ABIOMED INC
Form 10-Q
August 09, 2006
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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, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-20584

ABIOMED, INC.

(Exact name of registrant as specified in its charter)

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

22 CHERRY HILL DRIVE

DANVERS, MASSACHUSETTS 01923

(Address of principal executive offices, including zip code)

(978) 777-5410

(Registrant s telephone number, including area code)

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

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

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

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

As of August 7, 2006, there were 26,565,191 shares outstanding of the registrant s Common Stock, $.01 par value.

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ABIOMED, INC. AND SUBSIDIARIES

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ABIOMED, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	June 30, 2006	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,732	$ 7,832
Short-term marketable securities	15,065	23,003
Accounts receivable, net of allowance for doubtful accounts of $214 at June 30, 2006 and $211 at March 31, 2006, respectively.	9,679	8,880
Inventories	4,209	4,868
Prepaid expenses and other current assets	2,226	1,860
Total current assets	40,911	46,443
Property and equipment, net of accumulated depreciation of $12,507 and $12,078 at June 30, 2006 and March 31, 2006, respectively	5,458	4,824
Intangible assets, net	8,211	8,164
Goodwill	20,114	19,106
Total assets	$ 74,694	$ 78,537
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,375	$ 3,070
Accrued expenses	4,062	5,185
Deferred revenue	705	484
Total current liabilities	7,142	8,739
Long-term liabilities	447	310
Total liabilities	7,589	9,049
Commitments and contingencies		
Stockholders equity:		
Class B Preferred Stock, $.01 par value- authorized- 1,000,000 shares; issued and outstanding-none		
Common stock, $.01 par value		
Authorized - 100,000,000 shares;		
Issued - 26,561,570 shares at June 30, 2006 and 26,474,270 at March 31, 2006		
Outstanding 26,555,391 shares at June 30, 2006 and 26,468,091 shares at March 31, 2006	266	265
Additional paid-in capital	216,723	214,666
Deferred stock-based compensation		(171)
Accumulated deficit	(149,439)	(143,308)

Treasury stock at cost; 6,179 shares at June 30, 2006 and March 31, 2006		(66)		(66)
Accumulated other comprehensive loss		(379)		(1,898)
Total stockholders equity		67,105		69,488
Total liabilities and stockholders equity	$	74,694	$	78,537

The accompanying notes are an integral part

of these condensed consolidated financial statements.

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ABIOMED, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS (continued)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share and share data)

	Three Months Ended	
	June 30, 2006	**June 30, 2005**
Revenues:		
Products	$ 13,008	$ 8,400
Funded research and development		23
	13,008	8,423
Costs and expenses:		
Cost of product revenues excluding amortization [(1)]	3,483	2,333
Research and development [(1)]	5,419	3,964
Selling, general and administrative[(1)]	9,392	7,304
Expensed in-process research and development	800	13,306
Amortization of intangibles	366	250
	19,460	27,157
Loss from operations[(1)]	(6,452)	(18,734)
Investment income	315	264
Foreign exchange gain (loss)	114	(54)
Other	30	16
	459	226
Provision for income taxes	138	
Net loss [(1)]	$ (6,131)	$ (18,508)
Basic and diluted loss per share	$ (0.23)	$ (0.77)
Weighted average shares outstanding	26,488,487	24,134,413

(1) Includes stock option expense for the quarter ended June 30, 2006 only; see footnote 3.

The accompanying notes are an integral part

of these condensed consolidated financial statements.

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ABIOMED, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS (continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(in thousands)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,131)	$ (18,508)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	783	551
Bad debt expense		193
Stock-based compensation	1,662	35
Write down of inventory	20	
Change in deferred taxes	138	
Expensed in-process research and development	800	13,306
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(723)	2,016
Inventories	759	(522)
Prepaid expenses, other current assets, other assets	(319)	(70)
Accounts payable	(748)	497
Accrued expenses	(1,395)	(825)
Deferred revenue	215	12
Net cash used in operating activities	(4,939)	(3,315)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the maturity of short and long-term securities	10,889	11,286
Purchases of short and long-term securities	(2,951)	(7,731)
Business acquisition, net of cash acquired		(1,620)
Purchases of intangibles	(808)	(62)
Purchases of property and equipment	(1,009)	(696)
Net cash provided by investing activities	6,121	1,177
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	567	429
Cash overdraft		829
Net cash provided by financing activities	567	1,258
NET INCREASE (DECREASE) IN CASH	1,749	(880)
EXCHANGE RATE EFFECT ON CASH	151	50
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,832	7,618

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 9,732	$ 6,788
Supplemental Disclosures		
Common shares issued for business acquisition		$ 42,200
Income taxes paid, net of refunds		

The accompanying notes are an integral part

of these condensed consolidated financial statements.

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ABIOMED, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION (continued)

ITEM 1: FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Preparation

The unaudited condensed consolidated financial statements of ABIOMED, Inc. (the Company), presented herein have been prepared in accordance with the Securities and Exchange Commission s (SEC) instructions to Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in our latest audited annual financial statements. These audited statements are contained in our Annual Report on Form 10-K for the year ended March 31, 2006 that has been filed with the SEC.

In our opinion, the accompanying condensed consolidated financial statements include all adjustments (consisting only of normal, recurring adjustments) necessary to summarize fairly the financial position and results of operations as of June 30, 2006 and for the three months then ended. The results of operations for the three months ended June 30, 2006 may not be indicative of the results that may be expected for the full fiscal year.

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

Certain amounts in prior period financial statements have been reclassified to conform to current period presentations.

2. Use of Estimates

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

3. Accounting for Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-based Payment*, which requires compensation costs related to share-based transactions, including employee share options, to be recognized in the financial statements based on fair value. SFAS No. 123(R) revises SFAS No. 123, as amended, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principals Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*.

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PART 1. FINANCIAL INFORMATION (continued)

ITEM 1: FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(continued)

3. Accounting for Stock-Based Compensation (continued)

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

The adoption of SFAS No. 123(R) resulted in an incremental expense of $1.6 million in the first quarter ended June 30, 2006 which is recorded within the applicable operating expense where the company reports the option holders compensation cost in the Consolidated Condensed Statements of Operations. The remaining unrecognized stock-based compensation expense for unvested stock option awards at June 30, 2006 was approximately $12.3 million, net of forfeitures, and the weighted average time over which this cost will be recognized is 2.2 years. The incremental expense resulted in a $0.06 decrease in both basic and diluted earnings per share in the first quarter of fiscal 2007.

Under SFAS 123(R), the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated by the standard. The Company is using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service period for awards expected to vest. The fair value of each option is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions in the first quarters of 2007 and 2006:

	Three Months Ended	
	June 30, 2006	**June 30, 2005**
Expected Stock Price Volatility	65%	79%
Risk Free Interest Rate	5.02%	3.90%
Expected Option Term in Years	6.25	7.5
Expected Dividend Yield		
Weighted Average Fair Value of Options	$ 7.31	$ 4.50

The Company calculated the volatility assumption using a blend of a historical volatility rates. The average expected life was estimated using the simplified method for determining the expected term as prescribed by the SEC s Staff Accounting Bulletin No. 107 *Share-based Payment* . The calculation of the fair value of the options is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures, adjusted to the extent historic forfeitures may not be indicative of forfeitures in the future.

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PART 1. FINANCIAL INFORMATION (continued)

ITEM 1: FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(continued)

3. Accounting for Stock-Based Compensation (continued)

Compensation expense related to the Company s Employee Stock Purchase Plan was $24 thousand for the first quarter of 2007, which was included in the $1.6 million total compensation expense for the quarter. The weighted average grant-date fair value of the purchases under the Employee Stock Purchase Plan was $3.42. The fair value of these purchases was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.79%, expected life of 0.5 years, volatility of 38.32% and a zero percent dividend yield.

On March 1, 2005, the Company issued a restricted stock grant of 24 thousand units to an officer of the Company. The restricted stock grant compensation expense is recognized on a straight-line basis over the vesting period which is three years.

Prior to April 1, 2006, the Company accounted for stock-based compensation plans in accordance with the provisions of APB No. 25. The Company elected to follow the disclosure-only alternative requirements of SFAS No. 123. Accordingly, the Company did not recognize the compensation expense for the issuance of options with fixed exercise prices at least equal to the fair market value at the date of the grant.

If compensation cost for the Company s grants issued under stock-based compensation plans including costs related to prior years grants had been determined based on SFAS No. 123, the Company s pro forma net loss and pro forma net loss per share for the quarter ended June 30, 2005 would have been as follows (in thousands, except per share data):

		Three Months Ended June 30, 2005
Net loss, as reported	$	(18,508)
Add: Stock-based employee compensation included in reported net loss		35
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards		(1,025)
Pro forma net loss	$	(19,498)
Basic and diluted net loss per share		
As reported	$	(0.77)
Pro forma	$	(0.81)

Stock Option Plans

With the exception of 3,557 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 June 30, 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 on a straight-line basis over the vesting period. Outstanding stock options, if not exercised, expire 10 years from the date of grant.

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ITEM 1: FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(continued)

3. Accounting for Stock-Based Compensation (continued)

The 1992 Combination Stock Option Plan, (as amended, the Combination Plan), was adopted in September 1992 as a combination and amendment of the Company s then outstanding Incentive Stock Option Plan and Nonqualified Plan. A total of 2,670,859 options were awarded from the Combination Plan that ended on May 1, 2002. As of June 30, 2006, 203,420 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, (as amended, the 2000 Plan), was adopted by the Company in August 2000. The 2000 Plan provides for grants of options to key employees, directors, advisors and consultants to the Company or its subsidiaries as either incentive or nonqualified stock options as determined by the Company s Board of Directors. Up to 4,900,000 shares of common stock may be awarded under the 2000 Plan and are exercisable at such times and subject to such terms as the Board of Directors may specify at the time of each stock option grant. Options outstanding under the 2000 Plan generally vest 4 years from the date of grant.

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

The following table summarizes the stock option transactions during the first quarter of fiscal 2007.

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at March 31, 2006	3,962	$ 10.11	&nbs	