

LANTRONIX INC
Form 10-Q
January 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

xQUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014

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: 1-16027

LANTRONIX, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0362767

(I.R.S. Employer Identification No.)

167 Technology Drive, Irvine, California

(Address of principal executive offices)

92618

(Zip Code)

(949) 453-3990

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

As of January 23, 2015, there were 14,942,205 shares of the Registrant's common stock outstanding.

LANTRONIX, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED

December 31, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2014, or the Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Report or incorporated by reference into this Report are forward-looking statements. These statements include, among other things, any predictions of earnings, revenues, expenses or other financial items; plans or expectations with respect to our development activities or business strategy; statements concerning industry trends; statements regarding anticipated demand for our products, or the products of our competitors, statements relating to manufacturing forecasts, and the potential impact of our relationship with contract manufacturers and original equipment manufacturers on our business; assumptions regarding the future cost and potential benefits of our research and development efforts; forecasts of our liquidity position or available cash resources ; statements relating to the impact of pending litigation; and statements relating to the assumptions underlying any of the foregoing. Throughout this Report, we have attempted to identify forward-looking statements by using words such as “may,” “believe,” “will,” “could,” “project,” “anticipate,” “expect,” “estimate,” “should,” “continue,” “plan,” “forecasts,” “goal,” “seek,” “intend,” other forms of these words or similar words or expressions or the negative thereof.

We have based our forward-looking statements on our current expectations and projections about trends affecting our business and industry and other future events. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, results of operations or performance, to differ materially from our historical results or those expressed or implied in any forward-looking statement contained in this Report. Some of the risks and uncertainties that may cause actual results to differ from those expressed or implied in the forward-looking statements are described in “Risk Factors” in Item 1A of this Report, our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on August 22, 2014, or the Form 10-K, as well as in our other filings with the SEC. In addition, actual results may differ as a result of additional risks and uncertainties of which we are currently unaware or which we do not currently view as material to our business. For these reasons, investors are cautioned not to place undue reliance on any forward-looking statements.

You should read this Report in its entirety, together with the Form 10-K, the documents that we file as exhibits to this Report and the documents that we incorporate by reference into this Report, with the understanding that our future results may be materially different from what we currently expect. The forward-looking statements we make speak only as of the date on which they are made. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law or the rules of The Nasdaq Stock Market, LLC. If we do update or correct any forward-looking statements, investors should not conclude that we will make additional updates or corrections.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2014	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$5,407	\$6,264
Accounts receivable, net	2,634	3,631
Contract manufacturers' receivable	393	359
Inventories, net	9,296	8,404
Prepaid expenses and other current assets	595	524
Total current assets	18,325	19,182
Property and equipment, net	1,432	1,487
Goodwill	9,488	9,488
Deferred tax assets	400	400
Other assets	99	125
Total assets	\$29,744	\$30,682
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$4,265	\$4,547
Accrued payroll and related expenses	1,694	1,863
Warranty reserve	111	150
Deferred tax liabilities	400	400
Other current liabilities	3,302	3,418
Total current liabilities	9,772	10,378
Long-term capital lease obligations	-	7
Other non-current liabilities	75	131
Total liabilities	9,847	10,516

Commitments and contingencies

Stockholders' equity:

Common stock	1	1
Additional paid-in capital	205,638	205,013
Accumulated deficit	(186,113)	(185,219)
Accumulated other comprehensive income	371	371
Total stockholders' equity	19,897	20,166
Total liabilities and stockholders' equity	\$29,744	\$30,682

See accompanying notes.

LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net revenue (1)	\$10,735	\$10,968	\$22,271	\$21,851
Cost of revenue	5,565	5,531	11,502	11,024
Gross profit	5,170	5,437	10,769	10,827
Operating expenses:				
Selling, general and administrative	3,992	4,062	8,067	8,010
Research and development	1,782	1,643	3,526	3,324
Total operating expenses	5,774	5,705	11,593	11,334
Loss from operations	(604)	(268)	(824)	(507)
Interest expense, net	(3)	(7)	(8)	(16)
Other income (expense), net	1	(22)	(20)	(28)
Loss before income taxes	(606)	(297)	(852)	(551)
Provision for income taxes	26	26	42	39
Net loss and comprehensive loss	\$(632)	\$(323)	\$(894)	\$(590)
Net loss per share (basic and diluted)	\$(0.04)	\$(0.02)	\$(0.06)	\$(0.04)
Weighted-average common shares (basic and diluted)	14,874	14,621	14,831	14,600
Net revenue from related parties	\$112	\$180	\$191	\$373

(1) Includes net revenue from related parties

See accompanying notes.

LANTRONIX, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended December 31,	
	2014	2013
Operating activities		
Net loss	\$(894)	\$(590)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Share-based compensation	520	453
Depreciation	463	465
Provision for excess and obsolete inventories	52	159
Changes in operating assets and liabilities:		
Accounts receivable	997	(150)
Contract manufacturers' receivable	(34)	183
Inventories	(944)	447
Prepaid expenses and other current assets	(72)	(114)
Other assets	20	(12)
Accounts payable	(319)	900
Accrued payroll and related expenses	(169)	189
Warranty reserve	(39)	(17)
Other liabilities	(155)	(692)
Net cash provided by (used in) operating activities	(574)	1,221
Investing activities		
Purchases of property and equipment	(363)	(277)
Net cash used in investing activities	(363)	(277)
Financing activities		
Payment of term loan	-	(167)
Net proceeds from issuances of common stock	158	101
Minimum tax withholding paid on behalf of employees for restricted shares	(53)	-
Payment of capital lease obligations	(25)	(23)
Net cash provided by (used in) financing activities	80	(89)
Increase (decrease) in cash and cash equivalents	(857)	855
Cash and cash equivalents at beginning of period	6,264	5,243
Cash and cash equivalents at end of period	\$5,407	\$6,098

See accompanying notes.

LANTRONIX, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Lantronix, Inc. (referred to in these unaudited condensed consolidated financial statements as “Lantronix,” “we,” “us,” or “our”) have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, they should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2014, included in our Annual Report on Form 10-K filed with the SEC on August 22, 2014. The unaudited condensed consolidated financial statements contain all normal recurring accruals and adjustments that in the opinion of management, are necessary to present fairly the consolidated financial position of Lantronix at December 31, 2014, the consolidated results of our operations for the three and six months ended December 31, 2014 and our consolidated cash flows for the six months ended December 31, 2014. All intercompany accounts and transactions have been eliminated. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and six months ended December 31, 2014 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standard which will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In doing so, among other things, companies will generally need to use more judgment and make more estimates than under the current guidance. The accounting standard will be effective for Lantronix in the fiscal year beginning July 1, 2017. The standard may be adopted using a full retrospective or a modified retrospective (cumulative effect) method. Early adoption is not permitted. We are currently evaluating this standard and have not yet selected a transition method nor have we determined the effect of the standard on our financial statements and related disclosures.

In August 2014, the FASB issued a new standard that will require management of an entity to assess, for each annual and interim period, if there is substantial doubt about the entity’s ability to continue as a going concern within one year of the financial statement issuance date. The definition of substantial doubt within the new standard incorporates a likelihood threshold of “probable” similar to the use of that term under current U.S. GAAP for loss contingencies. Certain disclosures will be required if conditions give rise to substantial doubt. The standard will be effective for Lantronix in the fiscal year beginning July 1, 2016. Early adoption is permitted. We are currently evaluating the impact of this standard on our financial statements and related disclosures.

2. Supplemental Financial Information

Inventories

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

	December 31, 2014	June 30, 2014
	(In thousands)	
Finished goods	\$6,081	\$5,162
Raw materials	1,768	1,890
Finished goods held by distributors	1,362	1,242
Large scale integration chips *	85	110
Inventories, net	\$9,296	\$8,404

* This item is sold individually and embedded into our products.

Other Liabilities

The following table presents details of our other liabilities:

	December 31, 2014	June 30, 2014
	(In thousands)	
Current		
Customer deposits and refunds	\$667	\$711
Accrued raw materials purchases	1,013	1,138
Deferred revenue	195	128
Capital lease obligations	29	47
Taxes payable	234	235
Accrued operating expenses	1,164	1,159
Total other current liabilities	\$3,302	\$3,418
Non-current		
Deferred revenue	\$75	\$91
Deferred rent	-	40
Total other non-current liabilities	\$75	\$131

Computation of Net Loss per Share

Basic and diluted net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the applicable period.

The following table presents the computation of net loss per share:

	Three Months Ended December 31, 2014		Six Months Ended December 31, 2014	
	2013	2013	2013	2013
Numerator:				
Net loss	\$(632)	\$(323)	\$(894)	\$(590)

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Denominator:

Weighted-average common shares outstanding (basic and diluted)	14,874	14,621	14,831	14,600
Net loss per share (basic and diluted)	\$ (0.04) \$ (0.02) \$ (0.06) \$ (0.04)			

The following table presents the common stock equivalents excluded from the diluted net loss per share calculation, because they were anti-dilutive for the periods presented. These excluded common stock equivalents could be dilutive in the future.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
	(In thousands)			
Common stock equivalents	1,672	2,625	1,632	2,482

Supplemental Cash Flow Information

The following table presents non-cash investing and financing transactions excluded from the unaudited condensed consolidated statements of cash flows:

	Six Months Ended December 31,	
	2014	2013
	(In thousands)	
Accrued property and equipment paid for in the subsequent period	\$ 38	\$ -

3. Warranty Reserve

The warranty periods for our products generally range from one to five years. We establish reserves for estimated product warranty costs at the time revenue is recognized based upon our historical warranty experience, and additionally, for any known product warranty issues. Although we engage in product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials or service delivery costs that differ from our estimates. As a result, increases or decreases to warranty reserves could be required, which could impact our gross margins.

The following table presents details of our warranty reserve:

	Six Months Ended December 31, 2014		Year Ended June 30, 2014				
(In thousands)							
Beginning balance							
Oxford Bioscience Partners IV L.P. (2)	577,755		577,755	1.8%	577,755		
Medica II Investments (International) L.P. (3)(4)	483,726		483,726	1.5%	483,726		
Giza GE Venture Fund III L.P. (5)	315,614		315,614	1.0%	315,614		
Medica II Investments (Israel) L.P. (3)(4)	148,495		148,495	*	148,495		
Thorsten Siess (6)	120,874	8,750	129,624	*	120,874	8,750	8,750 *
Arthur Pergament	85,600		85,600	*	85,600		
Medica II Investments (P.F.) (Israel) L.P. (3)(4)	72,120		72,120	*	72,120		
Martin Leon (7)	69,649		69,649	*	69,649		
Giza Alpinvest Venture Fund III L.P. (5)	66,677		66,677	*	66,677		
Giza Venture Fund III L.P. (5)	54,335		54,335	*	54,335		
Rolf Kaese (8)	54,252		54,252	*	54,252		
Paul Spence (7)(9)	38,927		38,927	*	38,927		
Daniel Burkhoff	33,672		33,672	*	33,672		
Eberhard Grube (7)	31,830		31,830	*	31,830		
The Estate of Helmut Reul	26,728		26,728	*	26,728		
Richard Geoffrion (7)(10)	17,823		17,823	*	17,823		
Giza Executive Venture Fund III L.P. (5)	16,639		16,639	*	16,639		
Gunter Rau	14,423		14,423	*	14,423		
Christoph Nix (11)	13,149		13,149	*	13,149		
Giza Gmulot Venture Fund III L.P. (5)	11,130		11,130	*	11,130		
Sebastian Schwandtner (11)	10,640		10,640	*	10,373	267	267 *
Guido Derjung (11)	10,373		10,373	*	10,373		
Mark Maguire (7)	8,661		8,661	*	8,661		
Dirk Michels (11)	7,491	6,250	13,741	*	7,491	6,250	6,250 *
mRNA Fund II L.P. (2)	5,799		5,799	*	5,799		
Donald Baim (7)	4,330		4,330	*	4,330		

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Paul Teirstein (7)	4,330		4,330	*	4,330				
Peter Fitzgerald (7)	4,330		4,330	*	4,330				
Paolo Cremascoli (12)	3,853		3,853	*	3,853				
<i>Total:</i>	3,104,722	15,000	3,119,722	9.6%	3,104,455	267	15,000	15,267	*

* Less than one percent.

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- (1) Martien van Osch, an employee of Cooperatieve AAC LS U.A., was a member of the Supervisory Board of Impella Cardiosystems AG prior to our acquisition of Impella on May 10, 2005.
- (2) OBP Management IV L.P. is the general partner of Oxford Bioscience Partners IV L.P. and mRNA Fund II L.P. Jeffrey Barnes, the general partner of ORP Management IV L.P. was a member of the Board of Directors of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005. Collectively, Oxford Bioscience Partners IV L.P. and mRNA Fund II L.P. beneficially own 1.8% of our outstanding shares prior to the offering.
- (3) Collectively, Medica II Investments (International) L.P., Medica II Investments (Israel) L.P. and Medica II Investments (P.F.) (Israel) L.P. beneficially own 1.9% of our outstanding shares prior to the offering.
- (4) Yuval Binur, who was a member of the Supervisory Board of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005 is a general partner of the management company that controls Medica II Investments (International) L.P., Medica II Investments (Israel) L.P. and Medica II Investments (P.F.)(Israel) L.P.
- (5) Giza Alpinvest Venture Fund III L.P., Giza Executive Venture Fund III L.P., Giza GE Venture Fund III L.P., Giza Gmulot Venture Fund III L.P. and Giza Venture Fund III L.P. all have the same managing directors. Combined, these entities beneficially own approximately 1.4% of our outstanding shares prior to the offering. Avi Malcho, a former employee of Giza Investment Management (1993) Ltd., was a member of the Supervisory Board of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005.
- (6) Served as Chief Technology Officer of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005, continues to be employed by Abiomed Europe, and serves as Chief Technology Officer of Abiomed Europe.
- (7) Served as a consultant to Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005.
- (8) Served as the Chief Executive Officer of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005.
- (9) Currently serves as a consultant to us.
- (10) Served as Chairman of the Supervisory Board of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005.
- (11) Served as an employee of Impella CardioSystems AG prior to our acquisition of Impella on May 10, 2005 and continues to be employed by Abiomed Europe.
- (12) Serves as chief executive officer of a company that distributes our Impella products in parts of Europe.

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PLAN OF DISTRIBUTION

We are registering the shares offered by this prospectus on behalf of the selling stockholders. All costs, expenses and fees connected with the registration of these shares will be borne by us. Any brokerage commissions and similar expenses connected with selling the shares will be borne by the selling stockholders. The selling stockholders may offer and sell the shares covered by this prospectus from time to time in one or more transactions. The term "selling stockholder" includes pledgees, donees, transferees and other successors-in-interest who may acquire shares through a pledge, gift, partnership distribution or other non-sale-related transfer from the selling stockholders. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale, and they may sell shares on one or more exchanges, through the NASDAQ Global Market or other market, in the over-the-counter market or in privately negotiated transactions at prevailing market prices at the time of sale, at fixed prices, at varying prices determined at the time of the sale or at negotiated prices. These transactions include:

ordinary brokerage transactions and transactions in which the broker solicits purchasers;

purchases by a broker-dealer as principal and resale by the broker-dealer for its own account pursuant to this prospectus;

exchange or over-the-counter distributions in accordance with the rules of the exchange or other market;

block trades in which the broker-dealer attempts to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

In connection with distributions of the shares or otherwise, the selling stockholders may:

after the effectiveness of the applicable registration statement that covers the shares included in this prospectus, sell the shares short and redeliver the shares to close out short positions;

enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to them of shares covered by this prospectus, which they may in turn resell; and

pledge shares to broker-dealers or other financial institutions, which, upon a default, they may in turn resell.

The selling stockholders may also sell any shares under Rule 144 rather than with this prospectus if the sale meets the requirements of that rule.

In effecting sales, the selling stockholders may engage broker-dealers or agents, who may in turn arrange for other broker-dealers to participate. Broker-dealers or agents may receive commissions, discounts or concessions from the selling stockholders and/or from the purchasers of shares for whom the broker-dealers may act as agents or to whom they sell as principal, or both. The compensation to a particular broker-dealer may be in excess of customary commissions. To our knowledge, there is currently no plan, arrangement or understanding between any selling stockholder and any broker-dealer or agent regarding the sale of any shares by the selling stockholders.

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The selling stockholders, any broker-dealers or agents and any participating broker-dealers that act in connection with the sale of the shares covered by this prospectus may be underwriters under the Securities Act with respect to those shares and will be subject to the prospectus delivery requirements of that act. Any profit that the selling stockholders realize, and any compensation that any broker-dealer or agent may receive in connection with any sale, including any profit realized on resale of shares acquired as principal, may constitute underwriting discounts and commissions. If the selling stockholders are deemed to be underwriters, the selling stockholders may be subject to certain liabilities under statutes including, but not limited to, Sections 11, 12 and 17 of the Securities Act and Section 10(b) of and Rule 10b-5 under the Exchange Act.

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The securities laws of some states may require the selling stockholders to sell the shares in those states only through registered or licensed brokers or dealers. These laws may also require that we register or qualify the shares for sale in those states unless an exemption from registration and qualification is available and the selling stockholders and we comply with that exemption. In addition, the anti-manipulation rules of Regulation M under the Securities Exchange Act of 1934 may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities with respect to the shares. All of the foregoing may affect the marketability of the shares and the ability of any person to engage in market-making activities with respect to the shares.

If a selling stockholder notifies us that he, she or it has entered into any material arrangement with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution, over-the-counter distribution or secondary distribution, or a purchase by a broker or dealer, we will file any necessary supplement to this prospectus to disclose:

the number of shares involved in the arrangement;

the terms of the arrangement, including the names of any underwriters, dealers or agents who purchase shares, as required;

the proposed selling price to the public;

any discount, commission or other underwriting compensation;

the place and time of delivery for the shares being sold;

any discount, commission or concession allowed, reallocated or paid to any dealers; and

any other material terms of the distribution of shares.

In addition, if a selling stockholder notifies us that a donee, pledgee, transferee or other successor-in-interest of the selling stockholder intends to sell more than 500 shares, we will file a supplement to this prospectus.

The selling stockholders will pay any underwriting discounts and commissions, any expenses incurred by the selling stockholders for brokerage, accounting, tax or legal services, and any other expenses incurred by the selling stockholders in disposing of the shares. We will pay the expenses we have incurred in connection with preparing and filing the related registration statements and this prospectus. We estimate that these expenses will be approximately \$64,109. The selling stockholders may indemnify any broker-dealer or agent that participates in transactions involving the sale of the shares against liabilities, including liabilities under the Securities Act.

Pursuant to the registration rights and stock restriction agreement filed as an exhibit to the registration statements that include this prospectus, we and the selling stockholders will be indemnified by the other against certain liabilities, including certain liabilities under the Securities Act or, if the indemnity is unavailable, will be entitled to contribution in connection with these liabilities.

Our common stock trades on the NASDAQ Global Market under the symbol ABMD.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, quarterly reports, current reports, proxy statements and other information with the SEC. You may read and copy any of our SEC filings at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. Our SEC filings are also available to the public on the SEC's web site at www.sec.gov.

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Our principal internet address is www.abiomed.com. Information contained on our website is not incorporated by reference into this prospectus and, therefore, is not part of this prospectus or any accompanying prospectus supplement.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference information from some of our other SEC filings. This means that we can disclose information to you by referring you to those other filings, and the information incorporated by reference is considered to be part of this prospectus. In addition, some information that we file with the SEC after the date of this prospectus will automatically update, and in some cases supersede, the information contained or otherwise incorporated by reference in this prospectus. The following documents, which we filed with the Securities and Exchange Commission, are incorporated by reference in this prospectus:

- (a) Our annual report on Form 10-K for the fiscal year ended March 31, 2006 (as filed on June 14, 2006);
- (b) Our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2006 (as filed on August 9, 2006);
- (c) Our quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2006 (as filed on November 8, 2006);
- (d) Our quarterly report on Form 10-Q for the fiscal quarter ended December 31, 2006 (as filed on February 8, 2007);
- (e) Our current report on Form 8-K/A dated May 10, 2005 (as filed on July 27, 2005);
- (f) Our current report on Form 8-K dated May 25, 2006 (as filed on May 25, 2006);
- (g) Our current report on Form 8-K dated May 30, 2006 (as filed on June 1, 2006);
- (h) Our current report on Form 8-K dated June 27, 2006 (as filed on June 28, 2006);
- (i) Our current report on Form 8-K dated September 5, 2006 (as filed on September 5, 2006);
- (j) Our current report on Form 8-K dated September 5, 2006 (as filed on September 8, 2006);
- (k) Our current report on Form 8-K dated November 9, 2006 (as filed on November 14, 2006);
- (l) Our current report on Form 8-K dated November 10, 2006 (as filed on November 16, 2006);
- (m) Our current report on Form 8-K dated December 7, 2006 (as filed on December 8, 2006);

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- (n) Our current report on Form 8-K dated December 20, 2006 (as filed on December 21, 2006);
- (o) Our current report on Form 8-K dated January 30, 2007 (as filed on February 5, 2007);
- (p) Our current report on Form 8-K dated March 21, 2007 (as filed on March 21, 2007);
- (q) Our current report on Form 8-K dated March 21, 2007 (as filed on March 26, 2007);
- (r) Our current report on Form 8-K dated March 27, 2007 (as filed on April 2, 2007);
- (s) Portions of our proxy statement on Schedule 14A filed with the SEC on July 10, 2006 that have been incorporated by reference into our annual report on Form 10-K; and
- (t) The description of our common stock contained in our registration statement on Form 8-A filed with the SEC under Section 12 of the Securities Exchange Act of 1934, including any amendment or report filed for the purpose of updating such description.

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Also incorporated by reference into this prospectus are all documents that we may file with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act either (1) after April 2, 2007 and before the effectiveness of the registration statement, No. 333-141807, and (2) after the date of this prospectus and before we stop offering the securities described in this prospectus. These documents include periodic reports, such as annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as proxy statements. Pursuant to General Instruction B of Form 8-K, any information submitted under Item 2.02, Results of Operations and Financial Condition, or Item 7.01, Regulation FD Disclosure, of Form 8-K is not deemed to be filed for the purpose of Section 18 of the Exchange Act, and we are not subject to the liabilities of Section 18 with respect to information submitted under Item 2.02 or Item 7.01 of Form 8-K. We are not incorporating by reference any information submitted under Item 2.02 or Item 7.01 of Form 8-K into any filing under the Securities Act or the Exchange Act or into this prospectus. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement.

You may request copies of these filings, at no cost, by writing to or calling our Investor Relations department at:

ABIOMED, Inc.

22 Cherry Hill Drive

Danvers, Massachusetts 01923

Telephone: (978) 777-5410

This prospectus is part of two registration statements on Form S-3 that we filed with the SEC under the Securities Act. This prospectus does not contain all of the information contained in the registration statements. For further information about us and our securities, you should read the prospectus and the exhibits filed with the registration statements, as well as all prospectus supplements.

LEGAL MATTERS

The validity of the shares of common stock offered in this prospectus has been passed upon for us by Foley Hoag LLP, Boston, Massachusetts. A partner at Foley Hoag LLP is our secretary, and he and other partners beneficially own, together with their immediate families, 10,000 shares of our common stock.

EXPERTS

The audited financial statements included in this prospectus, management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K of ABIOMED, Inc. for the year ended March 31, 2006 and the audited historical financial statements included in Exhibit 99.2 of ABIOMED, Inc.'s Current Report on Form 8-K/A filed on July 27, 2005 have been so included or incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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ABIOMED, INC. AND SUBSIDIARIES

Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ABIOMED, Inc.:

We have completed integrated audits of ABIOMED Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of March 31, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of ABIOMED, Inc. and its subsidiaries at March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) (not separately included herein) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A (not separately included herein), that the Company maintained effective internal control over financial reporting as of March 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable

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assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As described in Management's Report on Internal Control over Financial Reporting, management has excluded Impella Cardiosystems GmbH from its assessment of internal control over financial reporting as of March 31, 2006 because it was acquired by the Company in a purchase business combination during the year ended March 31, 2006. We have also excluded Impella Cardiosystems GmbH from our audit of internal control over financial reporting. Impella Cardiosystems GmbH is a wholly-owned subsidiary whose total consolidated assets and total consolidated revenues represent 6% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended March 31, 2006.

PricewaterhouseCoopers LLP

Boston, Massachusetts

June 12, 2006

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(in thousands, except share data)

	2005	March 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,618	\$ 7,832
Short-term marketable securities	33,887	23,003
Accounts receivable, net of allowance for doubtful accounts of approximately \$64 and \$211 at March 31, 2005 and 2006, respectively	8,635	8,880
Inventories	3,877	4,868
Prepaid expenses and other current assets	1,207	1,860
Total current assets	55,224	46,443
Long-term Investments	2,112	
Property and Equipment, net of accumulated depreciation of \$10,867 and \$12,077 at March 31, 2005 and 2006, respectively	2,804	4,824
Intangible Assets, net	418	8,164
Goodwill		19,106
Other Assets	503	
Total Assets	\$ 61,061	\$ 78,537
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,132	\$ 3,070
Accrued expenses	3,623	5,185
Deferred revenue	127	484
Total current liabilities	4,882	8,739
Deferred Income Taxes		310
Total Liabilities	4,882	9,049
Commitments and Contingencies		
Stockholders Equity:		
Class B Preferred Stock, \$.01 par value		
Authorized 1,000,000 shares; Issued and outstanding No shares		
Common Stock, \$.01 par value		
Authorized 100,000,000 shares;		
Issued 22,079,311 shares at March 31, 2005 and 26,474,270 at March 31, 2006		
Outstanding 22,079,311 shares at March 31, 2005 and 26,468,091 at March 31, 2006	221	265
Additional paid-in capital	170,095	214,666
Deferred stock-based compensation	(278)	(171)
Accumulated deficit	(113,859)	(143,308)
Treasury stock, at cost; 6,179 shares at March 31, 2006		(66)
Accumulated other comprehensive loss		(1,898)

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Total stockholders' equity	56,179	69,488
Total Liabilities and Stockholders' equity	\$ 61,061	\$ 78,537

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****(in thousands, except per share and share data)**

	Fiscal Years Ended March 31,		
	2004	2005	2006
Revenues:			
Products	\$ 25,070	\$ 37,945	\$ 43,322
Funded research and development	669	271	348
	25,739	38,216	43,670
Costs and Expenses:			
Cost of product revenues, (excluding amortization)	7,591	9,366	11,685
Research and development	14,150	13,350	16,739
Selling, general and administrative	14,037	18,566	30,923
Acquired in-process research and development			13,306
Amortization of intangibles	213	187	1,308
	35,991	41,469	73,961
Loss From Operations	(10,252)	(3,253)	(30,291)
Other Income, net:			
Investment income	634	801	1,194
Foreign exchange gain(loss)	156	91	(116)
Other	16	19	120
	806	911	1,198
Loss Before Provision for Income Taxes	(9,446)	(2,342)	(29,093)
Provision for Income Taxes			356
Net Loss	\$ (9,446)	\$ (2,342)	\$ (29,449)
Basic and Diluted Net Loss per Share:	\$ (0.45)	\$ (0.11)	\$ (1.15)
Weighted Average Shares Outstanding:	21,153,014	21,844,759	25,649,038

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity**

(in thousands, except share data)

	Common Stock		Accumulated Paid-in Capital	Deferred Stock-based Compensation	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income (Loss)
	Number of Shares	Par Value							
Balance, March 31, 2003	21,047,918	\$ 210	\$ 163,951	\$	\$ (102,071)	\$	\$	\$ 62,090	
Stock options exercised	295,272	3	1,452					1,455	
Stock issued under employee stock purchase plan	28,837	1	133					134	
Stock issued to directors	14,892		88					88	
Deferred compensation related to employee stock option grants			72	(72)					
Amortization of deferred compensation				15				15	
Net loss					(9,446)			(9,446)	
Balance, March 31, 2004	21,386,919	214	165,696	(57)	(111,517)			54,336	
Stock options exercised	665,437	7	3,919					3,926	
Stock issued under employee stock purchase plan	21,287		161					161	
Stock issued to directors	5,668		60					60	
Deferred compensation related to employee stock option grants			259	(259)					
Amortization of deferred compensation				38				38	
Net loss					(2,342)			(2,342)	
Balance, March 31, 2005	22,079,311	221	170,095	(278)	(113,859)			56,179	
Stock issued to acquire Impella CardioSystems AG	4,029,004	40	42,160					42,200	
Restricted stock	24,000	1		86				87	
Stock options exercised	313,628	3	1,952					1,955	
Stock issued under employee stock purchase plan	23,970		204					204	
Stock issued to directors	4,357		56					56	
Amortization of deferred compensation			(9)	21				12	
Stock compensation related to stock options			208					208	
Treasury stock acquired from Business acquisition escrow at cost	(6,179)					(66)		(66)	
Net loss					(29,449)			(29,449)	\$ (29,449)
Foreign currency translation							(1,898)	(1,898)	(1,898)
Comprehensive loss									\$ (31,347)
Balance, March 31, 2006	26,468,091	\$ 265	\$ 214,666	\$ (171)	\$ (143,308)	\$ (66)	\$ (1,898)	\$ 69,488	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(in thousands)

	Fiscal Years Ended March 31,		
	2004	2005	2006
Cash Flows from Operating Activities:			
Net loss:	\$ (9,446)	\$ (2,342)	\$ (29,449)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,388	1,240	2,742
Bad debt expense (recovery)	35	(67)	193
Loss on abandonment of patents	55	49	
Write-downs of inventory	465	36	423
Increase in deferred taxes			310
Stock-based compensation	103	98	371
Acquired in-process research and development			13,306
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(587)	(2,563)	258
Inventories	(267)	(1,202)	(177)
Prepaid expenses, other current assets and other assets	(347)	(465)	173
Accounts payable	314	(238)	1,326
Accrued expenses	(887)	355	827
Deferred revenue	(864)	(65)	358
Net cash used in operating activities	(10,038)	(5,164)	(9,339)
Cash Flows from Investing Activities:			
Proceeds from the maturity of short and long-term securities	10,197	42,169	42,016
Purchases of short and long-term securities	(38,968)	(39,520)	(29,021)
Cost of acquisition, net of cash acquired			(2,573)
Proceeds from disposal of equipment	12		11
Additions to patents	(41)	(36)	(133)
Purchases of property and equipment	(429)	(697)	(2,931)
Net cash (used in) provided by investing activities	(29,229)	1,916	7,369
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options and stock issued under employee stock purchase plan	1,589	4,087	2,159
Purchase of treasury stock			(66)
Net cash provided by financing activities	1,589	4,087	2,093
Net (Decrease) Increase in Cash and Cash Equivalents	(37,678)	839	123
Exchange rate effect on cash	(59)	(56)	91
Cash and Cash Equivalents, excluding marketable securities, at beginning of fiscal year	44,572	6,835	7,618
Cash and Cash Equivalents, excluding marketable securities, at end of fiscal year	\$ 6,835	\$ 7,618	\$ 7,832
Supplemental Disclosures:			
Income taxes paid, net of refunds	\$ 33	\$ 82	\$ 59
Common shares issued for business acquisition	\$	\$	\$ 42,200

The accompanying notes are an integral part of these consolidated financial statements

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) NATURE OF OPERATIONS

ABIOMED, Inc. and Subsidiaries (the Company) is a leading developer, manufacturer and marketer of medical products designed to assist or replace the pumping function of the failing heart. ABIOMED currently manufactures and sells the AB5000 Circulatory Support System and the BVS® 5000 Biventricular Support System for the temporary support of all patients with failing but potentially recoverable hearts. In Europe, ABIOMED offers the IMPELLA® RECOVER® minimally invasive cardiovascular support systems under CE Mark approval. The IMPELLA products are not currently available for sale in the United States. The Company's AbioCor® Implantable Replacement Heart was the subject of an initial clinical trial under an Investigational Device Exemption from the United States Food and Drug Administration. The AbioCor has not been approved for commercial distribution, and is not available for use or sale outside of the initial clinical trial.

(2) SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of certain significant accounting policies described below.

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Our financial statements include the financial results of Impella CardioSystems GmbH from its date of acquisition on May 10, 2005.

In December 2005, the Company took action to consolidate its European operations by closing its ABIOMED B.V. facility located in The Netherlands and transferring the AB5000 and BVS 5000 sales and service operations to its Impella CardioSystems facility located in Aachen, Germany.

(b) 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. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, inventories, patents, impairment of intangible assets and goodwill, income taxes including the valuation allowance for deferred tax assets, valuation of long-lived assets and investments, contingencies and litigation. We base our estimates on historical experiences and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimated or assumed.

(c) Revenue Recognition from Product Sales and Accounts Receivable

SEC Staff Accounting Bulletin No. 104 (SAB 104) provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 104 establishes the SEC's view that it is not appropriate to recognize revenue until all of the following criteria are met:

(1) persuasive

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured. Further, SAB 104 requires that both title and the risks and rewards of ownership be transferred to the buyer before revenue can be recognized. In addition to SAB 104, we follow the guidance of EITF 00-21, *Revenue Arrangements with Multiple Deliverables*.

We derive our revenues primarily from product sales, including maintenance service agreements. The great majority of our product revenues are derived from shipments of our AB5000 and BVS 5000 product lines to fulfill customer orders for a specified number of consoles and/or blood pumps for a specified price. We recognize revenues and record costs related to such sales upon product shipment.

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.

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 elects to spend 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 it incurs related research and development costs, provided the government has appropriated sufficient funds for the work.

(d) Translation of Foreign Currencies

All assets and liabilities of the company's non-U.S. subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year in accordance with SFAS No. 52, Foreign Currency Translation. Resulting translation adjustments are reflected in the accumulated other comprehensive loss component of shareholders' equity. Currency transaction gains and losses are included in the accompanying statement of income and are not material for the three years presented.

(e) Warranties

The Company routinely accrues for estimated future warranty costs on its product sales at the time of sale. Our products are subject to rigorous regulation and quality standards. Warranty costs are included in cost of product revenues within the consolidated statements of operations.

The following table summarizes the activities in the warranty reserve for the two fiscal years ended March 31, 2006 (in thousands),

	2005	2006
Balance at the beginning of the year	\$ 245	\$ 231
Accrual for warranties	198	193
Warranty expense incurred for the year	(212)	(257)
Balance at the end of the year	\$ 231	\$ 167

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***(f) Inventories*

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

	March 31,	
	2005	2006
Raw materials	\$ 1,016	\$ 1,764
Work-in-process	871	659
Finished goods	1,990	2,445
	\$ 3,877	\$ 4,868

The Company regularly reviews inventory quantities on hand and writes down to its net realizable value any inventory believed to be excess and obsolete. 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.

(g) 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	Life of lease

Depreciation expense related to property and equipment was \$1,230,000, \$1,093,000 and \$1,424,000 for the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

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

	March 31,	
	2005	2006
Machinery and equipment	\$ 9,965	\$ 12,017
Furniture and fixtures	1,291	1,348
Leasehold improvements	2,415	2,546
Construction in progress		991
Total cost	13,671	16,902
Less accumulated depreciation	10,867	12,078

\$ 2,804 \$ 4,824

During our fiscal year ended March 31, 2006, we capitalized to construction in progress approximately \$0.9 million of costs primarily related to the licensing of SAP's mySAP Business Suite for our U.S. operations. This cost primarily includes software licensing, equipment, consulting and internal labor costs incurred for this new ERP system implementation.

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(h) Intellectual Property

The Company capitalizes as intellectual property costs incurred, excluding costs associated with Company personnel, relating to patenting its technology. Capitalized costs, the majority of which represent legal costs, reflect the cost of both awarded patents and patents pending. The Company amortizes the cost of these patents over the estimated useful life of the patents, generally up to seven years. If the Company elects to stop pursuing a particular patent application or determines that a patent application is not likely to be awarded for a particular patent or elects to discontinue payment of required maintenance fees for a particular patent, the Company at that time records as expense the net capitalized amount of such patent application or patent.

(i) Goodwill and Intangibles

As a result of the acquisition of Impella, the Company's balance sheet as of March 31, 2006 includes goodwill. We assess the realizability of the goodwill on our books annually at October 31st as well as whenever events or changes in circumstances indicate that the goodwill may be impaired as required by SFAS No. 142, *Goodwill and Other Intangible Assets*. 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 we are not able to realize the value of the goodwill, we may be required to incur material charges relating to the impairment of those assets. We completed our first annual review of goodwill as of October 31, 2005 and have determined that no write-down for impairment is necessary.

Acquisition-related intangible assets include the costs of acquired product technology, patents, trademarks and other specifically identifiable intangible assets, and are being amortized using the straight-line method over their estimated useful lives of seven years. The Company has no intangible assets with indefinite lives. We review other intangible assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets.

(j) 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 fiscal year. Diluted net loss per share is computed by dividing net loss by the weighted-average number of dilutive common shares outstanding during the fiscal year. Dilutive shares outstanding are calculated by adding to the weighted shares outstanding any common stock equivalents from outstanding stock options and warrants based on the treasury stock method. In fiscal years when net income is reported, the calculation of diluted net income per share typically results in lower earnings per share than is calculated using the basic method. In fiscal years when a net loss is reported, such as the fiscal years ended March 31, 2004, 2005 and 2006, these potential shares from stock options and warrants are not included in the calculation because they would have an anti-dilutive effect, meaning the loss per share would be reduced. Therefore, in fiscal years when a loss is reported the calculation of basic and dilutive loss per share results in the same value.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The calculation of diluted weighted-average shares outstanding for the fiscal years ended March 31, 2004, 2005 and 2006 excludes potential stock from unexercised stock options that have an exercise price below the average market price as shown below.

Year Ended March 31,	Potential Dilutive Shares from Exercise of Common Stock Options
2004	222,593
2005	980,147
2006	577,845

The calculation of diluted weighted average shares outstanding excludes unissued shares of common stock associated with outstanding stock options that have exercise prices greater than the average market price. For the fiscal years ending March 31, 2004, 2005 and 2006, the weighted average number of these potential shares totaled 1,908,347, 825,014 and 1,417,130 shares, respectively. The calculation of diluted weighted average shares outstanding for these fiscal years also excludes warrants to purchase 400,000 share of common stock issued in connection with the acquisition of intellectual property (see Note 5).

(k) Cash and Cash Equivalents

The Company classifies any marketable security with a maturity date of 90 days or less at the time of purchase as a cash equivalent.

At March 31, 2005 and March 31, 2006, the Company had restricted cash of approximately \$97,000 and \$261,000, respectively, which are included in other assets at March 31, 2005 and prepaid expenses and other current assets at March 31, 2006, respectively. This cash represents security deposits held in the Company's European banks for certain facility and auto leases.

(l) Marketable Securities and Long-term Investments

The Company classifies any security with a maturity date of greater than 90 days at the time of purchase as marketable securities and classifies marketable securities with a maturity date of greater than one year from the balance sheet date as long-term investments based upon the ability and intent of the Company. In accordance with Statement of Financial Accounting Standards (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 March 31, 2006 the held-to-maturity investment portfolio consisted primarily of government securities and corporate bonds with maturities of one year or less.

The amortized cost, including interest receivable, and market value of held-to-maturity short-term marketable securities were approximately \$29,669,000 and \$29,570,000 at March 31, 2005, and \$16,901,000 and \$16,866,000 at March 31, 2006, respectively.

The Company has classified its portion of the investment portfolio consisting of corporate asset-backed securities as available-for-sale securities. The cost of these securities approximates market value and was \$4,218,000 at March 31, 2005 and \$6,102,000 at March 31, 2006. 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.

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The amortized costs, including interest receivable, and market value of the long-term investments were approximately \$2,112,000 and \$2,093,000 at March 31, 2005, respectively. The Company did not hold any long-term investments at March 31, 2006.

(m) Disclosures about Fair Value of Financial Instruments

As of March 31, 2005 and 2006, the Company's financial instruments were comprised of cash and cash equivalents, marketable securities, accounts receivable and accounts payable, the carrying amounts of which approximated fair market value.

(n) Comprehensive Income

Comprehensive income is comprised of net income (loss) and other comprehensive (loss) income. Other comprehensive (loss) income includes certain changes in equity that are excluded from net income (loss), such as translation adjustments that are recorded as a result of translating the financial statements of our European subsidiary into U.S. currency.

(o) Accounting for Stock-Based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method as prescribed by APB No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, including Interpretation 44, *Accounting for Certain Transactions Involving Stock Compensation*, for its plans. The Company has elected to follow the disclosure-only alternative requirements of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Accordingly, no compensation expense is recorded for options issued to employees in fixed amounts and with fixed exercise prices at least equal to the fair market value of Common Stock at the date of grant.

In the process of adopting SFAS No. 123R, *Share Based Payment*, the Company determined that the historical estimated forfeiture rates used in the SFAS 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, 2004, 2005 and 2006 to reflect estimated forfeiture rates that are consistent with the Company's historical forfeiture rates. This revision resulted in an increase in pro forma expense and pro forma net loss in the amount of \$1,124, \$2,276, and \$1,788 and an increase in net loss per share of \$0.05, \$0.11 and \$0.07 for the years ended March 31, 2004, 2005 and 2006, respectively, which is reflected in the table below.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

If compensation cost for the Company's fiscal 2004, 2005 and 2006 grants issued under stock-based compensation plans, including costs related to grants in prior years had been determined based on SFAS 123, the Company's pro forma net loss and pro forma loss per share for the years ended March 31, would have been as follows (in thousands, except per share data):

	2004	2005	2006
Net loss, as reported	\$ (9,446)	\$ (2,342)	\$ (29,449)
Add: Stock-based employee compensation included in reported net loss	103	98	340
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	2,814	5,145	6,307
 Pro forma net loss	 \$ (12,157)	 \$ (7,389)	 \$ (35,416)
 Basic and diluted loss per share			
As reported	\$ (0.45)	\$ (0.11)	\$ (1.15)
Pro forma	\$ (0.57)	\$ (0.34)	\$ (1.38)

The fair value per share of the options granted during fiscal years 2004, 2005 and 2006 was computed as \$3.85, \$8.05 and \$6.91 per share, respectively, and was calculated using the Black-Scholes option-pricing model with the following assumptions.

	2004	2005	2006
Risk-free interest rate	2.56%	3.87%	4.14%
Expected dividend yield			
Expected option term in years	5.3 years	7.5 years	7.3 years
Assumed stock price volatility	86%	84%	73%

In addition to compensation expense related to stock option grants, the pro forma compensation expense shown in the table above includes compensation expense related to stock issued under the Company's Employee Stock Purchase Plan of approximately \$19,000, \$28,000 and \$74,000 for fiscal 2004, 2005 and 2006, respectively.

This pro forma compensation expense may not be representative of the amount to be expected in future years as pro forma compensation expense may vary based upon the number of options granted and shares purchased. The pro forma tax effect of the employee compensation expense has not been considered due to the Company's reported net losses.

The Company will implement SFAS 123(R) starting April 1, 2006.

(p) Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs (FAS 151), which adopts wording from the International Accounting Standards Board's (IASB) Standard No. 2, Inventories, in an effort to improve the comparability of international financial reporting. The statement is effective for the Company beginning in the first quarter of fiscal year 2007 and is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

In December 2004 the FASB issued a revised Statement of Financial Accounting Standard (SFAS) No. 123, *Share-Based Payment* (FAS 123(R)). FAS 123(R) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize the cost over the period during which an employee is required to provide service in exchange for the award. The requirements of SFAS 123(R) are effective for annual fiscal periods beginning after June 15, 2005. Through its fiscal year ended March 31, 2006, the Company has followed APB No.25 which does not require the recognition of compensation expense relating to the issuance of stock options so long as the quoted market price of the Company's stock at the date of grant is less than or equal to the amount an employee must pay to acquire the stock. The original FAS 123 requires footnote disclosure only of pro forma net income as if a fair-value-based method had been used. The Company is transitioning on a modified prospective basis, and the adoption of SFAS 123(R) effective with the fiscal quarter ended June 30, 2006 is expected to have a material impact on the Company's consolidated financial statements, although management is still evaluating the exact impact.

(q) Reclassification

Certain amounts in prior year financial statements have been reclassified to conform with the current year presentation.

(3) ACQUISITION

In May 2005, the Company acquired all of the shares of outstanding capital stock of Impella CardioSystems AG (Impella) in exchange for approximately \$1.6 million in cash and 4,029,004 shares of ABIOMED common stock, of which 210,000 shares were to be held in escrow through November 2006 for potential indemnification claims by the Company pursuant to the terms of the purchase agreement. As of March 31, 2006, 6,179 of the 210,000 escrowed shares have been returned to the Company as a result of ABIOMED's settlement of undisclosed pre-acquisition liabilities. Impella develops, manufactures and markets minimally invasive cardiovascular support systems for numerous patient indications within the fields of cardiology and cardiac surgery. Impella's Recover System pumps are designed to provide left and right ventricle support for patients suffering from reduced cardiac output and can potentially aid in recovering the hearts of patients suffering from acute myocardial infarction (AMI or Heart Attack), including those who have gone into cardiac shock. Impella has CE marks for each of its commercially available devices and currently markets them throughout Europe. The Company intends to seek FDA approval to sell the Impella Recover System blood pumps in the United States as well as regulatory approval in other countries in order to address wider market opportunities for cardiac assist and recovery.

The aggregate 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. We issued 4,029,004 shares of our 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 agreement provides that ABIOMED may make additional contingent payments to Impella's former shareholders based on the Company's future stock price performance and additional milestone payments related to FDA approvals and unit sales of Impella products. In general, if our stock price is between \$15 and \$18 as of the 18-month anniversary of the closing date, based on the daily volume weighted average price per share for the 20 trading days prior to such date, we will issue additional consideration equal to the difference between \$18 and such average stock price, multiplied by approximately 4,200,000 shares, subject to adjustment as described below. In addition, there are provisions

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

that will reduce this amount to the extent that the Impella stockholders have, prior to the 18-month date, sold any of the shares we issued to them at the closing. Based on the number of shares sold by the former Impella stockholders as of May 19, 2006, the 4.2 million shares used to calculate the payment has been reduced to approximately 3.8 million shares. For example:

if the average stock price on the 18-month date is \$16, we will be obligated to pay additional consideration of approximately \$7.6 million,

if the average stock price on the 18-month date is \$17, we will be obligated to pay additional consideration of approximately \$3.8 million, and

if the average stock price on the 18-month date is outside of the \$15 to \$18 range, we will not be obligated to pay any additional consideration.

This payment may be made, at our option subject to the terms of the agreement and any necessary approvals, by any combination of cash or stock, subject to the limitations described below.

In addition to the payments described above related to the average stock price on the 18-month date, we have also agreed, subject to certain exceptions based on future stock price performance that are set forth in the agreement, 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 our 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. In addition, the agreement specifically provides that under no circumstances will we deliver or be obligated to deliver, a number of shares of our stock that would require that our stockholders would be or would have been required to approve this transaction under applicable NASDAQ rules or other securities laws. If any contingent payments are made, they will result in an increase in the carrying value of goodwill.

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 of any of the milestones is achieved is \$22 or more, no additional contingent consideration will be required with respect to the milestones. 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.

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 purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values at the date of acquisition. The Company allocated approximately \$9.5 million of the purchase price to intangible assets comprised of existing technology, patents, trademarks and other purchased

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intangibles. In addition, approximately \$13.3 million of the purchase price was allocated to in-process research and development (Note 10). The excess purchase price of approximately \$20.3 million after this allocation has been accounted for as goodwill. The change in the carrying amounts of goodwill and intangible assets from the date of the acquisition to March 31, 2006 are due primarily to our translating the non-U.S. currency denominated balances at the prevailing exchange rate on the balance sheet date.

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Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The following table presents the fair values of assets and liabilities recorded in connection with the Impella acquisition (in thousands).

Cash	\$ 535
Accounts receivable	805
Inventories	1,335
Prepaid expenses and other current assets	514
Property and equipment	589
Intangible assets:	
Patents (estimated useful life of 7 years)	6,179
Developed technology (estimated useful life of 7 years)	2,175
Distributor agreements (estimated useful life of 7 years)	800
Trademarks and tradenames (estimated useful life of 7 years)	314
Acquired in-process R&D Charge (IPR&D)	13,306
Total intangible assets	22,774
Goodwill	20,268
Accrued expenses and other current liabilities	(1,749)
Total consideration paid	\$ 45,071

Of the \$22.8 million of acquired intangible assets, \$13.3 million was allocated to IPR&D and was written off at the date of acquisition as a non-cash acquisition charge to operations because the IPR&D had no alternative uses and had not reached technological feasibility. This non-cash acquisition charge is reflected in the accompanying statement of operations for the fiscal year ended March 31, 2006.

The amount of the IPR&D charge was determined by identifying IPR&D activities that have reached the substance stage of development and for which no alternative future use exists. In addition, the fair value of existing technology for U.S. based sales is included in expensed IPR&D due to the additional risks and expense incurred by the combined entity in obtaining regulatory approval for U.S. based market sales.

Management determined the valuation of the IPR&D using a number of factors. The value was based primarily on the discounted cash flow method. This valuation included consideration of (i) the stage of completion of each of the projects, (ii) the technological feasibility of each of the projects, (iii) whether the projects had an alternative future use, (iv) the estimated future residual cash flows that could be generated from the various projects and technologies over their respective projected economic lives, and (v) whether additional product development costs or regulatory risks would be incurred to bring the technology to completion.

The primary basis for determining the technological feasibility of these projects was whether the product has obtained approval from the FDA for commercial sales in the U.S. As of the acquisition date, the IPR&D projects, as well as the existing technologies and products have not completed or obtained sufficient clinical data to support an application to the FDA seeking commercial approval.

The economic benefit stream or annual cash flow generated for each of the IPR&D projects and existing technology product sales were determined based upon management's estimate of future revenue and expected profitability of the various products and technologies involved. These projected cash flows were then discounted to their present values taking into account management's estimate of future expenses that would be necessary to bring the projects to completion. The discount rates include a rate of return, which accounts for the time value of money, as well as risk factors that reflect the economic risk that the cash flows projected may not be realized. The cash flows were discounted at discount rates ranging from 23% to 25% per annum, depending on the project's stage of completion and the type of complex functionality needed. This discounted cash flow methodology for the various projects included in the purchased IPR&D resulted in a total valuation of \$13.3 million. Although work on the projects related to the IPR&D is anticipated to continue after the acquisition, the amount of the purchase price allocated to IPR&D was

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

written off because the projects underlying the IPR&D that was being developed were considered technologically feasible as of the acquisition date, however the assets utilized in these projects, excluding the patents, have no alternative future use.

The following represents the pro forma results of the ongoing operations for ABIOMED and Impella as though the acquisition of Impella had occurred at the beginning of the periods shown (in thousands, except per share data). The unaudited pro forma information, however, excludes the acquired in-process research and development charge of \$13.3 million and is not necessarily indicative of the results that would have resulted had the acquisition occurred at the beginning of the fiscal years presented, nor is it necessarily indicative of future results.

	Fiscal Years Ended	
	March 31, 2005	2006
Revenue	\$ 40,711	\$ 43,836
Net loss	\$ (14,076)	\$ (19,303)
Net loss per common share (basic and diluted)	\$ (0.54)	\$ (0.74)

(4) INTANGIBLE ASSETS AND GOODWILL

The carrying amount of goodwill was \$19.1 million at March 31, 2006 as shown in the table below and was recorded in connection with the Company's acquisition of Impella (Note 3) (in thousands).

Balance at May 10, 2005 (date of acquisition)	\$ 20,129
Purchase price adjustments	131
Exchange rate impact	(1,154)
Balance at March 31, 2006	\$ 19,106

The Company's intangible assets in the consolidated balance sheets are detailed as follows (in thousands):

	March 31, 2005			March 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period
Patents	\$ 1,053	\$ 683	7 years	\$ 6,990	\$ 1,564	7 years
Trademarks and Tradenames	94	46	7 years	407	109	7 years
Distribution Agreements				754	99	7 years
Acquired Technology				2,054	269	7 years
Total	\$ 1,147	\$ 729		\$ 10,205	\$ 2,041	

Amortization expense for intangible assets totaled \$158,000, \$138,000 and \$1,307,000 for the years ending March 31, 2004, 2005 and 2006, respectively. Assuming no future acquisitions, the estimated aggregate amortization expense for the next five years is approximately \$6.7

million.

(5) CAPITAL STOCK

Each share of common stock has a voting right of one vote per share and generally has the right to elect, as a class, a minimum of 25% of the Company's directors.

The Company has authorized 1,000,000 shares of Class B Preferred Stock, \$0.01 par value, of which the Board of Directors can set the designation, rights and privileges. No shares of Class B Preferred Stock have been issued or are outstanding.

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Fiscal Years Ended March 31, 2006 and 2005

In August 1997, the Company declared a dividend of one Preferred Share Purchase Right (the Right) for each outstanding share of common stock to its stockholders of record at August 28, 1997. Each right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock with a par value of \$0.01 per share, at a price of \$45.00 per one one-thousandth of a share, subject to amendment. In accordance with the terms set forth in the Rights Agreement, the Rights are not exercisable until the occurrence of certain events, as defined. In addition, the registered holders of the Rights will have no rights as a common stockholder of the Company until the Rights are exercised. The Company's Board of Directors may amend the terms of the Rights. The Rights expire on August 13, 2007.

In September 2000, the Company issued common stock and warrants to acquire the exclusive rights to the Penn State Heart together with complete ownership of a company incorporated to commercialize the Penn State Heart called BeneCor Heart Systems, Inc. The terms of this transaction consisted of payment of 110,000 shares of the Company's common stock, plus the issuance of warrants to purchase up to 400,000 additional shares of the Company's common stock at an exercise price of \$0.01 per share. Exercise of the warrants is contingent on the achievement of certain clinical and regulatory milestones with the Penn State Heart by specified dates, the last of which is September 30, 2007. Warrants not vested and exercised by September 30, 2007 expire. The value of the common stock and warrants issued in connection with the transaction are included in stockholders' equity at values of \$3,145,000 and \$3,145,000, respectively, representing the fair value of the stock and warrants based on the closing market price for the Company's stock on the closing date for this transaction. These amounts were fully expensed as in-process research and development on the date of acquisition because the technology had no future alternate use. As of March 31, 2006, approximately 400,000 warrants were outstanding and none were exercisable.

See Note 3 to these consolidated financial statements for the effect on the Company's capital structure from the May 10, 2005 acquisition of Impella CardioSystems AG.

(6) Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). The asset and liability approach used under SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of other assets and liabilities.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carryforwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates. A valuation reserve is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation reserve has been established for the full amount of the deferred tax asset. Of the change this year in the valuation reserve, approximately \$0.9 million relates to stock option compensation deductions. The tax benefit associated with the stock option compensation deductions will be credited to equity when realized. In addition, the valuation reserve changed by approximately \$4.0 million as a result of acquisition accounting.

At March 31, 2006, the Company had federal and state Net Operating Loss (NOL) carryforwards of approximately \$67.9 million and \$24.1 million, respectively, which begin to expire in fiscal 2007. At March 31, 2006, the Company also had foreign NOL carryforwards of approximately \$24.8 million that can be carried forward indefinitely. Additionally, at March 31, 2006, the Company had federal and state research and experimentation credit carryforwards of approximately \$5.6 million and \$3.8 million, respectively, which begin to expire in fiscal 2007. Section 382 of the Internal Revenue Code contains provisions that could place annual limitations on the use of these net operating loss and credit carryforwards in the event of a change in ownership, as defined.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Loss before income taxes is as follows for the years ended March 31 (in thousands):

	2004	2005	2006
Loss before income taxes:			
United States	\$ (8,602)	\$ (1,761)	\$ (10,599)
Foreign	(844)	(581)	(18,494)
Income (loss) before income taxes	\$ (9,446)	\$ (2,342)	\$ (29,093)
Provision for income taxes:			
Current:			
Federal			\$ 46
State			
Foreign			
Total current			\$ 46
Deferred:			
Federal			\$ 264
State			46
Foreign			
Change in valuation allowance			
Total deferred			\$ 310
Total tax provision			\$ 356

There were no current or deferred tax provision for the fiscal years ended March 31, 2004 and 2005. Differences between the federal statutory income tax rate and the effective tax rates for the year ended March 31, 2006, are summarized as follows:

	2006
Statutory income tax rate	34.0%
Increase (decrease) resulting from:	
State taxes, net of federal tax benefit	
Decrease in valuation allowance	(42.0)
Credits and expired NOL	2.5
Rate differential on foreign operations	4.7
Alternative minimum tax	(.2)
Other, net	(.2)
Effective tax rate	(1.2%)

For fiscal years 2004 and 2005 the effective tax rate of zero differs from the statutory rate of 34% primarily due to the inability of the Company to recognize deferred tax assets as a result of its net operating loss position.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The components of the Company's net deferred taxes were as follows at March 31 (in thousands):

	2005	2006
Assets		
NOL carryforwards and tax credit carryforwards	\$ 35,873	\$ 32,700
Foreign NOL carryforwards		7,119
Nondeductible reserves and accruals	1,051	1,070
Deferred revenue	44	132
Depreciation	477	505
Amortizable intangibles other than goodwill		5,284
Other, net	872	1,079
Capitalized research and development	13,925	23,721
	52,242	71,610
Liabilities		
Identified intangibles		(3,108)
Indefinite lived intangible		(310)
		(3,418)
Net deferred tax asset	52,242	68,192
Valuation allowance	(52,242)	(68,502)
Net deferred taxes		\$ (310)

The change in the valuation allowance of \$16.3 million is primarily due to the impact of the Impella acquisition and current year operating losses without current tax benefit.

In October 2004, the President signed into law the American Jobs Creation Act (the Act). The Act allows for a federal income tax deduction for a percentage of income earned from certain domestic production activities. The Company's domestic, or U.S., production activities should qualify for the deduction. However, due to the Company's current year federal income tax losses, no benefit from this deduction is allowed.

Management has determined that the Company is not likely to realize the income tax benefit of its net deferred tax assets. To the extent the Company generates income in future years, the tax provision will reflect the realization of such benefits, with the exception of benefits attributable to acquired deferred tax assets. The recognition of such amount in future years will be allocated to reduce the excess of the purchase price over the net assets acquired and other non-current intangible assets.

As a result of the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) and the current year 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.

The net deferred tax liability of \$310,000 at March 31, 2006 is a result of the difference in accounting for the Company's goodwill, which is amortizable over 15 years for tax purposes but not amortized for book purposes, in accordance with SFAS 142. The net deferred tax liability cannot be offset against the Company's deferred tax assets under U.S. generally accepted accounting principals since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(7) COMMITMENTS AND CONTINGENCIES**

The Company applies the disclosure provisions of FIN No. 45, *Guarantors' 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 *Accounting for Contingencies*, by requiring that guarantors disclose certain types of guarantees, even if the likelihood of requiring the guarantors' performance is remote. The following is a description of arrangements in which the Company is a guarantor.

Product Warranties The Company routinely accrues for estimated future warranty costs on its product sales at the time of sale. The AB5000 and BVS products are subject to rigorous regulation and quality standards. Operating results could be adversely effected if the actual cost of product failures exceeds the estimated warranty provision.

Patent indemnifications In many sales transactions, the Company indemnifies customers against possible claims of patent infringement caused by the Company's products. The indemnifications contained within sales contracts usually do not include limits on the claims. The Company has never incurred any material costs to defend lawsuits or settle patent infringement claims related to sales transactions. Under the provisions of FIN No. 45, intellectual property indemnifications require disclosure only.

As of March 31, 2006, the Company had entered into leases for its facilities, including its primary operating facility in Danvers, Massachusetts, with terms through fiscal 2010. The Danvers lease may be extended, at the Company's option, for two successive additional periods of five years each with monthly rent charges to be determined based on then current fair rental values. The Company's lease for its Aachen location expires in August 2008 unless an option to extend for an additional four years is exercised by the Company. In December 2005 we closed our office facility in The Netherlands, recording a charge of approximately \$58,000 for the remaining lease term. Total rent expense under these leases, included in the accompanying consolidated statements of operations approximated \$821,000, \$824,000 and \$1,262,000 for the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

Future minimum lease payments under all significant non-cancelable operating leases as of March 31, 2006 are approximately as follows (in thousands):

Fiscal Year Ending March 31,	Operating Leases
2007	1,703
2008	1,371
2009	1,035
2010	710
Total future minimum lease payments	\$ 4,819

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, in consultation with the Company's general counsel, 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.

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,

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

seeking 600,000 shares of unrestricted Abiomed 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 intends to vigorously defend against the claims asserted.

(8) STOCK OPTION AND PURCHASE PLANS

With the exception of 6,848 outstanding options that were granted to certain employees during our fiscal year ended March 31, 2004, with an exercise price of \$0.01 per share, all outstanding stock options of the Company as of March 31, 2006 were granted with an exercise price equal to the fair market value on the date of grant. For the options and restricted stock granted below fair market value, compensation expense is recognized ratably over the vesting period. Outstanding stock options, if not exercised, expire 10 years from the date of grant.

The 1992 Combination Stock Option Plan (the "Combination Plan"), as amended, 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 during its ten-year restatement term that ended on May 1, 2002. As of March 31, 2006, 220,420 of these options remain outstanding, fully vested and eligible for future exercise.

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, (the "2000 Plan"), as amended, 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. Up to 400,000 shares of common stock may be awarded under the Directors' Plan. Options outstanding under the Directors' Plan have vesting periods of 1 to 5 years from the date of grant.

Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The following table summarizes stock option activity under all of the Company's stock option plans:

The following table summarizes certain data for options outstanding and exercisable under all plans at March 31, 2006.

	Number of	Exercise		Weighted
	Options			Avg. Exercise
				Price
				Per Share
		Price	Price	
Outstanding, March 31, 2003	3,100,292	\$ 2.81	\$36.53	9.35
Granted	547,054	\$ 0.01	\$ 8.99	5.30
Exercised	(295,272)	\$ 3.13	\$ 8.19	4.98
Canceled	(275,235)	\$ 0.01	\$34.06	9.47
Outstanding, March 31, 2004	3,076,839	\$ 0.01	\$36.53	\$ 9.05
Granted	1,487,400	\$ 8.72	\$15.42	10.34
Exercised	(665,437)	\$ 0.01	\$13.19	5.90
Canceled	(281,296)	\$ 0.01	\$27.13	9.63
Outstanding, March 31, 2005	3,617,506	\$ 0.01	\$36.53	\$ 10.11
Granted	1,108,882	\$ 8.36	\$13.13	9.42
Exercised	(317,985)	\$ 4.59	\$12.90	6.33
Canceled	(446,760)	\$ 0.01	\$30.00	11.09
Outstanding, March 31, 2006	3,961,643	\$ 0.01	\$36.53	\$ 10.11
Exercisable, March 31, 2006	1,637,702	\$ 0.01	\$36.53	\$ 11.10
Exercisable, March 31, 2005	1,423,805	\$ 0.01	\$36.53	\$ 10.99
Exercisable, March 31, 2004	1,627,765	\$ 2.81	\$36.53	\$ 8.94
Shares available for future issuance, March 31, 2006	2,247,385			

The following table summarizes certain data for options outstanding and exercisable under all plans at March 31, 2006.

Range of	Options Outstanding			Options Exercisable	
	Outstanding	Weighted Avg.	Weighted Avg.	Exercisable	Weighted Avg.
Exercise Prices	As of	Remaining	Exercise Price	As of	Exercise

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		March 31, 2006	Contractual Life		March 31, 2006	Price
\$ 0.01	\$ 3.65	6,848	7.8	\$ 0.01	5,069	\$ 0.01
\$ 3.66	\$ 7.31	1,003,820	4.7	6.31	734,105	6.44
\$ 7.32	\$10.96	2,128,725	8.8	9.55	318,028	9.74
\$10.97	\$14.61	285,500	8.0	12.18	81,250	12.32
\$14.62	\$18.27	295,600	5.0	15.56	258,100	15.65
\$18.28	\$21.92	119,400	4.6	18.77	119,400	18.77
\$21.93	\$25.57	95,000	5.2	24.12	95,000	24.12
\$25.58	\$29.22	19,000	3.9	27.17	19,000	27.17
\$29.23	\$32.88	3,000	4.6	30.00	3,000	30.00
\$32.89	\$36.53	4,750	4.5	36.06	4,750	36.06
Total		3,961,643	7.2	\$ 10.11	1,637,702	\$ 11.10

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Table of Contents**ABIOMED, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The Company has an Employee Stock Purchase Plan (the Purchase Plan), as amended. Under the Purchase Plan, eligible employees (including officers and directors) who have completed three months of employment with the Company or its subsidiaries who elect to participate in the Purchase Plan instruct the Company to withhold a specified amount from each payroll period during a six-month payment period (the periods April 1 – September 30 and October 1 – March 31). On the last business day of each payment period, the amount withheld is used to purchase common stock at an exercise price equal to 85% of the lower of its market price on the first business day or the last business day of the payment period. Up to 500,000 shares of common stock may be issued under the Purchase Plan, of which 260,093 shares are available for future issuance as of March 31, 2006. During the fiscal years ended March 31, 2004, 2005 and 2006, 28,837, 21,287 and 23,970 shares of common stock, respectively, were sold pursuant to the Purchase Plan.

The Company has a consulting agreement with David M. Lederman, Ph.D., its former Chief Executive Officer and former Chairman of its Board of Directors. Under this consulting agreement, Dr. Lederman has agreed to serve as a senior advisor for four years, starting on April 2, 2005. Dr. Lederman's existing non-qualified stock options that were awarded in the past during his tenure as the Company's CEO will remain unmodified and will continue to vest during the term of his service as a non-employee advisor. He will have the ability to exercise the options during this term. These options are considered variable options, the fair value of which will be expensed over the term of the consulting agreement, subject to adjustment based on the market price of the Company's common stock at the close of each financial reporting period.

(9) RESEARCH AND DEVELOPMENT

Research and development is a significant portion of the Company's operations. The Company's research and development efforts are focused on the development of new products related to cardiac assist, recovery and heart replacement and to continually enhance and improve our existing products. Research and development costs are expensed when incurred and include direct materials and labor, depreciation, contracted services and other costs associated with developing new products and significant enhancements to existing products. Research and development expense for the fiscal years ended March 31, 2004, 2005 and 2006 were \$14.2 million, 13.4 million and \$16.7 million, respectively.

(10) 401K PLAN

The Company has a 401(k) Plan that covers all employees who are at least 20 years of age. Amounts paid by the Company to match a portion of employees' contributions and discretionary amounts determined by the Company's Board of Directors totaled approximately \$241,000, \$240,000 and \$232,000 for the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

(11) ACCRUED EXPENSES

Accrued expenses consisted of the following (in thousands):

	March 31,	
	2005	2006
Salaries and benefits	\$ 2,041	\$ 3,432
Warranty	231	167
Professional, accounting and auditing fees	1,057	1,224
Other	294	362
	\$ 3,623	\$ 5,185

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ABIOMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(12) RESTRUCTURING

In December 2005, the Company took action to consolidate its European operations by closing its ABIOMED B.V. facility located in The Netherlands and transferring the AB5000 and BVS 5000 sales and service operations to its Impella CardioSystems facility located in Aachen, Germany. The Company recorded a charge of \$122,000 consisting of severance and unpaid rent obligations in connection with this consolidation of which \$67,000 remains in accrued expenses at March 31, 2006 related to rent obligations that are expected to be paid during fiscal 2007.

(13) 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 believes that it operates in one business segment the research, development and sale of medical devices to assist or replace the pumping function of the failing heart. Approximately 59% of the Company's total consolidated assets are located within the United States as of March 31, 2006. Remaining assets are located in Europe. International sales accounted for 13%, 8% and 8% of total product revenue during the fiscal years ending March 31, 2006, 2005 and 2004.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

On May 10, 2005, we acquired all of the shares of outstanding capital stock of Impella CardioSystems AG, a privately held company located in Aachen, Germany. Our acquisition of Impella was accounted for under the purchase method of accounting and the results of operations of Impella have been included in our consolidated results since the acquisition date. The aggregate purchase price was approximately \$45.1 million, which consisted of shares of our common stock having an aggregate market value of \$42.2 million (based on the average closing price of our common stock for five-day period beginning two days before the terms of the acquisition were agreed to and publicly announced), \$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.

Of the 4,029,004 shares of common stock we issued at the closing, 210,000 shares were placed in escrow for the purpose of partially securing amounts payable to us by the former shareholders of Impella under the indemnification provisions of the share purchase agreement entered into in connection with the acquisition. As of March 31, 2006, 6,179 of the 210,000 escrowed shares have been returned to us in settlement of losses associated with undisclosed pre-acquisition liabilities.

The share purchase agreement further provides that we may be required to make additional payments to Impella's former shareholders based on the future price performance of our common stock and the achievement of milestones related to FDA approvals and unit sales of Impella products. The actual amounts that may become payable could range from \$0 to approximately \$29 million. We may pay any such amounts using cash or a combination of cash and stock.

Impella develops, manufactures and markets minimally invasive cardiovascular support systems for numerous patient indications within the fields of cardiology and cardiac surgery. Impella's Recover System pumps are designed to provide left and right ventricle support for patients suffering from acute myocardial infarction (AMI or Heart Attack) including those who have gone into cardiac shock. Impella has CE marks for each of its devices and currently markets them throughout Europe. We intend to seek FDA approval to sell the Impella Recover System blood pumps in the United States in order to address wider market opportunities for cardiac assist and recovery.

The following unaudited pro forma condensed combined statement of operations for the twelve months ended March 31, 2006 gives effect to the acquisition of Impella as if it had occurred on April 1, 2005 (in thousands, except per share data). The unaudited pro forma condensed combined statement of operations for the twelve months ended March 31, 2006 is based on our historical consolidated results of operations for the twelve months ended March 31, 2006 and Impella's historical results from April 1, 2005 through the date of acquisition, May 10, 2005. The following combined condensed pro forma statement of operations and the accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto included in this prospectus.

The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of the consolidated company that would have actually occurred had the acquisition of Impella been effected as of the date described above.

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UNAUDITED PRO FORMA CONDENSED COMBINED

STATEMENT OF OPERATIONS

For the Twelve Months Ended March 31, 2006

	Abiomed, Inc 3/31/2006	Impella April 1, 2005- May 10, 2005	Pro forma Adjustments	Pro forma as adjusted
Revenues:				
Product revenues	43,322	160		43,482
Funded research and development	348			348
Total Revenues:	43,670	160		43,830
Costs and expenses:				
Cost of product revenues (excluding amortization)	11,685	606		12,291
Research and development	16,739	329		17,068
Selling, general and administrative	30,923	2,215		33,138
Acquired in-process research and development	13,306			13,306
Amortization of intangibles	1,308		113(A)	1,421
	73,961	3,150	113	77,224
Loss from operations	(30,291)	(2,990)	(113)	(33,394)
Other income, net				
Investment income	1,194	2		1,196
Foreign exchange gain (loss)	(116)	1		(115)
Other	120	6		126
	1,198	9		1,207
Loss before provision for income taxes	(29,093)	(2,981)	(113)	(32,187)
Provision for income taxes	356			356
Net loss	(29,449)	(2,981)	(113)	(32,543)
Basic and Diluted loss per share	\$ (1.15)			\$ (1.25)
Weighted average shares outstanding	25,649			25,959(B)

(A) The pro forma adjustment relates to amortization of intangible assets acquired as part of the acquisition. Total amortization for intangibles in the condensed combined statements of operations at March 31, 2006 including Impella from May 10, 2005 was \$1,307,000. A pro forma adjustment of \$113,000 was recorded to reflect the additional amortization expense related to intangible assets acquired as part of the acquisition for the period April 1, 2005 to May 10, 2005.

(B) The pro forma basic and diluted net loss per common share are computed by dividing the net loss by the weighted average number of common shares outstanding. When a net loss is reported, basic and diluted loss per share results in the same value. The calculation of the basic and diluted weighted average number of common shares outstanding assumes that the 4,029,004 shares of our common stock issued in the acquisition of Impella occurred as of April 1, 2005. If the 4,029,004 shares were issued as of April 1, 2005 the weighted average shares for the year ended March 31, 2006 would have been 25,959.