

ABIOMED INC  
Form 10-Q  
November 06, 2009  
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**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 September 30, 2009

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 0-20584

**ABIOMED, INC.**

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**04-2743260**  
(IRS Employer

Identification No.)

**22 CHERRY HILL DRIVE**

**DANVERS, MASSACHUSETTS 01923**

(Address of principal executive offices, including zip code)

**(978) 646-1400**

(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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of November 4, 2009, there were 37,485,461 shares outstanding of the registrant's Common Stock, \$.01 par value.

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**ABIOMED, INC. AND SUBSIDIARIES**

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ABIOMED and ABIOCOR are trademarks of ABIOMED, Inc., and are registered in the United States and certain foreign countries. BVS is a trademark of ABIOMED, Inc. and is registered in the United States. AB5000 is a trademark of ABIOMED, Inc. IMPELLA and RECOVER are trademarks of Abiomed Europe GmbH, a subsidiary of ABIOMED, Inc., and are registered in the United States and certain foreign countries.

**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS****ABIOMED, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

|  | September 30, 2009<br>(unaudited) | March 31, 2009 |
|--|-----------------------------------|----------------|
| <b>ASSETS</b>  |                                   |                |
| Current assets:  |                                   |                |
| Cash and cash equivalents  | \$ 2,782                          | \$ 1,785       |
| Short-term marketable securities   | 49,548                            | 55,394         |
| Accounts receivable, net   | 13,403                            | 15,724         |
| Inventories  | 14,111                            | 14,777         |
| Prepaid expenses and other current assets  | 992                               | 809            |
| Total current assets   | 80,836                            | 88,489         |
| Property and equipment, net  | 7,540                             | 7,792          |
| Intangible assets, net   | 3,996                             | 4,359          |
| Goodwill   | 40,310                            | 31,295         |
| Long-term marketable securities  |                                   | 3,721          |
| Other assets   | 302                               | 302            |
| Total assets   | \$ 132,984                        | \$ 135,958     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                   |                |
| Current liabilities:   |                                   |                |
| Accounts payable   | \$ 5,239                          | \$ 5,550       |
| Accrued expenses   | 9,654                             | 10,818         |
| Deferred revenue   | 1,237                             | 1,211          |
| Total current liabilities  | 16,130                            | 17,579         |
| Long-term deferred tax liability   | 2,554                             | 2,086          |
| Other long-term liabilities  | 410                               | 310            |
| Total liabilities  | 19,094                            | 19,975         |
| Commitments and contingencies (Note 11)  |                                   |                |
| Stockholders' equity:  |                                   |                |
| Class B Preferred Stock, \$.01 par value   |                                   |                |
| Authorized - 1,000,000 shares; Issued and outstanding - none   |                                   |                |
| Common stock, \$.01 par value  | 375                               | 367            |
| Authorized - 100,000,000 shares; Issued - 37,520,065 shares at September 30, 2009 and 36,736,843 shares at March 31, 2009; |                                   |                |
| Outstanding - 37,469,111 shares at September 30, 2009 and 36,685,889 shares at March 31, 2009                              |                                   |                |
| Additional paid-in-capital   | 370,169                           | 362,097        |
| Accumulated deficit  | (259,425)                         | (243,991)      |

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|   |                |                |
|---|----------------|----------------|
| Treasury stock at cost - 50,954 shares at September 30, 2009 and March 31, 2009 | (827)          | (827)          |
| Accumulated other comprehensive income (loss)                                   | 3,598          | (1,663)        |
| <b>Total stockholders' equity</b>   | <b>113,890</b> | <b>115,983</b> |
| Total liabilities and stockholders' equity                                      | \$ 132,984     | \$ 135,958     |

See Accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(in thousands, except per share data)**

|   | <b>Three Months Ended<br/>September 30,</b> |                   | <b>Six Months Ended<br/>September 30,</b> |                    |
|---|---|-------------------|---|--------------------|
|   | <b>2009</b>                                 | <b>2008</b>       | <b>2009</b>                               | <b>2008</b>        |
| <b>Revenue:</b>   |   |                   |   |                    |
| Product   | \$ 19,725                                   | \$ 19,777         | \$ 39,314                                 | \$ 36,047          |
| Funded research and development                               | 297   | 222               | 621                                       | 309                |
| <b>Total Revenue</b>  | <b>20,022</b>                               | <b>19,999</b>     | <b>39,935</b>                             | <b>36,356</b>      |
| <b>Costs and expenses:</b>                                    |   |                   |   |                    |
| Cost of product revenue excluding amortization of intangibles | 5,446                                       | 4,793             | 10,518                                    | 10,420             |
| Research and development                                      | 6,786                                       | 6,850             | 12,769                                    | 12,994             |
| Selling, general and administrative                           | 14,816                                      | 13,898            | 30,783                                    | 27,412             |
| Amortization of intangible assets                             | 371   | 411               | 725                                       | 837                |
|   | 27,419                                      | 25,952            | 54,795                                    | 51,663             |
| <b>Loss from operations</b>                                   | <b>(7,397)</b>                              | <b>(5,953)</b>    | <b>(14,860)</b>                           | <b>(15,307)</b>    |
| <b>Other income and expense:</b>                              |   |                   |   |                    |
| Investment income (expense), net                              | 53  | (43)              | 97  | 201                |
| Other (expense) income, net                                   | (88)  | (61)              | (203)                                     | 80                 |
|   | (35)  | (104)             | (106)                                     | 281                |
| <b>Loss before provision for income taxes</b>                 | <b>(7,432)</b>                              | <b>(6,057)</b>    | <b>(14,966)</b>                           | <b>(15,026)</b>    |
| <b>Provision for income taxes</b>                             | <b>242</b>                                  | <b>273</b>        | <b>468</b>                                | <b>418</b>         |
| <b>Net loss</b>   | <b>\$ (7,674)</b>                           | <b>\$ (6,330)</b> | <b>\$ (15,434)</b>                        | <b>\$ (15,444)</b> |
| <b>Basic and diluted net loss per share</b>                   | <b>\$ (0.21)</b>                            | <b>\$ (0.18)</b>  | <b>\$ (0.42)</b>                          | <b>\$ (0.46)</b>   |
| <b>Weighted average shares outstanding</b>                    | <b>36,924</b>                               | <b>34,475</b>     | <b>36,736</b>                             | <b>33,393</b>      |

See Accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(in thousands)**

|   | <b>Six months ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2009</b>                               | <b>2008</b> |
| <b>Operating activities:</b>  |   |             |
| Net loss  | \$ (15,434)                               | \$ (15,444) |
| Adjustments required to reconcile net loss to net cash used for operating activities: |   |             |
| Depreciation and amortization   | 2,611                                     | 2,570       |
| Bad debt expense  | 52  | 247         |
| Stock-based compensation  | 3,698                                     | 5,114       |
| Write-down of inventory   | 1,154                                     | 1,217       |
| Loss on disposal of fixed assets  | 58  | 93          |
| Deferred tax provision  | 468                                       | 337         |
| Change in unrealized loss on short-term marketable securities                         | (72)                                      | (183)       |
| Changes in assets and liabilities source (use):                                       |   |             |
| Accounts receivable   | 2,508                                     | (1,056)     |
| Inventories   | (569)                                     | (4,295)     |
| Prepaid expenses and other current assets   | (148)                                     | 684         |
| Accounts payable  | (170)                                     | (2,640)     |
| Accrued expenses  | (1,352)                                   | (1,754)     |
| Deferred revenue  | 1   | (245)       |
| Net cash used for operating activities  | (7,195)                                   | (15,355)    |
| <b>Investing activities:</b>  |   |             |
| Purchases of short-term marketable securities   | (4,271)                                   | (53,824)    |
| Proceeds from the sale and maturity of short-term marketable securities               | 14,216                                    | 26,868      |
| Contingent milestone payment on acquisition   | (1,750)                                   |             |
| Expenditures for property and equipment   | (1,417)                                   | (1,410)     |
| Net cash provided by (used for) investing activities                                  | 6,778                                     | (28,366)    |
| <b>Financing activities:</b>  |   |             |
| Issuance of common stock  |   | 41,970      |
| Proceeds from the exercise of stock options   | 383                                       | 3,564       |
| Payment in lieu of issuance of stock for payroll taxes                                |   | (658)       |
| Proceeds from the issuance of stock under the employee stock purchase plan            | 170                                       | 117         |
| Net cash provided by financing activities   | 553                                       | 44,993      |
| Effect of exchange rate changes on cash   | 861                                       | (398)       |
| Net increase in cash and cash equivalents   | 997                                       | 874         |
| Cash and cash equivalents at beginning of period                                      | 1,785                                     | 2,042       |
| Cash and cash equivalents at end of period  | \$ 2,782                                  | \$ 2,916    |

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### Supplemental disclosures:

|   |          |          |
|---|----------|----------|
| Common shares issued as acquisition consideration                             | \$ 3,827 | \$ 5,574 |
| Fixed asset additions included in accounts payable                            | 149      | 530      |
| Reclassification of short-term marketable securities to restricted securities |          | 22,739   |

See Accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).



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**ABIOMED, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**(In thousands, except share data)**

**1. Nature of Business and Basis of Preparation**

Abiomed, Inc. (the Company or Abiomed) is a provider of medical devices in circulatory support that offers a continuum of care in heart recovery to acute heart failure patients. The Company's strategy is focused on establishing heart recovery as the goal for all acute cardiac attacks. The Company's products are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. The products can be used in a broad range of clinical settings, including by cardiologists for patients who are in pre-shock or in need of prophylactic support in the cardiac catheterization lab, or cath lab, and by heart surgeons for patients in profound shock. Abiomed is focused on increasing awareness of heart recovery and establishing it as the goal for all acute patients experiencing cardiac attacks, or heart attacks, with failing but potentially recoverable hearts. The Company expects that recovery awareness and utilization of its products will significantly increase the number of patients able to return home from the hospital with their own hearts.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and in accordance with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 that has been filed with the Securities Exchange Commission, or SEC.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of results for the interim periods presented. The results of operations for any interim period may not be indicative of results for the full fiscal year.

**2. Significant Accounting Policies**

***Goodwill and Intangible Assets***

The Company assesses the realizability of goodwill annually, at October 31, as well as whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. The Company's ability to realize the value of the goodwill will depend on the future cash flows of the business. If the Company is not able to realize the value of goodwill, the Company may be required to incur material charges relating to the impairment of those assets. The Company completed its annual review of goodwill as of October 31, 2008 and determined that no write-down for impairment was necessary. The Company updated its impairment review as of March 31, 2009 due to certain triggering events and concluded that no write-down for impairment was necessary. No triggering events have occurred through September 30, 2009 which would require another impairment assessment prior to the next annual review.

***Revenue Recognition***

The Company recognizes revenue when evidence of an arrangement exists, title has passed (generally upon shipment) or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured. Revenue from product sales to new customers is deferred until training on the use of the products has occurred. All costs related to product shipment are recognized at time of shipment. The Company does not provide for rights of return to customers on product sales.

Maintenance and service support contract revenues are recognized ratably over the term of the service contracts based upon the elapsed term of the service contract. In limited instances, the Company rents console medical devices on a month-to-month basis or for a longer specified period of time to customers for which revenue is recognized as earned.

Government-sponsored research and development contracts and grants generally provide for payment on a cost-plus-fixed-fee basis. Revenues from these contracts and grants are recognized as work is performed, provided the government has appropriated sufficient funds for the work. Under contracts in which the Company spends significantly more on the development project during the term of the contract than the total contract amount, the Company prospectively recognizes revenue on such contracts ratably over the term of the contract as related research and development costs are incurred.



**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In thousands, except share data)*****Stock-Based Compensation***

The fair value of each stock option the Company grants is estimated using the Black-Scholes option pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected life of the stock options. Volatility assumptions are calculated based on historical volatility of the Company's stock. The calculation of the fair value of the options is net of estimated forfeitures. The expected term of options represents the period of time that options granted are expected to be outstanding. Management estimates the average expected life based on historical experience of our option exercises. Forfeitures are estimated based on an analysis of actual option forfeitures, adjusted to the extent historical forfeitures may not be indicative of forfeitures in the future. In addition, an expected dividend yield of zero is used in the option valuation model because the Company does not pay dividends and does not expect to pay any cash dividends in the foreseeable future.

The estimated fair value of all awards is recognized as compensation expense on a straight-line basis over the service period. Accruals of compensation cost for an award with a performance condition is based on the probable outcome of the performance conditions. The cumulative effects of changes in the probability outcomes are recorded in the period in which the changes occur.

***New Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 made the FASB Accounting Standards Codification (the Codification) the single source of U.S. GAAP used by nongovernmental entities in the preparation of financial statements, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative accounting guidance for SEC registrants. The Codification is meant to simplify user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into roughly 90 accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for the company beginning July 1, 2009. Following SFAS No. 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. In the description of Accounting Standards Updates that follows, references in *italics* relate to Codification Topics and Subtopics, and their descriptive titles, as appropriate.

In September 2009, an update was made to *Fair Value Measurements and Disclosures - Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. This update permits entities to measure the fair value of certain investments, including those with fair values that are not readily determinable, on the basis of the net asset value per share of the investment (or its equivalent) if such net asset value is calculated in a manner consistent with the measurement principles in *Financial Services-Investment Companies* as of the reporting entity's measurement date (measurement of all or substantially all of the underlying investments of the investee in accordance with the *Fair Value Measurements and Disclosures* guidance). The update also requires enhanced disclosures about the nature and risks of investments within its scope that are measured at fair value on a recurring or nonrecurring basis. This update will be effective for the Company beginning October 1, 2009. Management is evaluating the effect that adoption of this update will have, if any, on the Company's consolidated financial position and results of operations when it becomes effective.

In October 2009, an update was made to *Revenue Recognition - Multiple Deliverable Revenue Arrangements*. This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to *fair value* with *selling price* to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. This update is effective for the Company beginning April 1, 2011 and can be applied prospectively or retrospectively. Management is currently evaluating the effect that adoption of this update will have, if any, on the Company's consolidated financial position and results of operations when it becomes

effective in fiscal 2012.

**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In thousands, except share data)****Note 3. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 is comprised of unobservable inputs that are supported by little or no market activity. Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

The following table presents information about the Company's marketable securities, excluding accrued interest, that are measured at fair value on a recurring basis as of September 30, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

|                                   | Level 1      | Level 2 | Level 3  | Total     |
|-----------------------------------|--------------|---------|----------|-----------|
|                                   | (in \$000's) |         |          |           |
| Assets:                           |              |         |          |           |
| Columbia Strategic Cash Portfolio | \$           | \$      | \$ 2,169 | \$ 2,169  |
| U.S. Treasury Securities          | 47,374       |         |          | 47,374    |
|                                   | \$ 47,374    | \$      | \$ 2,169 | \$ 49,543 |

The Columbia Fund is an investment portfolio fund sponsored by Bank of America that contained approximately \$100 million in assets at September 30, 2009. Most of the securities in the Columbia Fund have their fair values determined through readily available market data, but there are some securities in the Columbia Fund for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. Given current market conditions, as these securities are not actively traded, certain significant inputs (e.g. yield curves, spreads, prepayments and volatilities) are unobservable. These securities are valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash inflows, as well as assumptions about liquidity. As a result, the Company has categorized these securities in Level 3 of the fair value hierarchy. At September 30, 2009, approximately 61% of the assets in the Columbia Fund were invested in mortgage-backed securities (U.S. subprime and non-subprime residential mortgages,

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U.S. commercial mortgages and foreign residential mortgages) and asset-backed securities (credit card, auto loan and student loan backed securities). The remaining assets in the Fund are in cash, corporate bonds and other assets.

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The table below provides a summary of the changes in fair value, including net transfers, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended September 30, 2009:

|  | <b>Level 3<br/>Columbia Strategic<br/>Cash Portfolio<br/>(in \$000's)</b> |
|--|---|
| Balance at March 31, 2009  | \$ 7,006  |
| Total realized gains included in earnings                          | 73  |
| Unrealized gain included in accumulated other comprehensive income | 306   |
| Cash received in settlement  | (5,216)   |
| <b>Balance at September 30, 2009</b>                               | <b>\$ 2,169</b>   |

**Note 4. Marketable Securities**

The Company has marketable securities at September 30, 2009 and March 31, 2009 that consist of and are classified on the balance sheet as follows:

|                                   | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|-----------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
|                                   | <b>(in \$000's)</b>       |                             |                              |                       |
| <b>At September 30, 2009:</b>     |                           |                             |                              |                       |
| Columbia Strategic Cash Portfolio | \$ 2,457                  | \$                          | \$ (288)                     | \$ 2,169              |
| US Treasury Securities            | 47,374                    | \$                          |                              | 47,374                |
| Accrued Interest                  | 5                         |                             |                              | 5                     |
|                                   | <b>\$ 49,836</b>          |                             | <b>\$ (288)</b>              | <b>\$ 49,548</b>      |
| <b>At March 31, 2009:</b>         |                           |                             |                              |                       |
| Columbia Strategic Cash Portfolio | \$ 8,404                  | \$                          | \$ (1,398)                   | \$ 7,006              |
| US Treasury Securities            | 52,102                    | \$                          |                              | 52,102                |
| Accrued Interest                  | 7                         |                             |                              | 7                     |
|                                   | <b>\$ 60,513</b>          |                             | <b>\$ (1,398)</b>            | <b>\$ 59,115</b>      |

The Columbia Fund is comprised of investments in cash, corporate bonds, other assets, mortgage-backed securities and asset-backed securities. On December 6, 2007, the Columbia Fund ceased accepting redemption requests from new or current investors and changed its method of valuing the securities in the Columbia Fund to market value rather than amortized cost. The Company deemed that the unrealized loss on the Columbia Fund was not temporary as the market value of the Columbia Fund was approximately 88% of its carrying value at September 30, 2009 and the Company did not expect to recover the original value of its investment. Since December 6, 2007, the Company has received

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disbursements of approximately \$44.2 million, or 95% of its original units in the Columbia Fund, including the most recent disbursement of \$3.0 million occurring on September 29, 2009 at approximately 88% of original value. The remaining balance in the Columbia Fund is expected to be distributed to the Company during the next twelve months. Accordingly, the Company has recorded the remaining balance of its holdings in the Columbia Fund as short term marketable securities as of September 30, 2009.



**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In thousands, except share data)****Note 5. Inventories**

The components of inventories are as follows:

|                            | September 30, 2009 | March 31, 2009 |
|----------------------------|--------------------|----------------|
|                            | (in \$000's)       |                |
| Raw materials and supplies | \$ 4,755           | \$ 4,635       |
| Work-in-progress           | 2,648              | 2,509          |
| Finished goods             | 6,708              | 7,633          |
|                            | \$ 14,111          | \$ 14,777      |

All of the Company's inventories relate to circulatory care product lines that include the Impella, iPulse, AB5000, BVS 5000, Portable Driver and AbioCor product platforms. Finished goods and work-in-process inventories consist of direct material, labor and overhead. During the three months ended September 30, 2009 and 2008, respectively, the Company recorded \$0.6 million and \$0.5 million in write downs of inventory for excess quantities and obsolescence. During each of the six months ended September 30, 2009 and 2008, the Company recorded \$1.2 million in write downs of inventory for excess quantities and obsolescence.

From time to time, the Company loans finished goods inventory on a short-term basis to customers for demonstration purposes and this inventory is generally amortized over a one to five year life. The Company had \$1.3 million in demo inventory at each of September 30, 2009 and March 31, 2009, respectively. Amortization expense related to demo inventory was \$0.2 million for each of the three months ended September 30, 2009 and 2008, respectively. Amortization expense related to demo inventory was \$0.8 million and \$0.6 million for the six months ended September 30, 2009 and 2008, respectively.

**Note 6. Goodwill and Intangible Assets**

The carrying amount of goodwill at September 30, 2009 and March 31, 2009 was \$40.3 million and \$31.3 million, respectively, and has been recorded in connection with the Company's acquisition of Impella Cardiosystems AG, or Impella. The goodwill activity for the six months ended September 30, 2009 is as follows:

|   |              |
|---|--------------|
|   | (in \$000's) |
| Balance at March 31, 2009                                 | \$ 31,295    |
| Purchase price adjustments - milestone payment to Impella | 5,583        |
| Exchange rate impact                                      | 3,432        |
| Balance at September 30, 2009                             | \$ 40,310    |

In April 2009, the Company received 510(k) clearance from the U.S. Food and Drug Administration, or FDA, of its Impella 5.0 product, triggering an obligation to pay an additional \$5.6 million payment related to the May 2005 acquisition of Impella. During the quarter ended June 30, 2009, the Company paid \$1.8 million of this final milestone payment in cash and elected to pay the remaining amount through the issuance of approximately 663,535 shares of its common stock. This transaction was recorded as an increase to goodwill of \$5.6 million. The Company has no further contingent payments related to its acquisition of Impella.

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The components of intangible assets are as follows:

|                           | September 30, 2009 |   |                   | March 31, 2009  |   |                   |
|---------------------------|--------------------|---|-------------------|-----------------|---|-------------------|
|                           | Cost               | Accumulated<br>Amortization<br>(in \$000's) | Net Book<br>Value | Cost            | Accumulated<br>Amortization<br>(in \$000's) | Net Book<br>Value |
| Patents                   | \$ 7,341           | 4,663                                       | \$ 2,678          | \$ 6,725        | \$ 3,800                                    | \$ 2,925          |
| Trademarks and tradenames | 373                | 228   | 145               | 342             | 185   | 157               |
| Distribution agreements   | 715                | 451   | 264               | 652             | 365   | 287               |
| Acquired technology       | 2,464              | 1,555                                       | 909               | 2,247           | 1,257                                       | 990               |
|                           | <b>\$ 10,893</b>   | <b>6,897</b>                                | <b>\$ 3,996</b>   | <b>\$ 9,966</b> | <b>\$ 5,607</b>                             | <b>\$ 4,359</b>   |

Amortization of intangible assets was \$0.4 million for each of the three months ended September 30, 2009 and 2008. Amortization of intangible assets was \$0.8 million for each of the six months ended September 30, 2009 and 2008. The Company's expected amortization expense will be \$1.1 million for the six months ending March 31, 2010, \$1.5 million for fiscal 2011, and \$1.4 million for fiscal 2012.

**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

(In thousands, except share data)

**Note 7. Stock-Based Compensation**

Total stock-based compensation recognized in the Company's condensed consolidated statements of operations for the three and six months ended September 30, 2009 and 2008 was as follows:

|                                     | Three Months Ended<br>September 30,<br>2009 |          | Six Months Ended<br>September 30,<br>2008 |          |
|-------------------------------------|---|----------|---|----------|
|                                     | (in \$000's)                                |          | (in \$000's)                              |          |
| Cost of product revenue             | \$ 138                                      | \$ 99    | \$ 255                                    | \$ 201   |
| Research and development            | 389   | 736      | 518                                       | 1,127    |
| Selling, general and administrative | 1,471                                       | 2,563    | 2,925                                     | 3,786    |
|                                     | \$ 1,998                                    | \$ 3,398 | \$ 3,698                                  | \$ 5,114 |

The \$2.0 million in stock-based compensation expense for the three months ended September 30, 2009 includes \$1.6 million related to stock options and \$0.4 million related to restricted stock and the Company's Employee Stock Purchase Plan (ESPP). The \$3.4 million in stock-based compensation expense for the three months ended September 30, 2008 includes \$1.2 million related to stock options and \$2.2 million related to restricted stock and the Company's ESPP. Stock compensation related to restricted stock is primarily related to performance share awards, as described in more detail below.

The \$3.7 million in stock-based compensation expense for the six months ended September 30, 2009 includes \$2.9 million related to stock options and \$0.8 million related to restricted stock and the Company's ESPP. The \$5.1 million in stock-based compensation expense for the six months ended September 30, 2008 includes \$2.5 million related to stock options and \$2.6 million related to restricted stock and the Company's ESPP.

The remaining unrecognized stock-based compensation expense for unvested stock option awards at September 30, 2009 was approximately \$9.5 million, net of forfeitures, and the weighted-average time over which this cost will be recognized is 1.5 years. Benefits of tax deductions in excess of recognized compensation cost are reported as a financing cash flow rather than as an operating cash flow. Because the Company has not recognized the benefit of tax deductions in excess of recognized compensation cost due to its net operating loss position, this had no impact on the Company's consolidated statement of cash flows for the six months ended September 30, 2009 and 2008.

**Stock Option Activity**

The following table summarizes the stock option activity for the six months ended September 30, 2009:

|                               | Options<br>(in thousands) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|-------------------------------|---------------------------|--|---|---|
| Outstanding at March 31, 2009 | 4,583                     | \$ 12.32                                 |   |   |

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|                                   |       |          |      |          |
|-----------------------------------|-------|----------|------|----------|
| Granted                           | 1,429 | 6.03     |      |          |
| Exercised                         | (45)  | 8.42     |      |          |
| Cancelled                         | (302) | 15.24    |      |          |
| Outstanding at September 30, 2009 | 5,665 | \$ 10.61 | 7.10 | \$ 7,131 |
| Exercisable at September 30, 2009 | 3,070 | \$ 11.70 | 5.50 | \$ 1,494 |

The total intrinsic value of options exercised during the six months ended September 30, 2009 and 2008 was \$30,000 and \$2.9 million, respectively. The total fair value of options vested during the six months ended September 30, 2009 and 2008 was \$4.8 million and \$1.2 million, respectively.

**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

(In thousands, except share data)

The Company estimates the fair value of each stock option granted at the grant date using the Black-Scholes option valuation model. The fair value of options granted during the three and six months ended September 30, 2009 and 2008 were calculated using the following weighted-average assumptions:

|                              | Three Months Ended<br>September 30, |       | Six Months Ended<br>September 30, |       |
|------------------------------|-------------------------------------|-------|-----------------------------------|-------|
|                              | 2009                                | 2008  | 2009                              | 2008  |
| Risk-free interest rate      | 2.64%                               | 2.88% | 2.46%                             | 3.01% |
| Expected option life (years) | 5.22                                | 5.21  | 5.24                              | 5.12  |
| Expected volatility          | 52.7%                               | 48.2% | 54.0%                             | 49.3% |

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected life of the stock options. Volatility assumptions are calculated based on the historical volatility of the Company's stock. The Company estimates the expected term based on historical experience.

The calculation of the fair value of the options is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures, adjusted to the extent historic forfeitures may not be indicative of forfeitures in the future. In addition, an expected dividend yield of zero is used in the option valuation model because the Company does not pay cash dividends and does not expect to pay any cash dividends in the foreseeable future.

The weighted-average grant-date fair value for options granted during the six months ended September 30, 2009 and 2008 was \$2.97 and \$6.61 per share, respectively.

**Restricted Stock**

The following table summarizes restricted stock activity for the six months ended September 30, 2009:

|   | Number of<br>Shares (in 000's) | Six Months Ended<br>September 30, 2009       |       |
|---|--------------------------------|--|-------|
|   |                                | Weighted Average<br>Grant Date<br>Fair Value |       |
| Restricted stock awards at March 31, 2009     | 480                            | \$   | 16.77 |
| Granted                                       | 50                             |  | 7.67  |
| Vested  | (30)                           |  | 13.80 |
| Cancelled                                     | (25)                           |  | 18.63 |
| Restricted stock awards at September 30, 2009 | 475                            | \$   | 15.90 |

The remaining unrecognized compensation expense for restricted stock awards at September 30, 2009 was approximately \$3.2 million and the weighted-average time over which this cost will be recognized is 1.5 years.

**Performance Based Awards**

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Included in the stock option and restricted stock activity discussed above are certain awards granted in fiscal years 2009 and 2010 that contain performance based vesting.

In August 2008, 406,250 shares of restricted common stock and options to purchase 93,750 shares of common stock were issued to certain executive officers and certain members of senior management of the Company, all of which would vest upon achievement of certain sales and profitability performance targets in fiscal years 2009 through 2011. In March 2009, the Company met one of the prescribed performance milestones and a portion of these shares and stock options vested. In August 2009, 50,000 additional shares of restricted stock were issued to certain executive officers of the Company, which have the same vesting milestones based on fiscal 2010 and 2011 performance targets.

During the three months ended September 30, 2009, the Company determined that it was not probable it would meet one of the prescribed performance milestones for fiscal 2010. As a result, it reversed \$0.4 million that had been recorded as stock-based compensation expense prior to July 1, 2009. At September 30, 2009, the Company has determined that it is probable that it would meet the prescribed performance milestone for fiscal 2011.

**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In thousands, except share data)**

In May 2009, options to purchase 328,500 shares of the Company's common stock were granted to certain senior management and executive officers of the Company, all of which could vest on March 31, 2010 upon achievement of a certain prescribed performance milestone. The remaining stock compensation expense for these options is being recognized through March 31, 2010 based on the probability of achieving the performance milestone. At September 30, 2009, the Company continues to believe that it is probable that it would meet the prescribed performance milestone for fiscal 2010.

Through September 30, 2009, the Company has accrued \$2.4 million in stock-based compensation cost for shares and options in which the prescribed performance milestones have been achieved or are probable of being achieved. The remaining unrecognized compensation expense related to these shares at September 30, 2009 is \$2.5 million based on the Company's current assessment of probability of achieving the performance milestones.

**Note 8. Income Taxes**

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carry forwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates. A valuation reserve is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. The tax benefit associated with the stock option compensation deductions will be credited to equity when realized. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset the Company's net deferred tax assets and liabilities.

As of September 30, 2009, the Company has accumulated a net deferred tax liability in the amount of \$2.6 million which is the result of a difference in accounting for the Company's goodwill which is amortized over 15 years for tax purposes, but not amortized for book purposes. The net deferred tax liability cannot be offset against the Company's deferred tax assets since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period. The Company recorded a provision for income taxes of \$0.2 million and \$0.3 million for the three months ended September 30, 2009 and 2008, respectively. The Company recorded a provision for income taxes of \$0.5 million and \$0.4 million for the six months ended September 30, 2009 and 2008, respectively.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of multiple state and foreign jurisdictions. The Company has accumulated significant losses since its inception in 1981. All open tax years remain subject to examination by major tax jurisdictions, including the federal government and the Commonwealth of Massachusetts. However, since the Company has net operating loss and tax credit carry forwards which may be utilized in future years to offset taxable income, those years may also be subject to review by relevant taxing authorities if the carry forwards are utilized.

**Note 9. Comprehensive Loss**

The components of comprehensive loss are as follows:

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>    |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
|  | <b>(in \$000's)</b>       |             | <b>(in \$000's)</b>     |             |
| Net loss                                 | \$ (7,674)                | \$ (6,330)  | \$ (15,434)             | \$ (15,444) |
| Foreign currency translation adjustments | 2,322                     | (6,248)     | 4,955                   | (6,381)     |
| Unrealized gain on marketable securities | 27                        |             | 306                     |             |

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|                    |            |             |             |             |
|--------------------|------------|-------------|-------------|-------------|
| Comprehensive loss | \$ (5,325) | \$ (12,578) | \$ (10,173) | \$ (21,825) |
|--------------------|------------|-------------|-------------|-------------|



**Table of Contents****ABIOMED, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****(In thousands, except share data)**

The following table summarizes the components of accumulated other comprehensive income as of September 30, 2009 and March 31, 2009:

|  | September 30, 2009 | March 31, 2009 |
|--|--------------------|----------------|
|  | (in \$000's)       |                |
| Foreign currency translation adjustments | \$ 3,292           | \$ (1,663)     |
| Unrealized gain on marketable securities | 306                |                |
|  | \$ 3,598           | \$ (1,663)     |

**Note 10. Net Loss Per Share**

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of dilutive common shares outstanding during the period. Diluted shares outstanding is calculated by adding to the weighted shares outstanding any potential (unissued) shares of common stock from outstanding stock options and warrants based on the treasury stock method. In periods when a net loss is reported, all common stock equivalents are excluded from the calculation because they would have an anti-dilutive effect, meaning the loss per share would be reduced. Therefore, in periods when a loss is reported basic and dilutive loss per share is the same value.

Excluded from the calculation of diluted weighted-average shares outstanding are stock options outstanding in the amount of approximately 5,665,000 and 4,579,000 as of September 30, 2009 and 2008, respectively and unvested shares of restricted stock in the amount of approximately 475,000 shares and 590,000 shares as of September 30, 2009 and 2008, respectively.

**Note 11. Commitments and Contingencies***Litigation*

From time-to-time, the Company is involved in legal and administrative proceedings and claims of various types. While any litigation contains an element of uncertainty, management presently believes that the outcome of each such other proceedings or claims which are pending or known to be threatened, or all of them combined, is not expected to have a material adverse effect on the Company's financial position, cash flow and results. At September 30, 2009, the Company did not have any pending litigation.

**Note 12. Segment and Enterprise Wide Disclosures**

The Company operates in one business segment the research, development and sale of medical devices to assist or replace the pumping function of the failing heart. The Company's chief operating decision maker (determined to be the Chief Executive Officer) does not manage any part of the Company separately, and the allocation of resources and assessment of performance are based on the Company's consolidated operating results. Approximately 55% and 62% of the Company's total consolidated assets are located within the U.S. as of September 30, 2009 and March 31, 2009, respectively. Remaining assets are located in Europe, primarily related to the Company's Impella production facility, and include goodwill and intangibles of \$44.2 million and \$35.5 million at September 30, 2009 and March 31, 2009, respectively, associated with the Impella acquisition from May 2005. Total assets in Europe excluding goodwill and intangibles amounted to 12% and 11%, respectively, of total consolidated assets at September 30, 2009 and March 31, 2009. For the three months ended September 30, 2009 and 2008, international sales accounted for 8% and 13% of total product revenue, respectively. For the six months ended September 30, 2009 and 2008, international sales accounted for 9% and 12% of total product revenue, respectively.



**Table of Contents****ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FORWARD LOOKING STATEMENTS**

*Abiomed's discussion of financial condition and results of operations may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results may differ materially from those anticipated in these forward-looking statements based upon a number of factors, including uncertainties associated with development, testing and related regulatory approvals, anticipated future losses, complex manufacturing, high quality requirements, dependence on limited sources of supply, competition, market acceptance of our new products, technological change, government regulation, future capital needs and uncertainty of additional financing and other risks detailed in our filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this Report. In particular, we encourage you to review the risks and uncertainties discussed under Item 1A of Part I of our Annual Report on Form 10-K, for the year ended March 31, 2009. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances that occur after the date of this Report or to reflect the occurrence of unanticipated events.*

**OVERVIEW**

We are a provider of medical devices in circulatory support and we offer a continuum of care in heart recovery to acute heart failure patients. Our strategy is focused on establishing heart recovery as the goal for all acute cardiac attacks. Our products are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. We believe we are the only company with commercially available cardiac assist devices approved for heart recovery from all causes by the FDA, and our products have been used to treat thousands of patients to date. Our products can be used in a broad range of clinical settings, including by heart surgeons for patients in profound shock and by interventional cardiologists for patients who are in shock, pre-shock or in need of prophylactic support in the cardiac catheterization lab, or cath lab. Our circulatory care products are designed to provide hemodynamic support for acute patients from the cath lab to the surgery suite, with a goal of heart recovery and sending the patient home with his or her native heart. We believe heart recovery is the optimal clinical outcome for patients because it provides a better quality of life than alternatives. In addition, we believe heart recovery is the most cost-effective path for the healthcare system. Since 2004, our executive team has focused our efforts on expanding our product portfolio. We have significantly increased our product portfolio, which now includes several circulatory care products that either have been approved or cleared by the FDA in the U.S., have received CE mark approval in Europe, or have received registration or regulatory approval in numerous other countries. We also have additional new circulatory care products under development.

Our strategic focus and the driver of the most recent revenue growth in our business is the market penetration of our Impella 2.5 product, which received 510(k) clearance in June 2008. In addition to the 510(k) clearance, we are also conducting clinical trials of our Impella 2.5 for additional indications of use, with the goal of establishing Impella as the standard of care in the cath lab. We received 510(k) clearance in April 2009 for our Impella 5.0 and Impella LD devices, which are larger and provide circulatory support with up to 5.0 liters of flow per minute. The U.S. commercial launch of Impella 5.0 and Impella LD began in the first quarter of fiscal 2010.

In order for our manufacturing to meet the expected demand for our Impella 2.5 product, we have been implementing process improvements on the Impella production line at our manufacturing facilities in Aachen, Germany to increase the output that we can produce at the facility. In addition to further process improvement programs designed to further increase yield and capacity levels, we plan to incrementally expand manufacturing employment in Aachen and relocate selected sub-assembly production to external vendors and our manufacturing facility in Danvers, Massachusetts. We have deferred the start up activities at our Athlone, Ireland manufacturing facility and plan to monitor the capacity enhancements in Aachen, Germany prior to finalizing the location of a second production line. As of September 30, 2009, we have \$1.5 million in fixed assets located in our Athlone facility.

Revenues from our other heart recovery products, largely focused on the heart surgery suite, have been lower recently as we have strategically shifted our sales and marketing efforts towards our Impella products and the cath lab. In March 2009, we received FDA approval under a pre-market approval, or PMA, supplement for an AB 5000 portable driver. This clearance allows for immediate commercial shipment of the AB5000 portable driver to U.S. hospitals for in hospital and transport use. The out of hospital use is being studied in a patient discharge clinical trial. We believe that the added mobility afforded by the portable driver will help our overall AB5000 revenues. Our BVS product was launched 17 years ago and revenue from this product has been declining as AB5000, our next-generation product for heart recovery, is designed to provide a longer duration of support than the BVS 5000 and, when used with the portable driver, facilitates patient mobility in the hospital. We expect revenue from BVS to continue to decline as our customers transition to AB5000 disposables and our new Impella

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products. In addition, we expect that revenues from sales of our replacement heart product, the AbioCor, will be an immaterial portion of our total revenues for the foreseeable future as our primary strategic focus is centered around heart recovery for acute heart failure patients. We have not recognized any AbioCor revenue during the first six months of fiscal 2010.

We have incurred net losses since our inception, including net losses of \$15.5 million for the six months ended September 30, 2009. We expect to incur additional net losses in the future as we continue to expand our commercial infrastructure and invest in clinical trials and research and development expenses related to our products.

Our financial condition has been improved by our public offering in August 2008, which yielded us approximately \$42.0 million in net proceeds after deducting offering expenses. We expect that our existing cash resources, together with our revenues, will be sufficient to fund our operations for at least the next 12 months.

*Impella 2.5, Impella 5.0, and Impella LD*

Our Impella 2.5 catheter, Impella 5.0 catheter, and Impella LD are percutaneous micro heart pumps with integrated motors and sensors for use in interventional cardiology and heart surgery. These devices are designed for use by interventional cardiologists to support pre-shock patients in the cath lab who may not require as much support as patients in the surgery suite or first use in surgery for patients who may require assistance to maintain their circulation. Our Impella 2.5 device received 510(k) clearance from the FDA in June 2008 for partial circulatory support for up to six hours and our Impella 5.0 and Impella LD devices received 510(k) clearance in April 2009, for circulatory support for up to six hours. Our Impella devices have CE mark approval in Europe and are approved in over 40 countries

In addition, we are pursuing FDA approval for our Impella heart pumps through a pre-market approval, or PMA path, for our Impella 2.5 and 5.0 products. In August 2007, we received approval from the FDA to begin a high-risk percutaneous coronary intervention, or PCI, pivotal clinical trial, known as the Protect II study, for the Impella 2.5. This approval was based on the submission of the clinical results of the safety pilot clinical trial. The pivotal study will determine the safety and effectiveness of the Impella 2.5 as compared to optimal medical management with an intra-aortic balloon, or IAB, during high-risk angioplasty procedures. The study inclusion criteria have been extended to include patients with triple vessel disease with low ejection fraction. The study is approved under category B2 status and the trial sites are eligible for full reimbursement from the Centers for Medicare and Medicaid Services, or CMS. The randomized pivotal study, in which 654 patients at up to 150 hospitals will undergo a high-risk PCI procedure, is comprised of two arms comparing nearly equal number of Impella 2.5 supported patients and IAB supported patients during the procedure. Patients receiving the Impella 2.5 can be supported for up to five days as a left ventricular assist device, or VAD. As of September 30, 2009, approximately 100 hospitals are participating in the Protect II study and a total of 290 patients have completed the Protect II study, or 44% of the 654 patients required. Based on current trial enrollment rates, we expect to complete the Protect II study in 2012.

In March 2008, we received approval from the FDA to begin a second pivotal study for our Impella 2.5 in the U.S. under an investigational device exemption, or IDE, for hemodynamically unstable patients undergoing a PCI procedure due to acute myocardial infarction, or AMI, commonly referred to as heart attack. The AMI study, known as Recover II, will determine the safety and effectiveness of the Impella 2.5 as a left ventricular assist device for heart attack patients as compared to optimal medical management with an IAB. The study is approved under category B2 status and the trial sites are eligible for full CMS reimbursement. The randomized study, at up to 150 hospitals, is comprised of two arms; those patients that receive the Impella 2.5 for up to five days and patients that receive IAB therapy. The study will compare 192 Impella 2.5 patients to 192 IAB patients relative to a composite end point comparing safety and efficacy. The proposed primary endpoint will be a composite endpoint of major events assessed at 30 days post-AMI. These major events include but are not limited to: death, acute renal failure, and need for a major cardiovascular operation. The secondary endpoint will be a composite of cardiac function such as ejection fraction, requirement for inotropic support and cardiac power output. There are estimated to be approximately 100,000 AMI anterior infarct patients annually in the U.S. and these patients suffer failure of the left ventricle, the large main pumping muscle of the heart. Feasibility studies suggest that of heart attack patients, these are the patients that can be most helped by the Impella 2.5 technology.

In September 2009, we suspended further administrative progress towards new site activation on the Recover II study while exploring changes in the study design. Because Recover II is a pivotal trial conducted under IDE, any changes in the study design need to be approved by the FDA. This process is likely to take at least 3 to 6 months. In the interim period, sites that have been pursuing inclusion in the Recover II study have been encouraged to continue to build proficiency in the urgent and emergent application of Impella through general use of the device to treat AMI patients. Establishing this proficiency remains a necessity to participate in any AMI study.

The clinical trial experience to date with our Impella 2.5 has been favorable, including our recently completed U.S. safety pilot clinical trial. Factors that affect the length of time to complete the pivotal studies in the U.S. study include the



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timing of each center receiving IRB approval, the timing of the training we will provide each center, and the rate of patient enrollment. At this time we cannot estimate the duration of the Recover II Impella 2.5 pivotal study discussed above. The Impella 5.0 is in a pilot clinical study that is enrolling up to 20 patients at 15 U.S. sites. The study will include postcardiotomy patients who have been weaned from heart-lung machines and whose hearts require added support to maintain good blood flow. The study is enrolling those patients that would typically need more flow and hemodynamic support than provided by an IAB.

### *AB5000 and BVS 5000*

We manufacture and sell the AB5000 Circulatory Support System and the BVS 5000 Biventricular Support System for the temporary support of acute heart failure patients in profound shock, including patients suffering from cardiogenic shock after a heart attack, post-cardiotomy cardiogenic shock, or myocarditis. We believe the AB5000 and BVS 5000 systems are the only commercially available cardiac assist devices that are approved by the FDA for all indications where heart recovery is the intended outcome, including patients who have undergone successful cardiac surgery and subsequently develop low cardiac output, or patients who suffer from acute cardiac disorders leading to hemodynamic instability. The BVS 5000 is 17 years old and the expectation is that sales will decline as customers in the surgery suite use other products, including AB5000 and Impella 5.0.

To support the AB5000 ventricle and BVS 5000 blood pump, as well as IABs, we developed our iPulse combination console. We believe the ability of the iPulse console to support multiple devices will make it more attractive than consoles designed to operate a single device. The new iPulse console will support procedures with associated Medicare reimbursement that extends across four diagnostic related groups, which further enhances its attractiveness to customers.

### *Portable Driver*

We have developed the new Portable Circulatory Support Driver for both in-hospital and out-of-hospital patients. The Portable Driver is designed to support our AB5000 VAD. AB5000 is designed to provide either uni-ventricular or bi-ventricular support. Our FDA labeling approval of one year bench reliability for our AB5000 VAD complements the Portable Driver reliability. We received CE mark approval for our Portable Driver in March 2008 and in January 2008 we submitted for an IDE to conduct a patient discharge study in the U.S. In May 2008, we received conditional approval for the Portable Driver for this IDE to conduct a U.S. patient discharge study at 20 hospitals for 30 patients. In March 2009, we received FDA approval of our PMA supplement for the AB Portable Driver. This clearance allows for immediate commercial shipment of the device to U.S. hospitals for in hospital and transport use. Out-of-hospital use is being studied in a clinical trial, which, when successfully completed, would allow patients to go home while waiting for recovery.

### *AbioCor*

Our AbioCor Implantable Replacement Heart is the first completely self-contained artificial heart. Designed to sustain the body's circulation, the AbioCor is intended for end-stage biventricular heart failure patients whose other treatment options have been exhausted. Patients with advanced age, impaired organ function or cancer are generally ineligible for a heart transplant and are potential candidates to receive the AbioCor implantable heart. Once implanted, the AbioCor system does not penetrate the skin, reducing the chance of infection. This technology provides patients with mobility and remote diagnostics. The use of AbioCor is limited to normal to larger sized male patients and has a product life expectancy of 18-24 months.

We received a Humanitarian Device Exemption, or HDE, supplement approval from the FDA for product enhancement of the AbioCor in January 2008. HDE approval signifies that no comparable alternative therapy exists for patients facing imminent death without the technology. HDE approval allows the AbioCor to be made available to a limited patient population, with no more than 4,000 patients receiving the technology in the U.S. each year under HDE approval limits. Because the AbioCor is only available to a limited patient population, we do not expect that demand will meet the 4,000 patient limit under HDE approval. As a result, we have no current plans to seek a broader regulatory approval of the AbioCor. We began selling the AbioCor in the fourth quarter of fiscal 2008 in a controlled roll-out to a limited number of heart centers in the U.S. We have selected the following sites to date as AbioCor centers: The Johns Hopkins Hospital in Baltimore, MD; Robert Wood Johnson University Hospital in New Brunswick, NJ; and St. Vincent's Hospital in Indianapolis, IN. We are unable to determine how many patient procedures will be performed after the centers are trained; however, we do not expect it to be a material number. In May 2008, we received a positive National Coverage Determination, or NCD, from CMS to reimburse hospitals for the cost of the AbioCor replacement heart and the cost of implanting the device as part of Coverage with Evidence Development, or CED. Three insurance companies have existing coverage policies for the AbioCor: Cigna, Humana and Healthnet. In June 2009, the first AbioCor patient procedure under HDE approval was performed at Robert Wood Johnson University Hospital. This patient died on August 23, 2009, due to



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post-operative conditions unrelated to the AbioCor. We do not expect that revenues from sales of the AbioCor will be a material portion of our total revenues for the foreseeable future as our primary strategic focus is centered around heart recovery for acute heart failure patients. We did not record any revenue from sales of the AbioCor during the six months ended September 30, 2009.

**Results of Operations**

The following table sets forth certain consolidated statements of operations data for the periods indicated as a percentage of total revenues (which includes revenues from products and funded research and development) for the three and six months ended September 30, 2009 and 2008, respectively:

|   | Three Months Ended<br>September 30, |         | Six Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|-----------------------------------|---------|
|   | 2009                                | 2008    | 2009                              | 2008    |
| <b>Revenues:</b>  |                                     |         |                                   |         |
| Product   | 98.5%                               | 98.9%   | 98.4%                             | 99.1%   |
| Funded research and development                               | 1.5                                 | 1.1     | 1.6                               | 0.9     |
|   | 100.0                               | 100.0   | 100.0                             | 100.0   |
| <b>Costs and expenses:</b>                                    |                                     |         |                                   |         |
| Cost of product revenue excluding amortization of intangibles | 27.2                                | 24.0    | 26.3                              | 28.7    |
| Research and development                                      | 33.9                                | 34.2    | 32.0                              | 35.7    |
| Selling, general and administrative                           | 74.0                                | 69.5    | 77.1                              | 75.4    |
| Amortization of intangible assets                             | 1.9                                 | 2.1     | 1.8                               | 2.3     |
|   | 136.9                               | 129.8   | 137.2                             | 142.1   |
| Loss from operations  | (36.9)                              | (29.8)  | (37.2)                            | (42.1)  |
| <b>Other income and expense:</b>                              |                                     |         |                                   |         |
| Investment income (expense), net                              | 0.3                                 | (0.2)   | 0.2                               | 0.6     |
| Other (expense) income, net                                   | (0.4)                               | (0.3)   | (0.5)                             | 0.2     |
|   | (0.2)                               | (0.5)   | (0.3)                             | 0.8     |
| Loss before provision for income taxes                        | (37.1)                              | (30.3)  | (37.5)                            | (41.3)  |
| Provision for income taxes                                    | 1.2                                 | 1.4     | 1.2                               | 1.1     |
| Net loss  | (38.3)%                             | (31.7)% | (38.6)%                           | (42.4)% |

**Three and six months ended September 30, 2009 compared with the three and six months ended September 30, 2008****Revenues**

Our revenues are comprised of the following:

|  | Three Months Ended<br>September 30, |      | Six Months Ended<br>September 30, |      |
|--|-------------------------------------|------|-----------------------------------|------|
|  | 2009                                | 2008 | 2009                              | 2008 |
|  | (in \$000 s)                        |      | (in \$000 s)                      |      |



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|                                 |                  |                  |                  |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
| Impella                         | \$ 13,176        | \$ 10,507        | \$ 25,204        | \$ 16,299        |
| Other                           | 6,549            | 9,270            | 14,110           | 19,748           |
| <b>Total product revenues</b>   | <b>19,725</b>    | <b>19,777</b>    | <b>39,314</b>    | <b>36,047</b>    |
| Funded research and development | 297              | 222              | 621              | 309              |
| <b>Total revenues</b>           | <b>\$ 20,022</b> | <b>\$ 19,999</b> | <b>\$ 39,935</b> | <b>\$ 36,356</b> |

Impella revenue encompasses our Impella 2.5, Impella 5.0, and Impella LD platforms. Our revenue from other products include AB5000, BVS5000, IAB, iPulse, Portable Driver, AbioCor and cannulae and related service agreements.

Total revenues of \$20.0 million for the three months ended September 30, 2009 were essentially equal to total revenues for the three months ended September 30, 2008. Increases of Impella revenues were offset by a decline in other revenue, primarily BVS and AB5000.

Total revenues for the six months ended September 30, 2009 increased by \$3.6 million, or 10%, to \$39.9 million from \$36.4 million for the six months ended September 30, 2008. The increase in revenue was primarily due to an increase in Impella revenue due to greater demand in the U.S. following Impella 510(k) clearance, partially offset by a decrease in other revenue attributable to our strategic focus on increasing penetration of our Impella products.

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Impella revenues for the three months ended September 30, 2009 increased by \$2.7 million, or 26% to \$13.2 million from \$10.5 million for the three months ended September 30, 2008. Impella revenues for the six months ended September 30, 2009 increased by \$8.9 million, or 54% to \$25.2 million from \$16.3 million for the six months ended September 30, 2008. Most of our Impella revenue was from disposable product sales of Impella, primarily as a result of sales occurring after our 510(k) clearance. Our launch strategy of Impella includes providing consoles to initial sites at no cost with the purchase of disposables. Our focus for fiscal 2010 is concentrated on increasing utilization and clinical utility through sales force and physician training.

Other revenues for the three months ended September 30, 2009 decreased by \$2.8 million or 30%, to \$6.5 million from \$9.3 million for the three months ended September 30, 2008. Other revenues for the six months ended September 30, 2009 decreased by \$5.7 million or 29%, to \$14.1 million from \$19.8 million for the six months ended September 30, 2008. The decrease in other revenue was due to a decline in BVS and AB5000 disposable revenue as well as a decrease in console revenue supporting these product lines. We expect that BVS revenue will continue to decline as the product is 17 years old. We are hopeful that our recent 510(k) clearance for the Impella 5.0 in April 2009 will allow us an opportunity to reinvigorate AB5000 sales as we refocus our efforts on the surgery market.

We expect that demand in the U.S. for our Impella 2.5, Impella 5.0, and Impella LD products should increase and will comprise a higher percentage of total sales in the future based on recent 510(k) clearances of these products. and as we enroll more patients in our Impella clinical pivotal studies. As a result, we expect that our future revenue growth for the remainder of fiscal 2010 will come from our Impella product line, with no growth expected for most of our other products.

***Cost of Product Revenues***

Cost of product revenues for the three months ended September 30, 2009 increased by \$0.6 million, or 13%, to \$5.4 million from \$4.8 million for the three months ended September 30, 2008. This resulted in gross profit for the three months ended September 30, 2009 of 73% compared to 76% for the three months ended September 30, 2008. The decrease in gross profit was due to costs incurred at our Athlone Ireland facility related to Impella 2.5 training runs, distribution of Impella demonstration disposables to customers for training purposes and write-offs of slow moving inventory associated with legacy products.

Cost of product revenues for the six months ended September 30, 2009 increased by \$0.1 million, or 1%, to \$10.5 million from \$10.4 million for the six months ended September 30, 2008. This resulted in gross profit for the six months ended September 30, 2009 of 75% compared to 71% for the six months ended September 30, 2008. The increase in gross profit was due to higher reorders of Impella 2.5 disposables. We also had higher costs during the six months ended September 30, 2008 as we implemented console placements at no cost for Impella and iPulse.

***Research and Development Expenses***

Research and development expenses for the three months ended September 30, 2009 decreased by \$0.1 million, or 1%, to \$6.8 million from \$6.9 million for the three months ended September 30, 2008. Research and development expenses for the three months ended September 30, 2009 and 2008 included \$1.9 million and \$2.3 million, respectively, in clinical trial expenses primarily associated with our Impella 2.5 and 5.0 U.S. trials. The decrease in clinical trial expenditures was due to lower site costs as the Company has enrolled most of the hospitals expected to participate in the Protect II study. Research and development expenses for the six months ended September 30, 2009 decreased by \$0.2 million, or 2%, to \$12.8 million from \$13.0 million for the six months ended September 30, 2008, reflecting our spending on clinical trials as discussed above.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the three months ended September 30, 2009 increased by \$0.9 million, or 6%, to \$14.8 million from \$13.9 million for the three months ended September 30, 2008. The increase in selling, general and administrative expenses was mainly due to a \$1.8 million increase in payroll costs related to the expansion of our U.S. commercial infrastructure to support the launch of the Impella platform following 510(k) clearance in the U.S., offset by a \$1.1 million decrease in stock-based compensation primarily due to the achievement of a performance milestone in September 2008 on grants of restricted stock made in May 2008.

Selling, general and administrative expenses for the six months ended September 30, 2009 increased by \$3.4 million, or 12%, to \$30.8 million from \$27.4 million for the six months ended September 30, 2008. The increase in selling, general and administrative expenses was mainly due to a \$3.8 million increase in payroll costs related to the expansion of our U.S. commercial infrastructure to support the launch of the Impella platform following 510(k) clearance in the U.S. offset by a \$0.9 million decrease in stock-based compensation primarily due to the achievement of a performance milestone in September 2008 on grants of restricted stock made in May 2008.

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We expect to increase our expenditures on sales and marketing activities for the remainder of fiscal 2010 and fiscal 2011, with particular investments in clinical personnel with cath lab expertise as well as training investments to support the efforts of the sales and clinical teams to drive recovery awareness for acute heart failure patients globally.

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**Table of Contents*****Amortization of Intangibles***

Amortization of intangible assets was \$0.4 million for both the three months ended September 30, 2009 and 2008, respectively, and \$0.7 million and \$0.8 million for the six months ended September 30, 2009 and 2008, respectively. Amortization expense primarily is related specifically to intangible assets acquired in the Impella acquisition.

***Investment Expense and Income, net***

Investment income, net, was \$53,000 for the three months ended September 30, 2009, representing an increase of \$96,000 from investment expense, net, of \$43,000 for the three months ended September 30, 2008. The increase in investment income for the three months ended September 30, 2009 was due to interest income earned on the Company's marketable securities and realized gains on Columbia Fund investments due to an increase in its market value.

Investment income, net, was \$0.1 million for the six months ended September 30, 2009, representing a decrease of \$0.1 million from investment income of \$0.2 million for the six months ended September 30, 2008. The decrease in investment income for the three months ended September 30, 2009 was due to a reduction of investment income due to lower interest rates earned on marketable securities. Investment income and expense, net, consists primarily of interest earned on our cash and investments and changes in the value of the Columbia Fund.

***Other (Expense) Income***

The changes in other expense are mainly due to the impact of foreign currency exchange rates on our operations.

***Provision for Income Taxes***

We recorded a provision for income taxes of \$0.2 million and \$0.3 million for the three months ending September 30, 2009 and 2008, respectively. During the six months ended September 30, 2009 and 2008, we recorded a tax provision of \$0.5 and \$0.4 million, respectively. The income tax provision is primarily due to deferred tax related to our goodwill, which is amortizable over 15 years for tax purposes but not amortized for book purposes. The net deferred tax liability cannot be offset against our deferred tax assets since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period.

***Net Loss***

During the three months ended September 30, 2009, we incurred a net loss of \$7.7 million, or \$0.21 per share, compared to a net loss of \$6.3 million, or \$0.18 per share, for the three months ended September 30, 2008. The increase in the net loss for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 was due to increased sales and marketing expenses during the three months ended September 30, 2009 as we hired more sales and field clinical personnel to support utilization of our Impella platform.

During the six months ended September 30, 2009, we incurred a net loss of \$15.4 million, or \$0.42 per share, compared to a net loss of \$15.4 million, or \$0.46 per share, for the six months ended September 30, 2008. The net loss for the six months ended September 30, 2009 was due to the recent hire of sales and field personnel to support Impella activity in the U.S.

We expect to continue to incur net losses through at least fiscal 2011 as we plan to invest in expanding our global distribution to support revenue growth, continue our Impella pivotal studies, and invest in research and development in an effort to bring new products to market.

***Liquidity and Capital Resources***

At September 30, 2009, our cash, cash equivalents, and short-term marketable securities totaled \$52.3 million, a decrease of \$8.6 million compared to \$60.9 million at March 31, 2009. We believe that our revenue from product sales together with existing resources, including net proceeds received from our public offering in August 2008, will be sufficient to fund our operations for at least the next twelve months.

Marketable securities at September 30, 2009 include \$47.3 million held in funds that invest solely in U.S. Treasury securities and \$2.1 million of investments held in the Columbia Fund. In December 2007, the Columbia Fund ceased accepting redemption requests from new or current investors and changed its method of valuing the securities in the Columbia Fund to market value rather than amortized cost. We deemed that the unrealized loss on the Columbia Fund was not temporary as the market value of the Columbia Fund was approximately 88% of its carrying value at September 30, 2009. Since December 6, 2007, we have received disbursements of approximately \$44.2 million from the Columbia Fund

including the most recent disbursement of \$3.0 million occurring on September 29, 2009 at approximately 88% of its original value.

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Our investments in the Columbia Fund have been frozen since December 2007 and we are subject to redemptions of these investments based on the discretion of the fund. When redemptions have occurred, we have realized losses on our original investment and we expect to incur losses on future redemptions. Since December 2007, we have incurred \$2.6 million in realized losses and \$0.3 million in unrealized losses on the Columbia Fund through September 30, 2009. We are not a party to any interest rate swaps, currency hedges or derivative contracts of any type and have no exposure to commercial paper or auction rate securities markets. We continue to monitor our cash position closely with recent economic events and only invest excess cash in short term U.S. treasury securities.

Financial instruments, such as the Columbia Fund for which the fair value is derived primarily from broker quotes or pricing services may fall within Level 1, 2 or 3 of the fair value hierarchy, depending on the observability of the inputs used to determine fair value. We review with Bank of America the pricing assumptions, inputs and methodologies in determining an instrument's fair value as a basis for classification within the fair value hierarchy. If we believe that these estimates of fair value differ significantly from our internal expectations, we review our findings with respect to data sources or assumptions used to determine whether the value is appropriate.

We will continue to closely monitor our liquidity and the overall health of the credit markets. However, we cannot predict with any certainty the impact on us of any further disruption in the credit environment. Our primary liquidity needs are to fund the expansion of our commercial infrastructure in the U.S., increase our Impella manufacturing capacity, fund new product development, and general working capital needs. Through September 30, 2009, we have funded our operations principally from product revenue and through the sale of equity securities, including our August 2008 stock offering in which we received proceeds of \$42.0 million. We also generate funds from product and funded research and development revenue.

Our operating activities during the six months ended September 30, 2009 used cash of \$7.2 million as compared to \$15.4 million during the same period in the prior year. Our net loss for the six months ended September 30, 2009 of \$15.4 million was the primary cause of our cash used for operations. Also contributing to our cash used for operations was a \$1.5 million decrease in accounts payable and accrued expenses primarily due to the payment of annual employee bonuses in the first quarter. These decreases in cash were partially offset by non-cash adjustments of \$3.7 million related to stock-based compensation expense, \$2.6 million of depreciation and amortization and a decrease in accounts receivable of \$2.5 million.

Our investing activities during the six months ended September 30, 2009 provided cash of \$6.8 million as compared to the use of cash of \$28.4 million during the same period in the prior year. Cash provided by investment activities for the six months ended September 30, 2009 consisted primarily of \$9.9 million of proceeds from the sale of short-term marketable securities, net of purchases, during the quarter. Additionally, we paid \$1.8 million in May 2009 of the final milestone payment related to our acquisition of Impella in cash and elected to pay the remaining amount through the issuance of approximately 663,535 shares of common stock. We also incurred \$1.4 million of cash expenditures for property and equipment primarily on the purchase of manufacturing equipment.

Our financing activities during the six months ended September 30, 2009 provided cash of \$0.6 million as compared to \$45.0 million during the same period in the prior year. Cash provided by financing activities during the six months ended September 30, 2009 were attributable to the exercise of stock options. Cash provided by financing activities during the six months ended September 30, 2008 was comprised primarily of \$42.0 million in net proceeds related to our August 2008 public offering.

Capital expenditures for fiscal 2010 are estimated to be \$2.5 to \$3.0 million, which relate primarily to our planned manufacturing capacity increases for Impella.

Our liquidity is influenced by our ability to sell our products in a competitive industry and our customers' ability to pay for our products. Factors that may affect liquidity include our ability to penetrate the market for our products, maintain or reduce the length of the selling cycle, and collect cash from clients after our products are sold. Exclusive of activities involving any future acquisitions of products or companies that complement or augment our existing line of products, we believe that current available funds and cash generated from operations will provide sufficient liquidity to meet operating requirements for the foreseeable future. We believe that our existing cash balances and cash flow from operations will be sufficient to meet our projected capital expenditures, working capital, and other cash requirements at least through the next 12 months. We continue to review our long-term cash needs on a regular basis. Currently, we have no debt outstanding.

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**Critical Accounting Policies*****Stock-Based Compensation***

The fair value of each stock option we granted is estimated using the Black-Scholes option pricing model. Use of a valuation model requires us to make certain assumptions with respect to selected model inputs. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected life of the stock options. Volatility assumptions are calculated based on historical volatility of our stock. The calculation of the fair value of the options is net of estimated forfeitures. The expected term of options represents the period of time that options granted are expected to be outstanding. We estimate the average expected life based on historical experience of our option exercises. Forfeitures are estimated based on an analysis of actual option forfeitures, adjusted to the extent historical forfeitures may not be indicative of forfeitures in the future. In addition, an expected dividend yield of zero is used in the option valuation model because we do not pay dividends and do not expect to pay any cash dividends in the foreseeable future.

The estimated fair value of all awards is recognized as compensation expense on a straight-line basis over the service period. Accruals of compensation cost for an award with a performance condition is based on the probable outcome of the performance conditions. The cumulative effects of changes in the probability outcomes are recorded in the period in which the changes occur.

***New Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 made the FASB Accounting Standards Codification (the Codification) the single source of U.S. GAAP used by nongovernmental entities in the preparation of financial statements, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative accounting guidance for SEC registrants. The Codification is meant to simplify user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into roughly 90 accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for the company beginning July 1, 2009. Following SFAS No. 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification.

In September 2009, an update was made to *Fair Value Measurements and Disclosures Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. This update permits entities to measure the fair value of certain investments, including those with fair values that are not readily determinable, on the basis of the net asset value per share of the investment (or its equivalent) if such net asset value is calculated in a manner consistent with the measurement principles in *Financial Services-Investment Companies* as of the reporting entity's measurement date (measurement of all or substantially all of the underlying investments of the investee in accordance with the *Fair Value Measurements and Disclosures* guidance). The update also requires enhanced disclosures about the nature and risks of investments within its scope that are measured at fair value on a recurring or nonrecurring basis. This update will be effective for us beginning October 1, 2009. We are currently evaluating the effect that adoption of this update will have, if any, on our consolidated financial position and results of operations when it becomes effective.

In October 2009, an update was made to *Revenue Recognition Multiple Deliverable Revenue Arrangements*. This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. This update is effective for us beginning April 1, 2011 and can be applied prospectively or retrospectively. We are currently evaluating the effect that adoption of this update will have, if any, on our consolidated financial position and results of operations when it becomes effective in fiscal 2012.

**Table of Contents****ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK***Primary Market Risk Exposures*

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. Our cash, short-term marketable securities, and long-term marketable securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10 percent from levels at September 30, 2009, we believe the decline in fair market value of our investment portfolio would be immaterial. Marketable securities at September 30, 2009 consist of \$47.3 million in five funds that invest in U.S. Treasury securities and related interest and \$2.1 million in the Columbia Fund. In December 2007, the Columbia Fund ceased accepting redemption requests from new or current investors and changed its method of valuing the securities in the Columbia Fund to market value rather than amortized cost. We deemed that the unrealized loss on the Columbia Fund was not temporary as the market value of the Columbia Fund was approximately 88% of its carrying value at September 30, 2009 and we do not expect to recover the value of our investment in liquidation. Since December 6, 2007, we have received disbursements of approximately \$44.2 million from the Columbia Fund including the most recent disbursement of \$3.0 million occurring on September 29, 2009 at approximately 88% of its original value. While it is our intent to liquidate securities in the Columbia Fund in future periods to reduce our exposure to future deterioration of these securities, we believe that our operating results and cash flows could be affected significantly by market value adjustments to the Columbia Fund. There can be no assurance that we will not have to take additional losses on the Columbia Fund.

*Currency Exchange Rates*

Our foreign subsidiaries' functional currency is the Euro. Therefore, our investment in our foreign subsidiaries is sensitive to fluctuations in currency exchange rates. The effect of a change in currency exchange rates on our net investment in international subsidiaries is reflected in the accumulated other comprehensive income component of stockholders' equity. Had a 10% depreciation in foreign currencies occurred relative to the U.S. dollar as of September 30, 2009, the result would have been a reduction of stockholders' equity of approximately \$5.9 million.

*Fair Value of Financial Instruments*

At September 30, 2009, our financial instruments consist primarily of cash and cash equivalents, short-term marketable securities, accounts receivable, and accounts payable. The estimated fair values of the financial instruments have been determined by us using available market information and appropriate valuation techniques. Considerable judgment is required, however, to interpret market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**ITEM 4. CONTROLS AND PROCEDURES***Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of September 30, 2009. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2009, these disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by us, including our consolidated subsidiaries, in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our principal executive officer and interim principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

*Evaluation of Changes in Internal Control over Financial Reporting*

During the second quarter of our fiscal year ended March 31, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**



**Item 1. Legal Proceedings**

We are from time to time involved in various legal actions, the outcomes of which are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, which, if granted, would require significant expenditures. We record a liability in our consolidated financial statements for

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these actions when a loss is known or considered probable and the amount can be reasonably estimated. We review these estimates each accounting period as additional information is known and adjust the loss provision when appropriate. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in the consolidated financial statements.

**Item 1A. Risk Factors**

Investing in our common stock involves a high degree of risk. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2009, which could materially affect our business, financial condition or future results. To the best of our knowledge, the only material changes to the risk factors described in our Annual Report on Form 10-K are to replace the similarly titled risk factors in the annual report with the risk factors set forth below.

*Our short term marketable securities are subject to market risks and decreased liquidity.*

Our short-term marketable securities at September 30, 2009 consist of \$47.3 million in five funds that invest in U.S Treasury securities \$2.1 million in the Columbia Fund and related interest. In December 2007, the Columbia Fund ceased accepting redemption requests from investors and changed its method of valuing the securities in the Columbia Fund to market value rather than amortized cost. We deemed that the unrealized loss on the Columbia Fund was not temporary as the market value of the Columbia Fund was approximately 88% of its carrying value at September 30, 2009 and the Company did not expect to recover the value in liquidation. This determination of the fair value of our holdings in the Columbia Fund requires significant judgment or estimation. As discussed in Note 3, certain of these securities were valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash inflows, as well as assumptions about liquidity. The Columbia Fund has been liquidated during calendar 2008 and is expected to continue making redemptions through the next twelve months. Since December 6, 2007, we have received disbursements of approximately \$44.2 million from the Columbia Fund including the most recent disbursement of \$3.0 million occurring on September 29, 2009 at approximately 88% of its original value. We expect conditions in the credit markets to remain uncertain for the foreseeable future. While it is our intent to liquidate securities in the Columbia Fund in future periods to reduce our exposure to future deterioration of these securities, we believe that operating results or cash flows could be affected significantly by fair value adjustments to the Columbia Fund. There can be no assurance that we will not have to take additional losses on the Columbia Fund.

*If we are unable to develop additional, high-quality manufacturing capacity, our growth may be limited and our business could be seriously harmed.*

To be successful, we believe we will need to increase our manufacturing capacity. We do not have experience in manufacturing our Impella products in the commercial quantities that might be required to meet potential demand, nor do we have experience manufacturing our other products in large quantities. We may encounter difficulties in scaling up manufacturing of our products, including problems related to product yields, quality control and assurance, component and service availability, adequacy of control policies and procedures and lack of skilled personnel. If we cannot hire, train and retain enough experienced and capable scientific and technical workers, we may not be able to manufacture sufficient quantities of our current or future products at an acceptable cost and on time, which could limit market acceptance of our products or otherwise damage our business. In order for our manufacturing to meet the expected demand for our Impella 2.5 product, we have been implementing process improvements on the Impella production line at our manufacturing facility in Aachen, Germany to increase the output that we can produce at the facility. In addition to programs designed to further increase yield and capacity levels, we plan to incrementally expand manufacturing employment in Aachen and relocate selected sub-assembly production to external vendors and our manufacturing facility in Danvers, Massachusetts. We have deferred the start up activities at our Athlone, Ireland manufacturing facility and plan to monitor the capacity enhancements in Aachen, Germany prior to finalizing the location of a second production line. If we are unable to implement these process improvements on a timely basis, it could inhibit our revenue growth.

*Each of our products is currently manufactured in a single location, and any significant disruption in production could impair our ability to deliver our products.*

We currently manufacture our Impella heart pumps at our facility in Aachen, Germany and we manufacture our other products at our facility in Danvers, Massachusetts. Events such as fire, flood, power loss or other disasters could prevent us from manufacturing our products in compliance with applicable FDA and other regulatory requirements, which could result in significant delays before we restore production or commence production at another site. These delays may result in lost sales. Our insurance may not be adequate to cover our losses resulting from disasters or other business interruptions. Any significant disruption in the manufacturing of our products could seriously harm our business and results of operations.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

We held our annual meeting of stockholders on August 12, 2009. At the meeting, our stockholders elected Louis E. Lataif, Eric A. Rose, and Henri A. Termeer to serve as Class II directors for three-year terms. In addition, our stockholders also voted to approve the Amendment to the Company's 2008 Stock Incentive Plan and to ratify the appointment by our audit committee of Deloitte & Touche LLP as our independent registered accounting firm for the fiscal year ending March 21, 2010.

The votes cast to elect our Class II directors were:

| <b>Director</b>  | <b>Votes For</b> | <b>Votes Withheld</b> |
|------------------|------------------|-----------------------|
| Louis E. Lataif  | 31,057,365       | 2,141,451             |
| Eric A. Rose     | 31,107,950       | 2,089,866             |
| Henri A. Termeer | 22,118,878       | 11,078,938            |

The votes cast to approve the Amendment to the Company's 2008 Stock Incentive Plan were:

| <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------|----------------|----------------|
| 16,574,082 | 8,935,929      | 114,777        |

The votes cast to ratify the appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2010 were:

| <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------|----------------|----------------|
| 32,623,848 | 184,796        | 389,169        |

**Item 5. Other Information**

None

**Table of Contents****Item 6. Exhibits**

| Exhibit No. | Description  | Filed with<br>This<br>Form 10-Q | Form | Incorporated by Reference |             |
|-------------|--|---------------------------------|------|---------------------------|-------------|
|             |  |                                 |      | Filing Date               | Exhibit No. |
| 2.1         | Share Purchase Agreement for the acquisition of Impella Cardio Systems AG, dated April 26, 2005.   |                                 | 8-K  | May 16, 2005              | 2.1         |
| 3.1         | Restated Certificate of Incorporation.   |                                 | S-3  | September 29, 1997        | 3.1         |
| 3.2         | Restated By-Laws, as amended.  |                                 | 10-K | May 27, 2004              | 3.2         |
| 3.3         | Certificate of Designations of Series A Junior Participating Preferred Stock.  |                                 | S-3  | September 29, 1997        | 3.3         |
| 3.4         | Amendment to the Company's Restated Certificate of Incorporation to increase the authorized shares of common stock from 25,000,000 to 100,000,000. |                                 | 8-K  | March 21, 2007            | 3.4         |
| 4.1         | Specimen Certificate of common stock.  |                                 | S-1  | June 5, 1987              | 4.1         |
| 10.1        | 2008 Stock Incentive Plan, as amended.   | X                               |      |                           |             |
| 11.1        | Statement regarding computation of Per Share Earnings (see Note 11, Notes to Condensed Consolidated Financial Statements).                         | X                               |      |                           |             |
| 31.1        | Rule 13a-14(a)/15d-14(a) certification of principal executive officer.   | X                               |      |                           |             |
| 31.2        | Rule 13a-14(a)/15d-14(a) certification of principal accounting officer.  | X                               |      |                           |             |
| 32.1        | Section 1350 certification.  | X                               |      |                           |             |

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**ABIOMED, INC. AND SUBSIDIARIES**

**PART II. OTHER INFORMATION**

**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.

Abiomed, Inc.

Date: November 6, 2009

/s/ ROBERT L. BOWEN

**Robert L. Bowen**

**Vice President and Chief Financial Officer**

**(Principal Accounting and Financial Officer)**