. 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. The dividend activity for the periods presented is as follows:

Record Date	Payment Date	Per Share Amount	Dividend Payment
			(in thousands)
Fiscal Year 2019			
March 22, 2019	April 5, 2019	\$ 0.085	\$ 1,672
Fiscal Year 2018			
March 22, 2018	April 5, 2018	\$ 0.070	\$ 1,351
May 22, 2018	June 7, 2018	\$ 0.070	\$ 1,353
August 22, 2018	September 6, 2018	\$ 0.070	\$ 1,369
November 20, 2018	December 6, 2018	\$ 0.070	\$ 1,372

On April 29, 2019, our Board of Directors approved a quarterly cash dividend on our common stock of \$0.085 per share payable on June 6, 2019, to stockholders of record at the close of business on May 22, 2019, which will total approximately \$1.7 million.

12. Supplemental Cash Flow Information

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Cash paid for income taxes, net	\$ 2,173	\$ 1,562

13. 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.

Level 1 assets being measured at fair value on a recurring basis as of March 31, 2019 included our short-term investment mutual fund account.

We had no Level 2 assets being measured at fair value on a recurring basis as of March 31, 2019.

As discussed in Note 4, several of our acquisition-related assets and liabilities were measured using Level 3 techniques. During 2016, we recorded contingent liabilities associated with our acquisitions of the RestoreFlow allograft and ProCol biologic graft businesses. In the case of the RestoreFlow allograft acquisition, the agreement included the potential for us to pay up to \$5.1 million of additional consideration, with \$1.1 million contingent on the continued employment by LeMaitre Vascular of certain retained employees, and another \$4.0 million contingent on the achievement of specified levels of revenues in the first 12 and 24 months following the acquisition date. This additional consideration was initially valued in total at \$1.0 million and was being re-measured each reporting period until the payment requirement ended, with any adjustments reported in income from operations. The first portion related to continued employment by LeMaitre Vascular of retained individuals was paid during 2018. The amounts attributable to achieving specified levels of revenue following the acquisition date were not paid as the associated revenue metrics were not achieved. In the case of ProCol, additional consideration is payable to the former shareholders for a three-year period following the closing, calculated at 10% of ProCol revenues. This additional consideration was initially valued at \$0.3 million and is being re-measured each reporting period until the payment requirement ends, with any adjustments reported in income from operations. These arrangements are described more fully in Note 4. The following table provides a rollforward of the fair value of these liabilities, as determined by Level 3 unobservable inputs including management's forecast of future revenues for these acquired businesses, as well as, in the case of the RestoreFlow allograft acquisition, management's estimate of the likelihood of continued employment of certain retained employees.

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Beginning balance	\$ 72	\$ 1,300
Additions	-	-
Payments	(33)	(35)
Change in fair value included in earnings	(13)	30
Ending balance	<u>\$ 26</u>	<u>\$ 1,295</u>

14. Accumulated Other Comprehensive Loss

Changes to our accumulated other comprehensive loss consisted primarily of foreign currency translation for the three months ended March 31, 2019 and 2018 were as follows:

	Three months ended	
	March 31,	
	2019	2018
	(in thousands)	
Beginning balance	\$ (3,900)	\$ (2,289)
Other comprehensive income (loss) before reclassifications	(192)	283
Amounts reclassified from accumulated other comprehensive loss	-	-
Ending Balance	<u>\$ (4,092)</u>	<u>\$ (2,006)</u>

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 the U.S. Private Securities Litigation Reform Act of 1995) that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this report regarding our strategy, future operations, future financial position, future net sales, projected costs, projected expenses, prospects and plans and objectives of management are forward-looking statements. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “would,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that the expectations underlying any of our forward-looking statements are reasonable, these expectations may prove to be incorrect, and all of these statements are subject to risks and uncertainties. Should one or more of these risks and uncertainties materialize, or should underlying assumptions, projections, or expectations prove incorrect, our actual results, performance, or financial condition may vary materially and adversely from those anticipated, estimated, or expected. These risks and uncertainties include, but are not limited to: the acceleration or deceleration of product growth rates; the risk of significant fluctuations in our quarterly and annual results due to numerous factors; the risk that we may not be able to maintain our recent levels of profitability; the risk that the Company may not realize the anticipated benefits of its strategic activities; the risk that assumptions about the market for the Company’s products and the productivity of the Company’s direct sales force and distributors may not be correct; risks related to the integration of acquisition targets; risks related to product demand and market acceptance of the Company’s products and pricing; the risk that a recall of our products could result in significant costs or negative publicity; the risk that the Company is not successful in transitioning to a direct-selling model in new territories.

Forward-looking statements reflect management’s analysis as of the date of this quarterly report. 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 and in our other filings with the Securities and Exchange Commission, including under the section headed “Risk Factors” in our most recent Annual Report on Form 10-K. 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, 2018, as filed with the SEC on March 11, 2019. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. Unless the context indicates 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, AnastoClip, Cardial, Omniflow, ProCol, RestoreFlow and XenoSure are registered trademarks of LeMaitre Vascular or one of its subsidiaries. This Quarterly Report on Form 10-Q also includes the registered and unregistered trademarks of other persons, which are the property of their respective owners.

Overview

We are a medical device company that develops, manufactures, and markets medical devices and implants for the treatment of peripheral vascular disease. We also provide processing and cryopreservation services of human tissue for implantation into patients. Our principal product offerings are sold throughout the world, primarily in North America, Europe and, to a lesser extent, Asia and the Pacific Rim. We estimate that the annual worldwide market for all peripheral vascular devices exceeds \$5 billion, within which our core product lines address roughly \$900 million. We have grown our business by using a three-pronged strategy: 1) pursuing a focused call point, 2) competing for sales of low-rivalry niche products, and 3) expanding our worldwide direct sales force while acquiring and developing complementary vascular devices. We have used acquisitions as a primary means of accessing the larger peripheral vascular device market, and we expect to continue to pursue this strategy in the future. Additionally, we have continued our efforts to expand our vascular device offerings through research and development. We currently manufacture most of our product lines at our Burlington, Massachusetts headquarters.

Our products and services are used primarily by vascular surgeons who treat peripheral vascular disease through both open surgical methods and endovascular techniques. In contrast to interventional cardiologists and interventional radiologists, neither of whom are 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.

Our principal product lines include the following: anastomotic clips, angioscopes, balloon catheters, biologic vascular grafts, biologic vascular patches, carotid shunts, powered phlebectomy devices, radiopaque marking tape, remote endarterectomy devices, surgical glue, synthetic vascular grafts, and valvulotomes. Through our RestoreFlow allografts business we also provide services related to the processing and cryopreservation of human vascular tissue.

Our biologic offerings include vascular patches, vascular grafts and surgical glue, and in the current quarter represented 33% of worldwide sales. We generally view the biologic device segment favorably, as we believe it contains differentiated and growing product segments.

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.

Our business opportunities include the following:

- the long-term growth of our direct sales force in North America, Europe, Asia and the Pacific Rim;
- the addition of complementary products through acquisitions;
- the updating of existing products and introduction of new products through research and development;
- the introduction of our products in new territories upon receipt of regulatory approvals or registrations in these territories; and
- the consolidation of, and automation of, product manufacturing at our facilities in our Burlington, Massachusetts corporate headquarters.

We sell our products and services primarily through a direct sales force. As of March 31, 2019, our sales force was comprised of 109 sales representatives in North America, Europe, Japan, China and Australia, including two export managers. We also sell our products in other geographies through distributors. Our worldwide headquarters is located in Burlington, Massachusetts. Our European operations headquarters is located in Sulzbach, Germany, and our Asia/Pacific Rim headquarters is located in Singapore. We also have offices located in Fox River Grove, Illinois, Tokyo, Japan; Vaughan, Canada; Madrid, Spain; Milan, Italy; Saint-Etienne, France; Shanghai, China; and North Melbourne, Australia. During the current quarter, approximately 94% of our net sales were generated in territories in which we employ direct sales representatives.

Historically we have experienced success in lower-rivalry niche product segments, for example the markets for valvulotome devices and carotid shunts. In the valvulotome market, our highly differentiated devices have historically allowed us to increase selling prices while maintaining unit market share, while in the shunt market, our highly differentiated devices have allowed us to increase selling prices while maintaining market share. In contrast, more recently, we have faced increased competition in the biologic vascular patch segment, which has inhibited our ability to continue to increase market share or to implement selling price increases. While we believe that these challenging market dynamics can be mitigated by our relationships with vascular surgeons, there can be no assurance that we will be successful in these highly competitive markets.

In recent years we have also experienced success in international markets, such as Europe, where we sell at comparatively lower average selling prices. If we continue to seek sales growth opportunities outside of North America, we may experience downward pressure on our gross margin.

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 into our direct sales organization:

- In March 2018, we terminated our master distribution agreement with Sinopharm United Medical Device Co., Ltd. under which we sold our powered phlebectomy devices for distribution in China. In April 2018 we began selling these products to sub-distributors in China.
- During 2018, we entered into definitive agreements with several former Applied Medical and Cardial distributors in Europe and Asia in order to terminate their distribution of our recently-acquired embolectomy catheter, polyester graft and valvulotome products, and we began selling direct-to-hospitals in those geographies. The termination fees totaled approximately \$0.1 million.

As of March 31, 2019 we had 109 sales representatives versus 94 at March 31, 2018. This increase has resulted in higher selling expenses. We also anticipate that the expansion of our sales organization in China will result in increased sales, marketing and regulatory expenses during 2019. As of March 31, 2019 we had eight employees in China.

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 April 2018, we divested our Reddick cholangiogram catheter and Reddick-Saye screw product lines to Specialty Surgical Instrumentation, Inc. for \$7.4 million.
- In September 2018, we acquired the assets of the embolectomy catheter business from Applied Medical for \$14.2 million. We have initiated a project to transfer the manufacturing of the acquired devices to our Burlington facility. We expect this transition to be completed in 2019.
- In October 2018, we acquired the assets of Cardial, a subsidiary of Becton, Dickinson & Company, located in Saint-Etienne, France, for €2.0 million. Cardial's product lines include polyester vascular grafts, valvulotomes and surgical glue.

In addition to relying upon acquisitions for growth, we also rely on internal product development efforts to bring differentiated technology and next-generation products to market:

- In 2017, we launched XenoSure biologic pledgets.
- In 2017, we launched a longer version of our Anastoclip AC intended for use in neurosurgery applications.
- In 2018, we expanded the indications for our Anastoclip GC in the United States to include dura tissue repair.

In addition to our sales growth strategies, we have also executed several operational initiatives designed to consolidate and streamline manufacturing within our Burlington, Massachusetts facilities. We expect these plant consolidations will result in improved control over our production capacity as well as reduced costs over the long-term. Our most recent manufacturing transitions included:

- In 2016, we initiated a project to transfer the manufacturing of the ProCol biologic product line to our facility in Burlington. This transfer was completed in 2018.
- In 2017, we expanded our clean rooms in Burlington, in which many of our biologic offerings, including the XenoSure patch as well as our ProCol biologic grafts, are currently produced or processed. The cost of the facility renovation was approximately \$3.0 million. We are in the process of further expanding this clean room, which we expect to complete during 2019 at a cost of approximately \$0.8 million.
- In September 2018, we acquired the embolectomy catheter business assets from Applied Medical. We have initiated a project to transfer the manufacturing of these devices to our Burlington facility. We expect this transfer to be completed in 2019.

Our execution of these business opportunities may affect the comparability of our financial results from period to period and may cause fluctuations from period to period as we incur related process engineering and other charges.

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, 2019, approximately 48% of our sales took place outside the United States, and in most cases in currencies other than the U.S. dollar. We expect that sales in foreign currencies will also represent a significant percentage of our future sales. Selling, marketing, and administrative expenses related to these sales are similarly denominated in foreign currencies, partially mitigating our exposure to exchange rate fluctuations. However, as most of our foreign sales are denominated in local currency, 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 revenue in U.S. dollars than we did before the rate increase went into effect. For the three months ended March 31, 2019, we estimate that the effects of changes in foreign exchange rates decreased sales by approximately \$0.9 million, as compared to rates in effect for the three months ended March 31, 2018.

Net Sales and Expense Components

The following is a description of the primary components of our net sales and expenses:

Net sales. We derive our net sales from the sale of our products and services, less discounts and returns. Net sales include the shipping and handling fees paid for by our customers. Most of our sales are generated by our direct sales force and are shipped and billed to hospitals or clinics throughout the world. In countries where we do not have a direct sales force, sales are primarily to distributors, who in turn sell to hospitals and clinics. In certain cases our products are held on consignment at a hospital or clinic prior to purchase; in those instances we recognize revenue at the time the product is used in surgery rather than at shipment.

Cost of sales. We manufacture the majority of the products that we sell. Our cost of sales consists primarily of manufacturing personnel, raw materials and components, depreciation of property and equipment, and other allocated manufacturing overhead, as well as freight expense we pay to ship products to customers.

Sales and marketing. Our sales and marketing expense consists primarily of salaries, commissions, stock based compensation, travel and entertainment, sales meetings, attendance at vascular congresses, training programs, advertising and product promotions, direct mail and other marketing costs.

General and administrative. General and administrative expense consists primarily of executive, finance and human resource salaries, stock based compensation, legal and accounting fees, information technology expense, intangible asset amortization expense and insurance expense.

Research and development. Research and development expense includes costs associated with the design, development, testing, enhancement and regulatory approval of our products, principally salaries, laboratory testing and supply costs. It also includes costs associated with design and execution of clinical studies, regulatory submissions and costs to register, maintain, and defend our intellectual property, and royalty payments associated with licensed and acquired intellectual property.

Other income (expense). Other income (expense) primarily includes interest income and expense, foreign currency gains (losses), and other miscellaneous gains (losses).

Income tax expense. We are subject to federal and state income taxes for earnings generated in the United States, which include operating losses in certain foreign jurisdictions for certain years depending on tax elections made, and foreign taxes on earnings of our wholly-owned foreign subsidiaries. Our consolidated tax expense is affected by the mix of our taxable income (loss) in the United States and foreign subsidiaries, permanent items, discrete items, unrecognized tax benefits, and amortization of goodwill for U.S tax reporting purposes.

Results of Operations

Comparison of the three months ended March 31, 2019 to the three months ended March 31, 2018:

The following tables set forth, for the periods indicated, our net sales by geography, and the change between the specified periods expressed as a percentage increase or decrease:

(unaudited)	Three months ended March 31,		
	2019	2018	Percent change
	(\$ in thousands)		
Net sales	\$ 28,479	\$ 25,994	10%
Net sales by geography:			
Americas	\$ 16,375	\$ 15,860	3%
Europe, Middle East and Africa	10,013	8,755	14%
Asia/Pacific Rim	2,091	1,379	52%
Total	<u>\$ 28,479</u>	<u>\$ 25,994</u>	<u>10%</u>

Net sales. Net sales increased \$2.5 million or 10% to \$28.5 million for the three months ended March 31, 2019, compared to \$26.0 million for the three months ended March 31, 2018. The increase was due primarily to higher sales of embolectomy catheters which grew \$1.3 million, of which \$1.1 million was from our recently-acquired Syntel and Python products. Sales of polyester grafts increased \$0.6 million, of which \$0.4 million was from our recently-acquired Cardial products, and carotid shunts increased by \$0.3 million. We estimate that the strengthening U.S. dollar during the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 decreased our net sales by \$0.9 million.

Direct-to-hospital net sales were 94% and 95% of our total net sales for the three months ended March 31, 2019 and 2018, respectively.

Net sales by geography. Net sales in the Americas increased \$0.5 million or 3% for the three months ended March 31, 2019 as compared to March 31, 2018, due primarily to increased sales of embolectomy catheters of \$0.8 million and carotid shunts of \$0.3 million. These increases were partly offset by decreased sales of \$0.2 million related to the cholangiogram catheter product line divestiture as well as decreased sales of powered phlebectomy systems, allografts and biologic vascular patches of \$0.1 million each.

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Europe, Middle East and Africa (“EMEA”) net sales increased \$1.3 million, or 14% for the three months ended March 31, 2019 as compared to March 31, 2018. The increase was primarily driven by higher sales of polyester grafts of \$0.8 million, embolectomy catheters of \$0.2 million and valvulotomes of \$0.2 million. Across all product lines, we estimate that the weaker Euro during the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 decreased our net sales by \$0.8 million.

Asia/Pacific Rim net sales increased \$0.7 million, or 52% for the three months ended March 31, 2019 as compared to March 31, 2018, primarily in China where we had low sales in the first quarter of 2018 as we underwent a transition of our sales channel. Sales of embolectomy catheters increased \$0.3 million, powered phlebectomy systems increased by \$0.2 million and carotid shunts increased by \$0.1 million.

The following table sets forth the change in our gross profit and gross margin for the periods indicated:

(unaudited)	Three months ended March 31,			Percent change
	2019	2018	Change	
	(\$ in thousands)			
Gross profit	\$ 19,464	\$ 18,474	\$ 990	5%
Gross margin	68.3%	71.1%	(2.8%)	*

*Not applicable

Gross Profit. Gross profit increased \$1.0 million to \$19.5 million for the three months ended March 31, 2019, while gross margin decreased 280 basis points to 68.3% in the period. The increase in gross profit was driven by higher sales in the March 2019 period. The decrease in gross margin percentage was driven primarily by the recently-acquired Syntel and Python embolectomy catheters as well as the recently acquired Cardial products, all of which carry a relatively lower gross margin than many of our other product lines. In the first quarter of 2018 we were also still selling our relatively-higher gross margin Reddick catheter products, which we divested early in the second quarter of 2018. The impact of these gross margin decreases was partly offset by lower manufacturing costs of certain of our offerings, in particular allografts.

Operating Expenses

The following tables set forth changes in our operating expenses for the periods indicated and the change between the specified periods expressed as a percentage increase or decrease:

(unaudited)	Three months ended March 31,			Percent change
	2019	2018	\$ Change	
Sales and marketing	\$ 7,845	\$ 7,090	\$ 755	11%
General and administrative	4,944	4,697	247	5%
Research and development	2,240	1,825	415	23%
Total	\$ 15,029	\$ 13,612	\$ 1,417	10%

	Three months ended March 31,		
	2019 % of Net Sales	2018 % of Net Sales	Change
Sales and marketing	28%	27%	1%
General and administrative	17%	18%	(1%)
Research and development	8%	7%	1%

Sales and marketing. For the three months ended March 31, 2019, sales and marketing expense increased 11% to \$7.8 million. The increase was driven mainly by higher personnel costs, including salaries, recruiting and travel expenses associated with expanding the sales force. We also had higher costs associated with the implementation of a customer relationship management system during the three months ended March 31, 2019. As a percentage of net sales, sales and marketing expense increased to 28% in the three months ended March 31, 2019 from 27% in the prior period.

General and administrative. For the three months ended March 31, 2019, general and administrative expense increased 5% to \$4.9 million. Higher compensation costs, bad debt expense and acquisition-related costs including amortization of intangibles assets were partially offset by lower audit and other professional fees. As a percentage of sales, general and administrative expense decreased to 17% for the three months ended March 31, 2019, from 18% in the prior year.

Research and development. For the three months ended March 31, 2019, research and development expense increased 23% to \$2.2 million. The increase was primarily related to regulatory submissions for our products in China and Japan, as well as testing related to our biologic product offerings. We also had higher compensation and travel expenses. As a percentage of sales, research and development expense increased to 8% for the three months ended March 31, 2019, as compared to 7% in the prior year.

Income tax expense. We recorded a tax provision of \$1.0 million on pre-tax income of \$4.5 million for the three months ended March 31, 2019, compared to a \$1.1 million tax provision on pre-tax income of \$4.9 million for the three months ended March 31, 2018. Our effective income tax rate was 22.3% for the three month period ended March 31, 2019. Our tax expense for the current period is based on an estimated annual effective tax rate of 25.8%, adjusted in the applicable quarterly periods for discrete stock option exercises and other discrete items. Our income tax expense for the current period varies from the statutory rate mainly due to federal and state tax credits, permanent items, different statutory rates from our foreign entities, and a discrete item for stock option exercises.

Our effective income tax rate was 21.6% for the three month period ended March 31, 2018. Our 2018 provision was based on the estimated annual effective tax rate of 24.6%, adjusted in the applicable quarterly period for discrete stock option exercises and other discrete items. Our income tax expense for 2018 varied from the statutory rate mainly due to certain permanent items, offset by lower statutory rates from our foreign entities and a discrete item for stock option exercises.

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 for any particular tax matter, we believe our tax reserves reflect the probable outcome of known contingencies.

We assess the likelihood that our deferred tax assets will be realized through future taxable income and record a valuation allowance to reduce gross deferred tax assets to an amount we believe is more likely than not to be realized. As of March 31, 2019, we have provided a valuation allowance of \$1.3 million for deferred tax assets primarily related to Australian net operating loss and capital loss carry forwards and Massachusetts tax credit carry forwards that are not expected to be realized.

Liquidity and Capital Resources

At March 31, 2019, our cash and cash equivalents were \$14.8 million as compared to \$26.3 million at December 31, 2018. We also had \$32.7 million in a short-term managed income mutual fund investment as of March 31, 2019 compared to \$21.7 million as of December 31, 2018. Our cash and cash equivalents are highly liquid investments with maturities of 90 days or less at the date of purchase, and consist primarily of operating bank accounts. Our short-term marketable securities consist of a managed income mutual fund investing mainly in short-term investment grade, U.S.-dollar denominated fixed and floating-rate debt. All of our cash held outside of the United States is available for corporate use, with the exception of \$4.3 million held by subsidiaries in jurisdictions for which earnings are planned to be permanently reinvested.

On February 14, 2019, our Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock through transactions on the open market, in privately negotiated purchases or otherwise. The repurchase program may be suspended or discontinued at any time and will conclude on February 14, 2020, unless extended by the Board. To date we have not made any repurchases under this program.

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.

We recognized operating income of \$4.4 million for the three months ended March 31, 2019. For the year ended December 31, 2018, we had operating income of \$28.2 million. We expect to fund any increased costs and expenditures from our existing cash and cash equivalents, 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 and services;
- payments associated with potential future quarterly cash dividends to our common stockholders;
- future acquisition-related payments;
- payments associated with income and other taxes;
- the costs associated with expanding our manufacturing, marketing, sales, and distribution efforts;
- the costs associated with our initiatives to sell direct-to-hospital in new countries;
- the costs of obtaining and maintaining FDA and other regulatory clearances of our existing and future products;
- the costs associated with obtaining European MDR clearances of our existing and future products;
- the number, timing, and nature of acquisitions, divestitures and other strategic transactions, and
- potential future share repurchases.

Our cash balances may decrease as we continue to use cash to fund our operations, make acquisitions, make payments under our quarterly dividend program, make share repurchases and make deferred payments related to prior acquisitions. 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 funds from, or establish a revolving credit facility with, 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 and possibly our ability to pay dividends. 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.

Dividends

In February 2011, our Board of Directors approved a policy for the payment of quarterly cash dividends on our common stock. 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. The dividend activity for the periods presented is as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Per Share Amount</u>	<u>Dividend Payment</u>
(in thousands)			
Fiscal Year 2019			
March 22, 2019	April 5, 2019	\$ 0.085	\$ 1,672
Fiscal Year 2018			
March 22, 2018	April 5, 2018	\$ 0.070	\$ 1,351
May 22, 2018	June 7, 2018	\$ 0.070	\$ 1,353
August 22, 2018	September 6, 2018	\$ 0.070	\$ 1,369
November 20, 2018	December 6, 2018	\$ 0.070	\$ 1,372

On April 29, 2019, our Board of Directors approved a quarterly cash dividend on our common stock of \$0.085 per share payable on June 6, 2019, to stockholders of record at the close of business on May 22, 2019, which will total approximately \$1.7 million.

Cash Flows

	Three months ended March 31,		
	(in thousands)		
	2019	2018	Net Change
Cash and cash equivalents	\$ 14,766	\$ 22,781	\$ (8,015)
Cash flows provided by (used in):			
Operating activities	\$ (219)	\$ 3,751	\$ (3,970)
Investing activities	(11,756)	(521)	(11,235)
Financing activities	424	257	167

Net cash provided by operating activities. Net cash used in operating activities was \$0.2 million for the three months ended March 31, 2019, consisting of \$3.5 million in net income, adjustments for non-cash or non-operating items of \$2.4 million (including depreciation and amortization of \$1.3 million, stock-based compensation of \$0.7 million, provisions for inventory write-offs and doubtful accounts of \$0.3 million and also a net use of working capital of \$6.1 million. The net cash used for working capital was driven by an increase in inventory and other deferred costs of \$2.4 million, a decrease in accounts payable and accrued expenses of \$3.8 million including primarily payments associated with our annual bonus plan and for estimated taxes, offset by a decrease in accounts receivable of \$0.1 million.

Net cash provided by operating activities was \$3.8 million for the three months ended March 31, 2018, consisting of \$3.9 million in net income adjusted for non-cash items of \$1.9 million (including depreciation and amortization of \$1.0 million, stock-based compensation of \$0.6 million, and provisions for inventory write-offs and doubtful accounts of \$0.2 million) and offset by changes in working capital of \$1.9 million. The net cash used for working capital was driven by decreases in accounts payable and accrued expenses of \$2.1 million and an increase in inventory and other deferred costs of \$0.8 million, partly offset by decreases in accounts receivable of \$0.6 million and prepaid expenses and other assets of \$0.4 million.

Net cash used in investing activities. Net cash used in investing activities was \$11.8 million for the three months ended March 31, 2019, including purchases of marketable securities of \$11.0 million and expenditures on equipment and technology of \$0.8 million.

Net cash used in investing activities was \$0.5 million for three months ended March 31, 2018. This was primarily driven by expenditures on equipment and website technology improvements of \$0.4 million as well as purchases of marketable securities of \$0.1 million.

Net cash provided by financing activities. Net cash provided by financing activities was \$0.4 million for the three months ended March 31, 2019, consisting primarily of proceeds from stock option exercises of \$0.5 million net of shares repurchased to cover employee payroll taxes, and deferred payments for acquisitions of less than \$0.1 million.

Net cash provided by financing activities was \$0.3 million for the three months ended March 31, 2018, consisting primarily of proceeds from stock option exercises.

Contractual obligations. Our principal contractual obligations consist of operating leases and inventory purchase commitments, and have not changed significantly since December 31, 2018 as reported in our Annual Report on Form 10-K. As referenced below under Critical Accounting Policies and Estimates, our operating lease contractual obligations are now recorded as liabilities on our balance sheet.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2019. 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, 2018. With the exception of the adoption, effective January 1, 2019, of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, subsequently amended by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, discussed in Note 1 to this Quarterly Report on Form 10-Q, there have been no material changes in our critical accounting policies during the three months ended March 31, 2019. 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 sales returns and discounts, share-based compensation, inventories, intangible assets, bad debts, and income taxes are reviewed on an ongoing basis and updated as appropriate. Actual results may differ from those estimates.

Recent Accounting Pronouncements

A summary of recent accounting pronouncements that may impact our financial statements upon adoption in future periods can be found in Note 1 to our financial statements included under Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of conducting business, we are exposed to certain risks associated with potential changes in market conditions. These market risks include changes in currency exchange rates and interest rates which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, if considered appropriate, we may enter into derivative financial instruments such as forward currency exchange contracts, although we have not done so in 2019 or in recent years. There have been no material changes in our quantitative and qualitative market risks since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation and supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified under SEC rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. We design our disclosure controls and procedures to ensure, at reasonable assurance levels, that such information is timely recorded, processed, summarized and reported, and then accumulated and communicated appropriately.

Based on an evaluation of our disclosure controls and procedures as of March 31, 2019 our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at reasonable assurance levels.

Changes in Internal Control

There have been no changes in our internal control over financial reporting for the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Notwithstanding the foregoing, 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 based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any system will succeed in achieving its stated goals under all potential future conditions. Over time, 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 employment, product liability, commercial arrangements, contracts, intellectual property and other matters. While the outcome of these proceedings and claims cannot be predicted with certainty, there are no matters, as of April 30, 2019, that management believes would have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the information set forth in this report, you should consider the risks and uncertainties discussed in “Part I, Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, which could materially affect our business, financial condition, or future results. 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, 2018, which was filed with the Securities and Exchange Commission on March 11, 2019.

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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Date	Number Filed Herewith
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 63 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 63 of Title 18 of the United States Code (18 U.S.C. §1350).*			X
101.INS	XBRL Instance Document.			X
101.SCH	XBRL Taxonomy Extension Schema Document.			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.			X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.			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.

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 6, 2019.

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 and Director

EXHIBIT 31.1
CERTIFICATION

I, George W. LeMaitre, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LeMaitre Vascular, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ George W. LeMaitre

George W. LeMaitre
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: May 6, 2019

EXHIBIT 31.2
CERTIFICATION

I, Joseph P. Pellegrino, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LeMaitre Vascular, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph P. Pellegrino, Jr.

Joseph P. Pellegrino, Jr.

Chief Financial Officer and Director

(Principal Accounting and Financial Officer)

Date: May 6, 2019

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "*Exchange Act*"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), George W. LeMaitre, Chairman and Chief Executive Officer of LeMaitre Vascular, Inc. (the "*Company*"), certifies to the best of his knowledge that:

(1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2019 (the "*Report*") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. § 1350 and is not deemed to be a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

/s/ George W. LeMaitre

George W. LeMaitre

Chairman and Chief Executive Officer

(Principal Executive Officer)

May 6, 2019

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "*Exchange Act*"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Joseph P. Pellegrino, Jr., Chief Financial Officer of LeMaitre Vascular, Inc. (the "*Company*"), certifies to the best of his knowledge that:

(1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2019 (the "*Report*") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. § 1350 and is not deemed to be a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

/s/ Joseph P. Pellegrino, Jr.

Joseph P. Pellegrino, Jr.

Chief Financial Officer and Director

(Principal Accounting and Financial Officer)

May 6, 2019