

ABIOMED INC  
Form 10-Q  
February 08, 2012  
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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 December 31, 2011

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

**04-2743260**  
(IRS Employer

incorporation or organization)

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 ☐ (Do not check if a smaller reporting company)

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 January 31, 2012, there were 38,994,067 shares outstanding of the registrant's Common Stock, \$.01 par value.

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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****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

|                                                                                                                           | December 31, 2011<br>(unaudited) | March 31, 2011 |
|---------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------|
| <b>ASSETS</b>                                                                                                             |                                  |                |
| Current assets:                                                                                                           |                                  |                |
| Cash and cash equivalents                                                                                                 | \$ 5,092                         | \$ 5,831       |
| Short-term marketable securities                                                                                          | 64,482                           | 54,481         |
| Accounts receivable, net                                                                                                  | 17,303                           | 15,376         |
| Inventories                                                                                                               | 9,688                            | 7,505          |
| Prepaid expenses and other current assets                                                                                 | 1,417                            | 1,544          |
| Total current assets                                                                                                      | 97,982                           | 84,737         |
| Property and equipment, net                                                                                               | 6,413                            | 6,273          |
| Intangible assets, net                                                                                                    | 459                              | 1,632          |
| Goodwill                                                                                                                  | 35,772                           | 38,946         |
| Total assets                                                                                                              | \$ 140,626                       | \$ 131,588     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                               |                                  |                |
| Current liabilities:                                                                                                      |                                  |                |
| Accounts payable                                                                                                          | \$ 5,206                         | \$ 6,283       |
| Accrued expenses                                                                                                          | 10,768                           | 14,078         |
| Deferred revenue                                                                                                          | 1,886                            | 1,982          |
| Total current liabilities                                                                                                 | 17,860                           | 22,343         |
| Long-term deferred tax liability                                                                                          | 4,565                            | 4,010          |
| Other long-term liabilities                                                                                               | 423                              | 492            |
| Total liabilities                                                                                                         | 22,848                           | 26,845         |
| Commitments and contingencies (Note 9)                                                                                    |                                  |                |
| Stockholders' equity:                                                                                                     |                                  |                |
| Class B Preferred Stock, \$.01 par value                                                                                  |                                  |                |
| Authorized - 1,000,000 shares; Issued and outstanding - none                                                              |                                  |                |
| Common stock, \$.01 par value                                                                                             | 390                              | 377            |
| Authorized - 100,000,000 shares; Issued - 39,023,921 shares at December 31, 2011 and 37,756,719 shares at March 31, 2011; |                                  |                |
| Outstanding - 38,972,967 shares at December 31, 2011 and 37,705,765 shares at March 31, 2011                              |                                  |                |
| Additional paid-in-capital                                                                                                | 397,093                          | 379,218        |
| Accumulated deficit                                                                                                       | (275,842)                        | (274,770)      |
| Treasury stock at cost - 50,954 shares                                                                                    | (827)                            | (827)          |

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|                                               |            |            |
|-----------------------------------------------|------------|------------|
| Accumulated other comprehensive (loss) income | (3,036)    | 745        |
| Total stockholders' equity                    | 117,778    | 104,743    |
| Total liabilities and stockholders' equity    | \$ 140,626 | \$ 131,588 |

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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**ABIOMED, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(in thousands, except per share data)

|                                                               | Three Months Ended<br>December 31, |           | Nine Months Ended<br>December 31, |            |
|---------------------------------------------------------------|------------------------------------|-----------|-----------------------------------|------------|
|                                                               | 2011                               | 2010      | 2011                              | 2010       |
| Revenue:                                                      |                                    |           |                                   |            |
| Product                                                       | \$ 31,732                          | \$ 26,915 | \$ 88,049                         | \$ 71,734  |
| Funded research and development                               | 466                                | 329       | 982                               | 888        |
| Total Revenue                                                 | 32,198                             | 27,244    | 89,031                            | 72,622     |
| Costs and expenses:                                           |                                    |           |                                   |            |
| Cost of product revenue excluding amortization of intangibles | 6,279                              | 5,437     | 17,721                            | 16,129     |
| Research and development                                      | 6,140                              | 6,592     | 19,923                            | 19,834     |
| Selling, general and administrative                           | 17,184                             | 15,592    | 51,683                            | 45,399     |
| Amortization of intangible assets                             | 362                                | 295       | 1,126                             | 1,034      |
|                                                               | 29,965                             | 27,916    | 90,453                            | 82,396     |
| Income (loss) from operations                                 | 2,233                              | (672)     | (1,422)                           | (9,774)    |
| Other income and expense:                                     |                                    |           |                                   |            |
| Investment expense, net                                       | (2)                                | 4         | (4)                               | 1          |
| Gain on sale of WorldHeart stock                              |                                    |           |                                   | 456        |
| Gain on settlement of investment                              | 1,017                              |           | 1,017                             |            |
| Other income (expense), net                                   | 39                                 | 30        | 24                                | (17)       |
|                                                               | 1,054                              | 34        | 1,037                             | 440        |
| Income (loss) before provision for income taxes               | 3,287                              | (638)     | (385)                             | (9,334)    |
| Provision for income taxes                                    | 366                                | 164       | 687                               | 649        |
| Net income (loss)                                             | \$ 2,921                           | \$ (802)  | \$ (1,072)                        | \$ (9,983) |
| Basic net income (loss) per share                             | \$ 0.08                            | \$ (0.02) | \$ (0.03)                         | \$ (0.27)  |
| Basic weighted average shares outstanding                     | 38,498                             | 37,195    | 38,221                            | 37,146     |
| Diluted net income (loss) per share                           | \$ 0.07                            | \$ (0.02) | \$ (0.03)                         | \$ (0.27)  |
| Diluted weighted average shares outstanding                   | 40,270                             | 37,195    | 38,221                            | 37,146     |

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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**ABIOMED, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(in thousands)

|                                                                                                     | Nine months ended<br>December 31, |            |
|-----------------------------------------------------------------------------------------------------|-----------------------------------|------------|
|                                                                                                     | 2011                              | 2010       |
| Operating activities:                                                                               |                                   |            |
| Net loss                                                                                            | \$ (1,072)                        | \$ (9,983) |
| Adjustments required to reconcile net loss to net cash (used for) provided by operating activities: |                                   |            |
| Depreciation and amortization                                                                       | 3,083                             | 3,008      |
| Bad debt expense                                                                                    | 72                                | 132        |
| Stock-based compensation                                                                            | 5,904                             | 4,018      |
| Write-down of inventory                                                                             | 1,092                             | 2,380      |
| Loss on disposal of fixed assets                                                                    | 29                                | 5          |
| Deferred tax provision                                                                              | 555                               | 728        |
| Gain on sale of WorldHeart common stock                                                             |                                   | (456)      |
| Gain on settlement of investment                                                                    | (1,017)                           |            |
| Changes in assets and liabilities source (use):                                                     |                                   |            |
| Accounts receivable                                                                                 | (2,124)                           | 493        |
| Inventories                                                                                         | (4,037)                           | (664)      |
| Prepaid expenses and other current assets                                                           | 71                                | 788        |
| Accounts payable                                                                                    | (908)                             | (110)      |
| Accrued expenses and other long-term liabilities                                                    | (2,923)                           | 380        |
| Deferred revenue                                                                                    | (84)                              | 709        |
| Net cash (used for) provided by operating activities                                                | (1,359)                           | 1,428      |
| Investing activities:                                                                               |                                   |            |
| Purchases of short-term marketable securities                                                       | (17,002)                          | (6,503)    |
| Proceeds from the sale and maturity of short-term marketable securities                             | 7,000                             | 5,000      |
| Proceeds from the sale of WorldHeart common stock                                                   |                                   | 456        |
| Proceeds from settlement of investment                                                              | 1,017                             |            |
| Expenditures for property and equipment                                                             | (1,937)                           | (1,054)    |
| Net cash used in investing activities                                                               | (10,922)                          | (2,101)    |
| Financing activities:                                                                               |                                   |            |
| Issuance of common stock                                                                            | 103                               |            |
| Proceeds from the exercise of stock options                                                         | 11,683                            | 416        |
| Proceeds from the issuance of stock under the employee stock purchase plan                          | 197                               | 153        |
| Net cash provided by financing activities                                                           | 11,983                            | 569        |
| Effect of exchange rate changes on cash                                                             | (441)                             | (491)      |
| Net decrease in cash and cash equivalents                                                           | (739)                             | (595)      |
| Cash and cash equivalents at beginning of period                                                    | 5,831                             | 4,788      |
| Cash and cash equivalents at end of period                                                          | \$ 5,092                          | \$ 4,193   |

Supplemental disclosures:

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|                                                                          |    |    |    |    |
|--------------------------------------------------------------------------|----|----|----|----|
| Fixed asset additions included in accounts payable                       | \$ | 82 | \$ | 31 |
| See Accompanying Notes to Consolidated Financial Statements (Unaudited). |    |    |    |    |

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**ABIOMED, INC. AND SUBSIDIARIES**

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

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

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

Abiomed, Inc. (the Company or Abiomed) is a provider of medical devices in circulatory support and offers a continuum of care in heart recovery for acute heart failure patients. 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 Company's products are used in the cardiac catheterization lab (cath lab) by interventional cardiologists and/or in the heart surgery suite by heart surgeons for patients who are in need of hemodynamic support prophelactically during high risk angioplasty procedures or who are in pre-shock, shock or profound cardiogenic shock.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or 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, 2011 that has been filed with the Securities and Exchange Commission, or SEC.

In the opinion of management, the accompanying unaudited 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.

There have been no changes in the Company's significant accounting policies for the three and nine months ended December 31, 2011 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

**Note 2. New Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies, which are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that any recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

**Note 3. Fair Value Measurements**

Fair value is defined as the price that would be received for the sale of 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 values are 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.

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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.

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The Company's marketable securities were invested in the following:

|                          | Level 1   | Fair Value Measurements Using |                         | Total Carrying Value |
|--------------------------|-----------|-------------------------------|-------------------------|----------------------|
|                          |           | Level 2                       | Level 3<br>(in \$000 s) |                      |
| At December 31, 2011:    |           |                               |                         |                      |
| U.S. Treasury securities | \$ 64,482 | \$                            | \$                      | \$ 64,482            |

|                          | Level 1   | Fair Value Measurements Using |                         | Total Carrying Value |
|--------------------------|-----------|-------------------------------|-------------------------|----------------------|
|                          |           | Level 2                       | Level 3<br>(in \$000 s) |                      |
| At March 31, 2011:       |           |                               |                         |                      |
| U.S. Treasury securities | \$ 54,481 | \$                            | \$                      | \$ 54,481            |

The Company records these marketable securities at fair value and has classified all of its investments as Level 1 since quoted market prices in active markets are readily available.

During the three months ended December 31, 2011, the Company entered into a settlement agreement. As part of this agreement, the Company received \$1.0 million in proceeds in December 2011.

**Note 4. Inventories**

The components of inventories are as follows:

|                            | December 31,<br>2011 | March 31,<br>2011 |
|----------------------------|----------------------|-------------------|
|                            | (in \$000 s)         |                   |
| Raw materials and supplies | \$ 3,386             | \$ 2,784          |
| Work-in-progress           | 3,719                | 3,689             |
| Finished goods             | 2,583                | 1,032             |
|                            | \$ 9,688             | \$ 7,505          |

The Company's inventories relate to its circulatory care product lines, primarily the Impella, AB5000 and BVS 5000. Finished goods and work-in-process inventories consist of direct material, labor and overhead. During the nine months ended December 31, 2011 and 2010, the Company recorded \$1.1 million and \$2.4 million, respectively, in write downs of inventory, including excess quantities and obsolete inventory.

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 \$0.5 million and \$0.7 million in demo inventory at December 31, 2011 and March 31, 2011, respectively.

**Note 5. Intangible Assets and Goodwill**

The carrying amount of goodwill at December 31, 2011 and March 31, 2011 was \$35.8 million and \$38.9 million, respectively, and has been recorded in connection with the Company's acquisition of Impella Cardiosystems AG, or Impella. The goodwill activity for the nine months ended December 31, 2011 is as follows:

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|                              |              |
|------------------------------|--------------|
|                              | (in \$000 s) |
| Balance at April 1, 2011     | \$ 38,946    |
| Exchange rate impact         | (3,174)      |
| Balance at December 31, 2011 | \$ 35,772    |

The components of intangible assets are as follows:

|                           | December 31, 2011 |                                             |                   | March 31, 2011 |                                             |                   |
|---------------------------|-------------------|---------------------------------------------|-------------------|----------------|---------------------------------------------|-------------------|
|                           | 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                   | \$ 6,548          | \$ 6,239                                    | \$ 309            | \$ 7,099       | \$ 6,005                                    | \$ 1,094          |
| Trademarks and tradenames | 333               | 317                                         | 16                | 361            | 299                                         | 62                |
| Distribution agreements   | 634               | 604                                         | 30                | 690            | 584                                         | 106               |
| Acquired technology       | 2,189             | 2,085                                       | 104               | 2,384          | 2,014                                       | 370               |
|                           | \$ 9,704          | \$ 9,245                                    | \$ 459            | \$ 10,534      | \$ 8,902                                    | \$ 1,632          |

Amortization of intangible assets was \$0.4 million and \$0.3 million for the three months ended December 31, 2011 and 2010, respectively. Amortization of intangible assets was \$1.1 million and \$1.0 million for the nine months ended December 31, 2011 and 2010, respectively. The Company's expected amortization expense will be \$0.3 million for the three months ending March 31, 2012 and \$0.2 million for the year ending March 31, 2013.

**Table of Contents****Note 6. Stock-Based Compensation**

Total stock-based compensation recognized in the Company's condensed consolidated statements of operations for the three and nine months ended December 31, 2011 and 2010 was as follows:

|                                     | Three Months<br>Ended<br>December 31,<br>2011      2010<br>(in \$000 s) |          | Nine Months Ended<br>December 31,<br>2011      2010<br>(in \$000 s) |          |
|-------------------------------------|-------------------------------------------------------------------------|----------|---------------------------------------------------------------------|----------|
| Cost of product revenue             | \$ 66                                                                   | \$ 51    | \$ 216                                                              | \$ 163   |
| Research and development            | 397                                                                     | 214      | 1,269                                                               | 750      |
| Selling, general and administrative | 1,310                                                                   | 1,007    | 4,419                                                               | 3,105    |
|                                     | \$ 1,773                                                                | \$ 1,272 | \$ 5,904                                                            | \$ 4,018 |

**Stock Option Activity**

The following table summarizes the stock option activity for the nine months ended December 31, 2011:

|                                  | Shares<br>Underlying<br>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 April 1, 2011     | 5,945                                             | \$ 10.27                                 | 6.30                                                            |                                                   |
| Granted                          | 58                                                | 16.34                                    |                                                                 |                                                   |
| Exercised                        | (1,241)                                           | 9.41                                     |                                                                 |                                                   |
| Cancelled                        | (123)                                             | 11.63                                    |                                                                 |                                                   |
| Expired                          | (95)                                              | 21.22                                    |                                                                 |                                                   |
| Outstanding at December 31, 2011 | 4,544                                             | \$ 10.32                                 | 6.15                                                            | \$ 37,106                                         |
| Exercisable at December 31, 2011 | 3,238                                             | \$ 10.76                                 | 5.44                                                            | \$ 24,916                                         |

The remaining unrecognized stock-based compensation expense for unvested stock option awards at December 31, 2011 was approximately \$3.3 million, net of forfeitures, and the weighted-average time over which this cost is expected to be recognized is 2.0 years.

The total intrinsic value of options exercised was \$9.9 million for the nine months ended December 31, 2011. The total fair value of options vested during the nine months ended December 31, 2011 was \$3.6 million.

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 nine months ended December 31, 2011 were calculated using the following weighted-average assumptions:

|                         | Three Months Ended<br>December 31,<br>2011 | Nine Months Ended<br>December 31,<br>2011 |
|-------------------------|--------------------------------------------|-------------------------------------------|
| Risk-free interest rate | 0.92%                                      | 1.49%                                     |

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|                              |       |       |
|------------------------------|-------|-------|
| Expected option life (years) | 5.09  | 5.23  |
| Expected volatility          | 55.1% | 52.7% |

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 expected dividend yield was zero, since the Company does not pay cash dividends and does not expect to pay cash dividends in the future. 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.

The weighted-average grant-date fair value for options granted during the three and nine months ended December 31, 2011 was \$7.98 and \$8.01, respectively.

**Table of Contents*****Restricted Stock and Restricted Stock Units***

In addition to stock option grants, the Company also has the ability to grant restricted stock and restricted stock units. Similar to stock options, these restricted stock and restricted stock unit grants are subject to certain vesting criteria. The following table summarizes the activity for the nine months ended December 31, 2011:

|                                                                         | Number of<br>Shares (in 000 s) | Weighted Average<br>Grant Date<br>Fair Value |
|-------------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| Restricted stock awards and restricted stock units at April 1, 2011     | 407                            | \$ 9.84                                      |
| Granted                                                                 | 596                            | 17.70                                        |
| Vested                                                                  | (134)                          | 10.88                                        |
| Forfeited                                                               | (2)                            | 18.49                                        |
| Restricted stock awards and restricted stock units at December 31, 2011 | 867                            | \$ 15.07                                     |

The remaining unrecognized compensation expense for restricted stock awards and restricted stock units, including performance based awards, at December 31, 2011 was approximately \$8.0 million and the weighted-average time over which this cost is expected to be recognized is 2.3 years.

***Performance Based Awards***

Included in the restricted stock activity discussed above are certain awards granted in fiscal 2011 and 2012 that contain performance based vesting.

During the three months ended June 30, 2010, 311,000 shares of performance based restricted stock and a performance award for the potential issuance of 45,000 shares of common stock were issued to certain executive officers and members of senior management of the Company, all of which would vest upon achievement of prescribed performance milestones. During the year ended March 31, 2011, the Company determined that the prescribed performance targets were met and the compensation expense is being recognized accordingly over the remaining service period.

During the three months ended June 30, 2011, the Company determined that it should have been using the graded vesting method instead of the straight-line method to expense stock-based compensation for the performance based awards issued in June 2010. This resulted in additional stock based compensation expense of approximately \$0.6 million being recorded during the three months ended June 30, 2011 that should have been recorded during the year ended March 31, 2011. The Company believes that the amount is not material to its March 31, 2011 consolidated financial statements and therefore recorded the adjustment in the quarter ended June 30, 2011.

During the three months ended June 30, 2011, performance awards of restricted stock units for the potential issuance of 284,000 shares of common stock were issued to certain executive officers and members of the senior management, all of which would vest upon achievement of prescribed service and revenue performance milestones. As of December 31, 2011, the Company believes it is probable that the prescribed performance targets will be met for these awards, and the compensation expense is being recognized accordingly.

As of December 31, 2011, the Company has recorded \$3.5 million in stock-based compensation for shares in which the prescribed performance milestones have been achieved or are probable of being achieved. The remaining unrecognized compensation expense related to these restricted stock and restricted stock units at December 31, 2011 is \$4.3 million based on the Company's current assessment of probability of achieving the performance milestones.

**Note 7. Income Taxes**

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carryforwards 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.

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As of December 31, 2011, the Company has accumulated a net deferred tax liability in the amount of \$4.6 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 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 carryforwards 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.

**Table of Contents****Note 8. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (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 dilutive securities outstanding for the period. Potential dilutive securities include stock options, restricted stock, restricted stock units, performance stock and shares to be purchased under the employee stock purchase plan. 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.

|                                                                        | <b>Three Months Ended<br/>December 31,</b> |             | <b>Nine Months Ended<br/>December 31,</b> |             |
|------------------------------------------------------------------------|--------------------------------------------|-------------|-------------------------------------------|-------------|
|                                                                        | <b>2011</b>                                | <b>2010</b> | <b>2011</b>                               | <b>2010</b> |
| <b>Basic Net Income (Loss) Per Share</b>                               |                                            |             |                                           |             |
| Net income (loss)                                                      | \$ 2,921                                   | \$ (802)    | \$ (1,072)                                | \$ (9,983)  |
| Weighted average shares used in computing basic net income per share   | 38,498                                     | 37,195      | 38,221                                    | 37,146      |
| Net income (loss) per share - basic                                    | \$ 0.08                                    | \$ (0.02)   | \$ (0.03)                                 | \$ (0.27)   |
| <b>Diluted Net Income (Loss) Per Share</b>                             |                                            |             |                                           |             |
| Net income (loss)                                                      | \$ 2,921                                   | \$ (802)    | \$ (1,072)                                | \$ (9,983)  |
| Weighted average shares used in computing basic net income per share   | 38,498                                     | 37,195      | 38,221                                    | 37,146      |
| Effect of dilutive securities                                          | 1,772                                      |             |                                           |             |
| Weighted average shares used in computing diluted net income per share | 40,270                                     | 37,195      | 38,221                                    | 37,146      |
| Net income (loss) per share - diluted                                  | \$ 0.07                                    | \$ (0.02)   | \$ (0.03)                                 | \$ (0.27)   |

For the three months ended December 31, 2011, approximately 391,000 shares underlying outstanding securities were not included in the computation of diluted earnings per share primarily related to performance milestone awards where a milestone was not met as of the period end.

For the three months ended December 31, 2010, underlying stock options of approximately 6,055,000 and unvested restricted shares of approximately 653,000 are excluded from the calculation of diluted weighted average shares outstanding because the Company incurred a loss for the three month period and to include them would have been antidilutive. For the nine months ended December 31, 2011 and 2010, respectively, underlying stock options of approximately 4,544,000 and 6,055,000 and restricted shares of approximately 867,000 and 653,000 are excluded from the calculation of diluted weighted average shares outstanding because the Company incurred a loss for the nine month period, respectively, and to include them would have been antidilutive.

**Note 9. 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 proceedings or claims which are pending or known to be threatened, or all of them combined, is not expected to have a material effect on the Company's financial position, and results of operations or cash flows. At December 31, 2011, the Company did not have any material pending litigation.

**Table of Contents****Note 10. Accrued Expenses**

Accrued expenses consist of the following:

|                                         | December 31,<br>2011 | March 31,<br>2011 |
|-----------------------------------------|----------------------|-------------------|
|                                         | (in \$000 s)         |                   |
| Salaries and benefits                   | \$ 7,442             | \$ 7,416          |
| Research and development                | 955                  | 3,991             |
| Professional, accounting and audit fees | 389                  | 616               |
| Warranty                                | 739                  | 537               |
| Other                                   | 1,243                | 1,518             |
|                                         | \$ 10,768            | \$ 14,078         |

**Note 11. 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 67% and 61% of the Company's total consolidated assets are located within the U.S. as of December 31, 2011 and March 31, 2011, respectively. Remaining assets are located in Europe, primarily related to the Company's Impella production facility, and include goodwill and intangibles of \$36.2 million and \$40.5 million at December 31, 2011 and March 31, 2011, respectively. Total assets in Europe excluding goodwill and intangibles amounted to 7% and 8%, respectively, of total consolidated assets at each of December 31, 2011 and March 31, 2011, respectively. International sales accounted for 8% and 7% of total product revenue, respectively, for the three months ended December 31, 2011 and 2010. International sales accounted for 8% and 7% of total product revenue, respectively, for the nine months ended December 31, 2011 and 2010.

**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, 2011. 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 leading provider of medical devices in circulatory support and we offer a continuum of care in heart recovery for acute heart failure patients. 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. Our products are used in the cardiac catheterization lab, or cath lab, by interventional cardiologists and/or in the heart surgery suite by heart surgeons for patients who are in need of hemodynamic support prophylactically during high risk angioplasty procedures or who are in pre-shock, shock or profound cardiogenic shock. We believe heart recovery is the optimal clinical outcome by restoring the quality of life of patients. In addition, we believe heart recovery is the most cost-effective path for the healthcare system.

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 for partial circulatory support for up to six hours. We received 510(k) clearance in April 2009 for our Impella 5.0 and Impella LD devices for circulatory support for up to 6 hours. These devices are larger and provide more blood flow than the Impella 2.5.

In December 2011, we announced a new higher flow Impella device, named Impella cVAD with expected commercial availability planned for the summer of 2012. In addition, we are currently conducting initial patient use outside the USA of the Impella RP, a percutaneous catheter-based axial flow pump with greater than four liters of flow designed and intended to provide the flow and pressure needed to compensate for right heart failure. Neither of these products are currently available for sale in the U.S.

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. We expect revenues during fiscal 2012 from our non-Impella business, including BVS and AB5000, will continue to decrease as we continue to focus on our Impella products. In addition, we do not expect that revenues from sales of our replacement heart product, the AbioCor, will be a material portion of our total revenues for the foreseeable future as our primary strategic focus is centered on heart recovery for acute heart failure patients. We have incurred net losses since our inception, including a net loss of \$1.1 million for the nine months ended December 31, 2011. Although we recorded net income of \$2.9 million for the three months ended December 31, 2011, we may incur additional losses in the future as we continue to expand our commercial infrastructure and invest in research and development related to our products.

In November 2011, we announced Symphony, a synchronized minimally invasive implantable cardiac assist device designed to treat chronic patients with moderate heart failure by improving patient hemodynamics and potentially improving quality of life. The device is designed with the primary goal of stabilizing the progression of heart failure and/or recovering/remodeling the heart. We recently conducted the initial first in man implants of Symphony outside the U.S. This product is not currently available for sale in the U.S.

*Impella 2.5*

The Impella 2.5 catheter is a percutaneous micro heart pump with an integrated motor and sensors. The device is designed primarily for use by interventional cardiologists to support patients in the cath lab who may require assistance to maintain their circulation. The Impella 2.5 device received 510(k) clearance from the U.S. Food and Drug Administration, or FDA, in June 2008 for partial circulatory support for up to six hours, has CE mark approval in Europe for up to five days of use and is approved for use in over 40 countries.



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The Impella 2.5 catheter can be quickly inserted via the femoral artery to reach the left ventricle of the heart where it is directly deployed to draw blood out of the ventricle, deliver it to the arterial system and perfuse the heart muscle. This function is intended to reduce ventricular work, which allows the heart to rest, while providing flow of blood to vital organs. The Impella 2.5 is introduced with normal interventional cardiology procedures and can pump up to 2.5 liters of blood per minute.

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 pivotal study was to 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. In December 2010, we announced the termination of the Protect II study based on a futility determination at the planned interim analysis regarding the primary end-point, which we view as likely to have resulted from how rotational atherectomy was used in the study.

In November 2011, we announced final results from the Protect II study, including those patients enrolled following the initiation of the interim analysis, which showed a statistically significant 22% relative reduction in major adverse events compared to the IAB at 90 days per protocol ( $p=0.023$ ), a 52% relative reduction in repeat revascularization ( $p=0.024$ ) and a 56% relative reduction in MAE (material adverse events) post hospital discharge ( $p=0.002$ ). We also announced in November 2011 additional data analysis of the clinical data from the PROTECT II trial, revealing that more aggressive revascularization with Impella is beneficial for patients with coronary artery disease (CAD) and reduced left ventricular function. In addition, a November 2011 update to the ACCF/AHA/SCAI Guidelines for Percutaneous Coronary Intervention (PCI), for the first time, included Impella in both the emergent and prophylactic hemodynamic support settings.

In addition to the FDA approved studies for Impella 2.5, we are also conducting USpella, the first U.S. multicenter observational registry collecting clinical data and outcomes for patients supported with Impella 2.5 during elective, urgent and emergent procedures. We have invited 62 hospitals in the U.S. and Canada to participate in the USpella registry.

### *Impella 5.0 and Impella LD*

The Impella 5.0 catheter and Impella LD are percutaneous micro heart pumps with integrated motors and sensors for use primarily in the heart surgery suite. These devices are designed to support patients who require higher levels of circulatory support as compared to the Impella 2.5. The Impella 5.0 and Impella LD devices received 510(k) clearance in April 2009, for circulatory support for up to six hours and have CE mark approval in Europe and are approved for use in over 40 countries.

The Impella 5.0 is implanted via a small incision in the femoral artery in the groin and can be quickly inserted via the femoral artery using a guide wire to reach the left ventricle of the heart where it is directly deployed to draw blood out of the ventricle, deliver it to the arterial system and perfuse the heart muscle. This function is intended to reduce ventricular work (resting the heart). The Impella LD is similar to the Impella 5.0 but is implanted directly through an incision in the subclavian vein or through an aortic graft. The Impella 5.0 and Impella LD can pump up to five liters of blood per minute, providing full circulatory support.

### *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.

We have developed a Portable Circulatory Support Driver for both in-hospital and out-of-hospital patients. The Portable Driver is designed to support our AB5000 VAD. We received CE mark approval for our Portable Driver in March 2008. In May 2008, we received conditional approval for the Portable Driver under an 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 commercial shipment of the device to U.S. hospitals for in hospital and transport use. Out-of-hospital use is being studied in the U.S. in a U.S. 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

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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 the product has a life expectancy of 18-24 months.

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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. We have no current plans to seek a broader regulatory approval of the AbioCor. We have not had any AbioCor sales since fiscal 2009 and 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 on heart recovery for acute heart failure patients.

### ***Critical Accounting Policies***

There have been no significant changes in our critical accounting policies during the three and nine months ended December 31, 2011, as compared to the critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

### ***New Accounting Pronouncements***

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies, which are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

**Table of Contents****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 nine months ended December 31, 2011 and 2010, respectively:

|                                                               | Three Months Ended<br>December 31, |        | Nine Months Ended<br>December 31, |         |
|---------------------------------------------------------------|------------------------------------|--------|-----------------------------------|---------|
|                                                               | 2011                               | 2010   | 2011                              | 2010    |
| Revenue:                                                      |                                    |        |                                   |         |
| Product                                                       | 98.6%                              | 98.8%  | 98.9%                             | 98.8%   |
| Funded research and development                               | 1.4                                | 1.2    | 1.1                               | 1.2     |
| Total Revenue                                                 | 100.0                              | 100.0  | 100.0                             | 100.0   |
| Costs and expenses:                                           |                                    |        |                                   |         |
| Cost of product revenue excluding amortization of intangibles | 19.5                               | 20.0   | 19.9                              | 22.2    |
| Research and development                                      | 19.1                               | 24.2   | 22.4                              | 27.3    |
| Selling, general and administrative                           | 53.4                               | 57.2   | 58.0                              | 62.5    |
| Amortization of intangible assets                             | 1.1                                | 1.1    | 1.3                               | 1.4     |
|                                                               | 93.1                               | 102.5  | 101.6                             | 113.4   |
| Income (loss) from operations                                 | 6.9                                | (2.5)  | (1.6)                             | (13.4)  |
| Other income and expense:                                     |                                    |        |                                   |         |
| Investment expense, net                                       |                                    | 0.1    |                                   |         |
| Gain on settlement of investment                              | 3.2                                |        | 1.1                               |         |
| Gain on sale of WorldHeart stock                              |                                    |        |                                   | 0.6     |
| Other income (expense), net                                   | 0.1                                | 0.1    | 0.1                               |         |
|                                                               | 3.3                                | 0.2    | 1.2                               | 0.6     |
| Income (loss) before provision for income taxes               | 10.2                               | (2.3)  | (0.4)                             | (12.8)  |
| Provision for income taxes                                    | 1.1                                | 0.6    | 0.8                               | 0.9     |
| Net income (loss)                                             | 9.1%                               | (2.9)% | (1.2)%                            | (13.7)% |

Three and nine months ended December 31, 2011 compared with the three and nine months ended December 31, 2010

**Revenues**

Our revenues are comprised of the following:

|                         | Three Months Ended<br>December 31, |           | Nine Months Ended<br>December 31, |           |
|-------------------------|------------------------------------|-----------|-----------------------------------|-----------|
|                         | 2011                               | 2010      | 2011                              | 2010      |
|                         | (in \$000 s)                       |           | (in \$000 s)                      |           |
| Impella product revenue | \$ 27,680                          | \$ 21,234 | \$ 74,674                         | \$ 55,658 |
| Other product revenue   | 2,343                              | 4,248     | 8,279                             | 12,105    |

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|                                    |           |           |           |           |
|------------------------------------|-----------|-----------|-----------|-----------|
| Service and other revenue          | 1,709     | 1,433     | 5,096     | 3,971     |
| Total product and service revenues | 31,732    | 26,915    | 88,049    | 71,734    |
| Funded research and development    | 466       | 329       | 982       | 888       |
| Total revenues                     | \$ 32,198 | \$ 27,244 | \$ 89,031 | \$ 72,622 |

Impella product revenue encompasses Impella 2.5, Impella 5.0, and Impella LD product sales. Other product revenue includes AB5000, BVS5000 and cannulae product sales. Service and other revenue represents revenue earned on service contracts and maintenance calls.

Total revenues for the three months ended December 31, 2011 increased by \$5.0 million, or 18%, to \$32.2 million from \$27.2 million for the three months ended December 31, 2010. The increase in total revenue was primarily due to higher Impella revenue due to greater utilization in the U.S. Total revenues for the nine months ended December 31, 2011 increased by \$16.4 million, or 23%, to \$89.0 million from \$72.6 million for the nine months ended December 31, 2010. The increase in total revenue was primarily due to higher Impella revenue from greater utilization in the U.S.

Impella product revenues for the three months ended December 31, 2011 increased by \$6.5 million, or 31% to \$27.7 million from \$21.2 million for the three months ended December 31, 2010. Impella revenues for the nine months ended December 31, 2011 increased by \$19.0 million, or 34% to \$74.7 million from \$55.7 million for the nine months ended December 31, 2010. Most of our Impella revenue was from disposable product sales of Impella in the U.S., as we focus on increasing utilization of these products through continued investment in our sales force and physician training.

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Other product revenues for the three months ended December 31, 2011 decreased by \$1.9 million, or 45%, to \$2.3 million from \$4.2 million for the three months ended December 31, 2010. Other product revenues for the nine months ended December 31, 2011 decreased by \$3.8 million, or 31%, to \$8.3 million from \$12.1 million for the nine months ended December 31, 2010. The decrease in other revenue was due to a decline in BVS and AB5000 disposable sales. We expect that BVS and AB5000 revenue will continue to decline in fiscal 2012 as we focus our sales efforts in the surgical suite on Impella 5.0 and LD.

Service and other revenue for the three months ended December 31, 2011 increased by \$0.3 million, or 21%, to \$1.7 million from \$1.4 million for the three months ended December 31, 2010. Service revenue for the nine months ended December 31, 2011 increased by \$1.1 million, or 28%, to \$5.1 million from \$4.0 million for the nine months ended December 31, 2010. The increase in service revenue was primarily due to an increase in service contracts, primarily for Impella consoles.

### ***Cost of Product Revenues***

Cost of product revenues for the three months ended December 31, 2011 and 2010, respectively, was \$6.3 million and \$5.4 million. Gross margin was 80% for each of the three months ended December 31, 2011 and December 31, 2010. Gross margin has remained relatively stable over the last few quarters as the majority of our sales have come from reorders of Impella disposables.

Cost of product revenues for the nine months ended December 31, 2011 and 2010, respectively, was \$17.7 million and \$16.1 million. Gross margin was 80% for the nine months ended December 31, 2011 compared to 78% for the nine months ended December 31, 2010. The increase in gross margin was primarily due to a larger portion of revenues from disposable products, improved manufacturing production and lower writedowns on inventory.

### ***Research and Development Expenses***

Research and development expenses for the three months ended December 31, 2011 decreased by \$0.5 million, or 8%, to \$6.1 million from \$6.6 million for the three months ended December 31, 2010, primarily due to a decrease in clinical trial expenditures primarily associated with our Impella 2.5 U.S. trials, partially offset by an increase in spending on product development initiatives associated with the Impella RP, Impella cVAD and symphony. Research and development expenses for the three months ended December 31, 2011 and 2010 included \$0.9 million and \$2.1 million, respectively, in clinical trial costs primarily associated with our Impella 2.5 U.S. trials.

Research and development expenses for the nine months ended December 31, 2011 increased by \$0.1 million, or 1%, to \$19.9 million from \$19.8 million for the nine months ended December 31, 2010, primarily due to increased project spending on new product development.

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

Selling, general and administrative expenses for the three months ended December 31, 2011 increased by \$1.6 million, or 10%, to \$17.2 million from \$15.6 million for the three months ended December 31, 2010. The increase was primarily due to increased headcount of field employees in the U.S. and higher marketing and trade show expenditures.

Selling, general and administrative expenses for the nine months ended December 31, 2011 increased by \$6.3 million, or 14%, to \$51.7 million from \$45.4 million for the nine months ended December 31, 2010. The increase in selling, general and administrative expenses was primarily due to increased field headcount as we concentrate our marketing focus on commercial efforts in the U.S. and an increase in stock-based compensation expense due in part to changes made in assumptions during the first quarter regarding how expense is recognized over the service period for performance-based awards.

We expect to increase our expenditures on sales and marketing activities in fiscal 2012, with particular investments in clinical personnel with cath lab expertise. We also plan to increase our marketing, service, and training investments to support the efforts of the sales and field clinical teams to drive recovery awareness for acute heart failure patients.

### ***Amortization of Intangibles***

Amortization of intangible assets was \$0.4 million and \$0.3 million for the three months ended December 31, 2011 and 2010, and \$1.1 million and \$1.0 million, respectively, for the nine months ended December 31, 2011 and 2010. Amortization expense is related specifically to intangible assets acquired in the Impella acquisition.



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### ***Gain on Sale of WorldHeart Stock***

During the nine months ended December 31, 2010, we sold 188,170 shares of WorldHeart common stock, which resulted in a gain of \$0.5 million. At December 31, 2011, we have no remaining shares of WorldHeart common stock.

### ***Gain on Settlement of Investment***

During the three months ended December 31, 2011, we entered into a settlement agreement. As part of this settlement agreement, we received \$1.0 million in proceeds in December 2011.

### ***Provision for Income Taxes***

We recorded an income tax provision of \$0.4 million and \$0.2 million for the three months ended December 31, 2011 and 2010, respectively. During the nine months ended December 31, 2011 and 2010, we recorded an income tax provision of \$0.7 million and \$0.6 million, respectively. The income tax provision is 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 Income (Loss)***

During the three months ended December 31, 2011, we recorded net income of \$2.9 million, or \$0.08 per basic share and \$0.07 per diluted share, compared to a net loss of \$0.8 million, or \$0.02 per basic and diluted share, for the three months ended December 31, 2010. The increase in profitability was due to increased Impella sales due to greater demand in the U.S and the \$1.0 million gain as described above.

During the nine months ended December 31, 2011, we incurred a net loss of \$1.1 million, or \$0.03 per basic and diluted share, compared to a net loss of \$9.9 million, or \$0.27 per basic and diluted share, for the nine months ended December 31, 2010. The decrease in net loss was due to increased Impella sales due to greater demand in the U.S.

### ***Liquidity and Capital Resources***

At December 31, 2011, our cash, cash equivalents, and short-term marketable securities totaled \$69.6 million, an increase of \$9.3 million compared to \$60.3 million at March 31, 2011. We believe that our revenue from product sales together with existing resources will be sufficient to fund our operations for at least the next twelve months, exclusive of activities involving any future acquisitions of products or companies that complement or augment our existing line of products.

Marketable securities at December 31, 2011 consist of \$64.5 million held in funds that invest solely in U.S. Treasury securities. 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 and currently only invest excess cash in short term U.S. treasury securities.

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 provide for general working capital needs. Through December 31, 2011, we have funded our operations principally from product sales 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 cash through funded research and development revenue.

Our operating activities during the nine months ended December 31, 2011 used cash of \$1.4 million as compared to providing cash of \$1.4 million during the same period in the prior year. Contributing to our cash used for operations was a \$1.1 million net loss for the nine months ended December 31, 2011, a \$4.0 million increase in inventory and a \$3.8 million decrease in accounts payable and accrued expenses primarily due to the payment of annual employee bonuses in the first quarter and payments related to the closeout of the Protect II study. These decreases in cash were partially offset by non-cash adjustments of \$5.9 million related to stock-based compensation expense and \$3.1 million of depreciation and amortization.

Our investing activities during the nine months ended December 31, 2011 used cash of \$10.9 million as compared to a use of cash of \$2.1 million during the same period in the prior year. Cash used by investment activities for the nine months ended December 31, 2011 consisted

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primarily of \$10.0 million of purchases of short-term marketable securities, net of proceeds, during the period. We also incurred \$1.9 million of cash expenditures for property and equipment primarily for the purchase of manufacturing equipment and computer software. These uses were partially offset by a \$1.0 million in proceeds on a settlement.

Our financing activities during the nine months ended December 31, 2011 and 2010 provided cash of \$11.9 million and \$0.6 million, respectively. Cash provided by financing activities during the nine months ended December 31, 2011 was primarily attributable to the exercise of stock options.

Capital expenditures for fiscal 2012 are estimated to be between \$2.5 to \$3.5 million, which relate primarily to our planned manufacturing capacity increases for Impella and software development projects.

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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. We continue to review our long-term cash needs on a regular basis. We have no debt outstanding.

### **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 and 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 December 31, 2011, we believe the decline in fair market value of our investment portfolio would be immaterial. Marketable securities at December 31, 2011 consist of \$64.5 million in five funds that invest in U.S. Treasury securities and related interest.

#### ***Currency Exchange Rates***

Our foreign subsidiaries' primary 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 December 31, 2011, the result would have been a reduction of stockholders' equity of approximately \$3.7 million.

#### ***Fair Value of Financial Instruments***

At December 31, 2011, 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 December 31, 2011. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2011, 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 principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### ***Evaluation of Changes in Internal Control over Financial Reporting***

During the third quarter of our fiscal year ending March 31, 2012, 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.

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**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 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.

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### **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, 2011, which could materially affect our business, financial condition or future results. To the best of our knowledge, as of the date of this report, the only material change to the risk factors described in our Annual Report on Form 10-K is to replace the similarly titled risk factor in the annual report with the risk factor set forth below.

*If the FDA or another regulatory agency determines that we have promoted off-label use of our products, we may be subject to various penalties, including civil or criminal penalties.*

The FDA and other regulatory agencies actively enforce regulations prohibiting promotion of off-label uses and the promotion of products for which marketing clearance has not been obtained. If the FDA or another regulatory agency determines that our promotional materials or training constitutes promotion of an unapproved use, it could request that we modify our training or promotional materials or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties. Although our policy is to refrain from statements that could be considered off-label promotion of our products, the FDA or another regulatory agency could disagree and conclude that we have engaged in off-label promotion. In June 2011, we received a warning letter from the FDA stating that some of our promotional materials marketed the Impella 2.5 for uses that had not been approved by the FDA. We have cooperated with the FDA in addressing its concerns and believe that we have resolved the matter without any penalties. Although we believe that this issue has been resolved, if similar matters come up in the future, we may not be able to resolve them without facing significant consequences. Such matters could result in reduced demand for our products and would have a material adverse effect on our operations and prospects.

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

None

### **Item 3. Defaults Upon Senior Securities**

None

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None

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

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Filed with |           | Incorporated by Reference | Exhibit No. |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------|---------------------------|-------------|
|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | This       | Form 10-Q |                           |             |
|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |            | Form      | Filing Date               |             |
| 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         |
| 11.1        | Statement regarding computation of Per Share Earnings (see Note 8, Notes to 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          |           |                           |             |
| 101         | The following financial information from the ABIOMED, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2011 and March 31, 2011; (ii) Consolidated Statements of Operations for the three and nine months ended December 31, 2011 and December 31, 2010; (iii) Consolidated Statements of Cash Flows for the nine months ended December 31, 2011 and December 31, 2010; and (iv) Notes to Consolidated Financial Statements.** | X          |           |                           |             |

\*\* The information contained in this exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and regardless of any general incorporation language in such filing, except as expressly set forth by specific reference in such filing.

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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: February 8, 2012

/s/ ROBERT L. BOWEN

**Robert L. Bowen**

**Vice President and Chief Financial Officer**

**(Principal Accounting and Financial Officer)**