ABIOMED INC
Form 10-Q
August 03, 2016

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, 2016

OR

o 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 001-09585

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) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

As of July 31, 2016, 43,034,341 shares of the registrant's common stock, $.01 par value, were outstanding.

ABIOMED, INC. AND SUBSIDIARIES

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NOTE REGARDING COMPANY REFERENCES

Throughout this report on Form 10-Q (the “Report”), “Abiomed, Inc.,” the “Company,” “we,” “us” and “our” refer to ABIOME
Inc. and its consolidated subsidiaries.

NOTE REGARDING TRADEMARKS

ABIOMED, IMPELLA, IMPELLA CP and IMPELLA RP are trademarks of ABIOMED, Inc., and are registered in the U.S. and certain foreign countries. AB5000, IMPELLA 2.5, IMPELLA 5.0, IMPELLA LD and cVAD REGISTRY are trademarks of ABIOMED, Inc. RECOVER is a trademark of Abiomed Europe GmbH, a subsidiary of ABIOMED, Inc., and is registered in certain foreign countries.

PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS
ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

	June 30, 2016	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$38,274	$48,231
Short-term marketable securities	184,900	163,822
Accounts receivable, net	41,280	42,821
Inventories	29,093	26,740
Prepaid expenses and other current assets	6,741	6,778
Total current assets	300,288	288,392
Long-term marketable securities	—	1,000
Property and equipment, net	25,950	23,184
Goodwill	32,272	33,003
In-process research and development	15,055	15,396
Long-term deferred tax assets, net	51,296	58,534
Other assets	4,451	4,422
Total assets	$429,312	$423,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$8,372	$9,381
Accrued expenses	26,257	28,382
Deferred revenue	8,590	8,778
Total current liabilities	43,219	46,541
Other long-term liabilities	213	220
Contingent consideration	7,739	7,563
Long-term deferred tax liabilities	814	832
Total liabilities	51,985	55,156
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class B Preferred Stock, $.01 par value	—	—
Authorized - 1,000,000 shares; Issued and outstanding - none		
Common stock, $.01 par value	430	426
Authorized - 100,000,000 shares; Issued - 44,543,177 shares at June 30, 2016 and 43,973,119 shares at March 31, 2016;		
Outstanding - 43,008,100 shares at June 30, 2016 and 42,596,228 shares at March 31, 2016		
Additional paid in capital	520,842	508,624

Accumulated deficit	(86,165)	(99,075)
Treasury stock at cost - 1,535,077 shares at June 30, 2016 and 1,376,891 shares at March 31, 2016	(41,691)	(26,660)
Accumulated other comprehensive loss	(16,089)	(14,540)
Total stockholders' equity	377,327	368,775
Total liabilities and stockholders' equity	$429,312	$423,931

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	For the Three Months Ended June 30, 2016	2015
Revenue:		
Product revenue	$ 102,989	$ 73,426
Funded research and development	6	6
	102,995	73,432
Costs and expenses:		
Cost of product revenue	15,070	10,868
Research and development	15,660	10,210
Selling, general and administrative	51,032	37,323
	81,762	58,401
Income from operations	21,233	15,031
Other income:		
Investment income, net	269	63
Other (expense) income, net	(77)	53
	192	116
Income before income taxes	21,425	15,147
Income tax provision	8,515	6,288
Net income	$ 12,910	$ 8,859
Basic net income per share	$ 0.30	$ 0.21
Basic weighted average shares outstanding	42,811	41,696
Diluted net income per share	$ 0.29	$ 0.20
Diluted weighted average shares outstanding	45,178	44,410

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	For the Three Months Ended June 30,	
	2016	2015
Net income	$12,910	$8,859
Other comprehensive (loss) income:		
Foreign currency translation (losses) gains	(1,699)	1,598
Net unrealized gains on marketable securities	150	10
Other comprehensive (loss) income	(1,549)	1,608
Comprehensive income	$11,361	$10,467

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the Three Months Ended June 30, 2016	2015
Operating activities:		
Net income	$12,910	$8,859
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,406	663
Bad debt expense	(31)	(37)
Stock-based compensation	8,397	4,799
Write-down of inventory	708	299
Excess tax benefit from stock-based awards	(1,041)	(81)
Deferred tax provision	7,000	5,805
Change in fair value of contingent consideration	176	151
Changes in assets and liabilities:		
Accounts receivable	1,517	(2,456)
Inventories	(3,393)	(4,549)
Prepaid expenses and other assets	7	463
Accounts payable	(145)	(1,767)
Accrued expenses and other liabilities	(952)	(2,063)
Deferred revenue	(179)	828
Net cash provided by operating activities	26,380	10,914
Investing activities:		
Purchases of marketable securities	(67,318)	(42,661)
Proceeds from the sale and maturity of marketable securities	47,090	50,263
Purchases of property and equipment	(5,099)	(1,863)
Net cash (used for) provided by investing activities	(25,327)	5,739
Financing activities:		
Proceeds from the exercise of stock options	2,770	4,589
Excess tax benefit from stock-based awards	1,041	81
Taxes paid related to net share settlement of vesting of stock awards	(15,033)	(3,465)
Proceeds from the issuance of stock under employee stock purchase plan	—	5
Net cash (used for) provided by financing activities	(11,222)	1,210
Effect of exchange rate changes on cash	212	167
Net (decrease) increase in cash and cash equivalents	(9,957)	18,030
Cash and cash equivalents at beginning of period	48,231	22,401
Cash and cash equivalents at end of period	$38,274	$40,431
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$420	$274

Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment in accounts payable and accrued expenses	996	123

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

Note 1. Nature of Business and Basis of Preparation

Abiomed, Inc. (the “Company” or “Abiomed”) is a provider of mechanical circulatory support devices and offers a continuum of care to heart failure patients. The Company develops, manufactures and markets proprietary products that are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. The Company’s products are used in the cardiac catheterization lab, or cath lab, by interventional cardiologists and in the heart surgery suite by heart surgeons for patients who are in need of hemodynamic support prophylactically or emergently before, during or after angioplasty or heart surgery procedures.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting and in accordance with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2016 that has been filed with the Securities and Exchange Commission (the “SEC”).

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature and are 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 or any other subsequent period.

There have been no changes in the Company’s significant accounting policies for the three months ended June 30, 2016 as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2016 that has been filed with the SEC.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers to provide updated guidance on revenue recognition. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies may need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 will become effective for the Company beginning in fiscal 2019 under either full or modified retrospective adoption, with early adoption permitted as of the original effective date of ASU 2014-09. The Company is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which applies to inventory that is measured using first-in, first-out or average cost methods. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out. ASU-2015-11 is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company does not expect the adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance requires an entity to recognize lease liabilities and a right-of-use asset for all leases on the balance sheet and to disclose key information about the entity's leasing arrangements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with earlier adoption permitted. ASU 2016-02 must be adopted using a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. The Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as

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classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2016-09 on its consolidated financial statements.

Note 2. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of dilutive common shares outstanding during the period. Diluted shares outstanding are calculated by adding to the weighted average shares outstanding any potential dilutive securities outstanding for the period. Potential dilutive securities include stock options, restricted stock units, performance-based stock awards and shares to be purchased under the Company's employee stock purchase plan. In periods when a net loss is reported, all common stock equivalents are excluded from the calculation because they would have an anti-dilutive effect, meaning the loss per share would be reduced. Therefore, in periods when a loss is reported, basic and dilutive loss per share are the same. The Company's basic and diluted net income per share for the three months ended June 30, 2016 and 2015 were as follows (in thousands, except per share data):

	For the Three Months Ended June 30,	
	2016	2015
Basic Net Income Per Share		
Net income	$ 12,910	$ 8,859
Weighted average shares used in computing basic net income per share	42,811	41,696
Net income per share - basic	$ 0.30	$ 0.21

	For the Three Months Ended June 30,	
	2016	2015
Diluted Net Income Per Share		
Net income	$ 12,910	$ 8,859
Weighted average shares used in computing basic net income per share	42,811	41,696
Effect of dilutive securities	2,367	2,714
Weighted average shares used in computing diluted net income per share	45,178	44,410

Net income per share - diluted	$ 0.29	$ 0.20

For the three months ended June 30, 2016, approximately 48,000 shares underlying out-of-the-money stock options were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive. Also, approximately 241,000 restricted shares in each of the three months ended June 30, 2016, related to performance-based awards for which milestones have not been met, were not included in the computation of diluted earnings per share.

For the three months ended June 30, 2015, approximately 2,000 shares underlying out-of-the-money stock options were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive. Also, approximately 234,000 restricted shares in each of the three months ended June 30, 2015 related to performance-based awards for which milestones had not been met were not included in the computation of diluted earnings per share.

Note 3. Marketable Securities and Fair Value Measurements

Marketable Securities

The Company’s marketable securities are classified as available-for-sale securities and, accordingly, are recorded at fair value. The difference between amortized cost and fair value is included in stockholders’ equity.

The Company’s marketable securities at June 30, 2016 and March 31, 2016 are invested in the following:

	Amortized Cost (in $000's)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
June 30, 2016:				
US Treasury mutual fund securities	$45,595	$ 23	$ —	$45,618
Short-term government-backed securities	112,642	73	(1)	112,714
Short-term corporate debt securities	26,449	119	-	26,568
	$184,686	$ 215	$ (1)	$184,900

	Amortized Cost (in $000's)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
March 31, 2016:				
US Treasury mutual fund securities	$45,635	$ 21	$ —	$45,656
Short-term government-backed securities	118,125	45	(4)	118,166
Long-term government-backed securities	999	1	-	1,000
	$164,759	$ 67	$ (4)	$164,822

Fair Value Hierarchy

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three categories:

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

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

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

Level 1 primarily consists of financial instruments whose values are based on quoted market prices such as exchange-traded instruments and listed equities.

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

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

The following table presents the Company's financial instruments recorded at fair value in the condensed consolidated balance sheets, classified according to the three categories described above:

June 30, 2016:	Level 1	Level 2	Level 3	Total
	(in $000's)			
Assets				
U.S. Treasury mutual fund securities	$—	$45,618	$—	$45,618
Short-term government-backed securities	—	112,714	—	112,714
Short-term corporate debt securities	—	26,568	—	26,568
Liabilities				
Contingent consideration	—	—	7,739	7,739

March 31, 2016:	Level 1	Level 2	Level 3	Total
	(in $000's)			
Assets				
U.S. Treasury mutual fund securities	$—	$45,656	$ —	$45,656
Short-term government-backed securities	—	118,166	—	118,166
Long-term government-backed securities	—	1,000	—	1,000
Liabilities				
Contingent consideration	—	—		