ABIOMED INC
Form 10-Q
February 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2006

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)

DELAWARE	**04-2743260**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

22 CHERRY HILL DRIVE

DANVERS, MASSACHUSETTS 01923

(Address of principal executive offices, including zip code)

(978) 777-5410

(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) or 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 x No ¨

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

Large accelerated filer ¨ Accelerated Filer x Non-accelerated filer ¨

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

As of February 6, 2007, there were 26,766,455 shares outstanding of the registrant s Common Stock, $.01 par value.

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ABIOMED, INC. AND SUBSIDIARIES

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PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	December 31, 2006 (Unaudited)	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,081	$ 7,832
Short-term marketable securities	11,160	23,003
Accounts receivable, net of allowance for doubtful accounts of $274 at December 31, 2006 and $211 at March 31, 2006	9,230	8,880
Inventories	6,883	4,868
Prepaid expenses and other current assets	1,640	1,860
Total current assets	34,994	46,443
Property and equipment, net	5,572	4,824
Intangible assets, net	7,613	8,164
Goodwill	26,355	19,106
Total assets	$ 74,534	$ 78,537
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,636	$ 3,070
Accrued expenses	5,786	5,185
Deferred revenue	577	484
Total current liabilities	10,999	8,739
Long-term deferred tax liability	873	310
Accrued costs of acquisition	5,583	
Total liabilities	17,455	9,049
Commitments and contingencies		
Stockholders equity		
Class B Preferred Stock, $.01 par value		
Authorized 1,000,000 shares; Issued and outstanding none		
Common stock, $.01 par value	268	265
Authorized 100,000,000 shares;		
Issued 26,775,474 shares at December 31, 2006 and 26,474,270 shares at March 31, 2006;		
Outstanding 26,764,455 shares at December 31, 2006 and 26,468,091 shares at March 31, 2006		
Additional paid-in-capital	221,438	214,666

Deferred stock-based compensation		(171)
Accumulated deficit	(164,840)	(143,308)
Treasury stock at cost 11,019 shares at December 31, 2006 and 6,179 shares at March 31, 2006	(116)	(66)
Accumulated other comprehensive income (loss)	329	(1,898)
Total stockholders equity	57,079	69,488
Total liabilities and stockholders equity	$ 74,534	$ 78,537

See Accompanying Notes to Condensed Consolidated Financial Statements.

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ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three months ended December 31,		Nine months ended December 31,	
	2006	2005	2006	2005
Revenue:				
Products	$ 12,823	$ 10,447	$ 36,698	$ 29,605
Funded research and development	81	68	100	269
	12,904	10,515	36,798	29,874
Costs and expenses:				
Cost of product revenue excluding amortization	2,873	3,070	9,281	7,851
Research and development	5,625	4,226	16,329	12,517
Selling, general and administrative	10,917	7,411	31,355	21,558
Expensed in-process research and development			800	13,306
Amortization of intangible assets	373	348	1,243	955
	19,788	15,055	59,008	56,187
Loss from operations	(6,884)	(4,540)	(22,210)	(26,313)
Other income:				
Investment income	240	316	841	876
Foreign exchange gain (loss)	62	(56)	149	(168)
Other income (expense), net	(40)	53	32	91
	262	313	1,022	799
Net loss before provision for income taxes	(6,622)	(4,227)	(21,188)	(25,514)
Provision for income taxes	103	253	344	253
Net loss	$ (6,725)	$ (4,480)	$ (21,532)	$ (25,767)
Basic and diluted net loss per share	$ (0.25)	$ (0.17)	$ (0.81)	$ (1.01)
Weighted average shares outstanding	26,712	26,351	26,602	25,447

See Accompanying Notes to Condensed Consolidated Financial Statements.

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ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(in thousands)

	Nine months ended December 31,	
	2006	2005
Operating activities:		
Net loss	$ (21,532)	$ (25,767)
Adjustments required to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	2,891	2,159
Bad debt expense	84	102
Stock-based compensation	4,652	179
Write-down of inventory	205	269
Deferred tax provision	344	253
Expensed in-process research and development		13,306
Changes in assets and liabilities, net of acquisition		
Accounts receivable	(7)	775
Inventories	(2,416)	(1,429)
Prepaid expenses, other current assets and other assets	399	742
Accounts payable	1,474	75
Accrued expenses	510	17
Deferred revenue	84	256
Net cash used for operating activities	(13,312)	(9,063)
Investing activities:		
Proceeds from the sale and maturity of short-term securities	26,792	36,242
Purchases of short-term securities	(14,949)	(24,293)
Business acquisition, net of cash acquired		(2,562)
Purchase of intangible assets	(50)	(112)
Expenditures for property and equipment	(2,066)	(1,547)
Net cash provided by investing activities	9,727	7,728
Financing activities:		
Proceeds from the exercise of stock options	1,826	1,465
Proceeds from employee stock purchase plan	159	95
Return of common stock from escrow	(50)	(66)
Net cash provided by financing activities	1,935	1,494
Effect of exchange rate changes on cash	(101)	130
Net (decrease) increase in cash and cash equivalents	(1,751)	289
Cash and cash equivalents at beginning of period	7,832	7,618
Cash and cash equivalents at end of period	$ 6,081	$ 7,907

See Accompanying Notes to Condensed Consolidated Financial Statements.

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ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Nature of Business and Basis of Preparation

Abiomed, Inc. (the Company or Abiomed) is a leading provider of medical devices that provide circulatory support to acute heart failure patients across the continuum of care in heart recovery. Our products are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. We are focused on establishing heart recovery as the standard of care for patients with failing but potentially recoverable hearts. We expect this standard of care will significantly increase the number of patients able to return home from the hospital with their own hearts.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s audited annual financial statements. These audited statements are contained in the Company s shelf registration statement on Form S-3 that has been filed with the SEC on October 2, 2006.

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of results for the interim periods to summarize fairly the financial position and results of operations as of December 31, 2006 and for the three and nine months then ended. The results of operations for the interim periods may not be indicative of the results that may be expected for the full fiscal year.

On May 10, 2005, the Company acquired all of the shares of outstanding capital stock of Impella CardioSystems AG (Impella), a manufacturer of percutaneous cardiovascular support systems headquartered in Aachen, Germany (See Note 9). All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform with the current year presentation. Specifically, amortization of intangibles has been shown separately in the statement of operations in fiscal 2007 versus prior year presentation of reflecting intangibles amortization in research and development and selling, general and administrative expenses to more clearly reflect the amortization impact on the financial statements. Reclassifications have also been made to the Company s statements of cash flow to conform to current year presentation with respect to the inclusion in depreciation and amortization the amount of amortization expense recorded for inventory used for demonstration purposes.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimated or assumed. The more significant estimates reflected in these financial statements include collectibility of accounts receivable, inventory valuation and accrued expenses.

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Significant Accounting Policies (continued)

Goodwill

The Company periodically evaluates goodwill for impairment using forecasts of discounted future cash flows. Estimates of future cash flows require assumptions related to revenue and operating income growth, asset-related expenditures, working capital levels and other factors. Different assumptions from those made in the analysis could materially affect projected cash flows and the evaluation of goodwill for impairment. Should the fair value of our goodwill decline because of reduced operating performance, market declines, delays in regulatory approval, or other indicators of impairment, or as a result of changes in the discount rate, charges for impairment of goodwill may be necessary. The Company performed its annual impairment review for fiscal 2007 as of October 31, 2006 and determined that goodwill was not impaired. The carrying amount of goodwill at December 31, 2006 was $26.4 million.

3. Accounting for Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), *Share-based Payment*. SFAS No. 123(R) requires compensation costs related to share-based transactions, including employee share options, to be recognized in the financial statements based on the grant-date fair value.

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123(R) using the modified prospective application transition method. Under this transition method, the compensation cost recognized beginning April 1, 2006 includes compensation cost for (i) all share-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (ii) all share-based payments granted subsequent to March 31, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation cost is recognized on a straight-line basis over the requisite vesting period for those stock options issued subsequent to the adoption of SFAS No. 123(R). For stock options issued prior to the adoption of SFAS No. 123(R), the accelerated method is used for expense recognition.

Prior to April 1, 2006, the Company accounted for stock-based compensation in accordance with the provisions of APB No. 25. The Company elected to follow the disclosure-only alternative requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, the Company did not recognize the compensation expense for the issuance of options with fixed exercise prices at least equal to the fair market value at the date of the grant. The modified prospective transition method of SFAS No. 123(R) requires the presentation of pro forma net income (loss) and net income (loss) per share as if the Company had accounted for its stock plans under the fair value method of SFAS No. 123 for periods presented prior to the adoption of SFAS No. 123(R).

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3. Accounting for Stock-Based Compensation (continued)

In the process of adopting SFAS No. 123(R), the Company determined that the historical estimated forfeiture rates used in the SFAS No. 123 pro forma disclosure in the previously issued financial statements were higher than the Company s actual historical forfeiture rates resulting in an understatement of the Company s pro forma stock compensation expense. The Company has revised its pro forma disclosure for the years ended March 31, 2006, 2005 and 2004. This revision resulted in an increase in pro forma expense and pro forma net loss, from amounts previously reported, in the amount of $0.6 million and $1.1 million for the three and nine months ended December 31, 2005 and an increase in net loss per share of $0.02 and $0.05 for the three and nine months ended December 31, 2005, respectively, which are reflected in the table below.

	Three months ended December 31, 2005	Nine months ended December 31, 2005
Net loss, as reported	$ (4,480)	$ (25,767)
Add: Stock-based employee compensation included in reported net loss	89	179
Deduct: Total stock-based employee compensation determined under fair value based method for all awards	(1,562)	(4,335)
Pro forma net loss	$ (5,953)	$ (29,923)
Basic and diluted net loss per share:		
As reported	$ (0.17)	$ (1.01)
Pro forma	$ (0.23)	$ (1.18)

Stock Option Plans

Consistent with the policies and practices of the Company pertaining to stock options, all outstanding stock options of the Company as of December 31, 2006 were granted with an exercise price equal to the fair market value on the date of grant with the exception of 3,557 outstanding options that were granted to certain employees during the fiscal year ended March 31, 2004, with an exercise price of $0.01 per share. For the options granted at $0.01 per share and restricted stock granted below fair market value, compensation expense is recognized on a straight-line basis over the vesting period. Outstanding stock options, if not exercised, expire 10 years from the date of grant.

The 1992 Combination Stock Option Plan (as amended, the Combination Plan) was adopted in September 1992 as a combination and amendment of the Company s then outstanding Incentive Stock Option Plan and Nonqualified Plan. A total of 2,670,859 options were awarded from the Combination Plan that ended on May 1, 2002. As of December 31, 2006, 145,700 of these options remain outstanding, fully vested and eligible for future exercise.

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3. Accounting for Stock-Based Compensation (continued)

The 1998 Equity Incentive Plan (the Equity Incentive Plan) was adopted by the Company in August 1998. The Equity Incentive Plan provides for grants of options to key employees, directors, advisors and consultants as either incentive stock options or nonqualified stock options as determined by the Company s Board of Directors. A maximum of 1,000,000 shares of common stock may be awarded under this plan. Options granted under the Equity Incentive Plan are exercisable at such times and subject to such terms as the Board of Directors may specify at the time of each stock option grant. Options outstanding under the Equity Incentive Plan have vesting periods of 3 to 5 years from the date of grant.

The 2000 Stock Incentive Plan (as amended, the 2000 Plan) was adopted by the Company in August 2000. The 2000 Plan provides for grants of options to key employees, directors, advisors and consultants to the Company or its subsidiaries as either incentive or nonqualified stock options as determined by the Company s Board of Directors. Up to 4,900,000 shares of common stock may be awarded under the 2000 Plan and are exercisable at such times and subject to such terms as the Board of Directors may specify at the time of each stock option grant. Options outstanding under the 2000 Plan generally vest 4 years from the date of grant.

The Company has a nonqualified stock option plan for non-employee directors (the Directors Plan). The Directors Plan, as amended, was adopted in July 1989 and provides for grants of options to purchase shares of the Company s common stock to non-employee directors of the Company. Options for the purchase of up to 400,000 shares of common stock may be awarded under the Directors Plan. Options outstanding under the Director s Plan have vesting periods of 1 to 5 years from the date of grant.

The Company estimates the fair value of each stock option granted at the grant date using the Black-Scholes option valuation model, consistent with the provisions of SFAS No. 123(R), SEC SAB No. 107 *Share-based Payment* and the Company s prior period pro forma disclosure of net loss, including stock-based compensation (determined under a fair value method as prescribed by SFAS No. 123). The fair value of options granted during the three and nine months ended December 31, 2006 and December 31, 2005 were calculated using the following assumptions:

	Three Months Ended December 31		Nine Months Ended December 31	
	2006	2005	2006	2005
Risk-free interest rate	4.58 4.69 %	4.36%	4.58 5.04 %	3.90 4.36 %
Expected volatility	65.00%	74.36%	65.00%	73.00%
Expected option life (years)	6.25	6.96	6.25	7.40

The risk-free interest rate is based on the United States 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 a combination of the historical volatility of our stock and adjustments for factors not reflected in historical volatility that are more indicative of future volatility. By using this combination, the Company is taking into consideration estimates of future volatility that the Company believes will differ from historical volatility as a result of product diversification and the Company s acquisition of Impella. The average expected life was estimated using the simplified method for determining the expected term as prescribed by the SEC s Staff Accounting Bulletin No. 107. The calculation of the fair value of the options is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures, adjusted to the extent historic forfeitures may not be indicative of forfeitures in the future. In addition, an expected dividend yield of zero is used in the option valuation model, because the Company does not pay dividends and does not expect to pay any cash dividends in the foreseeable future.

The weighted average grant-date fair value for options granted during the three and nine months ended December 31, 2006 was $8.56 and $8.75 per share, respectively. The weighted average grant date fair value for options granted during the three and nine months ended December 31, 2005 was $6.46 and $6.89 per share, respectively.

The application of SFAS No. 123(R) resulted in expense of $1.4 million and $4.6 million for the three and nine months ended December 31, 2006 which is recorded within the applicable operating expense where the Company reports the option holders compensation cost in the condensed consolidated statements of operations. The remaining unrecognized stock-based compensation expense for unvested stock option awards at December 31, 2006 was approximately $10.2 million, net of forfeitures, and the weighted average time over which this cost will be recognized is 2.0 years. The stock-based compensation expense resulted in a $0.05 and a $0.17 decrease in earnings per share for the three and nine months ended December 31, 2006, respectively.

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3. Accounting for Stock-Based Compensation (continued)

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow. Because the Company does not recognize the benefit of tax deductions in excess of recognized compensation cost due to its net operating loss position, this change had no impact on the Company s consolidated statement of cash flows for the nine months ended December 31, 2006.

The following table summarizes the stock option activity for the nine months ended December 31, 2006:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at March 31, 2006	3,962	$ 10.11		
Granted	1,057	13.54		
Exercised	(287)	7.45		
Cancelled	(261)	11.26		
Outstanding at December 31, 2006	4,471	$ 11.02	7.27	$ 15,961
Exercisable at December 31, 2006	1,966	$ 10.76	5.56	$ 8,731

The total intrinsic value of options exercised during the three and nine months ended December 31, 2006 was $0.3 million and $1.7 million, respectively. The total fair value of stock options which vested during the three and nine months ended December 31, 2006 was $0.2 million and $4.5 million, respectively.

Restricted Stock

On March 1, 2005, the Company issued a restricted stock grant of 24,000 shares to an officer of the Company, of which 8,000 shares vested on March 1, 2006. The remaining 16,000 shares will vest in 8,000 share increments on March 1, 2007 and 2008, respectively. The restricted stock grant compensation expense is recognized on a straight-line basis over a vesting period of three years. At December 31, 2006, there was $0.1 million of unrecognized compensation cost related to these restricted shares.

Employee Stock Purchase Plan

In March of 1988, the Company adopted the 1988 Employee Stock Purchase Plan (ESPP) under which 500,000 shares of common stock were reserved for issuance. Eligible employees may purchase a limited number of shares of the Company s common stock at 85% of the lower of the market value on the offering date or the market value on the purchase date. During the nine months ended December 31, 2006 and December 31, 2005, 14,549 shares of common stock and 11,169 shares of common stock were issued under the ESPP, respectively.

Compensation expense recognized related to the Company s ESPP was $16,000 and $39,000 for the three and nine months ended December 31, 2006. The weighted average grant-date fair value of the purchases under the Employee Stock Purchase Plan was $3.42 per share. The fair value of these purchases was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.79 %
Expected volatility	38.32%
Expected option life (years)	0.50

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4. Warranties

The Company routinely accrues for estimated future warranty costs on its product sales at the time of sale. The Company s products are subject to rigorous regulation and quality standards. The following table summarizes the activities of the warranty reserves for the nine months ended December 31, 2006 and 2005 (in thousands):

	Nine months ended December 31,	
	2006	**2005**
Balance at March 31	$ 167	$ 231
Accrual for warranties	84	121
Warranty cost incurred during the period	(42)	(215)
Balance at December 31	$ 209	$ 137

5. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following (in thousands):

	December 31, 2006	**March 31, 2006**
Raw materials and supplies	$ 3,134	$ 1,764
Work-in-process	1,318	659
Finished goods	2,431	2,445
Balance at December 31	$ 6,883	$ 4,868

All of the Company s inventories relate to circulatory care product lines that include the AB5000, BVS 5000, AbioCor and Impella products. Finished goods and work-in-process inventories consist of direct material, labor and overhead. From time to time, the Company loans finished goods inventory to customers for demonstration purposes. This cost of demo inventory amounted to $1.2 million at December 31, 2006 and the net carrying value was $0.5 million. The Company amortizes finished goods that are used for demonstration purposes over a three-year life.

The Company regularly reviews inventory quantities on hand and writes down to its net realizable value any inventory believed to be impaired. If actual demand or market conditions are less favorable than projected demand, additional inventory write-downs may be required that could adversely impact financial results for the period in which the additional excess or obsolete inventory is identified.

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6. Property and Equipment

The Company provides for depreciation on property and equipment by charges to operations in amounts that allocate the cost of depreciable assets over their estimated useful lives on a straight-line basis as follows:

Classification	Estimated useful life
Machinery and equipment	2 10 years
Furniture and fixtures	4 10 years
Leasehold improvements	Lower of life of asset or life of lease

Depreciation expense related to property and equipment was $1.4 million and $1.0 million for the nine months ended December 31, 2006 and 2005, respectively.

Property and equipment consisted of the following (in thousands):

	December 31, 2006	March 31, 2006
Machinery and equipment	$ 15,141	$ 12,509
Furniture and fixtures	1,388	1,352
Leasehold improvements	2,619	2,545
Construction in progress	436	987
Total cost	19,584	17,393
Less accumulated depreciation	(14,012)	(12,569)
	$ 5,572	$ 4,824

Certain reclassifications were made to property and equipment and accumulated depreciation as previously reported at March 31, 2006 to accurately reflect balances associated with our Europe facility.

7. Net Loss Per Common Share

In accordance with SFAS No. 128, *Earnings Per Share*, basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of dilutive common shares outstanding during the period. Diluted shares outstanding is calculated by adding to the weighted shares outstanding any potential (unissued) shares of common stock from outstanding stock options and warrants based on the treasury stock method. In periods when a net loss is reported, such as the three and nine months ended December 31, 2006 and December 31, 2005, 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 the calculation of basic and dilutive loss per share results in the same value.

The calculation of diluted weighted average shares outstanding for the three and nine months ended December 31, 2006 and 2005 excludes warrants to purchase up to 400,000 shares of common stock issued in connection with the purchase of intellectual property. Also excluded from the calculation of diluted weighted average shares outstanding for the three and nine months ended December 31, 2006 and 2005 are stock options outstanding in the amount of 4,471,277 and 3,964,129, respectively and unvested shares of restricted stock in the amount of 16,000 shares and 24,000 shares, respectively.

8. Marketable Securities

The Company classifies any security with a maturity date of greater than 90 days at the time of purchase as marketable securities. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* , securities that the Company has the positive intent and ability to hold to maturity are reported at amortized cost and classified as held-to-maturity securities. At December 31, 2006, the held-to-maturity investment portfolio consisted primarily of government securities and corporate bonds with maturities of one year or less.

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The amortized cost including interest receivable approximates market value of held-to-maturity short-term marketable securities and was approximately $16.9 million and $10.2 million at March 31, 2006 and December 31, 2006, respectively.

The Company has classified the portion of its investment portfolio consisting of corporate asset-backed securities as available-for-sale securities. The cost of these securities approximates market value and was $6.1 million and $1.0 million at March 31, 2006 and December 31, 2006, respectively. Principal payments of these available-for-sale securities are typically made on an expected pre-determined basis rather than on the longer contractual maturity date.

9. Acquisition

In May 2005, the Company acquired all of the shares of outstanding capital stock of Impella CardioSystems AG (Impella). The acquisition of Impella was accounted for under the purchase method of accounting and the results of operations of Impella have been included in the consolidated results of the Company from the acquisition date. The aggregate initial purchase price was approximately $45.1 million, which consisted of $42.2 million of the Company s common stock, $1.6 million of cash paid to certain former shareholders of Impella, and $1.3 million of transaction costs, consisting primarily of fees paid for financial advisory and legal services. The Company issued 4,029,004 shares of common stock, the fair value of which was based upon a five-day average of the closing price two days before and two days after the terms of the acquisition were agreed to and publicly announced.

In addition, the purchase agreement for the acquisition of Impella provides that the Company may be required to make additional contingent payments to Impella s former shareholders based on both the Company s future stock price performance and milestones related to FDA approvals and unit sales of Impella products.

The contingent payment based on stock price performance as of the 18-month anniversary of the closing date was not required to be paid as the average of the daily volume weighted average price per share of Abiomed s common stock for the 20 trading days prior to November 10, 2006 was below $15.00.

The Company also agreed, subject to certain exceptions based on future stock price performance described below, to make additional payments of up to $16.75 million based on the following milestones:

upon FDA approval of Impella s 2.5 liter pump system, a payment of $5,583,333,

upon FDA approval of Impella s 5.0 liter pump system, a payment of $5,583,333, and

upon the sale of 1,000 units of Impella s products worldwide between the closing and December 31, 2007, a payment of $5,583,334.

These milestone payments may be made, at the Company s option, by a combination of cash or stock, except that no more than an aggregate of $15 million of these milestone payments may be made in the form of stock. If any contingent payments are made, they will result in an increase in the carrying value of goodwill. The Company reached the 1,000 unit milestone in the third quarter of fiscal 2007. The Company accounted for this contingent milestone by increasing goodwill and recording a liability at December 31, 2006 for $5.6 million. The Company expects to issue approximately 403,000 shares of common stock during the fourth quarter of fiscal 2007 to satisfy this milestone obligation of $5.6 million.

The foregoing notwithstanding, if the average market price per share of Abiomed s common stock, as determined in accordance with the purchase agreement, as of the date that any of the milestones is achieved is $22 or more, no additional contingent consideration will be required with respect to that milestone. If the average market price is between $18 and $22 on the date of the Company s achievement of a milestone, the relevant milestone payment will be reduced ratably.

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9. Acquisition (Continued)

The following represents the pro forma results of the ongoing operations for Abiomed and Impella as though the acquisition of Impella had occurred on April 1, 2005, (in thousands, except per share data). The pro forma information, however, is not necessarily indicative of the results that would have resulted had the acquisition occurred on that date.

	Nine months ended December 31, 2005
Revenues	$ 30,040
Net loss	$ (15,621)
Net loss per common share (basic and diluted)	$ (0.60)

10. Intangible Assets and Goodwill

The carrying amount of goodwill was $26.4 million at December 31, 2006 and was recorded in connection with the Company s acquisition of Impella. As part of the Impella acquisition in May of 2005, the Company recorded tax-deductible goodwill amounting to $15.5 million. As discussed in Note 9, goodwill was increased during the third fiscal quarter of 2007 by $5.6 million in connection with the Impella 1,000 unit milestone obligation. This increase to goodwill will be tax-deductible once shares of common stock are issued in the fourth quarter. Additional changes in goodwill as compared to March 31, 2006 reflect the fluctuation in foreign currency.

The Company s intangible assets in the accompanying consolidated balance sheets are detailed as follows, each with a weighted average amortization period of seven years (in thousands):

	December 31, 2006		March 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$ 7,544	$ 2,407	$ 6,990	$ 1,564
Trademarks and tradenames	438	159	407	109
Distribution agreements	648	154	754	99
Acquired technology	2,235	532	2,054	269
	$ 10,865	$ 3,252	$ 10,205	$ 2,041

11. Research and Development

Research and development costs are expensed when incurred and include direct materials and labor, depreciation, contracted services and other costs associated with developing and testing of new products and significant enhancements to existing products. Research and development costs consist of the following amounts (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2006	2005	2006	2005
Internally funded	$ 5,580	$ 4,128	$ 16,251	$ 12,336
Incurred under government contracts and grants	45	98	78	181
Total research and development expense	$ 5,625	$ 4,226	$ 16,329	$ 12,517

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12. Expensed In-Process Research and Development

The Company recorded a charge of $0.8 million during the quarter ended June 30, 2006 in connection with the acquisition of certain circulatory care device patents and know-how. This charge relates to costs to acquire in-process research and development projects and technologies, which have not reached technological feasibility at the date of the asset acquisition and have no alternative future use, and are expensed as incurred.

The Company recorded a $13.3 million non-cash charge to in-process research and development expense during the quarter ended June 30, 2005 in connection with the Company s acquisition of Impella on May 10, 2005. This charge relates to costs to acquire in-process research and development projects and technologies, which have not reached technological feasibility at the date of the business acquisition and have no alternative future use, and are expensed as incurred.

13. Comprehensive Loss

Comprehensive loss details follow (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2006	2005	2006	2005
Net loss	$ (6,725)	$ (4,480)	$ (21,532)	$ (25,767)
Other comprehensive loss:				
Foreign currency translation adjustments	940	(537)	2,227	(2,582)
Comprehensive loss	$ (5,785)	$ (5,017)	$ (19,305)	$ (28,349)

14. Income Taxes

As a result of the adoption of SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142) and the acquisition of Impella, the Company has recorded a valuation allowance in excess of its net deferred tax assets to the extent the difference between the book and tax basis of indefinite lived intangible assets is not expected to reverse during the net operating loss carryforward period.

As of December 31, 2006, the Company has accumulated a net deferred tax liability in the amount of $0.9 million which is primarily 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, in accordance with SFAS No. 142. The net deferred tax liability cannot be offset against the Company s deferred tax assets under U.S. generally accepted accounting principles since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period. For the three and nine months ended December 31, 2006, the Company has recorded a deferred tax provision relating to amortization of goodwill for tax purposes in the amount of $0.1 million and $0.3 million, respectively. For both the three and nine months ended December 31, 2005, the Company recorded a deferred tax provision relating to amortization of goodwill in the amount of $0.3 million.

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15. Segment and Enterprise Wide Disclosures

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* , requires certain financial and supplementary information to be disclosed on an annual and interim basis for each reportable segment of an enterprise. 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 48% of the Company s total consolidated assets are located within the United States as of December 31, 2006. Remaining assets are located in Europe, related to our Impella production facility, and include goodwill of $26.4 million at December 31, 2006 associated with the Impella acquisition from May 2005 as discussed in Note 9. Total assets in Europe excluding goodwill were $12.5 million at December 31, 2006 and amounted to 17% of total consolidated assets. International sales (sales outside the United States) accounted for 12% and 11% of total product revenue during the three months ended December 31, 2006 and 2005, respectively. For the nine months ended December 31, 2006 and 2005, international sales accounted for 11% and 14% of total product revenue, respectively.

16. Commitments and Contingencies

The Company s acquisition of Impella provides that Abiomed may be required to make additional contingent payments to Impella s former shareholders (see Note 9). As described in Note 9, the Company has accrued $5.6 million related to the sale of 1,000 Impella units since the date of acquisition. The Company may make additional contingent payments to Impella s former shareholders based on additional milestones related to FDA approvals in the amount of up to $11.2 million. These contingent payments may be made in a combination of cash or stock under circumstances described in the purchase agreement.

On May 15, 2006, Richard A. Nazarian, as Selling Stockholder Representative, filed a Demand for Arbitration (subsequently amended) with the Boston office of the American Arbitration Association. The claim seeks 600,000 unrestricted shares of Abiomed common stock for an alleged breach of our obligation to fund development of the Penn State Heart program and an alleged cancellation of the Penn State Heart development project. The Company instituted a legal action in Federal Court to determine the arbitrability of the claims asserted and the Federal Court has stayed the arbitration of a portion of the claim. Arbitration has commenced and the Company continues to vigorously defend against the claims asserted. The Company has applied the concepts of SFAS No. 5 *Accounting for Contingencies* , and has determined that no accrual is warranted.

The Company applies the disclosure provisions of FIN No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others, and Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34* (FIN No. 45) to its agreements that contain guarantee or indemnification clauses. These disclosure provisions expand those required by SFAS No. 5, by requiring that guarantors disclose certain types of guarantees, even if the likelihood of requiring the guarantor s performance is remote. The following is a description of arrangements in which the Company is a guarantor.

The Company enters into agreements with other companies in the ordinary course of business, typically with underwriters, contractors, clinical sites and customers that include indemnification provisions. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of its activities. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. Abiomed has never incurred any material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2006.

Clinical study agreements In the Company s clinical study agreements, Abiomed has agreed to indemnify the participating institutions against losses incurred by them for claims related to any personal injury of subjects taking part in the study to the extent they relate to uses of the Company s devices in accordance with the clinical study agreement, the protocol for the device and Abiomed s instructions. The indemnification provisions contained within the Company s clinical study agreements do not generally include limits on the claims. The Company has never incurred any material costs related to the indemnification provisions contained in its clinical study agreements.

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17. New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without discounting for the time value of money. FIN 48 also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of the unrecognized tax benefits. FIN 48 will become effective with the Company s fiscal year beginning April 1, 2008. The Company is assessing the impact of FIN 48, but does not expect that this standard will have a material impact on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 provides guidance regarding the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality assessments. The method established by SAB No. 108 requires each of our financial statements and the related financial statement disclosures to be considered when quantifying and assessing the materiality of the misstatement. The provisions of SAB No. 108 are effective for the fiscal year ending March 31, 2007. The Company does not expect SAB No. 108 to have a material impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* . Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure requirements regarding fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company is evaluating the impact of adopting SFAS No. 157 on its financial statements.

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ABIOMED, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION (continued)

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 the Company s 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 Part II, Item 1A, Risk Factors. The Company undertakes no obligation to publicly release 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 that provide circulatory support to acute heart failure patients across the continuum of care in heart recovery. Our products are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. We are currently the only company with commercially available cardiac assist devices approved for heart recovery by the Food and Drug Administration, or FDA, and our products have been used to treat over 10,000 patients to date. Our products can be used in a broad range of clinical settings, including by heart surgeons for patients in profound shock and by interventional cardiologists for pre-shock, or less-severe, patients in the cardiac catheterization lab, or cath lab. We are focused on establishing heart recovery as the standard of care for patients with failing but potentially recoverable hearts. We expect this standard of care will significantly increase the number of patients able to return home from the hospital with their own hearts. Since 2004, our new executive team has focused our efforts on expanding our product portfolio, and we currently have eight disposable products that are either FDA or CE mark approved, as well as several additional products in development.

AB 5000 and BVS 5000

The AB5000 Circulatory Support System provides temporary support for one or both sides of the natural heart in circumstances where the heart has failed, giving the patient s heart the opportunity to rest and potentially recover.

Our AB5000 Circulatory Support System is a heart assist system designed to provide enhanced patient mobility within and between medical centers, to facilitate patient ambulation and to provide enhanced features and ease of use for caregivers. We intend to seek expansion of the current FDA-approved indications for use of the AB5000 in order to allow support of expanded patient populations for longer periods of support.

The BVS 5000 Biventricular Support System can support one or both sides of the failing heart and can be operated with the AB5000 Console. The BVS 5000 Blood Pumps use the same cannula as the AB5000 Ventricle, allowing for seamless transition of devices without requiring an additional surgical procedure. The BVS 5000 is designed to provide short-term support and recovery to the failing heart.

Each of the BVS 5000 and AB5000 systems each consist of a blood pumps, or ventricle, one atrial cannula, one arterial cannula, and a console to operate the ventricle. Each component, other than the console, is a disposable item. Both are capable of assuming the full pumping function of a patient s failing heart, and are designed to provide either univentricular or biventricular support. Both are currently approved by the FDA for temporary use while the patient s heart is allowed to rest, heal and recover. Each console supports a single patient at a time. Customers often initially purchase multiple blood pumps and cannulae for each console and purchase more as needed.

We derive substantially all of our current revenue from sales of our AB5000 and BVS 5000 systems and related service agreements. The BVS 5000 has been a commercial product for over fourteen years, and we expect that some customers will

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transition to our newer AB5000 system. As a result, we expect that an increase in sales of our AB5000 systems may lead to a decrease in sales of our BVS 5000 systems.

Impella

Our Impella 2.5 and 5.0 catheters are percutaneous micro heart pumps with integrated motors and sensors for use in interventional cardiology and heart surgery. The Impella systems consist of a disposable pump and a reusable console. These devices are primarily designed to provide ventricular support for pre-shock patients requiring hemodynamic stabilization, or suffering from reduced cardiac output and can aid in recovering the hearts of patients suffering from acute myocardial infarction (AMI or heart attack). We have CE Marks for our Impella 2.5, 5.0, RD and LD devices and currently market them throughout Europe and outside the United States. We intend to seek FDA approval to sell certain Impella products in the United States, as well as regulatory approval in other countries, in order to address wider market opportunities for circulatory care.

In preparation for an application for pre-market approval, or PMA, from the FDA, we have begun our pilot clinical trial in the United States for our Impella 2.5. The proposed indication for use is support during high-risk angioplasty as a left ventricular assist device. Angioplasty, performed in the catheterization lab, is the insertion of a catheter-guided balloon and is used to open a narrowed coronary artery. A stent (a wire-mesh tube that expands to hold the artery open) is usually placed at the narrowed section. High-risk angioplasty is defined as a procedure on patients undergoing angioplasty on an unprotected left main coronary artery lesion, or the last patent coronary conduit, and poor cardiac function. In parallel, in December 2006 we submitted for 510(k) clearance of the Impella 2.5. There is no guarantee that we will receive any such 510(k) clearance or PMA approval.

We have begun our pilot clinical trial in the United States for the Impella 5.0. The Impella 5.0 device has been used to treat patients in Europe in need of cardiac support resulting from post-cardiotomy cardiogenic shock, myocarditis, low cardiac output post-acute myocardial infarction, or post-coronary intervention procedures, or as a bridge to other circulatory support devices, including our AB5000 and BVS® 5000 Circulatory Support Systems.

Intra-Aortic Balloon and iPulse™ Console

In December 2006, we announced FDA clearance of our new intra-aortic balloon, or IAB, an easy-to-insert, percutaneous technology designed to enhance blood flow to the heart and other organs for patients with diminished heart function.

To support the IAB, we have also developed a combination console platform, the iPulse, currently under regulatory review at the FDA. The new iPulse console will also support our AB5000 and our BVS 5000 systems, as well as new products that we may introduce in the future. The iPulse is also designed to be compatible with other manufacturers balloons as well. The new iPulse console will support procedures with associated Medicare reimbursement that extends across four diagnostic related groups.

The IAB extends our clinical and market reach further upstream in acute patient care, including direct usage in the intensive care unit (ICU). The IAB complements our products in the cardiac catheterization (cath) lab and surgical suite, allowing access to more acute patients. Our IAB is inserted percutaneously into a patient s descending aorta and inflates and deflates in counterpulsation to a patient s heart rhythm.

In January 2007, we received CE mark approval for our IAB and iPulse console, and we expect to begin shipping our integrated iPulse console outside the U.S. during the fiscal fourth quarter ending March 31, 2007. We have submitted to the FDA a pre-market approval application (PMA) supplement, but we cannot assure you that we will receive FDA approval.

AbioCor

In September 2006, we received Humanitarian Device Exemption (HDE) approval from the FDA for our AbioCor® Implantable Replacement Heart (AbioCor). The AbioCor is the first completely self-contained artificial heart. This technology provides patients with mobility and remote diagnostics. Designed to sustain the body s circulatory system, the AbioCor is intended for end-stage heart failure patients whose other treatment options have been exhausted. Patients with

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advanced age, organ failure or cancer are, in most circumstances, ineligible for a heart transplant and are potential candidates to receive the AbioCor implantable heart. To date, we have not generated revenue from sales of AbioCor. We intend to make the AbioCor available through a controlled roll-out at approximately five to ten heart hospitals in the United States, including qualified clinical trial sites and additional qualified centers once they have completed a comprehensive and rigorous training program which may take six to eight months.

We are also working on the next generation implantable replacement heart, the AbioCor II. Incorporating technology both from Abiomed and Penn State University, the AbioCor II is approximately 30% smaller than the existing AbioCor and is being designed with a goal of five-year reliability.

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RESULTS OF OPERATIONS

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in our audited annual financial statements contained in our shelf registration statement on Form S-3 that has been filed with the Securities and Exchange Commission on October 2, 2006.

THREE AND NINE MONTHS ENDED DECEMBER 31, 2006 COMPARED WITH THREE AND NINE MONTHS

ENDED DECEMBER 31, 2005

PRODUCT REVENUES

Product revenues for the three months ended December 31, 2006 were $12.8 million, an increase of $2.4 million or 23%, compared to $10.4 million for the three months ended December 31, 2005. The increase during the third quarter of fiscal 2007 compared to the same period of fiscal 2006 was due to increases in sales of our AB5000 and Impella products that offset declines in sales of our BVS products. Comparing the third quarter of fiscal 2007 to the third quarter of fiscal 2006, sales of our AB 5000 platform increased approximately 59%, while sales of our BVS 5000 products declined by approximately 31%. While not a significant contribution in total revenue dollars for the third quarter of fiscal 2007, sales of our Impella products grew approximately 150% during the third quarter of fiscal 2007 compared to the same period of fiscal 2006 and included approximately $0.5 million of revenue from shipments of Impella products in connection with the commencement of the Impella 2.5 and 5.0 U.S. FDA pilot trials in calendar 2006.

Product revenues for the nine months ended December 31, 2006 were $36.7 million, an increase of $7.1 million or 24%, compared to $29.6 million for the nine months ended December 31, 2005. The increase is due to higher sales of our Impella and AB 5000 products that partially offset declines of sales of our BVS 5000 products during the period. Comparing revenues for the first nine months of fiscal 2007 to the same period of fiscal 2006, sales of our Impella products increased approximately 81% although the Impella products were not a significant contribution in total revenue dollars, sales of our AB 5000 products increased approximately 64%, and sales of our BVS 5000 products declined by approximately 23%.

The increase in revenue for both the three and nine months ended December 31, 2006 as compared to the respective periods ended December 31, 2005 is primarily due to the effects of our strategy to increase global distribution and our ongoing efforts to increase recovery awareness globally in hospitals, open heart centers and transplant centers. Our sales and clinical teams are focused on stimulating demand for our products by educating surgeons and cardiologists about both the clinical benefits of and the increased reimbursement available for our heart recovery products. We expect to continue to increase sales and clinical headcount throughout fiscal 2007 by two to four individuals per quarter and also plan to increase our marketing, service and training personnel and investments to support the efforts of the sales and clinical teams to drive recovery awareness globally.

COST OF PRODUCT REVENUES

Cost of product revenues for the three months ended December 31, 2006 was $2.9 million, representing a decrease of $0.2 million or 6%, compared to $3.1 million for the three months ended December 31, 2005. In the third quarter of fiscal 2007, utilization of our German manufacturing capacity was higher than it was in the third quarter of fiscal 2006. Additionally, the lower cost of goods sold from BVS 5000 products offset increased cost of goods sold from AB 5000 products, and our SAP implementation in July of 2006 resulted in improved efficiencies that lowered cost of goods sold during the third quarter of fiscal 2007 compared to the same period of 2006. The aggregate effect of these factors resulted in cost of goods sold during the third quarter of fiscal 2007 being approximately flat with the respective period of the prior year.

Cost of product revenues for the nine months ended December 31, 2006 was $9.3 million, an increase of $1.4 million or 18%, compared to $7.9 million for the nine months ended December 31, 2005. The increase in cost of goods sold year over year is primarily due to the larger volume of Impella and AB5000 products sold in the nine months ended December 31, 2006 as compared to the respective period of the prior fiscal year which was partially offset by lower cost of goods sold from BVS products.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased by $1.4 million, or 33%, to $5.6 million for the three months ended December 31, 2006, from $4.2 million in the same period of fiscal 2006. Research and development expenses increased by

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