ABIOMED INC
Form 10-Q
August 11, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-20584

ABIOMED, INC.

(Exact name of registrant as specified in its charter)

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

22 CHERRY HILL DRIVE

DANVERS, MASSACHUSETTS 01923

(Address of principal executive offices, including zip code)

(978) 646-1400

(Registrant s telephone number, including area code)

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

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

As of August 1, 2008, there were 33,730,765 shares outstanding of the registrant s Common Stock, $.01 par value.

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ABIOMED, INC. AND SUBSIDIARIES

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

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PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2008 (Unaudited)	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,627	$ 2,042
Restricted securities	22,739	
Short-term marketable securities	4,062	36,257
Accounts receivable, net	13,883	14,071
Inventories	19,514	17,428
Prepaid expenses and other current assets	1,506	1,705
Total current assets	63,331	71,503
Property and equipment, net	7,232	7,551
Intangible assets, net	6,466	6,921
Goodwill	37,033	31,563
Other assets	565	493
Total assets	$ 114,627	$ 118,031
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,790	$ 9,024
Accrued expenses	7,821	9,290
Deferred revenue	1,072	1,162
Total current liabilities	15,683	19,476
Long-term deferred tax liability	4,799	4,740
Other long-term liabilities	73	221
Total liabilities	20,555	24,437
Commitments and contingencies (Note 14)		
Stockholders equity:		
Class B Preferred Stock, $.01 par value Authorized - 1,000,000 shares; Issued and outstanding - none		
Common stock, $.01 par value Authorized - 100,000,000 shares; Issued - 33,693,217 shares at June 30, 2008 and 32,779,404 shares at March 31, 2008; Outstanding - 33,682,198 shares at June 30, 2008 and 32,768,385 shares at March 31, 2008	337	328
Additional paid-in-capital	310,503	300,787
Accumulated deficit	(221,508)	(212,394)
Treasury stock at cost - 11,019 shares at June 30, 2008 and at March 31, 2008	(116)	(116)
Accumulated other comprehensive income	4,856	4,989
Total stockholders equity	94,072	93,594

Total liabilities and stockholders equity	$ 114,627	$ 118,031

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

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ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Revenue:		
Products	$ 16,270	$ 13,901
Funded research and development	87	162
	16,357	14,063
Costs and expenses:		
Cost of product revenue excluding amortization of intangibles	5,627	3,532
Research and development	6,144	5,516
Selling, general and administrative	13,514	12,441
Arbitration decision		1,232
Amortization of intangible assets	426	380
	25,711	23,101
Loss from operations	(9,354)	(9,038)
Other income:		
Investment income, net	244	907
Other income, net	141	1
	385	908
Loss before provision for income taxes	(8,969)	(8,130)
Provision for income taxes	145	145
Net loss	$ (9,114)	$ (8,275)
Basic and diluted net loss per share	$ (0.28)	$ (0.26)
Weighted average shares outstanding	32,845	32,338

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

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ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Three months ended June 30, 2008	Three months ended June 30, 2007
Operating activities:		
Net loss	$ (9,114)	$ (8,275)
Adjustments required to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	1,414	1,090
Bad debt expense	42	63
Stock-based compensation	1,716	1,672
Write-down of inventory	677	125
Loss on disposal of fixed assets	25	
Deferred tax provision	145	145
Arbitration decision		728
Change in unrealized (gain) loss on short-term marketable securities	(197)	
Changes in assets and liabilities source (use):		
Accounts receivable	138	(2,943)
Inventories	(3,241)	(2,490)
Prepaid expenses and other current assets	124	(207)
Accounts payable	(1,846)	(1,635)
Accrued expenses	(1,698)	(1,085)
Deferred revenue	(90)	23
Net cash used for operating activities	(11,905)	(12,789)
Investing activities:		
Purchases of short-term marketable securities	(5,632)	
Proceeds from the sale and maturity of short-term marketable securities	15,285	4,980
Expenditures for property and equipment	(644)	(963)
Net cash provided by investing activities	9,009	4,017
Financing activities:		
Issuance of common stock		949
Proceeds from the exercise of stock options	2,436	417
Net cash provided by financing activities	2,436	1,366
Effect of exchange rate changes on cash	45	(13)
Net decrease in cash and cash equivalents	(415)	(7,419)
Cash and cash equivalents at beginning of period	2,042	69,646
Cash and cash equivalents at end of period	$ 1,627	$ 62,227
Supplemental disclosures:		
Common shares issued for business acquisition	$ 5,574	$
Fixed asset additions included in accounts payable	155	9
Reclassification of short-term marketable securities to restricted securities	22,739	

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

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ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

1. Nature of Business and Basis of Preparation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and in accordance with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2008 that has been filed with the Securities Exchange Commission, or SEC.

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

2. Significant Accounting Policies

Goodwill and Intangible Assets

In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets,* the Company assesses the realizability of goodwill annually, at October 31, as well as whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. The Company s ability to realize the value of the goodwill will depend on the future cash flows of the business. If the Company is not able to realize the value of goodwill, the Company may be required to incur material charges relating to the impairment of those assets. The Company completed its annual review of goodwill as of October 31, 2007 and determined that no write-down for impairment was necessary.

In June 2008, the Company received U.S. Food and Drug Administration (FDA) 510(k) clearance of its Impella 2.5 product, triggering an obligation to pay $5.6 million of contingent payments related to the May 2005 acquisition of Impella (Note 7). As permitted by the share purchase agreement, the Company elected to make this milestone payment on June 30, 2008 in shares of its common stock. As a result, during the quarter ended June 30, 2008, the Company issued 343,075 shares of its common stock to the former Impella shareholders and recorded an increase to goodwill of $5.6 million.

Financial Instruments

The Company entered into a convertible note purchase agreement with World Heart Corporation (WorldHeart) in December 2007 (Note 9). Under the agreement, the Company loaned $5.0 million to WorldHeart, with the note and accrued interest, at 8% per annum, convertible at the Company s option into common stock of WorldHeart. The Company advanced $1.0 million of the loan in December 2007 with the remaining $4.0 million advanced in January 2008.

In May 2008, WorldHeart filed a Form 8-K disclosing that it had limited cash available to continue operations and that if it is unable to secure additional funding, it will be forced to take extraordinary business measures which could include filing for bankruptcy, ceasing operations and liquidating assets. Due to these events, the Company recorded an impairment charge of $5.0 million during fiscal 2008 relating to its note receivable from WorldHeart and its associated derivative instruments. As discussed in Note 9, WorldHeart completed the transactions contemplated by the recapitalization agreement dated June 20, 2008, as amended on July 31, 2008, among the Company, WorldHeart, and the other parties named therein. As a result of the transaction, the Company acquired 86,000,000 common shares of WorldHeart, which represented approximately 21.6% of WorldHeart s issued and outstanding common shares following the transaction. The shares were acquired as a result of the Company s conversion of the full amount of principal and interest owed on the $5.0 million convertible note previously issued to the Company by WorldHeart, the Company s release of the security interest in all of the assets of WorldHeart that secured the note, termination of the warrant the Company held to purchase 3,400,000 common shares of WorldHeart, and forgiveness of other amounts owed to the Company by WorldHeart.

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ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

New Accounting Pronouncements

SFAS No. 157 - In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Partial Deferral of the Effective Date of Statement 157*. The Company implemented this new pronouncement in the quarter ended June 30, 2008 and adoption did not have a material impact on its financial position or results of operations.

SFAS No. 159 - In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company implemented this new pronouncement in the quarter ended June 30, 2008 and adoption did not have a material impact on its financial position or results of operations.

EITF 07-3 - In June 2007, the EITF reached a final consensus on Issue No. 07-3 (EITF No. 07-3), *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, effective on a prospective basis for fiscal years beginning after December 15, 2007. This EITF issue did not have an impact on the Company s financial position or results of operations for the quarter ended June 30, 2008.

SFAS No. 141(R) - In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations.* SFAS No. 141(R) applies to any transaction or other event that meets the definition of a business combination. Where applicable, SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired, liabilities assumed, noncontrolling interest in the acquiree and goodwill or gain from a bargain purchase. In addition, SFAS No. 141(R) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is to be applied prospectively for transactions occurring in fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS No. 141(R) to have a material impact on its financial position or results of operations.

SFAS No. 160 - In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* an amendment of ARB No. 51. SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of the consolidation procedures under ARB No. 51 for consistency with the requirements of FASB Statement No. 141(R). This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement shall be applied prospectively as of the beginning of the fiscal year in which the statement is initially adopted. The Company is evaluating the impact that the adoption of this statement may have on its consolidated financial statements but it does not expect the adoption of SFAS No. 160 to have a material impact on its financial position or results of operations.

SFAS No. 161 - In March 2008, the FASB issued Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities*. This statement is intended to improve financial reporting about derivative instruments and hedging activities by enhanced disclosures to better understand their effects on a company s financial position, results of operation and cash flows. This standard is effective for interim and annual financial statements beginning after November 15, 2008. The Company is evaluating the impact that the adoption of this statement may have on its consolidated financial statements.

Note 3. Restricted Securities and Cash

The Company has restricted securities of approximately $22.7 million in current assets at June 30, 2008 and $0.4 million of restricted cash classified in other long-term assets at June 30, 2008 and March 31, 2008.

In June 2008, the Company entered into a $20.0 million revolving line of credit facility with Blue Ridge Investments L.L.C., an affiliate of Bank of America (Note 14), with a term expiring in June 2009. The credit facility is secured by a first priority security interest in the Company s holdings in the Columbia Fund and the Company pledged these holdings to Blue Ridge Investments, L.L.C. during the term of the credit facility. Any amounts borrowed under the credit facility will be reduced by any cash distributions made on the Columbia Fund. As a result, the Company has segregated the marketable securities held in the Columbia Fund as restricted securities while the credit facility is in place.

The restricted cash held in other long-term assets represents a security deposit for a letter of credit expiring in January 2011 associated with a telephone equipment operating lease.

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ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

Note 4. Fair Value Measurements

Effective April 1, 2008, the Company implemented SFAS No. 157, *Fair Value Measurement* (SFAS 157), for financial assets and liabilities that are re-measured and reported at fair value at each reporting period and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. The adoption of SFAS 157 did not have a material impact on the Company s financial position or results of operations.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

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

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

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities. This category also includes financial instruments that are valued using alternative approaches but for which the Company typically receives independent external valuation information including U.S. Treasuries and other U.S. Government and agency securities.

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

Level 3 is comprised of unobservable inputs that are supported by little or no market activity. Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial assets include the Columbia Fund recorded in restricted securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. At June 30, 2008, these securities were valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash inflows, as well as assumptions about liquidity.

The following table presents information about our financial assets that are measured at fair value on a recurring basis as of June 30, 2008 and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value:

	Level 1	**Level 2**	**Level 3**	**Total**
		(in $000 s)		
Assets:				
Columbia Strategic Cash Portfolio	$	$	$ 22,739	$ 22,739
U.S. Government Securities	4,000			4,000
	$ 4,000	$	$ 22,739	$ 26,739

The table below provides a summary of the changes in fair value, including net transfers, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarter ended June 30, 2008: