

PSYCHEMEDICS CORP
Form SC 13G
August 16, 2007

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION**
Washington, D.C. 20549
SCHEDULE 13G

OMB APPROVAL
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**Under the Securities Exchange Act of 1934
(Amendment No.)***

Psychemedics Corporation

(Name of Issuer)

Common Stock, \$.005 par value

(Title of Class of Securities)

744375205

(CUSIP Number)

August 7, 2007

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 744375205

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
Discovery Equity Partners, L.P.

2. Check the Appropriate Box if a Member of a Group (See Instructions)

Not Applicable

- (a)
(b)

3. SEC Use Only

4. Citizenship or Place of Organization
Illinois

Number of
Shares
Beneficially
Owned by
Each
Reporting
Person With

5. Sole Voting Power
None
6. Shared Voting Power
276,538
7. Sole Dispositive Power
None
8. Shared Dispositive Power
276,538

9. Aggregate Amount Beneficially Owned by Each Reporting Person
276,538

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)
Not Applicable

11. Percent of Class Represented by Amount in Row (9)
5.3 %

12. Type of Reporting Person (See Instructions)
PN

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CUSIP No. 744375205

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
Discovery Group I, LLC

2. Check the Appropriate Box if a Member of a Group (See Instructions)

Not Applicable

- (a) o
(b) o

3. SEC Use Only

4. Citizenship or Place of Organization
Delaware

Number of
Shares
Beneficially
Owned by
Each
Reporting
Person With

5. Sole Voting Power
None

6. Shared Voting Power
325,300

7. Sole Dispositive Power
None

8. Shared Dispositive Power
325,300

9. Aggregate Amount Beneficially Owned by Each Reporting Person
325,300

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) o
Not Applicable

11. Percent of Class Represented by Amount in Row (9)
6.2 %

12. Type of Reporting Person (See Instructions)
OO

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CUSIP No. 744375205

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
Daniel J. Donoghue
2. Check the Appropriate Box if a Member of a Group (See Instructions)

Not Applicable
(a)
(b)
3. SEC Use Only
4. Citizenship or Place of Organization
U.S.A
5. Sole Voting Power
None
6. Shared Voting Power
325,300
7. Sole Dispositive Power
None
8. Shared Dispositive Power
325,300
9. Aggregate Amount Beneficially Owned by Each Reporting Person
325,300
10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)
Not Applicable
11. Percent of Class Represented by Amount in Row (9)
6.2 %
12. Type of Reporting Person (See Instructions)
IN

Number of
Shares
Beneficially
Owned by
Each
Reporting
Person With

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CUSIP No. 744375205

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)
Michael R. Murphy
2. Check the Appropriate Box if a Member of a Group (See Instructions)

Not Applicable
(a)
(b)
3. SEC Use Only
4. Citizenship or Place of Organization
U.S.A.
5. Sole Voting Power
None
6. Shared Voting Power
325,300
7. Sole Dispositive Power
None
8. Shared Dispositive Power
325,300
9. Aggregate Amount Beneficially Owned by Each Reporting Person
325,300
10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)
Not Applicable
11. Percent of Class Represented by Amount in Row (9)
6.2 %
12. Type of Reporting Person (See Instructions)
IN

Number of
Shares
Beneficially
Owned by
Each
Reporting
Person With

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Item 1.

- (a) Name of Issuer
Psychemedics Corporation
- (b) Address of Issuer's Principal Executive Offices
125 Nagog Park, Acton, MA 01720

Item 2.

- (a) Name of Person Filing
Discovery Equity Partners, L.P. (**Discovery Partners**)
Discovery Group I, LLC, the general partner of Discovery Partners (**Discovery Group**)
Daniel J. Donoghue, a Managing Member of Discovery Group
Michael R. Murphy, a Managing Member of Discovery Group
- (b) Address of Principal Business Office or, if none, Residence
Discovery Partners, Discovery Group, Mr. Donoghue, and Mr. Murphy are all located at:

191 North Wacker Drive, Suite 1685, Chicago, Illinois 60606
- (c) Citizenship
Discovery Partners is an Illinois limited partnership
Discovery Group is a Delaware limited liability company
Mr. Donoghue and Mr. Murphy are U.S. citizens
- (d) Title of Class of Securities
Common Stock, \$.005 par value
- (e) CUSIP Number
744375205

Item 3.

If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

Not Applicable

- (a) Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
- (b) Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).
- (e) An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);
- (f) An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
- (g) A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
- (h) A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i) A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) Group, in accordance with §240.13d-1(b)(1)(ii)(J).

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Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

Discovery Partners 276,538
Discovery Group 325,300
Mr. Donoghue 325,300
Mr. Murphy 325,300

(b) Percent of class:

Discovery Partners 5.3 %
Discovery Group 6.2 %
Mr. Donoghue 6.2 %
Mr. Murphy 6.2 %

The foregoing percentages are based on 5,215,584 shares of Common Stock of the Issuer identified in Item 1 outstanding as of August 14, 2007, as reported in the Issuer's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007.

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote

(ii) None
Shared power to vote or to direct the vote

(iii) Discovery Partners 276,538
Discovery Group 325,300
Mr. Donoghue 325,300
Mr. Murphy 325,300
Sole power to dispose or to direct the disposition of

(iv) None
Shared power to dispose or to direct the disposition of

Discovery Partners 276,538
Discovery Group 325,300
Mr. Donoghue 325,300
Mr. Murphy 325,300

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following .

Not Applicable

Item 6. Ownership of More than Five Percent on Behalf of Another Person

The shares reported herein have been acquired on behalf of discretionary clients of Discovery Group, including Discovery Partners. Such discretionary clients are entitled to receive all dividends from, and proceeds from the sale of, those shares. Except for Discovery Partners, none of those discretionary clients, to the knowledge of Discovery Partners, Discovery Group, Mr. Donoghue or Mr. Murphy, has an economic interest in more than 5% of the class.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person

Not Applicable

Item 8.
Not Applicable

Identification and Classification of Members of the Group

Item 9.
Not Applicable

Notice of Dissolution of Group

Item 10.

Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

August 16, 2007
Date

**DISCOVERY GROUP I, LLC,
for itself and as general partner of
DISCOVERY EQUITY PARTNERS, L.P.**

Michael R. Murphy*
Signature

Michael R. Murphy, Managing Member
Name/Title

Daniel J. Donoghue*
Signature

Daniel J. Donoghue
Name/Title

Michael R. Murphy*
Signature

Michael R. Murphy
Name/Title

*By: /s/ Robert M. McLennan
Robert M. McLennan

Attorney-in-Fact for Daniel J. Donoghue

Attorney-in-Fact for Michael R. Murphy

Exhibit Index

- Exhibit 1 Joint Filing Agreement dated as of August 16, 2007, by and among Discovery Equity Partners, L.P.; Discovery Group I, LLC; Daniel J. Donoghue; and Michael R. Murphy.
- Exhibit 2 Power of Attorney of Daniel J. Donoghue, dated as of August 24, 2006
- Exhibit 3 Power of Attorney of Michael R. Murphy, dated as of August 24, 2006

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