ANIKA THERAPEUTICS INC
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from to

Commission File Number 000-21326

Anika Therapeutics, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Massachusetts (State or Other Jurisdiction of Incorporation or Organization)	04-3145961 (I.R.S. Employer Identification No.)
32 Wiggins Avenue, Bedford, Massachusetts (Address of Principal Executive Offices)	01730 (Zip Code)

Registrant's Telephone Number, Including Area Code: (781) 457-9000

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: N/A

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 last 90 days. Yes x No o

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

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

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

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

As of July 30, 2010, there were 13,481,325 outstanding shares of Common Stock, par value $.01 per share.

PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Anika Therapeutics, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,648,822	$ 24,426,990
Accounts receivable, net of reserves of $272,723 at June 30, 2010 and $29,261 at December 31, 2009	15,061,339	11,778,743
Inventories	8,369,659	8,547,339
Current portion deferred income taxes	2,215,936	2,228,291
Prepaid expenses and other	2,213,853	2,892,858
Total current assets	51,509,609	49,874,221
Property and equipment, at cost	48,054,159	47,172,403
Less: accumulated depreciation	(12,060,186)	(11,424,788)
	35,993,973	35,747,615
Long-term deposits and other	405,329	413,228
Intangible assets, net	27,789,999	33,577,451
Deferred income taxes	2,146,619	3,506,362
Goodwill	6,269,030	7,488,036
Total Assets	$ 124,114,559	$ 130,606,913
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,413,932	$ 6,354,761
Accrued expenses	4,784,900	5,816,170
Deferred revenue	2,700,000	2,751,467
Current portion of long-term debt	1,600,000	1,600,000
Total current liabilities	16,498,832	16,522,398
Other long-term liabilities	1,618,862	1,775,386
Long-term deferred revenue	6,749,995	8,099,996
Deferred tax liability	7,425,009	9,265,631
Long-term debt	12,000,000	12,800,000
Commitments and contingencies (Note 9)	-	-
Stockholders' equity:		
Preferred stock, $.01 par value; 1,250,000 shares authorized, no shares issued and outstanding at June 30, 2010 and December 31, 2009	-	-
Common stock, $.01 par value; 30,000,000 shares authorized, 13,477,647 shares issued and outstanding at June 30, 2010 and 13,418,772 shares issued and outstanding at December 31, 2009	134,776	134,188
Additional paid-in-capital	61,311,407	60,539,768

Accumulated currency translation adjustment		(4,878,900)		-
Retained earnings		23,250,578		21,469,546
Total stockholders' equity		79,821,861		82,143,502
Total Liabilities and Stockholders' Equity	$	124,114,559	$	130,606,913

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

Anika Therapeutics, Inc. and Subsidiaries
Consolidated Statements of Operations
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Product revenue	$13,720,929	$8,770,763	25,362,979	17,289,836
Licensing, milestone and contract revenue	778,871	752,913	1,602,908	1,434,164
Total revenue	14,499,800	9,523,676	26,965,887	18,724,000
Operating expenses:				
Cost of product revenue	5,891,752	3,294,160	11,015,427	6,505,826
Research & development	1,836,653	2,286,229	3,712,297	4,480,537
Selling, general & administrative	4,967,346	2,735,552	9,256,324	5,770,534
Total operating expenses	12,695,751	8,315,941	23,984,048	16,756,897
Income from operations	1,804,049	1,207,735	2,981,839	1,967,103
Interest income (expense), net	(59,287)	(1,382)	(109,207)	58
Income before income taxes	1,744,762	1,206,353	2,872,632	1,967,161
Provision for income taxes	678,010	250,579	1,091,600	488,667
Net income	$1,066,752	$955,774	$1,781,032	$1,478,494
Basic net income per share:				
Net income	$0.08	$0.08	$0.14	$0.13
Basic weighted average common shares outstanding	12,645,889	11,384,949	12,630,398	11,375,798
Diluted net income per share:				
Net income	$0.08	$0.08	$0.13	$0.13
Diluted weighted average common shares outstanding	13,642,323	11,548,079	13,637,309	11,517,949

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

Anika Therapeutics, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	For the six months ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	$1,781,032	$1,478,494
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,660,832	668,495
Stock-based compensation expense	546,578	454,956
Deferred income taxes	609,059	(157,269)
Provision for bad debt reserve	272,723	-
Provision for inventory	524,820	169,708
Tax benefit from exercise of stock options	-	(4,175)
Changes in operating assets and liabilities:		
Accounts receivable	(4,515,640)	(1,037,852)
Inventories	(603,329)	(1,954,666)
Prepaid expenses, other current and long-term assets	720,265	113,540
Long-term deposits and other	7,549	-
Accounts payable and accrued expenses	338,639	1,047,515
Accrued expenses	829,230	-
Deferred revenue	(1,401,468)	(1,325,968)
Income taxes payable	-	212,986
Other long-term liabilities	(56,580)	48,618
Net cash provided by (used in) operating activities	713,710	(285,618)
Cash flows from investing activities:		
Purchase of property and equipment, net	(1,012,299)	(2,565,804)
Reduction in purchase price of subsidiary	105,300	-
Net cash used in investing activities	(906,999)	(2,565,804)
Cash flows from financing activities:		
Principal payments on debt	(800,000)	(800,000)
Proceeds from exercise of stock options	197,243	3,150
Tax benefit from exercise of stock options	65,629	4,175
Net cash used in financing activities	(537,128)	(792,675)
Exchange rate impact on cash	(47,751)	-
Decrease in cash and cash equivalents	(778,168)	(3,644,097)
Cash and cash equivalents at beginning of period	24,426,990	43,193,655
Cash and cash equivalents at end of period	$23,648,822	$39,549,558

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

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ANIKA THERAPEUTICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business

Anika Therapeutics, Inc. (together with its subsidiaries, "Anika," the "Company," "we," "us," or "our") develops, manufacture and commercializes therapeutic products for tissue protection, healing, and repair. These products are based on hyaluronic acid ("HA"), a naturally occurring, biocompatible polymer found throughout the body. Due to its unique biophysical and biochemical properties, HA plays an important role in a number of physiological functions such as the protection and lubrication of soft tissues and joints, the maintenance of the structural integrity of tissues, and the transport of molecules to and within cells.

On December 30, 2009, Anika Therapeutics, Inc. entered into a Sale and Purchase Agreement (the "Purchase Agreement") with Fidia Farmaceutici S.p.A. a privately held Italian corporation ("Fidia"), pursuant to which the Company acquired 100% of the issued and outstanding stock of Fidia Advanced Biopolymers S.r.l., a privately held Italian corporation ("FAB"), for a purchase price consisting of $17.0 million in cash and 1,981,192 shares of the Company's common stock.

The Company is subject to risks common to companies in the biotechnology and medical device industries including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, commercialization of existing and new products, and compliance with the U.S. Food and Drug Administration ("FDA") government regulations and approval requirements as well as the ability to grow the Company's business.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and in accordance with accounting principles generally accepted in the United States. In the opinion of management, these consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the consolidated financial position of the Company as of June 30, 2010 and the results of its operations for the three and six months ended June 30, 2010 and 2009 and cash flows for the six months ended June 30, 2010 and 2009.

The accompanying consolidated financial statements and related notes should be read in conjunction with the Company's annual financial statements filed with its Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010, or any future periods.

3. Recent Accounting Pronouncements

In September 2009, the Emerging Issues Task Force ("EITF") issued "Revenue Arrangements with Multiple Deliverables." This issue addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how to allocate the consideration to each unit of accounting. This issue will supersede EITF 00-21 "Revenue Arrangements with Multiple Deliverables." This issue eliminates the use of the residual value method for determining allocation of arrangement consideration, and allows the use of an entity's best estimate to determine the selling price if vendor specific objective evidence and third-party evidence can not be determined. This issue also requires additional disclosure to provide both qualitative and quantitative information regarding the significant judgments made in applying this issue. In addition, for each reporting period in the initial year of adoption, this issue requires disclosure of the amount of revenue recognized subject to the measurement requirements of this issue and the amount of revenue that would have been recognized if the related transactions were subject to the measurement requirements of EITF 00-21. It is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We believe the adoption of this new guidance will not have a material impact on our consolidated financial statements.

In January 2010, the Financial Accounting Standards Board ("FASB") issued "Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurements." This statement requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We believe the adoption of this new guidance will not have a material impact on our consolidated financial statements.

In April 2010, the EITF issued "Revenue Recognition – Milestone Method." This issue provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The new guidance recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions. It is effective on a prospective basis to milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. We believe the adoption of this new guidance will not have a material impact on our consolidated financial statements.

4. Stock-Based Compensation

The Company estimates the fair value of stock options and stock appreciation rights using the Black-Scholes valuation model. Fair value of restricted stock is measured by the grant-date price of the Company's shares. The fair value of each stock option and stock appreciation rights award during the three and six months ended June 30, 2010 and 2009 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,			
	2010		2009	
Risk free interest rate	1.88	%	1.85	%
Expected volatility	62.08	%	59.35	%
Expected lives (years)	4		4	
Expected dividend yield	0.00	%	0.00	%

	Six Months Ended June 30,			
	2010		2009	
Risk free interest rate	1.88	%	1.54% -1.85	%
Expected volatility	62.08	%	59.35% - 59.39	%
Expected lives (years)	4		4	
Expected dividend yield	0.00	%	0.00	%

The Company recorded $243,591 and $546,578 of share-based compensation expense for the three and six months ended June 30, 2010, respectively, for equity compensation awards. The Company recorded $254,599 and $454,956 of share-based compensation expense for the three and six months ended June 30, 2009, respectively, for equity compensation awards. The Company presents the expenses related to stock-based compensation awards in the same expense line items as cash compensation paid to the same employees.

Stock Option Plan

The Company has reserved 2,350,000 shares of common stock for grant to employees, directors, consultants and advisors under the 2003 Plan. The Company issues new shares upon share option exercises from its authorized shares. Stock-based awards are granted with an exercise price equal to the market price of the Company's stock on the date of grant. The Company's stock-based awards contain service or performance conditions. Awards generally vest annually over 3 to 4 years. Awards have 10-year contractual terms.

5. Earnings Per Share

The Company reports earnings per share in accordance with Accounting Standards Codification 260, Earnings Per Share (ASC 260), (formerly SFAS No. 128, Earnings per Share) , which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and the number of dilutive potential common share equivalents during the period. Under the treasury stock method, unexercised "in-the-money" stock options are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase common shares at the average market price during the period.

Effective January 1, 2009, the Company adopted Accounting Standards Codification 260-10, Earnings Per Share (ASC 260-10), (formerly FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities). ASC 260-10 clarifies that share-based payment awards that entitle their holders to receive non-forfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments are included in the calculation of basic and diluted earnings per share. Basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic earnings per share				
Net income	$1,066,752	$955,774	$1,781,032	$1,478,494
Income allocated to participating securities	(2,043)	(4,315)	(3,606)	(4,925)
Income available to common stockholders	1,064,709	951,459	1,777,426	1,473,569
Basic weighted average common shares outstanding	12,645,889	11,384,949	12,630,398	11,375,798
Basic earnings per share	$0.08	$0.08	0.14	$0.13
Diluted earnings per share				
Net income	$1,066,752	$955,774	$1,781,032	$1,478,494
Income allocated to participating securities	(1,895)	(4,256)	(3,342)	(4,865)
Income available to common stockholders	1,064,857	951,518	1,777,690	1,473,629
Weighted average common shares outstanding	12,645,889	11,384,949	12,630,398	11,375,798
Diluted potential common shares	996,434	163,130	1,006,911	142,151
Diluted weighted average common shares and potential common shares	13,642,323	11,548,079	13,637,309	11,517,949
Diluted earnings per share	$0.08	$0.08	$0.13	$0.13

In connection with the acquisition of FAB on December 30, 2009, the Company issued 1,981,192 shares of Anika common stock. As part of this transaction, 800,000 of these shares were to be held in escrow for one year. These 800,000 shares are included in the diluted potential common shares but are excluded from the basic earnings per share calculation.

Equity awards of 1,052,815 and 1,057,154 shares were outstanding for the three and six months ended June 30, 2010 respectively, but not included in the computation of diluted earnings per share because the awards' impact on earnings per share was anti-dilutive. Equity awards of 930,947 shares were outstanding for the three and six months ended June 30, 2009, respectively, but not included in the computation of diluted earnings per share because the awards' impact on earnings per share was anti-dilutive.

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6. Inventories

Inventories consist of the following:

	June 30, 2010	December 31, 2009
Raw materials	$ 1,900,782	$ 2,535,496
Work-in-process	3,989,626	3,188,241
Finished goods	2,479,251	2,823,602
Total	$ 8,369,659	$ 8,547,339

Inventories are stated at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") method. Work-in-process and finished goods inventories include materials, labor, and manufacturing overhead.

7. Intangible Assets and Goodwill

On December 30, 2009, in connection with the acquisition of FAB, the Company acquired various intangible assets. The Company evaluated the various intangibles and related cash flows from these intangible assets, as well as the useful lives and amortization methods related to these intangibles. The in-process research and development intangible assets initially have indefinite lives and will be reviewed periodically to assess the project status, valuation and disposition including write-off for abandoned projects. Until such determination, they are not amortized.

The Company periodically reviews its long-lived assets for impairment. The Company initiates a review for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of the assets are no longer appropriate, such as a significant reduction in cash flows associated with the assets. Each impairment test will be based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its estimated fair value.

Intangible assets as of June 30, 2010 and December 31, 2009 consist of the following:

	June 30, 2010				December 31, 2009	
	Gross Value	Currency Translation Adjustment	Accumulated Amortization	Net Book Value	Net Book Value	Useful Life
Developed technology	$ 15,700,000	$ (2,289,748)	$ (485,592)	$ 12,924,660	$ 15,700,000	15
In-process research & development	11,300,000	(1,676,764)	-	9,623,236	11,300,000	Indefinite
Distributor relationships	4,700,000	(661,245)	(436,428)	3,602,327	4,700,000	5
Patents	1,000,000	(145,982)	(29,018)	825,000	1,000,000	16
Elevess trade name	1,000,000	-	(185,224)	814,776	877,451	7
Total	$ 33,700,000	$ (4,773,739)	$ (1,136,262)	$ 27,789,999	$ 33,577,451	

The aggregate amortization expense related to intangible assets was $487,468 and $1,014,072 for the three and six months ended June 30, 2010 respectively. The estimated annual amortization expense for the next five years is expected to be approximately $2.2 million.

The change in the Goodwill balance from December 31, 2009 is due to the cumulative currency translation adjustment as a result of the foreign exchange rate fluctuation during the six months ended June 30, 2010, as well as the adjustments discussed in the following paragraph.

During the second quarter of fiscal 2010, the Company substantially completed the purchase price allocation for the fiscal year 2009 acquisition of FAB. Some of the amounts previously estimated have changed during the measurement period. The changes in estimates of acquired assets and assumed liabilities at the acquisition date include an increase in inventory of approximately $106,000, an increase in net other assets of approximately $18,000 and a decrease in deferred tax liabilities of approximately $39,000. As a result of these changes there is a net decrease in goodwill of approximately $164,000. The measurement period adjustments represent updates made to the preliminary purchase price allocation based on revisions to valuation estimates in the interim period subsequent to the acquisition and initial accounting date. These measurement period adjustments have been retrospectively applied to the balance sheet at December 31, 2009. There was no significant impact to the Company's Consolidated Statement of Operations for any periods prior to the interim period ended June 30, 2010.

8. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2010	December 31, 2009
Payroll and benefits	$2,195,154	$ 2,137,067
Professional fees	662,883	1,470,007
Clinical trial costs	125,000	129,509
FAB research grants	1,383,910	1,625,044
Other	417,953	454,543
Total	$4,784,900	$ 5,816,170

9. Commitments and Contingencies

In certain of its contracts, the Company warrants to its customers that the products it manufactures conform to the product specifications as in effect at the time of delivery of the product. The Company may also warrant that the products it manufactures do not infringe, violate or breach any patent or intellectual property rights, trade secret or other proprietary information of any third party. On occasion, the Company contractually indemnifies its customers against any and all losses arising out of or in any way connected with any claim or claims of breach of its warranties or any actual or alleged defect in any product caused by the negligence or acts or omissions of the Company. The Company maintains a products liability insurance policy that limits its exposure. Based on the Company's historical activity in combination with its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. The Company has no accrued warranties and has no history of claims paid.

On July 7, 2010, Genzyme Corporation filed a complaint against the Company in the United States District Court for the District of Massachusetts seeking unspecified damages and equitable relief. The Complaint alleges that the Company has infringed U.S. Patent No. 5,143,724 by manufacturing MONOVISC in the United States for sale outside the United States and will infringe U.S. Patent Nos. 5,143,724 and 5,399,351 if the Company begins manufacture and sale of MONOVISC for sale in the United States. The Company believes that neither MONOVISC, nor its manufacture, does or will infringe any valid and enforceable claim of the asserted patents.

Artes Medical, Inc. ("Artes"), the former U.S. distributor of HYDRELLE filed a liquidating bankruptcy case under chapter 7 of the United States Bankruptcy Code. Artes's Trustee in Bankruptcy, asked the Company to pay $359,768 to the Trustee, representing the total amount of three payments received by the Company from Artes within the 90 days prior to the filing of Artes' liquidating bankruptcy. The Trustee asserts that the payments are recoverable as preferences under the Bankruptcy Code. The Company believes that the payments either do not meet the legal requirements of avoidable preferences or are subject to one or more exceptions to the Trustee's powers to recover preferences and recently so advised the Trustee.

10. Long-term Debt

On January 31, 2008, the Company entered into an unsecured Credit Agreement with Bank of America. As of June 30, 2010, the Company had an outstanding debt balance of $13,600,000, at an interest rate of 1.79%. The interest payable on our debt is determined, at the Company's option, based on either LIBOR plus 1.25% or the lender's prime rate.

Accounting Standards Codification 825, Financial Instruments (ASC 825) requires disclosure about the fair value of financial instruments in interim as well as in annual financial statements. The carrying value of our debt instrument was $13,600,000 at December 31, 2009. The estimated fair value of our debt instrument was approximately $12,800,000 at June 30, 2010 using market observable inputs and interest rate measurements.

11. Income Taxes

Income tax expense was $678,010 and $250,579 for the three months ended June 30, 2010 and 2009, respectively. Income tax expense was $1,091,600 and $488,667 for the six months ended June 30, 2010 and 2009, respectively. The effective tax rates were 38.9% and 20.8% for the three months ended June 30, 2010 and 2009, respectively. The effective tax rates were 38.0% and 24.8% for the six months ended June 30, 2010 and 2009, respectively. The increase in the effective tax rate was primarily due to a lower investment tax credit in 2010 compared to 2009, the expiration of the federal research and development tax credit during 2010, and FAB's losses in Italy at a comparatively lower statutory tax rate than the United States. During the first six months of 2010, there was no change to the Company's ASC 740 tax reserves. The Company is in the process of completing an audit by the Massachusetts Department of Revenue ("DOR") for the years 2006 and 2007, and the Company does not expect a material charge as a result of this audit. Our U.S. federal income tax returns for the years 2006 to 2009 remain subject to examination, and our state income tax returns for 2008 and 2009 remain subject to examination.

12. Pro-Forma Financial Information

The FAB operating results for the second quarter and six months of 2009 are not included in the financial results of the Company for that period as the acquisition occurred on December 30, 2009. The following unaudited pro-forma summary presents consolidated information of the Company as if FAB had been acquired as of January 1, 2009, compared with the Company's actual results for the six months ended June 30, 2010:

	Six Months Ended June 30, 2010 Consolidated (unaudited)	Six Months Ended June 30, 2009 Pro forma combined (unaudited)
Total revenue	$ 26,965,887	$ 23,326,481
Net income	$ 1,781,032	$ (1,427,180)
Diluted net income per share:		
Net income	$ 0.13	$ (0.11)
Diluted weighted average common shares outstanding	13,637,309	13,499,141

13. Related Party

In connection with the acquisition of FAB by Anika on December 30, 2009, Fidia acquired ownership of 1,981,192 shares of the Company's common stock, or approximately 14.8% of the outstanding shares of the Company as of December 30, 2009. As of June 30, 2010, Fidia owns approximately 14.7% of the outstanding shares of the Company.

As part of the acquisition, the Company, primarily through FAB, entered into a series of operating agreements with Fidia as follows:

Agreement Type	Description	Term in Years
Lease	Rent of space in Abano Terme, Italy	Six
Finished goods supply	Manufacture and supply of goods	Three
Raw material supply	Hyaluronic acid powder	Five
Services	Finance, administrative, security	One to Six
Accounts receivable	Collection of trade receivables outstanding as of	Two

management	December 30, 2009.	
Marketing and Promotion	Promote FAB products in Italy through Fidia sales force	Three

Historically, FAB has relied on Fidia, its former parent company, for several functional activities. In connection with the purchase of FAB, the Company has negotiated a lease for approximately 26,000 square feet of office, laboratory and warehouse space in Abano Terme, Italy, and a finished goods supply agreement. In addition, accounting and purchasing will be performed by Fidia on behalf of FAB during 2010 under a services agreement. Finally, Fidia has agreed to promote FAB's products in Italy through its existing 140 person sales force. At June 30, 2010, FAB had a net payable to Fidia for past products and services of $4.7 million.

14. Segment, Customer and Geographic Information

The Company has one reportable operating segment, the results of which are disclosed in the accompanying consolidated financial statements.

Product revenue by product group is as follows:

Three Months Ended June 30,		Six Months Ended June 30,
2010	2009	