ABIOMED INC
Form 10-Q
February 04, 2011
Table of Contents

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, 2010

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	**(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 x   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	x
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 x

As of February 1, 2011, there were 37,853,225 shares outstanding of the registrant s Common Stock, $.01 par value.

ABIOMED, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

		Page
PART I - FINANCIAL INFORMATION:		3
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of December 31, 2010 (unaudited) and March 31, 2010	3
	Consolidated Statements of Operations for the three and nine months ended December 31, 2010 and 2009 (unaudited)	4
	Consolidated Statements of Cash Flows for the nine months ended December 31, 2010 and 2009 (unaudited)	5
	Notes to Consolidated Financial Statements (unaudited)	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	19
Item 4.	Controls and Procedures	20
PART II - OTHER INFORMATION		20
Item 1.	Legal Proceedings	20
Item 1A.	Risk Factors	20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3.	Defaults Upon Senior Securities	20
Item 4.	(Removed and Reserved)	20
Item 5.	Other Information	20
Item 6.	Exhibits	21
SIGNATURES		22

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, 2010 (unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,193	$ 4,788
Short-term marketable securities	54,980	53,477
Accounts receivable, net	12,872	13,516
Inventories	6,878	9,211
Prepaid expenses and other current assets	881	1,676
Total current assets	79,804	82,668
Property and equipment, net	6,060	6,753
Intangible assets, net	1,887	2,979
Goodwill	36,611	37,170
Total assets	$ 124,362	$ 129,570
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,556	$ 3,764
Accrued expenses	13,351	13,011
Deferred revenue	1,993	1,289
Total current liabilities	18,900	18,064
Long-term deferred tax liability	3,768	3,040
Other long-term liabilities	515	510
Total liabilities	23,183	21,614
Commitments and contingencies (Note 10)		
Stockholders equity:		
Class B Preferred Stock, $.01 par value		
Authorized - 1,000,000 shares; Issued and outstanding - none		
Common stock, $.01 par value	379	375
Authorized - 100,000,000 shares; Issued - 37,904,179 shares at December 31, 2010 and 37,484,018 shares at March 31, 2010;		
Outstanding - 37,853,225 shares at December 31, 2010 and 37,433,064 shares at March 31, 2010		
Additional paid-in-capital	377,007	372,425
Accumulated deficit	(272,998)	(263,015)
Treasury stock at cost - 50,954 at December 31, 2010 and March 31, 2010	(827)	(827)
Accumulated other comprehensive loss	(2,382)	(1,002)

Total stockholders equity		101,179		107,956
Total liabilities and stockholders equity	$	124,362	$	129,570

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Revenue:				
Product	$ 26,915	$ 22,623	$ 71,734	$ 61,937
Funded research and development	329	176	888	797
Total Revenue	27,244	22,799	72,622	62,734
Costs and expenses:				
Cost of product revenue excluding amortization of intangibles	5,437	5,772	16,129	16,290
Research and development	6,592	6,397	19,834	19,166
Selling, general and administrative	15,592	15,190	45,399	45,973
Amortization of intangible assets	295	382	1,034	1,107
	27,916	27,741	82,396	82,536
Loss from operations	(672)	(4,942)	(9,774)	(19,802)
Other income and expense:				
Investment income, net	4	275	1	372
Gain on sale of WorldHeart stock			456	
Other income (expense), net	30	62	(17)	(141)
	34	337	440	231
Loss before provision for income taxes	(638)	(4,605)	(9,334)	(19,571)
Income tax provision (benefit)	164	(40)	649	428
Net loss	$ (802)	$ (4,565)	$ (9,983)	$ (19,999)
Basic and diluted net loss per share	$ (0.02)	$ (0.12)	$ (0.27)	$ (0.54)
Weighted average shares outstanding	37,195	37,011	37,146	36,829

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine months ended December 31,	
	2010	**2009**
Operating activities:		
Net loss	$ (9,983)	$ (19,999)
Adjustments required to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	3,008	3,768
Bad debt expense	132	66
Stock-based compensation	4,018	5,864
Write-down of inventory	2,380	2,104
Loss on disposal of fixed assets	5	47
Deferred tax provision	728	711
Gain on sale of WorldHeart common stock	(456)	
Change in unrealized loss on marketable securities		(342)
Changes in assets and liabilities source (use):		
Accounts receivable	493	1,427
Inventories	(664)	(412)
Prepaid expenses and other current assets	788	10
Accounts payable	(110)	(382)
Accrued expenses and other long-term liabilities	380	(51)
Deferred revenue	709	(132)
Net cash provided by (used for) operating activities	1,428	(7,321)
Investing activities:		
Proceeds from the sale and maturity of marketable securities	5,000	17,348
Purchases of marketable securities	(6,503)	(6,368)
Contingent milestone payment on acquisition		(1,750)
Proceeds from the sale of WorldHeart common stock	456	
Expenditures for property and equipment	(1,054)	(1,411)
Net cash (used for) provided by investing activities	(2,101)	7,819
Financing activities:		
Proceeds from the exercise of stock options	416	555
Proceeds from the issuance of stock under the employee stock purchase plan	153	170
Net cash provided by financing activities	569	725
Effect of exchange rate changes on cash	(491)	228
Net (decrease) increase in cash and cash equivalents	(595)	1,451
Cash and cash equivalents at beginning of period	4,788	1,785
Cash and cash equivalents at end of period	$ 4,193	$ 3,236
Supplemental disclosures:		
Fixed asset additions included in accounts payable	31	15

Common shares issued for business acquisition	3,827

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

1. Nature of Business and Basis of Preparation

Abiomed, Inc. (the Company or Abiomed) is a leading 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 condensed 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, 2010 that has been filed with the Securities and Exchange Commission, or SEC.

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

2. Significant Accounting Policies

Goodwill

The Company assesses the realizability of goodwill annually, at October 31, as well as whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. The Company s ability to realize the value of the goodwill will depend on the future cash flows of the business. If the Company is not able to realize the value of goodwill, the Company may be required to incur material charges relating to the impairment of those assets. The Company completed its annual review of goodwill as of October 31, 2010 and determined that no write-down for impairment was necessary.

Revenue Recognition

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

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

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

Stock-Based Compensation

All stock-based expense, including grants of employee stock options and restricted stock awards, are based on the grant-date fair value of the awards, adjusted for expected forfeitures. The fair value of stock option grants is estimated using the Black-Scholes option pricing model. Use of the valuation model requires management to make certain assumptions with respect to selected model inputs. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected life of the stock options. Volatility assumptions are calculated based on historical volatility of the Company s stock. The calculation of the fair value of the options is net of estimated forfeitures. The expected term of options represents the period of time that options granted are expected to be outstanding.

Management estimates the average expected life based on historical experience of the Company s option exercises. Forfeitures are estimated based on an analysis of actual option forfeitures, adjusted to the extent historical forfeitures may not be indicative of forfeitures in the future. In addition, an expected dividend yield of zero is used in the option valuation model because the Company does not pay dividends and does not expect to pay any cash dividends in the foreseeable future.

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

New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2009-13, *Multiple-Deliverable Revenue Arrangements, or* ASU No. 2009-13, which amended FASB Accounting Standard Codification Subtopic 605-25. This amended guidance requires an entity to allocate revenue to each unit of accounting in multiple deliverable arrangements based on the relative selling price of each deliverable. It also changes the level of evidence required to separate deliverables by requiring an entity to make its best estimate of the stand-alone selling price of the deliverables with more objective evidence if the selling price is not available. Previously the Company was required to have objective evidence of the undelivered items in order to have separate units of accounting for multiple element arrangements. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for the Company means no later than April 1, 2011. Early adoption is permitted; however, adoption of this guidance as of a date other than April 1, 2011, will require the Company to apply this guidance retrospectively effective as of April 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. To date, the Company has not elected to early adopt this amended guidance and the potential impact on the Company s financial statements will be evaluated when it is adopted.

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 value is based on quoted market prices such as exchange-traded instruments and listed equities.

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

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

Table of Contents

At December 31, 2010 and March 31, 2010, the Company s marketable securities were invested in the following:

	Level 1	Level 2	Level 3	Total
At December 31, 2010:		(in $000 s)		
U.S. Treasury securities	$ 54,980	$	$	$ 54,980

	Level 1	Level 2	Level 3	Total
At March 31, 2010:		(in $000 s)		
U.S. Treasury securities	$ 53,477	$	$	$ 53,477

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.

Note 4. Inventories

The components of inventories are as follows:

	December 31, 2010	March 31, 2010
	(in $000 s)	
Raw materials and supplies	$ 2,440	$ 2,759
Work-in-progress	3,018	3,344
Finished goods	1,420	3,108
	$ 6,878	$ 9,211

All of the Company s inventories relate to circulatory care product lines that include the Impella, AB5000, BVS 5000, iPulse, Portable Driver and AbioCor product platforms. Finished goods and work-in-process inventories consist of direct material, labor and overhead. During each of the three months ended December 31, 2010 and 2009, respectively, the Company recorded $1.0 million in write downs of inventory, including excess quantities and obsolete inventory. During the nine months ended December 31, 2010 and 2009, respectively, the Company recorded $2.4 million and $2.1 million in write downs of 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 $0.8 million and $1.1 million in demo inventory at December 31, 2010 and March 31, 2010, respectively. Amortization expense related to demo inventory was $0.2 million and $0.3 million for the three months ended December 31, 2010 and 2009, respectively. Amortization expense related to demo inventory was $0.6 million and $1.0 million for the nine months ended December 31, 2010 and 2009, respectively.

Note 5. Intangible Assets and Goodwill

The carrying amount of goodwill at December 31, 2010 and March 31, 2010 was $36.6 million and $37.2 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, 2010 is as follows:

	(in $000 s)
Balance at March 31, 2010	$ 37,170
Exchange rate impact	(559)

Balance at December 31, 2010	$ 36,611

Table of Contents

The components of intangible assets are as follows:

	December 31, 2010			March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
		(in $000 s)			(in $000 s)	
Patents	$ 6,693	$ 5,428	$ 1,265	$ 6,790	$ 4,792	$ 1,998
Trademarks and tradenames	341	270	71	345	236	109
Distribution agreements	649	525	124	659	463	196
Acquired technology	2,241	1,814	427	2,272	1,596	676
	$ 9,924	$ 8,037	$ 1,887	$ 10,066	$ 7,087	$ 2,979

Amortization of intangible assets was $0.3 million and $0.4 million for each of the three months ended December 31, 2010 and 2009, respectively. Amortization of intangible assets was $1.0 million and $1.1 million for the nine months ended December 31, 2010 and 2009, respectively. The Company s expected amortization expense will be $0.3 million for the three months ending March 31, 2011, $1.5 million for fiscal 2012 and $0.1 million for fiscal 2013.

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, 2010 and 2009 was as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
	(in $000 s)		(in $000 s)	
Cost of product revenue	$ 51	$ 139	$ 163	$ 393
Research and development	214	374	750	892
Selling, general and administrative	1,007	1,653	3,105	4,579
	$ 1,272	$ 2,166	$ 4,018	$ 5,864

The $1.3 million in stock-based compensation expense for the three months ended December 31, 2010 includes $0.9 million related to stock options and $0.4 million related to restricted stock and the Company s Employee Stock Purchase Plan, or ESPP. Stock compensation related to restricted stock is primarily related to performance share awards, as described in more detail below. The $2.2 million in stock-based compensation expense for the three months ended December 31, 2009 includes $1.6 million related to stock options and $0.6 million related to restricted stock and the Company s ESPP.

The $4.0 million in stock-based compensation expense for the nine months ended December 31, 2010 includes $2.9 million related to stock options and $1.1 million related to restricted stock and the Company s ESPP. The $5.9 million in stock-based compensation expense for the nine months ended December 31, 2009 includes $4.6 million related to stock options and $1.3 million related to restricted stock and the Company s ESPP.

The remaining unrecognized stock-based compensation expense for unvested stock option awards at December 31, 2010 was approximately $6.4 million, net of forfeitures, and the weighted-average time over which this cost will be recognized is 1.7 years.

Stock Option Activity

The following table summarizes the stock option activity for the nine months ended December 31, 2010:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at April 1, 2010	5,557	$ 10.56	6.62	
Granted	879	10.07		
Exercised	(58)	7.13		
Cancelled	(185)	11.92		
Expired	(138)	16.56		
Outstanding at December 31, 2010	6,055	$ 10.35	6.50	$ 6,487
Exercisable at December 31, 2010	3,938	$ 10.81	5.37	$ 3,589

The total intrinsic value of options exercised was $0.2 million and $0.1 million for each of the nine months ended December 31, 2010 and 2009. The total fair value of options vested during the nine months ended December 31, 2010 and 2009 was $4.3 million and $5.2 million, respectively.

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, 2010 and 2009 were calculated using the following weighted-average assumptions:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Risk-free interest rate	1.47%	2.10%	2.04%	2.46%
Expected option life (years)	5.31	5.21	5.30	5.24
Expected volatility	50.8%	52.5%	50.9%	54.0%

The weighted-average grant-date fair value for options granted during the nine months ended December 31, 2010 and 2009 was $4.71 and $2.99 per share, respectively.

Restricted Stock

The following table summarizes restricted stock activity as follows:

	Nine Months Ended December 31, 2010	
	Number of Shares (in 000 s)	Weighted Average Grant Date Fair Value
Restricted stock awards at April 1, 2010	379	$ 15.93
Granted	356	10.00
Vested	(69)	12.38
Cancelled	(13)	18.63

Restricted stock awards at December 31, 2010	653	$	13.02

The remaining unrecognized compensation expense for restricted stock awards at December 31, 2010 was approximately $3.2 million and the weighted-average time over which this cost will be recognized is 2.1 years.

Performance Based Awards

Included in the stock option and restricted stock activity discussed above are certain awards granted in fiscal years 2011, 2010, and 2009 that contain performance based vesting.

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

In March 2010, the Company determined that it did not meet any of the prescribed performance targets for fiscal 2010. Accordingly, 96,563 shares of restricted stock related to these awards were forfeited and 17,812 shares of underlying options related to these awards failed to vest. During the fiscal year ended March 31, 2010, the Company determined that it was not probable that it would meet the prescribed performance milestones for fiscal 2011, and as a result the Company is no longer accruing stock-based compensation on these awards.

During the first quarter of fiscal 2011, 311,000 shares of 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 could vest upon achievement of prescribed performance milestones. As of December 31, 2010, the Company has determined that it is probable it will meet the prescribed performance milestones for both of these awards.

During the nine months ended December 31, 2010, the Company has recorded $0.7 million in stock-based compensation cost for shares and options in which the prescribed performance milestones have been achieved or are probable of being achieved. The remaining unrecognized compensation expense related to these shares and options at December 31, 2010 is $2.6 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 carry forwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates. A valuation reserve is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. The tax benefit associated with the stock option compensation deductions will be credited to equity when realized.

As of December 31, 2010, the Company has accumulated a net deferred tax liability in the amount of $3.8 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 carry forwards which may be utilized in future years to offset taxable income, those years may also be subject to review by relevant taxing authorities if the carry forwards are utilized.

Note 8. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2010	**2009**	**2010**	**2009**
	(in $000 s)		**(in $000 s)**	
Net loss	$ (802)	$ (4,565)	$ (9,983)	$ (19,999)
Foreign currency translation adjustments	(1,560)	(1,196)	(1,381)	3,760
Comprehensive loss	$ (2,362)	$ (5,761)	$ (11,364)	$ (16,239)

Accumulated other comprehensive income as of December 31, 2010 and March 31, 2010 is comprised of foreign currency translation adjustments.

Note 9. Net Loss Per Share

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

Excluded from the calculation of diluted weighted-average shares outstanding are stock options outstanding in the amount of approximately 6,055,000 and 5,585,000 as of December 31, 2010 and 2009, respectively, and unvested shares of restricted stock in the amount of approximately 653,000 shares and 475,000 shares as of December 31, 2010 and 2009, respectively.

Note 10. Commitments and Contingencies

Litigation

From time to time, the Company is involved in legal and administrative proceedings and claims of various types. While any litigation contains an element of uncertainty, management presently believes that the outcome of each such other proceedings or claims which are pending or known to be threatened, or all of them combined, is not expected to have a material adverse effect on the Company s financial position, cash flow and results. At December 31, 2010, the Company did not have any pending litigation.

Note 11. Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2010	March 31, 2010
	(in $000 s)	
Salaries and benefits	$ 6,118	$ 7,652
Research and development	3,974	3,081
Professional, accounting and audit fees	622	565
Warranty	413	482
Lease exit costs	791	
Other	1,433	1,231
	$ 13,351	$ 13,011

In July 2008, the Company entered into an agreement to lease additional manufacturing space in Athlone, Ireland in anticipation of supporting future demand of Impella 2.5. In fiscal 2010, the Company deferred the start up activities at this facility. During the three months ended June 30, 2010, the Company moved the remaining equipment from Athlone to its facilities in Aachen, Germany and Danvers, Massachusetts and fully vacated the Athlone facility. The Company is in negotiations with the facility s landlord to sub-lease the facility or terminate the lease early. During the first quarter of fiscal 2011, the Company recorded an expense of $0.8 million as an estimate of the cost to terminate the Athlone lease. As of December 31, 2010, there are no remaining fixed assets located in the Company s Athlone facility.

Note 12. Segment and Enterprise Wide Disclosures

The Company operates in one business segment the research, development and sale of medical devices to assist or replace the pumping function of the failing heart. The Company s chief operating decision maker (determined to be the Chief Executive Officer) does not manage any part of the Company separately, and the allocation of resources and assessment of performance are based on the Company s consolidated operating results. Approximately 62% and 60% of the Company s total consolidated assets are located within the U.S. as of December 31, 2010 and March 31, 2010, respectively. Remaining assets are located in Europe, primarily related to the Company s Impella production facility, and include goodwill and intangibles of $38.4 million and $40.1 million at December 31, 2010 and March 31, 2010, respectively. Total assets in Europe excluding goodwill and intangibles amounted to 7% and 9%, respectively, of total consolidated assets at December 31, 2010 and March 31, 2010. For the three months ended December 31, 2010 and 2009, international sales accounted for 7% and 9% of total product revenue, respectively. For the nine months ended December 31, 2010 and 2009, international sales accounted for 7% and 9% of total product revenue, respectively.

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, 2010. 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. We received 510(k) clearance in April 2009 for our Impella 5.0 and Impella LD devices, which are larger and provide more blood flow than the Impella 2.5.

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 have from time to time engaged in console placement programs related to our iPulse consoles, in order to encourage utilization of our BVS and AB5000 disposables. We have also developed a portable driver for our AB5000 product which received FDA approval under a post-marketing application, or PMA, supplement in March 2009. This clearance allows the AB5000 Portable Driver to be used in U.S. hospitals for in hospital and transport use. Our BVS product was launched in 1992 and revenue from this product has been declining as AB5000, our next-generation product for heart recovery, is designed to provide a longer duration of support than the BVS 5000 and, when used with the Portable Driver, facilitates patient mobility in the hospital. We expect revenue from BVS to continue to decline as our customers transition to AB5000 disposables and the Impella 5.0 and LD products geared for the surgery suite. We expect revenues from our non-Impella business during fiscal 2011 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 not recognized any revenue from the sales of AbioCor since fiscal 2008.

We have incurred net losses since our inception, including a net loss of $10.0 million for the nine months ended December 31, 2010. We expect to incur additional net losses in the future as we continue to expand our commercial infrastructure and invest in clinical trials and research and development expenses related to our products.

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.

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 left ventricle and deliver it to the circulatory system. This function is intended to reduce ventricular work (resting the heart) and provide flow 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. The 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 be due to unanticipated confounding variables related to the use of rotational atherectomy in the study.

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. In September 2010, we reported that 24 U.S. and Canadian centers have contributed data for a total of 352 patients.

In December 2010, we received conditional approval from the FDA to begin MINI-AMI, a prospective, randomized, controlled multi-site trial to assess the potential role of the Impella 2.5 in reducing infarct size in patients with ST-elevation myocardial infarction (STEMI).The primary objective of the study is to evaluate whether the adjunctive use of the Impella 2.5 for 24 hours following primary percutaneous intervention (PCI) for STEMI has the potential to limit the infarction of at-risk myocardium compared to primary PCI with routine post-PCI care.

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 systemic 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 and have been used to treat patients in need of cardiac support resulting from post-cardiotomy cardiogenic shock, myocarditis, low cardiac output after a heart attack, or post-coronary intervention procedures.

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 a clinical trial, which, when successfully completed, would allow patients to go home while waiting for recovery.

AbioCor

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

We received a Humanitarian Device Exemption, or HDE, supplement approval from the FDA for product enhancement of the AbioCor in January 2008. HDE approval signifies that no comparable alternative therapy exists for patients facing imminent death without the technology. HDE approval allows the AbioCor to be made available to a limited patient population, with no more than 4,000 patients receiving the technology in the U.S. each year under HDE approval limits. Because the AbioCor is only available to a limited patient population, we do not expect that demand will meet the 4,000 patient limit under HDE approval. As a result, we have no current plans to seek a broader regulatory approval of the AbioCor. We 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. We have not recognized any revenue from sales of the AbioCor since fiscal 2008.

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, 2010 and 2009, respectively:

	Three Months Ended December 31,		**Nine Months Ended December 30,**	
	2010	**2009**	**2010**	**2009**
Revenues:				
Product	98.8%	99.2%	98.8%	98.7%
Funded research and development	1.2	0.8	1.2	1.3
	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of product revenue excluding amortization of intangibles	20.0	25.3	22.2	26.0
Research and development	24.2	28.1	27.3	30.5
Selling, general and administrative	57.2	66.6	62.5	73.3
Amortization of intangible assets	1.1	1.7	1.4	1.8
	102.5	121.7	113.4	131.6
Loss from operations	(2.5)	(21.7)	(13.4)	(31.6)
Other income and expense:				
Investment income, net	0.1	1.2	0.0	0.6
Gain on sale of WorldHeart stock				
Other income (expense), net	0.1	0.3		(0.2)
	0.2	1.5	0.6	0.4
Loss before provision for income taxes	(2.3)	(20.2)	(12.8)	(31.2)
Income tax provision (benefit)	0.6	(0.2)	0.9	0.7
Net loss	(2.9)%	(20.0)%	(13.7)%	(31.9)%

Three and nine months ended December 31, 2010 compared with the three and nine months ended December 31, 2009

Revenues

Our revenues are comprised of the following:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
	(in $000 s)		(in $000 s)	
Impella	$ 21,116	$ 15,858	$ 55,338	$ 41,062
Other	5,799	6,765	16,396	20,875
Total product revenues	26,915	22,623	71,734	61,937
Funded research and development	329	176	888	797
Total revenues	$ 27,244	$ 22,799	$ 72,622	$ 62,734

Impella revenue encompasses Impella 2.5, Impella 5.0, and Impella LD product sales. Other revenue includes AB5000, BVS5000, IAB, iPulse, Portable Driver, AbioCor and cannulae product sales and service revenue.

Total revenues for the three months ended December 31 increased by $4.4 million, or 19%, to $27.2 million from $22.8 million for the three months ended December 31, 2009. The increase in total revenue was primarily due to higher Impella orders due to greater demand in the U.S. Increases of Impella revenues were partially offset by a decline in other revenue, primarily BVS and AB5000.

Total revenues for the nine months ended December 31, 2010 increased by $9.9 million, or 16%, to $72.6 million from $62.7 million for the nine months ended December 31, 2009. The increase in total revenue was primarily due to higher Impella orders due to greater demand in the U.S. Increases of Impella revenues were partially offset by a decline in other revenue, primarily BVS and AB5000.

Impella revenues for the three months ended December 31, 2010 increased by $5.2 million, or 33% to $21.1 million from $15.9 million for the three months ended December 31, 2009. Impella revenues for the nine months ended December 31, 2010 increased by $14.2 million, or 35% to $55.3 million from $41.1 million for the nine months ended December 31, 2009. Most of our Impella revenue was from disposable product sales of Impella in the U.S., primarily as a result of sales occurring after our 510(k) clearance of Impella 2.5 in June 2008 and Impella 5.0 and LD in April 2009, as we continue to increase utilization of these products through continued sales force and physician training. We expect Impella revenues to continue to increase as we continue to add new customer sites and increase utilization at existing customer sites.

Other revenues for the three months ended December 31, 2010 decreased by $1.0 million or 15%, to $5.8 million from $6.8 million for the three months ended December 31, 2009. Other revenues for the nine months ended December 31, 2010 decreased by $4.5 million or 22%, to $16.4 million from $20.9 million for the nine months ended December 31, 2009. The decrease in other revenue was due to a decline in BVS and AB5000 disposable revenue as well as a decrease in console revenue supporting these product lines. We expect that BVS and AB5000 revenue will continue to decline in fiscal 2011 as we focus our sales efforts in the surgical suite on Impella 5.0 and LD.

Cost of Product Revenues

Cost of product revenues for each of the three months ended December 31, 2010 and 2009, respectively, was $5.4 and $5.8 million. Gross margin was 80% for the three months ended December 31, 2010 compared to 75% for the three months ended December 31, 2009. The increase in gross margin was primarily due to a larger portion of revenues from disposable products, improved manufacturing efficiency which increased inventory turnover and a smaller number of console placements.

Cost of product revenues for the nine months ended December 31, 2010 decreased by $0.2 million, or 1%, to $16.1 million from $16.3 million for the nine months ended December 31, 2009. Gross margin was 78% for the nine months ended December 31, 2010 compared to 74% for the nine months ended December 31, 2009. The increase in gross margin was primarily due to a larger portion of revenues from disposable products, improved manufacturing efficiency which increased inventory turnover and a smaller number of Impella and iPulse console placements. We do not expect that our gross margin will change significantly in the near future.

Research and Development Expenses

Research and development expenses for the three months ended December 31, 2010 increased by $0.2 million, or 3%, to $6.6 million from $6.4 million for the three months ended December 31, 2009, primarily due to increased spending on clinical studies, offset by a reduction of Impella development costs related to product enhancements to the Impella product line. Research and development expenses for the three months ended December 31, 2010 and 2009 included $2.1 million and $1.8 million, respectively, in clinical trial expenses primarily associated with our Impella 2.5 U.S. trials. Our clinical trial expenditures are not expected to change significantly over the next two quarters as we compile data and incur costs to close the PROTECT II trial.

Research and development expenses for the nine months ended December 31, 2010 increased by $0.6 million, or 3%, to $19.8 million from $19.2 million for the nine months ended December 31, 2009, reflecting our higher spending on clinical trials as discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended December 31, 2010 increased by $0.4 million, or 3%, to $15.6 million from $15.2 million for the three months ended December 31, 2009. The increase in selling, general and administrative expenses was mainly due to higher sales and marketing expenses in the U.S. Selling, general and administrative expenses for the nine months ended December 31, 2010 decreased by $0.6 million, or 1%, to $45.4 million from $46.0 million for the nine months ended December 31, 2009. The decrease in selling, general and administrative expenses was mainly due to lower expenses in Europe as we focus more of our commercial efforts in the U.S. This decrease was partially offset by an expense of $0.8 million as an estimate of the cost to terminate our Athlone facility lease.

We expect to increase our expenditures on sales and marketing activities in the near future, 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 $0.3 million and $0.4 million for the three months ended December 31, 2010 and 2009, respectively, and $1.0 million and $1.1 million for the nine months ended December 31, 2010 and 2009, respectively. Amortization expense is related specifically to intangible assets acquired in the Impella acquisition.

Gain on Sale of WorldHeart Stock

In December 2007, we made an investment in WorldHeart, a developer of an implantable mechanical circulatory support system for chronic heart failure patients. We recorded an impairment charge for the amount of that investment in fiscal 2008, reducing the carrying value of the investment to zero. During the nine months ended December 31, 2010, we sold our remaining 188,170 shares of WorldHeart common stock, which resulted in a gain of $0.5 million.

Provision for Income Taxes

During the three months ended December 31, 2010, we recorded an income tax provision of $0.2 million, as compared to an income tax benefit of $0.04 million during the three months ended December 31, 2009. We recognized an income tax refund of $0.1 million and $0.3 million during each of the three months ended December 31, 2010 and 2009, respectively, relating to refundable research and development credits. During the nine months ended December 31, 2010 and 2009, we recorded an income tax provision of $0.6 million and $0.4 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 Loss

During the three months ended December 31, 2010, we incurred a net loss of $0.8 million, or $0.02 per share, compared to a net loss of $4.6 million, or $0.12 per share, for the three months ended December 31, 2009. The decrease in the net loss was due to increased Impella sales due to greater demand in the U.S.

During the nine months ended December 31, 2010, we incurred a net loss of $9.9 million, or $0.27 per share, compared to a net loss of $20.0 million, or $0.54 per share, for the nine months ended December 31, 2009. The decrease in the net loss was due to increased Impella sales due to greater demand in the U.S and our ability to keep operating expenses flat.

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

Liquidity and Capital Resources

At December 31, 2010, our cash, cash equivalents, and short-term marketable securities totaled $59.2 million, an increase of $0.9 million compared to $58.3 million at March 31, 2010. 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.

Marketable securities at December 31, 2010 consist of $55.0 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 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 general working capital needs. Through December 31, 2010, 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, 2010 provided cash of $1.4 million as compared to the use of cash of $7.3 million during the same period in the prior year. Our net loss for the nine months ended December 31, 2010 used cash of $10.0 million. This decrease in cash resulting from our net loss was primarily offset by non-cash adjustments of $4.0 million related to stock-based compensation expense, $3.0 million of depreciation and amortization and a write down of inventory of $2.4 million.

Our investing activities during the nine months ended December 31, 2010 used cash of $2.1 million as compared to providing cash of $7.8 million during the same period in the prior year. Cash used for investment activities for the nine months ended December 31, 2010 consisted primarily of $1.5 million of purchases of short-term marketable securities, net of proceeds, during the period. We also incurred $1.1 million of cash expenditures for property and equipment primarily for the purchase of manufacturing equipment and computer software. We also received $0.5 million in proceeds from the sale of WorldHeart stock during the nine months ended December 31, 2010.

Our financing activities during each of the nine months ended December 31, 2010 and 2009 provided cash of $0.6 million and $0.7 million, respectively. Cash provided by financing activities during the nine months ended December 31, 2010 were attributable to the exercise of stock options and proceeds from employees related to the Company s ESPP.

Capital expenditures for fiscal 2011 are estimated to be $1.5 to $2.0 million, which relate primarily to our planned manufacturing capacity increases for Impella and software development projects.

In July 2008, we entered into an agreement to lease additional manufacturing space in Athlone, Ireland in anticipation of supporting future demand of Impella 2.5. In fiscal 2010, we deferred the start up activities at this facility and during the three months ended June 30, 2010, we moved the equipment from Athlone to Aachen, Germany and Danvers, Massachusetts and officially exited the Athlone facility. We are in negotiations with our landlord to sub-lease the facility or terminate the lease early. During the first quarter of fiscal 2011, we fully vacated the Athlone premises and recorded an expense of $0.8 million as an estimate of the cost to terminate the Athlone lease. As of December 31, 2010, we have no remaining fixed assets located in our Athlone facility.

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

Critical Accounting Policies

Goodwill

We assess the realizability of goodwill annually, at October 31, as well as whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. Our ability to realize the value of the goodwill will depend on the future cash flows of the business. If we are not able to realize the value of goodwill, we may be required to incur material charges relating to the impairment of those assets. We completed our annual review of goodwill as of October 31, 2010 and determined that no write-down for impairment was necessary.

Revenue Recognition

We recognize revenue when evidence of an arrangement exists, title has passed (generally upon shipment) or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured. Revenue from product sales to new customers is deferred until all elements of the sale have been delivered. All costs related to product shipment are recognized at time of shipment. Customers do not have a right of return on our product sales.

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

Government-sponsored research and development contracts and grants generally provide for payment on a cost-plus-fixed-fee basis. Revenues from these contracts and grants are recognized as work is performed. Under contracts in which we elect to spend significantly more on the development project during the term of the contract than the total contract amount, we prospectively recognize revenue on such contracts ratably over the term of the contract as related research and development costs are incurred.

Stock-Based Compensation

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

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

New Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements,* or ASU No. 2009-13. This amended guidance requires an entity to allocate revenue to each unit of accounting in multiple deliverable arrangements based on the relative selling price of each deliverable. It also changes the level of evidence required to separate deliverables by requiring an entity to make its best estimate of the stand-alone selling price of the deliverables with more objective evidence if the selling price is not available. Previously we were required to have objective evidence of the undelivered items in order to have separate units of accounting for multiple element arrangements. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for us means no later than April 1, 2011. Early adoption is permitted; however, adoption of this guidance as of a date other than April 1, 2011, will require us to apply this guidance retrospectively effective as of April 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. To date, we have not elected to early adopt this amended guidance and the potential impact on our financial statements will be evaluated when it is adopted.

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, 2010, we believe the decline in fair market value of our investment portfolio would be immaterial. Marketable securities at December 31, 2010 consist of $55.0 million in five funds that invest in U.S. Treasury securities and related interest.

Currency Exchange Rates

Our foreign subsidiaries functional currency is the Euro. Therefore, our investment in our foreign subsidiaries is sensitive to fluctuations in currency exchange rates. The effect of a change in currency exchange rates on our net investment in international subsidiaries is reflected in the accumulated other comprehensive income component of stockholders equity. Had a 10% depreciation in foreign currencies occurred relative to the U.S. dollar as of December 31, 2010, the result would have been a reduction of stockholders equity of approximately $3.9 million.

Fair Value of Financial Instruments

At December 31, 2010, 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.

Table of Contents

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, 2010. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2010, 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 ended March 31, 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in various legal actions, the outcomes of which are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, which, if granted, would require significant expenditures. We record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. We review these estimates each accounting period as additional information is known and adjust the loss provision when appropriate. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in the consolidated financial statements.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2010, which could materially affect our business, financial condition or future results. To the best of our knowledge, as of the date of this report there has been no material change in any of the risk factors described in our Annual Report on Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Table of Contents

Item 6. Exhibits

Exhibit No.	Description	Filed with This Form 10-Q	Incorporated by Reference		
			Form	Filing Date	Exhibit No.
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 11, Notes to Condensed Consolidated Financial Statements).	X			
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer.	X			
31.2	Rule 13a-14(a)/15d-14(a) certification of principal accounting officer.	X			
32.1	Section 1350 certification.	X			

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 4, 2011

/s/ Robert L. Bowen
Robert L. Bowen
Vice President and Chief Financial Officer

(Principal Accounting and Financial Officer)