Core-Mark Holding Company, Inc.
Form 10-K
March 15, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
x Annual Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2010
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:
000-51515
CORE-MARK HOLDING COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-1489747
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
395 Oyster Point Boulevard, Suite 415 South San Francisco, California 94080	(650) 589-9445
(Address of Principal Executive Offices, including Zip Code)	(Registrant's Telephone Number, including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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.

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter: $289,526,950.

As of February 28, 2011, the Registrant had 11,282,056 shares of its common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

See Parts III and IV. Registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders is incorporated by reference to Part III in this Form 10-K.

TABLE OF CONTENTS

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information, the statements made in this Annual Report on Form 10-K are forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on certain assumptions or estimates, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial conditions or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, actual results and performance could differ materially from those set forth in the forward-looking statements. Forward-looking statements in some cases can be identified by the use of words such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “believe,” “could,” “would,” “project,” “predict,” “continue,” other similar words or expressions. These forward-looking statements are based on the current plans and expectations of our management and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those discussed in such forward-looking statements.

Factors that might cause or contribute to such differences include, but are not limited to, our dependence on the convenience retail industry for our revenues; uncertain economic conditions; competition; price increases; our dependence on relatively few suppliers; the low-margin nature of cigarette and consumable goods distribution; certain distribution centers' dependence on a few relatively large customers; competition in the labor market; product liability claims and manufacturer recalls of products; fuel price increases; our dependence on our senior management; our ability to successfully integrate acquired businesses; currency exchange rate fluctuations; our ability to borrow additional capital; governmental regulations and changes thereto, including the Family Smoking Prevention and Tobacco Control Act which was signed into law in June 2009 and granted the U.S. Food & Drug Administration the authority to regulate the production and marketing of tobacco products in the U.S.; earthquake and natural disaster damage; failure or disruptions to our information systems; a greater decline than anticipated in cigarette sales volume; our ability to implement marketing strategies; our reliance on manufacturer discount and incentive programs; tobacco and other product liability claims; and competition from sales of deep-discount cigarette brands and illicit and other low priced sales of cigarettes. Refer to Part I, Item 1A, “Risk Factors” of this Form 10-K. Except as provided by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

ITEM 1. BUSINESS

Unless the context indicates otherwise, all references in this Annual Report on Form 10-K to Core-Mark, the Company, we, us, or our refer to Core-Mark Holding Company, Inc. and its subsidiaries.

Company Overview

Core-Mark is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America in terms of annual sales, providing sales and marketing, distribution and logistics services to customer locations across the U.S. and Canada. Our origins date back to 1888, when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco, California.

Core-Mark offers retailers the ability to participate in manufacturer and Company-sponsored sales and marketing programs, merchandising and product category management services, as well as the use of information systems that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales. In addition, our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management and efficient processing of small orders. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory management and accessing trade credit.

We operate in an industry where, in 2009, based on the NACS Association for Convenience and Petroleum Retailing 2010 State of the Industry (“SOI”) Report, total in-store sales at convenience retail locations increased 4.9% to approximately $182.4 billion and were generated through an estimated 145,000 stores across the U.S. We estimate that approximately 50% of the products that these stores sell are supplied by wholesale distributors such as Core-Mark. The convenience retail industry gross profit for in-store sales was approximately $58.6 billion in 2009 and $55.6 billion in 2008. Over the ten years from 1999 through 2009, convenience in-store sales increased by a compounded annual growth rate of 6.2%.

We distribute a diverse line of national and private label convenience store products to approximately 26,000 customer locations in all 50 states of the U.S. and five Canadian provinces. The products we distribute include cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, bread, non-alcoholic beverages, general merchandise and health and beauty care products. We service traditional convenience stores as well as alternative outlets selling convenience products. Our traditional convenience store customers include many of the major national and super-regional convenience store operators, as well as thousands of multi- and single-store customers. Our alternative outlet customers comprise a variety of store formats, including drug stores, grocery stores, liquor stores, cigarette and tobacco shops, hotel gift shops, military exchanges, college bookstores, casinos, movie theaters, hardware stores and airport concessions.

We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) in the U.S. and Canada. We distribute approximately 43,000 Stock Keeping Units ("SKUs") of packaged consumable goods to our customers and also provide an array of information and data services that enable our customers to better manage retail product sales and marketing functions.

In 2010, our consolidated net sales increased 11.3% to $7,266.8 million from $6,531.6 million in 2009. Cigarettes comprised approximately 70.5% of total net sales in 2010, while approximately 69.0% of our gross profit was generated from food/non-food products.

Competitive Strengths

We believe we have the following fundamental competitive strengths which are the foundation of our business strategy:

Experience in the Industry. Our origins date back to 1888, when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco, California. The executive management team, comprised of our CEO and 14 senior managers, has an average tenure of over 15 years and applies their expertise to

critical functional areas including logistics, sales and marketing, purchasing, information technology, finance, human resources and retail store support.

Innovation & Flexibility. Wholesale distributors typically provide convenience retailers access to a broad product line, the ability to place small quantity orders, inventory management and access to trade credit. As a large, full-service wholesale distributor we offer retailers the ability to participate in manufacturer and Company-sponsored sales and marketing programs, merchandising and product category management services, as well as the use of information systems that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales.

Table of Contents

Distribution Capabilities. The wholesale distribution industry is highly fragmented and historically has consisted of a large number of small, privately-owned businesses and a small number of large, full-service wholesale distributors serving multiple geographic regions. Relative to smaller competitors, large distributors such as Core-Mark benefit from several competitive advantages including: increased purchasing power, the ability to service large national chain accounts, economies of scale in sales and operations, the ability to spread fixed costs over a larger revenue base and the resources to invest in information technology and other productivity enhancing technology.

Business Strategy

Our objective is to increase overall return to shareholders by growing market share, revenues and profitability. To achieve that objective, we have become one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. In order to further enhance our value to the retailer, we plan to:

Drive our Vendor Consolidation Initiative ("VCI"). We expect our VCI program will allow us to grow by capitalizing on the highly fragmented nature of the distribution channel that services the convenience retail industry. A convenience retailer generally receives store merchandise through a large number of unique deliveries. This represents a highly inefficient and costly process for the individual stores. Our VCI program offers convenience retailers the ability to receive one delivery for the bulk of their products, including dairy and other perishable items, thus simplifying the supply chain and eliminating operational costs.

Deliver Fresh Products. We believe there is an increasing trend among consumers to purchase fresh food and dairy products from convenience stores. To meet this expected demand, we have modified and upgraded our refrigerated capacity, including investing in chill docks, state-of-the-art ordering devices and tri-temperature trailers, which enables us to deliver a significant range of chilled items including milk, produce and other fresh foods to retail outlets. We have also established partnerships with strategically located bakeries and commissaries to further enable us to deliver the freshest product possible. We continue to expand the delivery of fresh products through the development of unique and comprehensive marketing programs, and we have rebranded the Company to properly reflect the role this fresh product line will play in our and the industry's future. We believe our investments in infrastructure and branding, combined with our strategically located suppliers and in-house expertise, position us as the leader in providing fresh products and programs to convenience stores.

Expand our Presence Eastward. We believe there is significant opportunity for us to increase our market share by continuing to expand our presence east of the Mississippi. According to The Association for Convenience & Petroleum Retailing 2010 SOI Report, during 2009, aggregate U.S. traditional convenience retail in-store sales were approximately $182.4 billion through approximately 145,000 stores with the majority of those stores located east of the Mississippi. We believe our expansion eastward will be accomplished by acquiring new customers, both national and regional, through a combination of exemplary service, VCI programs, fresh product deliveries, innovative marketing strategies and competitive pricing.

In January 2008, we opened a distribution facility near Toronto, Ontario. This facility expanded our existing market geography in Canada. In addition to organic growth, we intend to explore select acquisitions of other wholesale distributors which complement our business. In June 2008, we acquired Auburn Merchandise Distributors, Inc. ("AMD" or "New England") to further expand our presence and infrastructure in the Northeastern region of the U.S. In August 2010, we acquired Finkle Distributors, Inc. ("FDI"), a convenience wholesaler servicing customers in New York, Pennsylvania and the surrounding states, to continue to expand our market share in the Northeastern region of the U.S. (see Note 3 -- Acquisitions to our consolidated financial statements).

Continue Building Sustainable Competitive Advantage. We believe our ability to increase sales and profitability with existing and new customers is highly dependent upon our ability to deliver consistently high levels of service, innovative marketing programs and information technology and logistics support. To that fundamental end, we are committed to further improving operational efficiencies in our distribution centers while containing our costs in order to enhance profitability. To further enhance our competitive advantage, we have been the first to recognize emerging trends and to offer retailers our unique marketing programs such as VCI and Fresh. We believe this innovation has established us as the market leader in providing valuable marketing and supply chain solutions in the industry.

Customers, Products and Suppliers

We service approximately 26,000 customer locations in all 50 states of the U.S. and five Canadian provinces. Our customers represent many of the large national and regional convenience retailers in the U.S. and Canada and leading alternative outlet customers. Our top ten customers accounted for approximately 32.6% of our sales in 2010, and no single customer accounted for 10% or more of our total sales in 2010.

Table of Contents

Below is a comparison of our net sales mix by primary product category for the last three years (in millions):

	Year ended December 31,								
	2010			2009			2008		
	Net Sales	% of Net Sales		Net Sales	% of Net Sales		Net Sales	% of Net Sales	
Cigarettes	$5,119.7	70.5	%	$4,589.1	70.3	%	$4,124.8	68.2	%
Food	840.9	11.6	%	738.0	11.3	%	710.1	11.7	%
Candy	426.0	5.8	%	405.0	6.2	%	401.3	6.7	%
Other tobacco products	503.6	6.9	%	434.0	6.6	%	402.7	6.7	%
Health, beauty & general	220.6	3.0	%	209.5	3.2	%	220.1	3.6	%
Non-alcoholic beverages	152.0	2.1	%	151.7	2.3	%	180.9	3.0	%
Equipment/other	4.0	0.1	%	4.3	0.1	%	5.0	0.1	%
Total food/non-food products	2,147.1	29.5	%	1,942.5	29.7	%	1,920.1	31.8	%
Total net sales	$7,266.8	100.0	%	$6,531.6	100.0	%	$6,044.9	100.0	%

Cigarette Products. We purchase cigarette products from major U.S. and Canadian manufacturers. With cigarettes accounting for approximately $5,119.7 million or 70.5% of our total net sales and 31.0% of our total gross profit in 2010, we control major purchases of cigarettes centrally in order to optimize inventory levels and purchasing opportunities. The daily replenishment of inventory and brand selection is controlled by our distribution centers.

In the U.S., legislation was introduced in 2008 to fund the State Children's Health Insurance Program (“SCHIP”) by raising the federal cigarette excise tax from 39¢ to $1.01 per pack. Federal excise tax is included as a component of our product cost charged by the manufacturer. The legislation, which was signed into law in February 2009, became effective April 1, 2009. As a result, our net cigarette sales were inflated in 2009, due primarily to the significant price increases from manufacturers in response to the SCHIP legislation.

U.S. cigarette consumption has generally declined over the last ten years. Based on 2010 statistics provided by the Tobacco Merchants Association (“TMA”) published in early 2011 and compiled from the U.S. Department of Agriculture-Economic Research Service, total cigarette consumption in the U.S. declined from 456 billion cigarettes in 2000 to 299 billion cigarettes in 2010, or 34%. Prior to 2007, we had benefited from a shift in cigarette and tobacco sales to the convenience retail segment based on statistics reported by NACS. In 2010, convenience retailers were the largest trade class for cigarette sales accounting for approximately 70% of total industry volume according to the R.J. Reynolds' 2010 Industry Report. The shift in cigarette carton sales from other channels to the convenience retail segment may no longer be adequate to compensate for consumption declines. However, we expect to offset the majority of the impact from these declines through market share expansion, growth in our non-cigarette categories and incremental gross profit that results from cigarette manufacturer price increases. We expect cigarette manufacturers will raise prices as carton sales decline in order to maintain or enhance their overall profitability.

Total cigarette consumption also declined in Canada from 43 billion cigarettes in 2000 to 25 billion cigarettes in 2010, or a 42% reduction in consumption, based on the 2010 statistics provided by TMA.

In 2010, our carton sales in the U.S. increased 1.1%, excluding the impact resulting from the acquisition of Finkle Distributors, Inc., in August 2010. Our carton sales in Canada increased 7.5% primarily through market share gains driven by our expansion in the Toronto market.

We have no long-term cigarette purchase agreements and buy substantially all of our products on an as needed basis. Cigarette manufacturers historically have offered structured incentive programs to wholesalers based on maintaining market share and executing promotional programs. These programs are subject to change by the manufacturers without notice.

In addition to excise taxes levied by the federal government, excise taxes on cigarettes and other tobacco products are also imposed by the various states, localities and provinces. We collect state, local and provincial excise taxes from our customers and remit these amounts to the appropriate authorities. Excise taxes are a significant component of our revenue and cost of sales. During 2010, we included in net sales approximately $1,756.5 million of state, local and provincial excise taxes. As of December 31, 2010, state cigarette excise taxes in the U.S. jurisdictions we serve ranged

from $0.17 per pack of 20 cigarettes in the state of Missouri to $4.35 per pack of 20 cigarettes in the state of New York. In the Canadian jurisdictions we serve, provincial excise taxes ranged from C$2.47 per pack of 20 cigarettes in Ontario to C$5.48 per pack of 20 cigarettes in the Northwest Territories.

Table of Contents

Federal excise taxes are levied on the manufacturers who pass the tax on to us as part of the product cost and thus are not a component of our excise taxes.

Food/Non-food Products. Our food products include fast food, candy, snacks, groceries, non-alcoholic beverages, fresh products such as sandwiches, juices, salads, produce, dairy and bread. Our non-food products include cigars, tobacco, health and beauty products, general merchandise and equipment. Sales of the combined food/non-food product categories grew 10.5% in 2010 to $2,147.1 million, which was 29.5% of our total net sales. Gross profits for food/non-food categories grew $6.7 million, or 2.6%, to $265.9 million, which was 69.0% of our total gross profit. Food/non-food products generated gross margins of 13.40% excluding excise taxes in 2010, while the cigarette category generated gross margins of 3.39% excluding excise taxes. Gross margin growth in our food/non-food categories was negatively impacted by a $5.3 million reduction in floor stock income due to lower manufacturers' price inflation.

Due to the significantly higher margins earned by food/non-food products, two of our key business strategies, VCI and our fresh initiative, focus primarily on the higher margin categories in the food group. These categories include milk, fresh bread, fresh sandwiches, fresh fruit, fresh produce, fresh baked goods, healthy snacks and home replacement meals. This drive toward more healthy and fresh foods being sold in the convenience markets is a recognized major trend in the industry. We have invested a significant amount of capital to position our Company to have the proper infrastructure to deliver these highly perishable items. Our objective is to consolidate the current fragmented nature of convenience store vendor distribution by consolidating such items as dairy and bread and to grow “fresh food” market share for the customers we service as they fight for consumer “share of stomach” for fresh foods with other retailers. Ultimately the defragmentation of vendor deliveries coupled with market share gains in fresh foods for the stores we service will increase our customers' sales and profits and in turn improve our sales and profits.

Our Suppliers. We purchase products for resale from approximately 4,400 trade suppliers and manufacturers located across the U.S. and Canada. In 2010, we purchased approximately 62% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R.J. Reynolds, representing approximately 28% and 13% of our purchases, respectively. We coordinate our purchasing from suppliers by negotiating, on a corporate-wide basis, special arrangements to obtain volume discounts and additional incentives, while also taking advantage of promotional and marketing incentives offered to us as a wholesale distributor. In addition, buyers in each of our distribution facilities purchase products, particularly food, directly from the manufacturers, improving product mix and availability for individual markets.

Seasonality

We typically generate slightly higher revenues and gross profits during the warm weather months (May through September) than in other times throughout the year. We believe this occurs because the convenience store industry which we serve tends to be busier during this period due to vacation and travel. During the second and third quarters of 2010, 2009 and 2008, we generated approximately 53% of our net sales for each fiscal year.

Table of Contents

Operations

We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider). Twenty of our distribution centers are located in the U.S. and four are located in Canada. The map below depicts the scope of our operations and distribution centers.

Map of Operations

Two of the facilities we operate in the U.S., Artic Cascade and Allied Merchandising Industry, are consolidating warehouses which buy products from our suppliers in bulk quantities and then distribute the products to many of our other distribution centers. By using Artic Cascade, located in Sacramento, California, to obtain products at lower cost from frozen product vendors, we are able to offer a broader selection of quality products to retailers at more competitive prices. Allied Merchandising Industry, located in Corona, California, purchases the majority of our non-food products, other than cigarettes and tobacco products, for our distribution centers, enabling us to reduce our overall general merchandise and health and beauty care product inventory. We operate two additional facilities as a third party logistics provider. One distribution facility located in Phoenix, Arizona, referred to as the Arizona Distribution Center (“ADC”), is dedicated solely to supporting the logistics and management requirements of one of our major customers, Alimentation Couche-Tard Inc. The second distribution facility located in San Antonio, Texas, referred to as the Retail Distribution Center (“RDC”), is dedicated solely to supporting another major customer, Valero Energy Corporation.

We purchase a variety of brand name and private label products, totaling approximately 43,000 SKUs, including approximately 1,700 cigarette products, from our suppliers and manufacturers. We offer customers a variety of food and non-food products, including fast food, candy, snacks, groceries, fresh products, dairy, bread, non-alcoholic beverages, other tobacco products, general merchandise and health and beauty care products.

A typical convenience store order consists of a mix of dry, frozen and chilled products. Our receivers, stockers, order selectors, stampers, forklift drivers and loaders received, stored and picked approximately 454 million, 426 million and 435 million items (a carton of 10 packs of cigarettes is one item) or 71 million, 65 million and 66 million cubic feet of product, during the years ended December 31, 2010, 2009 and 2008, respectively, while limiting the service error rate to approximately two errors per thousand items shipped in 2010.

Our proprietary Distribution Center Management System ("DCMS") platform provides our distribution centers with the flexibility to adapt to our customers' information technology requirements in an industry that does not have a standard information technology platform. Actively integrating our customers onto our platform is a priority which enables fast, efficient and reliable service.

Table of Contents

Distribution

At December 31, 2010, we had approximately 991 transportation department personnel, including delivery drivers, shuttle drivers, routers, training supervisors and managers who focus on achieving safe, on-time deliveries. Our daily orders are picked and loaded nightly in reverse order of scheduled delivery. At December 31, 2010, our trucking fleet consisted of approximately 700 tractors, trucks and vans, of which nearly all were leased. We have made a significant investment over the past few years in upgrading our trailer fleet to tri-temperature ("tri-temp") which gives us the capability to deliver frozen, chilled and non-refrigerated goods in one delivery. As of December 31, 2010, approximately 70% of our trailers were tri-temp, with the remainder capable of delivering refrigerated and non-refrigerated foods. This provides us the multiple temperature zone capability needed to support our focus on delivering fresh products to our customers. Our fuel consumption costs for 2010 totaled approximately $9.5 million, net of fuel surcharges passed on to customers, which represented an increase of approximately $4.6 million, from $4.9 million in 2009, due to higher fuel prices, a 6.9% increase in miles driven excluding FDI, and the acquisition of FDI.

Competition

We estimate that, as of December 31, 2010, there were over 300 wholesale distributors serving traditional convenience retailers in the U.S. We believe that McLane Company, Inc., a subsidiary of Berkshire Hathaway, Inc., and Core-Mark are the two largest convenience wholesale distributors, measured by annual sales, in North America. There are also companies that provide products to specific regions of the country, such as The H.T. Hackney Company in the Southeast, Eby-Brown Company in the Midwest, Mid-Atlantic and Southeast and GSC Enterprises, Inc. in Texas and surrounding states, and several hundred local distributors serving small regional chains and independent convenience retailers. In Canada, there are fewer wholesale distributors compared to the U.S. In addition, certain manufacturers such as The Coca Cola Company, Hostess Brands, Inc., Frito- Lay North America, Inc. and PepsiCo, Inc. deliver their products directly to convenience retailers.

Competition within the industry is based primarily on the range and quality of the services provided, price, variety of products offered and the reliability of deliveries. We operate from a perspective that focuses heavily on flexibility and providing outstanding customer service through our distribution centers, order fulfillment rates, on-time delivery performance using delivery equipment sized for the small format store, innovative marketing solutions and merchandising support, as well as competitive pricing. We believe this represents a contrast to some large competitors who offer a standardized logistics approach, with emphasis on uniformity of product lines, and company determined delivery schedules using large delivery equipment designed for large format stores, while also providing competitive order fulfillment rates and pricing. The emphasis on the logistics approach, while responsive to competitive pricing, is not in our opinion best suited for retailers looking for more customized solutions and support from their supply partners in addition to competitive pricing. Some small competitors focus on customer service and long standing customer relationships but often times lack the range of offerings of the larger distributor. We believe that our unique combination of service, marketing solutions and price is a compelling combination that is highly attractive to customers and may enhance their growth and profitability.

We purchase cigarettes primarily from manufacturers covered by the tobacco industry's Master Settlement Agreement ("MSA"), which was signed in November 1998. Competition amongst cigarette wholesalers is based primarily on service, price and variety, whereas competition amongst manufacturers for cigarette sales is based primarily on brand positioning, price, product attributes, consumer loyalty, promotions, marketing and retail presence. Cigarette brands produced by the major tobacco product manufacturers generally require competitive pricing, substantial marketing support, retail programs and other financial incentives to maintain or improve a brand's market position. Historically, major tobacco product manufacturers have had a competitive advantage in the U.S. because significant cigarette marketing restrictions and the scale of investment required to compete made gaining consumer awareness and trial of new brands difficult.

We also face competition from the sale of cigarettes by third parties over the internet and by other means designed to avoid collection of applicable taxes, including the sale of cigarettes in non-taxable jurisdictions, imports of foreign, low-priced brands and the diversion into the U.S. market of cigarettes intended for sale outside the U.S. We believe

the competitive environment has been impacted by alternative smoking products, such as snus and snuff, higher prices due to higher federal and state excise taxes and list price increases for cigarettes manufactured by parties to the MSA, and the impact of restrictions on marketing imposed by the U.S. Food and Drug Administration ("FDA"). As a result, the lowest priced products of numerous small share brands manufactured by companies that are not parties to the MSA have held their market share, putting pressure on the profitability of premium cigarettes.

Working Capital Practices

We sell products on credit terms to our customers that averaged, as measured by days sales outstanding, about nine days for 2010, 2009 and 2008. Credit terms may impact pricing and are competitive within our industry. An increasing number of our

Table of Contents

customers remit payment electronically, which facilitates efficient and timely monitoring of payment risk. Canadian days sales outstanding in receivables tend to be lower as Canadian industry practice is for shorter credit terms than in the U.S.

We maintain our inventory of products based on the level of sales of the particular product and manufacturer replenishment cycles. The number of days a particular item of inventory remains in our distribution centers varies by product and is principally driven by the turnover of that product and economic order quantities. We typically order and carry in inventory additional amounts of certain critical products to assure high order fulfillment levels for these items. The number of days of cost of sales in inventory averaged about 15 days during 2010, 2009 and 2008.

We obtain terms from our vendors and certain taxing jurisdictions based on industry practices and consistent with our credit standing. We take advantage of the full complement of term offerings, which may include enhanced cash discounts for earlier payment. Terms for our accounts payable and cigarette and tobacco taxes payable range anywhere from three days prepaid to 60 days credit. Days payable outstanding for both categories, excluding the impact of prepayments, during 2010 and 2009 averaged 11 days, compared to 12 days in 2008.

Employees

The following chart provides a breakdown of our employees by function and geographic region as of December 31, 2010:

TOTAL EMPLOYEES BY BUSINESS FUNCTIONS

	U.S.	Canada	Total
Sales and Marketing	1,091	83	1,174
Warehousing and Distribution	2,376	267	2,643
Management, Administration, Finance and Purchasing	478	104	582
Total Categories	3,945	454	4,399

Three of our distribution centers, Hayward, Las Vegas and Calgary, have employees who are covered by collective bargaining agreements with local affiliates of The International Brotherhood of Teamsters (Hayward and Las Vegas) and United Food and Commercial Workers (Calgary). Approximately 213 employees, or 4.8% of our workforce, are unionized. There have been no disruptions in customer service, strikes, work stoppages or slowdowns as a result of union activities, and we believe we have satisfactory relations with our employees.

Regulation

As a distributor of food products, we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated by the FDA. The FDA regulates the holding requirements for foods through its current good manufacturing practice regulations, specifies the standards of identity for certain foods and prescribes the format and content of certain information required to appear on food product labels. A limited number of the over-the-counter medications that we distribute are subject to the regulations of the U.S. Drug Enforcement Administration. In Canada, similar standards related to food and over-the-counter medications are governed by Health Canada. The products we distribute are also subject to federal, state, provincial and local regulation through such measures as the licensing of our facilities, enforcement by state, provincial and local health agencies of relevant standards for the products we distribute and regulation of our trade practices in connection with the sale of our products. Our facilities are inspected periodically by federal, state, provincial and local authorities, including the Occupational Safety and Health Administration under the U.S. Department of Labor, which require us to comply with certain health and safety standards to protect our employees.

We are also subject to regulation by numerous other federal, state, provincial and local regulatory agencies including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers, the U.S. and Canadian Departments of Transportation, which regulate transportation of perishable goods, and similar state, provincial and local agencies. Non-compliance with, or significant changes to, these laws or the implementation of new laws, could have a material effect on our results of operations.

We voluntarily participate in random quality inspections of all of our distribution centers, conducted by the American Institute of Baking (“AIB”). The AIB publishes standards as a tool to permit operators of distribution centers to evaluate the food safety risks within their operations and determine the levels of compliance with the standards. AIB conducts an inspection which is composed of food safety and quality criteria. AIB conducts its inspections based on five categories: adequacy of the company's

Table of Contents

food safety program, pest control, operational methods and personnel practices, maintenance of food safety and cleaning practices. Within these five categories, the AIB evaluates over 100 criteria items. AIB's independent evaluation is summarized and posted on its website for our customers' review. In 2010, nearly 97% of our distribution centers received the highest rating from the AIB with the remaining 3% receiving the second highest rating.

Registered Trademarks

We have registered trademarks including the following: Arcadia Bay®, Arcadia Bay Coffee Company®, Cable Car®, Core-Mark®, Core-Mark International®, EMERALD®, Java Street®, QUICKEATS®, Richland Valley™, SmartStock® and Tastefully Yours®.

Segment and Geographic Information

We operate in two reportable geographic segments -- the U.S. and Canada. See Note 15 -- Segment Information to our consolidated financial statements.

Corporate and Available Information

The office of our corporate headquarters is located at 395 Oyster Point Boulevard, Suite 415, South San Francisco, California, 94080 and the telephone number is (650) 589-9445.

Our internet website address is www.core-mark.com. We provide free access to various reports that we file with or furnish to the U.S. Securities and Exchange Commission (“SEC”) through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q and any amendments to those reports. Our SEC reports can be accessed through the “Investor Relations” section of our website, or through www.sec.gov. Also available on our website are printable versions of Core-Mark's Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Code of Business Conduct and Ethics, and Corporate Governance Guidelines and Principles. Copies of these documents may also be requested from:

Core-Mark International
395 Oyster Point Blvd, Suite 415
South San Francisco, CA 94080
Attention: Investor Relations

Corporate Governance--Code of Business Conduct and Ethics and Whistle Blower Policy:

Our Code of Business Conduct and Ethics is designed to promote honest, ethical and lawful conduct by all employees, officers and directors and is posted on the “Investor Relations” section of our website at www.core-mark.com under “Corporate Governance.”

Additionally, the Audit Committee (“Audit Committee”) of the Board of Directors of Core-Mark has established procedures to receive, retain, investigate and act on complaints and concerns of employees, shareholders and others regarding accounting, internal accounting controls and auditing matters, including complaints regarding attempted or actual circumvention of internal accounting controls or complaints regarding violations of the Company's accounting policies. The procedures are also described in our website address at www.core-mark.com under Corporate Governance in the “Investor Relations” section.

Table of Contents

ITEM 1. A. RISK FACTORS

You should carefully consider the following risks together with all of the other information contained in this Annual Report on Form 10-K. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition or results of operations.

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, the risk factors set forth below (see Special Note Regarding Forward-Looking Statements prior to Item 1. Business).

Risks Related to the Economy and Market Conditions

Current difficult economic conditions may reduce demand for our products and increase credit risks.

Continuing difficult economic conditions, including increased unemployment and underemployment rates, significant declines in real estate values, large losses to consumer retirement and investment accounts and increases in food prices, have resulted in reduced consumer confidence and curtailed consumer spending. If these economic conditions persist or deteriorate further, we expect that convenience retail operators will experience continued weakness and further reductions in same store sales, which will adversely affect demand for our products and lead to reduced sales and increased pressures on margins. In addition, ongoing uncertainty in the financial markets and the resulting pressures on liquidity may place a number of our convenience retail customers under financial stress, which could increase our credit risk and potential bad debt exposure. These economic and market conditions may have a material adverse effect on our business and operating results.

Our business is sensitive to gasoline prices and related transportation costs, which could adversely affect business.

Our operating results are sensitive to, and may be adversely affected by, unexpected increases in fuel or other transportation-related costs, including costs from the use of third party carriers, temporary staff and overtime. Our retailers have reported to us that when gasoline prices increased they have experienced a decrease in the proportion of their customers' expenditures on food/non-food products compared to customers' expenditures on cigarettes. The shift in expenditures may place pressure on our sales and gross margins since sales of food/non-food products result in higher margins than sales of cigarettes do.

Historically, we have been able to pass on a substantial portion of increases in our own fuel or other transportation costs to our customers in the form of fuel surcharges, but our ability to continue to pass through price increases, either from manufacturers or costs incurred in the business, including fuel costs, is not assured. If we are unable to continue to pass on fuel and transportation-related cost increases to our customers, our operating results could be materially and adversely affected.

As a result of recent recessionary economic conditions, our pension plan is currently underfunded and we will be required to make cash payments to the plan, reducing the cash available for our business.

We record a liability associated with the underfunded status of our pension plans when the benefit obligation exceeds the fair value of the plan assets. Included in claims liabilities on our balance sheet as of December 31, 2010 is $8.5 million related to the underfunded pension obligation compared with $11.6 million as of December 31, 2009. The decrease in the underfunded status of our pension plans from 2009 to 2010 is due primarily to an increase in Company contributions and a higher return than expected on invested plan assets for 2010. If the performance of the assets in the plan does not meet our expectations, or if other actuarial assumptions are modified, our future cash payments to the plan could be substantially higher than we expect. We contributed $3.4 million to our plan in 2010, compared to $0.2 million and $0.4 million in 2009 and 2008, respectively. The pension plan is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Under ERISA, the Pension Benefit Guaranty Corporation ("PBGC") has the authority to terminate an underfunded pension plan under limited circumstances. In the event our pension plan is terminated for any reason while it is underfunded, we will incur a liability to the PBGC that may be equal to the entire amount of the underfunding in the pension plan.

Risks Related to Our Business and Industry

We are dependent on the convenience retail industry for our revenues, and our results of operations would suffer if there is an overall decline or consolidation in the convenience retail industry.

The majority of our sales are made under purchase orders and short-term contracts with convenience retail stores which inherently involve significant risks. These risks include declining sales in the convenience retail industry due to general economic conditions, credit exposure from our customers, termination of customer relationships without notice, consolidation of our customer base and consumer movement toward purchasing from club stores. Any of these factors could negatively affect our results of operations.

Table of Contents

We face competition in our distribution markets and, if we are unable to compete effectively in any distribution market, we may lose market share and suffer a decline in sales and profitability.

Our distribution centers operate in highly competitive markets. We face competition from local, regional and national tobacco and consumable products distributors on the basis of service, price and variety of products offered, schedules and reliability of deliveries and the range and quality of services provided. Some of our competitors, including a subsidiary of Berkshire Hathaway Inc., McLane Company, Inc., the largest convenience wholesale distributor in the U.S., have substantial financial resources and long standing customer relationships. In addition, heightened competition among our existing competitors, or by new entrants into the distribution market, could create additional competitive pressures that may reduce our margins and adversely affect our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, we may lose market share and our results of operations could suffer.

Increasing the growth and profitability of our distribution business is particularly dependent upon our ability to retain existing customers and attract additional customers. The ability to attract additional customers through our existing network of distribution centers is especially important because it enables us to leverage our distribution centers and other fixed assets. Our ability to retain existing customers and attract new customers is dependent upon our ability to provide industry-leading customer service, offer competitive products at low prices, maintain high levels of productivity and efficiency in distributing products to our customers while integrating new customers into our distribution system, and offer marketing, merchandising and ancillary services that provide value to our customers. If we are unable to execute these tasks effectively, we may not be able to attract a significant number of new customers and our existing customer base could decrease, either or both of which could have an adverse impact on our results of operations.

We may lose business if cigarette or other manufacturers decide to engage in direct distribution of their products.

In the past, certain large manufacturers have elected to engage in direct distribution of their products and eliminate distributors such as Core-Mark. If other manufacturers make similar decisions in the future, our revenues and profits would be adversely affected and there can be no assurance that we will be able to take action to compensate for such losses.

Cigarette and consumable goods distribution is a low-margin business sensitive to economic conditions.

We derive most of our revenues from the distribution of cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise and health and beauty care products. Our industry is characterized by a high volume of sales with relatively low profit margins. Our food/non-food sales are at prices that are based on the cost of the product plus a percentage markup. As a result, our profit levels may be negatively impacted during periods of cost deflation for these products, even though our gross profit as a percentage of the price of goods sold may remain relatively constant. Alternatively, periods of product cost inflation may also have a negative impact on our profit margins and earnings with respect to sales of cigarettes. Gross profit on cigarette sales are generally fixed on a cents per carton basis. Therefore, as cigarette prices increase, gross profit generally decreases as a percent of sales. In addition, if the cost of the cigarettes that we purchase increases due to manufacturer price increases, reduced or eliminated manufacturer discounts and incentive programs or increases in applicable excise tax rates, our inventory costs and accounts receivable could rise. To the extent that we are unable to pass on product cost increases to our customers, our profit margins and earnings could be negatively impacted.

We rely on funding from manufacturer discount and incentive programs and cigarette excise stamping allowances; any material changes in these programs could adversely affect our results of operations.

We receive payments from the manufacturers of the products we distribute for allowances, discounts, volume rebates and other merchandising and incentive programs. These payments are a substantial benefit to us. The amount and timing of these payments are affected by changes in the programs by the manufacturers, our ability to sell specified volumes of a particular product, attaining specified levels of purchases by our customers and the duration of carrying a specified product. In addition, we receive discounts from states in connection with the purchase of excise stamps for cigarettes. If the manufacturers or states change or discontinue these programs or change the timing of payments, or if we are unable to maintain the volume of our sales, our results of operations could be negatively affected.

We depend on relatively few suppliers for a large portion of our products, and any interruptions in the supply of the products that we distribute could adversely affect our results of operations.

We obtain the products we distribute from third party suppliers. At December 31, 2010, we had approximately 4,400 vendors, and during 2010 we purchased approximately 62% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R. J. Reynolds, representing approximately 28% and 13% of our purchases, respectively. We do not have any long-term contracts with our suppliers committing them to provide products to us. Our suppliers may not provide the products we distribute in the quantities we request on favorable terms, or at all. We are also subject to delays caused by interruption in production due to conditions outside our control, such as job actions or strikes by employees of suppliers, inclement weather, transportation

Table of Contents

interruptions, regulatory requirements and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of the products we distribute could cause us to fail to meet our obligations to our customers and reduce the volume of our sales and profitability.

Some of our distribution centers are dependent on a few relatively large customers, and our failure to maintain our relationships with these customers could substantially harm our business and prospects.

Some of our distribution centers are dependent on relationships with a single customer or a few customers, and we expect our reliance on these relationships to continue for the foreseeable future. Any termination or non-renewal of customer relationships could severely and adversely affect the revenues generated by certain of our distribution centers. Any future termination, non-renewal or reduction in services that we provide to these select customers would cause our revenues to decline and our operating results to suffer.

We may be subject to product liability claims which could materially adversely affect our business, and our operations could be subject to disruptions as a result of manufacturer recalls of products.

Core-Mark, as with other distributors of food and consumer products, faces the risk of exposure to product liability claims in the event that the use of products sold by us causes injury or illness. With respect to product liability claims, we believe that we have sufficient liability insurance coverage and indemnities from manufacturers. However, product liability insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying the products we distribute, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. Some of our local suppliers are relatively small companies with limited financial resources. If we do not have adequate insurance, if contractual indemnification is not available or if a party cannot fulfill its indemnification obligation, product liability relating to defective products could materially adversely impact our results of operations.

In addition, we may be required to manage a recall of products on behalf of a manufacturer. Managing a recall could disrupt our operations as we might be required to devote substantial resources toward implementing the recall, which could materially adversely affect our ability to provide quality service to our customers.

Adverse publicity or lack of confidence in our products could adversely affect reputation and reduce earnings.

Our business could be adversely affected if consumers lose confidence in the safety and quality of certain food products and services we distribute. Adverse publicity may discourage consumers from buying our products or using our services. In addition, such adverse publicity may result in product liability claims, a loss of reputation, and product recalls which would have a material adverse effect on our sales and operations.

Unexpected outcome in legal proceedings may result in adverse effect on results of operations.

On occasion, we are a party to legal proceedings, including matters involving personnel and employment issues, personal injury, antitrust claims and other proceedings arising in the ordinary course of business. Furthermore, there are an increasing number of cases being filed against companies generally, which include class-action allegations under federal and state wage and hour laws. We estimate our exposure to these legal proceedings and establish reserves for the estimated liabilities. Assessing and predicting the outcome of these matters involves substantial uncertainties. Although not currently anticipated by management, unexpected outcomes in these legal proceedings, or changes in our evaluation of the proceedings, could have a material adverse impact on our finances and results of operations.

Our ability to operate effectively could be impaired by the risks and costs associated with the efforts to grow our business through acquisitions.

Efforts to grow our distribution business may include acquisitions. Acquisitions entail various risks such as identifying suitable candidates, effecting acquisitions at acceptable rates of return, obtaining adequate financing and acceptable terms and conditions. Successful integration of new operations will depend on our ability to manage those operations, fully assimilate the operations into our distribution network, realize opportunities for revenue growth presented by strengthened product offerings and expanded geographic market coverage, maintain the customer base and eliminate redundant and excess costs. We may not realize the anticipated benefits or savings from an acquisition to the extent or in the time frame anticipated, if at all, or such benefits and savings may include higher costs than anticipated.

We may not be able to achieve the expected benefits from the implementation of new marketing initiatives.
We are taking action to improve our competitive performance through a series of strategic marketing initiatives. The goal of this effort is to develop and implement a comprehensive and competitive business strategy, addressing the special needs of the

Table of Contents

convenience industry environment, increase our market position within the industry and ultimately create increased shareholder value.

We may not be able to successfully execute our new marketing initiatives to realize the intended synergies, business opportunities and growth prospects. Many of the risk factors previously mentioned, such as increased competition, may limit our ability to capitalize on business opportunities and expand our business. Our efforts to capitalize on business opportunities may not bring the intended result. Assumptions underlying estimates of expected revenue growth or overall cost savings may not be met or economic conditions may deteriorate. Customer acceptance of new distribution formats developed may not be as anticipated, hampering our ability to attract new customers or maintain our existing customer base. Additionally, our management may have its attention diverted from other important activities while trying to execute new marketing initiatives. If these or other factors limit our ability to execute our strategic initiatives, our expectations of future results of operations, including expected revenue growth and cost savings, may not be met.

Our information technology systems may be subject to failure or disruptions, which could seriously harm our business.

Our business is highly dependent on DCMS. The convenience retail industry does not have a standard information technology ("IT") platform. Therefore, actively integrating our customers into our IT platform is a priority, and our DCMS platform provides our distribution centers with the flexibility to adapt to our customers' IT requirements. We also rely on DCMS and our internal information technology staff to maintain the information required to operate our distribution centers and to provide our customers with fast, efficient and reliable deliveries. We have taken steps to increase redundancy in our IT systems and have disaster recovery plans in place to mitigate unforeseen events that could disrupt our systems' service. However, if our DCMS fails or is not reliable, we may suffer disruptions in service to our customers and our results of operations could suffer.

We depend on our senior management.

We substantially depend on the continued services and performance of our senior executive officers as named in our Proxy Statement. We do not maintain key person life insurance policies on these individuals, and we do not have employment agreements with any of them. The loss of the services of any of our senior executive officers could harm our business.

We operate in a competitive labor market and a portion of our employees are covered by collective bargaining agreements.

Our continued success will depend partly on our ability to attract and retain qualified personnel. We compete with other businesses in each of our markets with respect to attracting and retaining qualified employees. While current market conditions have provided us with a surplus of qualified employee candidates, in the future, a shortage of qualified employees could require us to enhance our wage and benefit packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees. In addition, at December 31, 2010, 213, or 4.8%, of our employees were covered by collective bargaining agreements with labor organizations, which expire at various times.

We cannot assure you that we will be able to renew our respective collective bargaining agreements on favorable terms, that employees at other facilities will not unionize, that our labor costs will not increase, that we will be able to recover any increases in labor costs through increased prices charged to customers or that we will not suffer business interruptions as a result of strikes or other work stoppages. If we fail to attract and retain qualified employees, to control our labor costs, or to recover any increased labor costs through increased prices charged to our customers or offsets by productivity gains, our results of operations could be materially adversely affected.

Risks Related to the Distribution of Cigarettes

Our sales volume is largely dependent upon the distribution of cigarette products, sales of which are declining.

The distribution of cigarette and other tobacco products is currently a significant portion of our business. In 2010, approximately 70.5% of our revenues came from the distribution of cigarettes and 31.0% of our gross profit was generated from cigarettes. Due to increases in the prices of cigarettes and other tobacco products, restrictions on marketing and promotions by cigarette manufacturers, increases in cigarette regulation and excise taxes, health

concerns, increased pressure from anti-tobacco groups and other factors, the U.S. and Canadian cigarette and tobacco market has generally been declining since 1980 and is expected to continue to decline.

Prior to 2007 our cigarette sales had benefited from a shift in sales to the convenience retail segment, and as a result of this shift, convenience store cigarette sales had not declined in proportion to the decline in overall consumption. However, our cigarette carton sales began to decline in 2007, experienced further declines in 2008 and 2009 and increased modestly in 2010. We expect consumption trends of legal cigarette and tobacco products will continue to be negatively impacted by rising prices, diminishing social acceptance and legislative and regulatory actions that create limitations on where a consumer can smoke, and how products can be promoted and produced. In addition, we expect rising prices will stimulate a higher percentage of consumers to purchase from illicit markets to fulfill consumer demand. We believe this may adversely impact our cigarette carton volume, primarily in

Table of Contents

the U.S., in future periods.

Legislation and other matters are negatively affecting the cigarette and tobacco industry.

The tobacco industry is subject to a wide range of laws and regulations regarding the marketing, sale, taxation and use of tobacco products imposed by local, state, federal and foreign governments. Various state and provincial governments have adopted or are considering legislation and regulations restricting displays and marketing of tobacco products, establishing fire safety standards for cigarettes, raising the minimum age to possess or purchase tobacco products, requiring the disclosure of ingredients used in the manufacture of tobacco products, imposing restrictions on public smoking, restricting the sale of tobacco products directly to consumers or other recipients over the internet and other tobacco product regulation. For example, the U.S. Supreme Court has recently determined that lawsuits may proceed against tobacco manufacturers based on alleged deceptive advertising in the marketing of so-called “light” cigarettes. In June 2009, the Family Smoking Prevention and Tobacco Control Act was signed into law, which granted the FDA the authority to regulate the production and marketing of tobacco products in the U.S. The new legislation establishes a new FDA office that will regulate changes to nicotine yields and the chemicals and flavors used in tobacco products, require ingredient listings be displayed on tobacco products, prohibit the use of certain terms which may attract youth or mislead users as to the risks involved with using tobacco products, as well as limit or otherwise impact the marketing of tobacco products by requiring additional labels or warnings as well as pre-approval of the FDA. This new FDA office is to be financed through user fees paid by tobacco companies prorated based on market share. This new legislation and related regulation could adversely impact the market for tobacco products and, accordingly, our sales of such products. In Canada, many provincial legislatures have enacted legislation authorizing and facilitating the recovery of tobacco-related health care costs from the tobacco industry by way of lawsuit. The Supreme Court of Canada has upheld the constitutionality of such legislation and a province's right to sue the tobacco industry pursuant to such legislation. British Columbia, Ontario, Quebec, Alberta, New Brunswick, and Newfoundland and Labrador have all enacted similar statutes in this regard. British Columbia, New Brunswick, Quebec and Ontario have also initiated lawsuits to recover health care costs and in Alberta, the government has promised that a lawsuit is being prepared for filing. All Canadian provinces have legislation that controls the usage and sale of tobacco products and typically these restrict or prevent the sale of cigarette and tobacco products from health care facilities, public post-secondary campuses and certain public use facilities. Some of these laws also prohibit sales from pharmacies and stores containing a pharmacy.

Cigarettes and other tobacco products are subject to substantial excise taxes and, if these taxes are increased, our sales of cigarettes and other tobacco products could decline.

Cigarettes and tobacco products are subject to substantial excise taxes in the U.S. and Canada. Significant increases in cigarette-related taxes and/or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the U.S. and Canada. States continue to pass ballot measures that may result in increasing excise taxes on cigarettes and other tobacco products. In February 2009, U.S. legislation was signed into law which funds the SCHIP program by raising the federal cigarette excise tax from 39¢ to $1.01 per pack. This legislation was effective April 1, 2009.

These tax increases are expected to continue to have an adverse impact on sales of cigarettes due to lower consumption levels and a shift in sales from the premium to the non-premium or discount cigarette segments or to sales outside of legitimate channels. In addition, state and local governments may require us to prepay for excise tax stamps placed on packages of cigarettes and other tobacco products that we sell. If these excise taxes are substantially increased, it could have a negative impact on our liquidity. Accordingly, we may be required to obtain additional debt financing, which we may not be able to obtain on satisfactory terms or at all. Our inability to prepay the excise taxes may prevent or delay our purchase of cigarettes and other tobacco products, which could materially adversely affect our ability to supply our customers.

In the U.S. we purchase cigarettes primarily from manufacturers covered by the tobacco industry's Master Settlement Agreement (“MSA”), which results in our facing certain potential liabilities and financial risks including competition from lower priced sales of cigarettes produced by manufacturers who do not participate in the MSA.

In June 1994, the Mississippi attorney general brought an action against various tobacco industry members on behalf of the state to recover state funds paid for health care costs related to tobacco use. Most other states sued the major

U.S. cigarette manufacturers based on similar theories. The cigarette manufacturer defendants settled the first four of these cases with Mississippi, Florida, Texas and Minnesota by separate agreements. These states are referred to as non-MSA states. In November 1998, the major U.S. tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia and certain U.S. territories. The MSA and the other state settlement agreements settled health care cost recovery actions and monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products, imposed a stream of future payment obligations on major U.S. cigarette manufacturers and placed significant restrictions on the ability to market and sell cigarettes. The payments required under the MSA result in the products sold by the participating manufacturers to be priced at higher levels than non-MSA manufacturers. In order to limit our potential tobacco related liabilities, we try to limit our purchases of cigarettes from non-MSA manufacturers for sale in MSA states. The benefits of liability limitations and indemnities we are entitled to under the MSA do

Table of Contents

not apply to sales of cigarettes manufactured by non-MSA manufacturers. From time to time, however, we find it necessary to purchase a limited amount of cigarettes from non-MSA manufacturers. For example, during a transition period while integrating distribution operations from an acquisition we may need to purchase and distribute cigarettes manufactured by non-MSA manufacturers to satisfy the demands of customers of the acquired business. With respect to sales of such non-MSA cigarettes, we could be subject to litigation that could expose us to liabilities for which we would not be indemnified.

If the tobacco industry's MSA is invalidated, or tobacco manufacturers cannot meet their obligations to indemnify us, we could be subject to substantial litigation liability.

In connection with the MSA, we are indemnified by most of the tobacco product manufacturers from which we purchase cigarettes and other tobacco products for liabilities arising from our sale of the tobacco products that they supply to us. To date, litigation challenging the validity of the MSA, including claims that the MSA violates antitrust laws, has not been successful. However, if such litigation were to be successful and the MSA is invalidated, we could be subject to substantial litigation due to our sales of cigarettes and other tobacco products, and we may not be indemnified for such costs by the tobacco product manufacturers in the future. In addition, even if we continue to be indemnified by cigarette manufacturers that are parties to the MSA, future litigation awards against such cigarette manufacturers and our Company could be so large as to eliminate the ability of the manufacturers to satisfy their indemnification obligations.

We face competition from sales of discount brands and illicit and other low priced sales of cigarettes.

In the U.S., we purchase cigarettes for sale in MSA states primarily from manufacturers that are parties to the MSA. As a result, we are adversely impacted by sales of brands from non-MSA manufacturers and discount brands manufactured by small manufacturers that are not participants to the MSA. The cigarettes subject to the MSA that we sell have been burdened by MSA related payments and are thus negatively impacted by widening price gaps between those brands and discount brands for the past several years. Growth in market share of discount brands since the MSA was signed in 1998 has had an adverse impact on the volume of the cigarettes that we sell.

We also face competition from the diversion into the U.S. market of cigarettes intended for sale outside the U.S., the sale of cigarettes in non-taxable jurisdictions, inter-state and international smuggling of cigarettes, increased imports of foreign low priced brands, the sale of cigarettes by third parties over the internet and by other means designed to avoid collection of applicable taxes. The competitive environment has been characterized by a continued influx of cheap products that challenge sales of higher priced and taxed cigarettes manufactured by parties to the MSA. In Canada, we face competitive pressures as well, primarily from discount brands and the sale of counterfeit cigarettes by third parties. Increased sales of counterfeit cigarettes, sales by third parties over the internet, or sales by means to avoid the collection of applicable taxes, could have an adverse effect on our total results of operations.

Risks Related to Foreign Exchange and Financing

Currency exchange rate fluctuations could have an adverse effect on our revenues and financial results.

We generate a significant portion of our revenues in Canadian dollars, approximately 16% in 2010 and 15% in 2009. We also incur a significant portion of our expenses in Canadian dollars. To the extent that we are unable to match revenues received in Canadian dollars with costs paid in the same currency, exchange rate fluctuations in Canadian dollars could have an adverse effect on our revenues and financial results. During times of a strengthening U.S. dollar, our reported sales and earnings from our Canadian operations will be reduced because the Canadian currency will be translated into fewer U.S. dollars. Conversely, during times of a weakening U.S. dollar, our reported sales and earnings from our Canadian operations will be increased because the Canadian currency will be translated into more U.S. dollars. Accounting principles generally accepted in the United States of America (“U.S. GAAP”) require that foreign currency transaction gains or losses on short-term intercompany transactions be recorded currently as gains or losses within the income statement. To the extent we incur losses on such transactions, our net income and earnings per share will be reduced.

We may not be able to borrow additional capital to provide us with sufficient liquidity and capital resources necessary to meet our future financial obligations.

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our $200 million Credit Facility. While we believe our sources of liquidity are adequate, we cannot assure you that these sources will be available or continue to provide us with sufficient liquidity and capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs. As such, additional equity or debt financing may be necessary, but we may not be able to expand our existing Credit Facility or obtain new financing on terms satisfactory to us, or at all.

Table of Contents

Our operating flexibility is limited in significant respects by the restrictive covenants in our Credit Facility.
Our Credit Facility imposes restrictions on us that could increase our vulnerability to general adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions limit our ability, among other things, to: incur additional indebtedness, pay dividends and make distributions, issue stock of subsidiaries, make investments, repurchase stock, create liens, enter into transactions with affiliates, merge or consolidate, or transfer and sell our assets. In addition, under our Credit Facility, under certain circumstances we are required to meet a fixed charge coverage ratio. Our ability to comply with this covenant may be affected by factors beyond our control and a breach of the covenant could result in an event of default under our Credit Facility, which would permit the lenders to declare all amounts incurred thereunder to be immediately due and payable and terminate their commitments to make further extensions of credit.

Risks Related to Government Regulation and Environment
If we are unable to comply with governmental regulations that affect our business or if there are substantial changes in these regulations, our business could be adversely affected.
As a distributor of food products, we are subject to regulation by the FDA, Health Canada and similar regulatory authorities at the state, provincial and local levels. In addition, our employees operate tractor trailers, trucks, forklifts and various other powered material handling equipment and we are therefore subject to regulation by the U.S. and Canadian Departments of Transportation.

Our operations are also subject to regulation by the Occupational Safety and Health Administration, the Drug Enforcement Agency and other federal, state, provincial and local agencies. Each of these regulatory authorities has broad administrative powers with respect to our operations. If we fail to adequately comply with government regulations or regulations become more stringent, we could experience increased inspections, regulatory authorities could take remedial action including imposing fines or shutting down our operations or we could be subject to increased compliance costs. If any of these events were to occur, our results of operations would be adversely affected.
Earthquake and natural disaster damage could have a material adverse effect on our business.
Our headquarters and operations in California, as well as one of our data centers located in Richmond, British Columbia, Canada, are located in or near high hazard earthquake zones. In addition, one of our data centers is located in Plano, Texas, which is susceptible to wind storms. We also have operations in areas that have been affected by natural disasters such as hurricanes, tornados, flooding, ice and snow storms. While we maintain insurance to cover us for such potential losses, our insurance may not be sufficient in the event of a significant natural disaster or payments under our policies may not be received timely enough to prevent adverse impacts on our business. Our customers could also be affected by like events, which could adversely impact our sales.
Tax legislation could impact future cash flows.
The 2012 U.S. budget proposal that was released in February 2011includes potential changes to current tax law, including the repeal of the LIFO (Last-In, First-Out) method of inventory accounting. As currently drafted, LIFO would be repealed for tax years beginning after 2012 and LIFO reserves existing at that time would be taxed ratably over a ten year period. Should LIFO be repealed, the payment of income taxes, and any future tax deferral prior to the date of repeal, over the ten year period, would reduce the amount of money that we have for our operations, working capital, capital expenditures, expansions, acquisitions or general corporate or other business activities, which could materially and adversely affect our business, financial condition and results of operations.
New accounting standards could result in changes to our methods of quantifying and recording accounting transactions, and could affect our financial results and financial position.
Changes to U.S. GAAP arise from new and revised standards, interpretations and other guidance issued by the Financial Accounting Standards Board, the SEC and others. In addition, the SEC is considering a potential requirement for U.S. issuers to report future financial results in accordance with International Financial Reporting Standards ("IFRS") rather than U.S. GAAP. The U.S. Government may also issue new or revised Cost Accounting Standards or Cost Principles. The effects of such changes may include prescribing an accounting method where none

had been previously specified, prescribing a single acceptable method of accounting from among several acceptable methods that currently exist or revoking the acceptability of a current method and replacing it with an entirely different method, among others. Such changes could result in unanticipated effects on our results of operations, financial position and other financial measures, including significant additional costs to implement and maintain the new accounting standards.

Table of Contents

ITEM 1. B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
Our headquarters are located in South San Francisco, California, and consist of approximately 26,000 square feet of leased office space. We also lease approximately 13,000 square feet for use by our information technology and tax personnel in Richmond, British Columbia and approximately 6,000 square feet for use by our information technology personnel in Plano, Texas. We lease approximately 2.8 million square feet and own approximately 0.4 million square feet of distribution space.

Distribution Center Facilities by City and State of Location[1]

Albuquerque, New Mexico	Las Vegas, Nevada	Whitinsville, Massachusetts
Atlanta, Georgia	Los Angeles, California	Wilkes-Barre, Pennsylvania
Bakersfield, California	Leitchfield, Kentucky	Calgary, Alberta
Corona, California[2]	Minneapolis, Minnesota	Toronto, Ontario
Denver, Colorado	Portland, Oregon	Vancouver, British Columbia
Fort Worth, Texas	Sacramento, California[3]	Winnipeg, Manitoba
Grants Pass, Oregon	Salt Lake City, Utah	
Hayward, California	Spokane, Washington	

(1) Excluding outside storage facilities or depots and two facilities that we operate as third party logistics provider. Depots are defined as a secondary location for a division which may include any combination of sales offices, operational departments and/or storage. We own distribution center facilities located in Leitchfield, Kentucky and Wilkes-Barre, Pennsylvania. All other facilities listed are leased. The facilities we own are subject to encumbrances under our principal credit facility.
(2) This facility includes a distribution center and our Allied Merchandising Industry consolidating warehouse.
(3) This facility includes a distribution center and our Artic Cascade consolidating warehouse.
We also operate distribution centers on behalf of two of our major customers, one in Phoenix, Arizona for Alimentation Couche-Tard Inc., and one in San Antonio, Texas for Valero Energy Corporation. Each facility is leased by the specific customer solely for their use and operated by Core-Mark.

ITEM 3. LEGAL PROCEEDINGS
As of December 31, 2010, we were not involved in any material legal proceedings.

ITEM 4. (REMOVED AND RESERVED)

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Market under the symbol “CORE.” According to the records of our transfer agent, we had 3,019 stockholders of record as of February 28, 2011.

The following table provides the range of high and low sales prices of our common stock as reported by the NASDAQ Global Market for the periods indicated:

	Low Price	High Price
Fiscal 2010		
4th Quarter	$30.14	$37.19
3rd Quarter	25.61	31.85
2nd Quarter	26.25	31.88
1st Quarter	29.21	34.51

	Low Price	High Price
Fiscal 2009		
4th Quarter	$25.93	$33.20
3rd Quarter	24.73	30.12
2nd Quarter	17.55	27.35
1st Quarter	15.60	22.01

We have not declared or paid any cash dividends on our common stock. The credit agreement for our Credit Facility places limitations on our ability to pay cash dividends on our common stock. The payment of any future dividends will be determined by our board of directors in light of then existing conditions, including our earnings, financial condition and capital requirements, strategic alternatives, restrictions in financing agreements, business conditions and other factors.

Table of Contents

PERFORMANCE COMPARISON

The graph below presents a comparison of cumulative total return to stockholders for the period Core-Mark had securities trading on the NASDAQ Global Market, as well as the cumulative total returns of the NASDAQ Non-Financial Stock Index, the Russell 2000 Index and a peer group of companies ("the Performance Peer Group"). Cumulative total return to stockholders is measured by the change in the share price for the period, plus any dividends, divided by the share price at the beginning of the measurement period. Core-Mark's cumulative stockholder return is based on an investment of $100 on December 30, 2005, and is compared to the total return of the NASDAQ Non-Financial Stock Index, the Russell 2000 Index, and the weighted-average performance of the Performance Peer Group over the same period with a like amount invested, including the assumption that any dividends have been reinvested. We regularly compare our performance to the Russell 2000 Index since it includes primarily companies with relatively small market capitalization similar to us.

The companies composing the Performance Peer Group are Sysco Corp. (SYY), Nash Finch Company (NAFC), United Natural Foods, Inc. (UNFI) and AMCON Distributing Co. (DIT).

COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG CORE-MARK, NASDAQ NON-FINANCIAL STOCK AND RUSSELL 2000 INDEXES,
AND THE PERFORMANCE PEER GROUP

	Investment Value at										
	12/30/05	03/31/06	06/30/06	09/29/06	12/29/06	03/30/07	06/29/07	09/28/07	12/31/07	03/31/08	06/30/08
CORE	$100.00	$119.94	$112.23	$98.24	$104.86	$111.85	$112.79	$110.44	$90.03	$90.09	$82.13
NASDAQ Index	$100.00	$106.25	$98.14	$102.11	$109.66	$110.66	$120.05	$125.84	$124.39	$106.45	$108.77
Russell 2000	$100.00	$113.94	$108.21	$108.69	$118.37	$120.67	$126.00	$122.10	$116.51	$104.98	$105.59
Performance Peer Group	$100.00	$105.72	$100.69	$109.74	$121.70	$112.81	$111.16	$119.19	$106.87	$97.84	$93.99

	09/30/08	12/31/08	03/31/09	06/30/09	09/30/09	12/31/09	03/31/10	06/30/10	09/30/10	12/31/10
CORE	$78.34	$67.46	$57.12	$81.69	$89.75	$103.32	$95.96	$85.89	$97.05	$111.57
NASDAQ Index	$97.16	$56.94	$56.42	$68.45	$79.67	$85.86	$90.74	$80.06	$90.83	$101.80
Russell 2000	$104.42	$77.15	$65.61	$79.18	$94.45	$98.11	$106.79	$96.20	$107.06	$124.46
Performance Peer Group	$107.15	$81.34	$80.50	$81.81	$90.01	$102.54	$108.65	$106.72	$108.81	$113.52

Table of Contents

Sales of Unregistered Securities

Common Stock and Warrants Issued Pursuant to the Plan of Reorganization in 2004

Pursuant to the plan of reorganization (May 2004) described in Exhibit 2.1 and incorporated by reference (see Part IV, Item 15, Exhibit Index of this Form 10-K), herein referred to as “Fleming's bankruptcy” or “plan of reorganization,” on August 23, 2004 we issued an aggregate of 9,800,000 shares of our common stock and warrants to purchase an aggregate of 990,616 shares of our common stock to the Class 6(B) creditors of Fleming (our former parent company). We refer to the warrants we issued to the Class 6(B) creditors as the Class 6(B) warrants. We received no cash consideration at the time we issued the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of $20.93 per share. The shares of common stock and the Class 6(B) warrants were issued pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes, which we refer to as the Tranche B warrants. The Tranche B warrants have an exercise price of $15.50 per share. Shares of our common stock issued upon exercise of the Tranche B warrants are issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Both the Class 6(B) and Tranche B warrants may be exercised at the election of the holder at any time prior to August 23, 2011, at which time any outstanding warrants will be net issued. Instructions for exercising warrants can be found in the “Investor Relations” section of our website at www.core-mark.com.

During 2010, 246,912 of the Class 6(B) warrants were exercised in cash and cashless transactions, and a total of 233,380 shares of common stock have been issued since inception pursuant to exercises of Class 6(B) warrants. The exercise of such warrants was also done pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. During 2010, there were no Tranche B warrants exercised in cash or cashless transactions, and the total number of shares of common stock issued since inception pursuant to Tranche B warrants as of December 31, 2010 remained at 73,507 shares.

Issuer Purchases of Equity Securities

There were no repurchases of our common stock during the three months ended December 31, 2010.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Core-Mark Holding Company, Inc., or Core-Mark, is the ultimate parent holding company for Core-Mark International, Inc. and our wholly-owned subsidiaries.

Basis of Presentation

The selected consolidated financial data for the years 2010, 2009, 2008, 2007 and 2006 are derived from Core-Mark's audited consolidated financial statements included in our Annual Reports on Form 10-K. The following financial data should be read in conjunction with the consolidated financial statements and notes thereto and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

SELECTED CONSOLIDATED FINANCIAL DATA

	Core-Mark Holding Company, Inc. and Subsidiaries Year Ended December 31,
(in millions except per share amounts)	2010[a]

Employees

As of March 1, 2007, we had approximately 329 full-time employees, including:

- 85 in product engineering, research and development, and regulatory;
- 87 in sales, clinical support, marketing and field service;
- 91 in manufacturing and quality control; and
- 66 in general and administration.

We routinely enter into contractual agreements with our employees, which typically include confidentiality and non-competition commitments. Our employees are not represented by unions. We consider our employee relations to be good. If we were unable to attract and retain qualified personnel in the future, our operations could be negatively impacted.

Table of Contents

Properties

Our headquarters are in an industrial office park located 22 miles north of Boston. This facility, located at 22 Cherry Hill Drive in Danvers, Massachusetts, consists of approximately 80,000 square feet of space under an operating lease that expires in 2010. This facility houses all of our U.S. operations, including research and development, manufacturing, sales and marketing and general and administrative departments. Under the terms of the lease, we have two five-year options to extend our lease term beyond 2010 at market rates. We have also recently entered into a short-term lease for office space in Washington, DC.

Our European headquarters are located in Aachen, Germany in a 30,000 square foot leased facility. Our lease expires in August 2008. The building houses all of the research and development and manufacturing operations for our Impella product line as well as the sales, marketing and general and administrative functions for most of our product lines sold in Europe and the Middle East. In addition, we recently leased an approximately 270 square foot office in France, which will focus on the sales and marketing of our product lines sold in France.

Legal Proceedings

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. The claim arises out of our purchase of intellectual property rights relating to the Penn State Heart and the acquisition of BeneCor Heart Systems. The claim seeks 600,000 unrestricted shares of Abiomed common stock and attorneys fees 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. We instituted a legal action in Federal Court to determine the arbitrability of the claims asserted and the Federal Court has stayed the arbitration of a portion of the claim. Arbitration has commenced and we continue to vigorously defend against the claims asserted.

Table of Contents

MANAGEMENT

Executive Officers and Directors

The following persons are our executive officers and directors as of March 1, 2007:

Name	Age	Position
Michael R. Minogue [1][2]	39	Chairman of the Board of Directors, President and Chief Executive Officer
W. Gerald Austen [1][3]	77	Director
Ronald W. Dollens [3]	60	Director
David Gottlieb [4][5]	46	Director
Louis E. Lataif [4]	68	Director
Desmond H. O Connell, Jr. [4][5]	71	Director
Dorothy E. Puhy [4][5]	55	Director
Henri A. Termeer [1][3]	61	Director
Daniel J. Sutherby	42	Chief Financial Officer and Treasurer
Karim Benali	40	Chief Medical Officer
William J. Bolt	54	Senior Vice President, Quality Assurance and Field Service
Robert T.V. Kung, Ph.D.	63	Senior Vice President, Chief Scientific Officer
Christopher Macdonald	41	Senior Vice President, Global Sales and Applications
Robert Farra	45	Vice President, Engineering and Manufacturing
Andrew Greenfield	34	Vice President, Healthcare Solutions

(1) Member of the Executive Committee
(2) Member of the Special Stock Option Committee
(3) Member of the Compensation Committee
(4) Member of the Audit Committee
(5) Member of the Governance and Nominating Committee

Our board of directors is divided into three classes. The term of one class of directors expires each year at our annual meeting of stockholders. Each director also continues to serve as a director until his or her successor is duly elected and qualified. Ms. Puhy and Messrs. O Connell and Dollens currently serve as Class I

directors; their term of office expires in 2008. Messrs. Termeer and Lataif currently serve as Class II directors; their term of office expires in 2009. Messrs. Austen, Gottlieb and Minogue currently serve as Class III directors; their term of office expires in 2007. Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among our directors and executive officers.

Mr. Michael R. Minogue joined us as Chief Executive Officer, President and a director in April 2004. In June 2005, he was also appointed Chairman of our Board of Directors. Prior to joining us, Mr. Minogue had a twelve-year career at GE Medical Systems. Most recently, Mr. Minogue was Vice President and General Manager of Americas sales and marketing for GE Medical Systems Information Technology. From 1998 to 2003, Mr. Minogue held various positions at GE, including general manager for the global PET business, general manager, Americas cardiology and information technology sales and general manager, global installed base. Mr. Minogue received his bachelor s degree in engineering from the United States Military Academy at West Point and his MBA from the University of Chicago. Mr. Minogue is also a director of LifeCell Corporation.

Table of Contents

Dr. W. Gerald Austen, M.D., has served as a director since 1985. Since 1974, he has been the Edward D. Churchill professor of surgery at Harvard Medical School and at Massachusetts General Hospital. From 1969 to 1997, Dr. Austen was chief of the surgical services at Massachusetts General Hospital. Dr. Austen is the former President of the American College of Surgeons, the American Association for Thoracic Surgery, the American Surgical Association and the Massachusetts and American Heart Associations. Dr. Austen is a member emeritus of the Institute of Medicine of the National Academy of Sciences, a fellow of the American Academy of Arts and Sciences, a life member emeritus of the corporation of the Massachusetts Institute of Technology and Chairman of the board of trustees of the John S. and James L. Knight Foundation.

Mr. Ronald W. Dollens has served as a director since January 2006. He was the president and chief executive officer of Guidant Corporation from 1994 until his retirement from Guidant in November 2005. Previously, he served as president of Eli Lilly and Company s Medical Devices and Diagnostics Division from 1991 until 1994, and also held the position of president and chief executive officer of Guidant s subsidiary, Advanced Cardiovascular Systems, Inc. Mr. Dollens involvement in health policy includes serving as chairman of the Healthcare Leadership Council, past chairman of the Advanced Medical Technology Association, and on the board of the Alliance for Aging Research. Mr. Dollens is also a member of the New York Stock Exchange Listed Company Advisory Board. Recently, he served on the Advisory Committee for Regulatory Reform appointed by US Health and Human Services Secretary Tommy G. Thompson. Mr. Dollens is also a director of Kinetic Concepts, Inc.

Mr. David Gottlieb has served as a director since 2004. Mr. Gottlieb is the managing partner of Noble Bridge Group LLC, a financial consulting company he established in early 2004. From 1990 to 2003, Mr. Gottlieb held various investment banking positions, including global head of the medical technology corporate and investment banking group of Banc of America Securities from 1999 to 2003; managing director of the health care group of UBS Investment Bank where he was employed from 1995 to 1999; and Vice President, health care group of Kidder, Peabody & Company where he was employed from 1990 to 1994. Mr. Gottlieb s degrees include a bachelor s degree in economics from Connecticut College and an MBA from the Columbia Business School.

Mr. Louis E. Lataif has served as a director since September 2005. Since 1991, Mr. Lataif has served as Dean of the Boston University School of Management. Prior to joining Boston University in 1991, Mr. Lataif worked with Ford Motor Company for more than 27 years and had retired as a corporate officer. He

had also served as President of Ford of Europe, with extensive global experience. He earned a BS from Boston University and his MBA from Harvard University. He also holds three honorary doctoral degrees. Mr. Lataif is also a director of Magna Entertainment Corp. and Group I Automotive, Inc.

Mr. Desmond H. O Connell, Jr. has served as a director since 1995. He is currently a director of Stemcells, Inc. Until July 2006, he served as a director and independent management consultant for Serologicals Corporation. From December 1992 until December 1993, he served as the Chairman, management committee, of Pharmakon Research International, Inc. During 1991, he briefly served as Chairman of the Board and Chief Executive Officer of Osteotech, Inc. Mr. O Connell was with the BOC Group, PLC in senior management positions from 1983 to 1990. From April 1990 until September 1990, Mr. O Connell was President and Chief Executive Officer of BOC Health Care. From 1986 to April 1990, he was group managing director of BOC Group, PLC. Prior to joining BOC, Mr. O Connell held various positions at Baxter Laboratories, Inc., including Chief Executive of the Therapeutic and Diagnostic Division and Vice President, Corporate Development.

Ms. Dorothy E. Puhy has served as a director since 2003 and as our Lead Director since October 2005. Ms. Puhy is currently Executive Vice President, Chief Financial Officer and Assistant Treasurer for the Dana-Farber Cancer Institute. Ms. Puhy has served as the Chief Financial Officer of Dana-Farber since 1994 and has served as its Assistant Treasurer since 1995. From 1985 to 1994 Ms. Puhy held various financial positions at the New England Medical Center Hospitals, Inc., including Chief Financial Officer from 1989 to 1994. Ms. Puhy is also a director of Eaton Vance Corp.

Table of Contents

Mr. Henri A. Termeer has served as a director since 1987. Mr. Termeer has been the President and a director of Genzyme Corporation since 1983, its Chief Executive Officer since 1985, and its Chairman since 1988. Mr. Termeer is a member of the Board of Directors of the Massachusetts Institute of Technology, Federal Reserve Bank of Boston and Massachusetts General Hospital. He also serves on the Board of Directors of the Biotechnology Industry Organization, the Pharmaceutical Research and Manufacturers of America and is a trustee of Hambrecht & Quist Healthcare Investors and Hambrecht & Quist Life Sciences Investors.

Our executive officers who are not also directors are listed below:

Mr. Daniel J. Sutherby joined us in January 2006 as our Chief Financial Officer. From August 1998 to December 2005, Mr. Sutherby was employed by PerkinElmer, Inc. in a number of management positions, serving as Corporate Director of Global Accounting & Finance from August 1998 to September 2000, Acting Corporate Controller from September 2000 to June 2001, Director of Global Finance for PerkinElmer s Life and Analytical Sciences Unit from June 2001 to January 2003, and Corporate Vice President, Investor Relations, Corporate Communications and Risk Management from January 2003 to December 2005. Mr. Sutherby is a Certified Public Accountant, and has a bachelor s degree in accounting and a master s of science in finance from Bentley College.

Dr. Karim Benali, M.D., joined us in July 2004 and was elected as our Chief Medical Officer in June 2006. From August 2004 to June 2006, Dr. Benali was our Vice President of Product Development. Prior to joining us, Dr. Benali served as global manager of cardiology-functional imaging of GE Healthcare from June 2003 to July 2004. From May 2000 to June 2003, Dr. Benali was a leader of global research in cardiology at GE Healthcare. Dr. Benali earned a BA from the University of Algiers in Engineering Technology, an MD from the Institut National de l Enseignement Superieur des Sciences Medicales in Algiers, an MS in Bio-imaging and Bio-engineering from the University of Val de Marne Paris XII, and an MS in Biostatistics and Clinical Research from University Pierre & Marie Curie Paris VI.

Mr. William J. Bolt has been with us since 1982 and has been our Senior Vice President for Design Assurance and Quality Assurance since January 2003. He is currently responsible for all of our quality and design assurance activities as well as global product service support. He was responsible for all product development and the AbioCor program from 2000 to 2002, and for

the BVS and AB5000 development from 1999 to 2002. From 1994 to 1998, he was President of our former dental subsidiary, Abiodent, Inc. From 1982 to 1994, he served in various roles, including our Vice President of Engineering and our Vice President of Operations. In these roles he was the engineer in charge of the development of the BVS and other systems. Mr. Bolt received his bachelor s degree in electrical engineering and an MBA from Northeastern University.

Dr. Robert T.V. Kung has been with us since 1982 and has been our Senior Vice President and Chief Scientific Officer since 1995. He was our Vice President of Research and Development from 1987 to 1995 and our chief scientist from 1982 to 1987. Prior to joining us, Dr. Kung was a principal research scientist at Schafer Associates from 1978 to 1982 and at the Avco Everett Research Laboratory from 1972 to 1978. He developed non-linear optical techniques for laser applications and investigated physical and chemical phenomena in re-entry physics. Dr. Kung has been the principal investigator for our National Institutes of Health-funded AbioCor. Dr. Kung received his Ph.D. in physical chemistry from Cornell University.

Mr. Christopher Macdonald joined us in May 2004 and is currently our Senior Vice President, Global Sales and Applications. From June 2004 to April 2005, Mr. Macdonald served as our Senior Vice President, Global Sales, Applications and Service. Mr. Macdonald was previously employed for eleven years at GE Healthcare where he was employed in sales and operations management positions. His most recent assignments at GE were with the cardiology business unit and included positions as sales manager for the central U.S. region from 2002 to 2004, corporate accounts director from 2001 to 2002 and operations manager from 2000 to 2001. Mr. Macdonald received his bachelor s degree in biology from Tulane University.

Table of Contents

Mr. Robert Farra joined us in June 2005 as Vice President of Engineering and in July 2005 was given the additional responsibilities of Vice President of Manufacturing. Prior to joining us, Mr. Farra held leadership positions at Accellent Endoscopy from February 2002 to June 2005 and Arthur D. Little, Inc. from August 1987 to February 2002, where he led and managed multidisciplinary teams in the development of numerous minimally invasive surgical instruments, ophthalmic aspirators, irrigation systems, as well as interventional catheters and guidewires. Mr. Farra has a BS in mechanical engineering from the University of Massachusetts at Lowell and an SM in mechanical engineering from the Massachusetts Institute of Technology.

Mr. Andrew Greenfield joined us in January 2005 as Vice President of Healthcare Solutions. Prior to joining us, Mr. Greenfield held multiple positions at GE Healthcare since October 1999, including consulting with large U.S. health systems in the Enterprise Client Group from November 2003 to January 2005, Six Sigma Master Black Belt from January 2002 to November 2003, and Finance Manager from October 1999 to January 2002. Prior to GE Healthcare, he held multiple positions in marketing and sales management at the Boeing Company, including Project Manager and European Country Manager. He received his bachelor s degree in finance from the University of Illinois and an MBA from St. Louis University.

Table of Contents

PRINCIPAL STOCKHOLDERS

The following table provides information, as of March 9, 2007, with respect to the beneficial ownership of our common stock by:

- each person known by us to be the beneficial owner of five percent or more of our common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

The persons named in this table have sole voting and investment power with respect to the shares listed, except as otherwise indicated. The inclusion of shares listed as beneficially owned does not constitute an admission of beneficial ownership. The Right to acquire column reflects beneficial ownership of shares subject to options that may be exercised within 60 days after March 9, 2007. The shares that a person has the right to acquire are deemed to be outstanding solely for purposes of calculating that person s percentage ownership. The total number of shares of common stock outstanding as of March 9, 2007 was 27,226,012.

	Shares beneficially owned			
Name	**Outstanding**	**Right to acquire**	**Total**	**Percentage**
Henri A. Termeer [1]	2,337,243	61,000	2,398,243	8.8%
Genzyme Corporation 500 Kendall Street Cambridge, MA 02139	2,307,692		2,307,692	8.5
Dr. David M. Lederman [2] c/o Analytical LLC	1,071,836	355,000	1,426,836	5.2

100 Cummings Center Suite 323A P.O. Box 7015 Beverly, MA 01915				
Dr. Robert T.V. Kung [3]	204,228	194,600	398,828	1.5
Michael R. Minogue	29,901	325,000	354,901	1.3
Desmond H. O Connell, Jr.	50,481	61,000	111,481	*
Dr. W. Gerald Austen	48,200	36,000	84,200	*
Christopher D. Macdonald	546	63,750	64,296	*
Dr. Karim Benali	783	58,750	59,533	*
Dorothy E. Puhy	4,105	36,000	40,105	*
David Gottlieb	2,731	31,000	33,731	*
Louis E. Lataif	581	5,000	5,581	*
Ronald W. Dollens	290	5,000	5,290	*
Javier Jimenez [4]	628		628	*
All current executive officers and directors as a group (15 persons) [1][3]	2,682,505	1,091,950	3,774,455	13.3

* Less than one percent.

(1) Includes 2,307,692 shares held by Genzyme Corporation, as to which Mr. Termeer disclaims beneficial ownership. Mr. Termeer is the Chief Executive Officer of Genzyme.

(2) Dr. Lederman is our former President, Chief Executive Officer and Chairman. The number of outstanding shares beneficially owned by Dr. Lederman is based on information in a Schedule 13G/A dated March 1, 2007 and includes 545,700 shares held by Dr. Lederman s spouse. Each of Dr. Lederman and Mrs. Lederman disclaim beneficial ownership as to the shares owned by the other.

(3) Includes 100,200 shares held in trust by Dr. Kung s spouse, as to which Dr. Kung disclaims beneficial ownership, and 104,028 shares held in trust for the benefit of Dr. Kung.

(4) Mr. Jimenez resigned his position effective January 15, 2007 and as of such date was no longer an employee. Information regarding the shares beneficially owned by Mr. Jimenez is based solely on information currently available to us.

Table of Contents

UNDERWRITING

Morgan Stanley & Co. Incorporated and UBS Securities LLC are acting as the underwriters of this offering. Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus supplement, the underwriters have severally agreed to purchase, and we have agreed to sell to them, the number of shares of common stock indicated in the table below:

Underwriter	Number of shares
Morgan Stanley & Co. Incorporated	
UBS Securities LLC	
Total	5,000,000

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus supplement are subject to the approval of certain legal matters by their counsel and to other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus supplement if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus supplement, less underwriting discounts and commissions, and part to certain dealers at a price that represents a concession not in excess of $ a share under the public offering price. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the underwriters.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of 750,000 additional shares of common stock at the public offering price, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock

offered by this prospectus supplement. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares of common stock as the number listed next to the underwriter s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters over-allotment option is exercised in full, the total price to the public would be $, the total underwriters discounts and commissions would be $ and the total proceeds to us would be $.

The following table shows the per share and total underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters option.

	No Exercise	Full Exercise
Per Share	$	$
Total		

In addition, we estimate that the expenses of this offering other than underwriting discounts and commissions payable by us will be approximately $900,000.

Table of Contents

We and all of our directors and officers have agreed that, without the prior written consent of the underwriters, we and they will not, during the period beginning on the date of this prospectus supplement and ending 90 days thereafter:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock;

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. The restrictions described in this paragraph do not apply to:

- the sale by us of shares to the underwriters in connection with the offering;

- the issuance by us of shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus supplement;

- the grant of options or the issuance of shares of common stock by us to employees, officers, directors, advisors or consultants pursuant to equity incentive plans and the issuance by us of any shares of common stock upon the exercise of such options;

- the issuance by us of shares of common stock in connection with milestone payments that we may become obligated to make pursuant to the terms of our acquisition of Impella;

- transactions relating to the common stock acquired in open market transactions after the closing of the offering; and

- transfers of the common stock as a bona fide gift.

With respect to the last bullet, it shall be a condition to the transfer that the transferee execute a copy of the lock-up agreement.

The 90-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 90-day restricted period we issue a release regarding earnings or regarding material news or events relating to us; or

- prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the release or the occurrence of the material news or material event.

In order to facilitate this offering of common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or by purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the

underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. In addition, to stabilize the price of the common stock, the underwriters may bid for and purchase shares of common stock in the open market. Finally, the underwriters may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering, if the underwriters repurchase previously distributed common stock to cover syndicate short positions or to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

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

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus supplement and accompanying prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, and one or more of the underwriters may distribute prospectuses electronically. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that make Internet distributions on the same basis as other allocations.

Table of Contents

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus supplement will be passed upon for us by Foley Hoag LLP, Boston, Massachusetts. A partner at Foley Hoag is our secretary, and he and other partners beneficially own, together with their immediate families, 10,000 shares of our common stock. Certain legal matters will be passed upon for the underwriters by Latham & Watkins LLP, New York, NY.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, quarterly reports, current reports, proxy statements and other information with the Securities and Exchange Commission or SEC. You may read and copy any of our SEC filings at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 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 http://www.sec.gov.

Our principal internet address is www.abiomed.com.

Table of Contents

INDEX TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	December 31, 2006 (Unaudited)	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,081	$ 7,832
Short-term marketable securities	11,160	23,003
Accounts receivable, net of allowance for doubtful accounts of $274 at December 31, 2006 and $211 at March 31, 2006	9,230	8,880
Inventories	6,883	4,868
Prepaid expenses and other current assets	1,640	1,860
Total current assets	34,994	46,443
Property and equipment, net	5,572	4,824
Intangible assets, net	7,613	8,164
Goodwill	26,355	19,106
Total assets	$ 74,534	$ 78,537
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,636	$ 3,070
Accrued expenses	5,786	5,185
Deferred revenue	577	484
Total current liabilities	10,999	8,739
Long-term deferred tax liability	873	310
Accrued costs of acquisition	5,583	
Total liabilities	17,455	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	268	265
Authorized 100,000,000 shares;		

Issued 26,775,474 shares at December 31, 2006 and 26,474,270 shares at March 31, 2006; Outstanding 26,764,455 shares at December 31, 2006 and 26,468,091 shares at March 31, 2006		
Additional paid-in-capital	221,438	214,666
Deferred stock-based compensation		(171)
Accumulated deficit	(164,840)	(143,308)
Treasury stock at cost 11,019 shares at December 31, 2006 and 6,179 shares at March 31, 2006	(116)	(66)
Accumulated other comprehensive income (loss)	329	(1,898)
Total stockholders equity	57,079	69,488
Total liabilities and stockholders equity	$ 74,534	$ 78,537

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Nine months ended December 31,	
	2006	2005
Revenue:		
Products	$ 36,698	$ 29,605
Funded research and development	100	269
	36,798	29,874
Costs and expenses:		
Cost of product revenue excluding amortization	9,281	7,851
Research and development	16,329	12,517
Selling, general and administrative	31,355	21,558
Expensed in-process research and development	800	13,306
Amortization of intangible assets	1,243	955
	59,008	56,187
Loss from operations	(22,210)	(26,313)
Other income:		
Investment income	841	876
Foreign exchange gain (loss)	149	(168)
Other income (expense), net	32	91
	1,022	799
Net loss before provision for income taxes	(21,188)	(25,514)
Provision for income taxes	344	253
Net loss	$ (21,532)	$ (25,767)
Basic and diluted net loss per share	$ (0.81)	$ (1.01)
Weighted average shares outstanding	26,602	25,447

See Accompanying Notes to Condensed Consolidated Financial Statements.

SF-3

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(in thousands)

	Nine months ended December 31,	
	2006	**2005**
Operating activities:		
Net loss	$ (21,532)	$ (25,767)
Adjustments required to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	2,891	2,159
Bad debt expense	84	102
Stock-based compensation	4,652	179
Write-down of inventory	205	269
Deferred tax provision	344	253
Expensed in-process research and development		13,306
Changes in assets and liabilities, net of acquisition		
Accounts receivable	(7)	775
Inventories	(2,416)	(1,429)
Prepaid expenses, other current assets and other assets	399	742
Accounts payable	1,474	75
Accrued expenses	510	17
Deferred revenue	84	256
Net cash used for operating activities	(13,312)	(9,063)
Investing activities:		
Proceeds from the sale and maturity of short-term securities	26,792	36,242
Purchases of short-term securities	(14,949)	(24,293)
Business acquisition, net of cash acquired		(2,562)
Purchase of intangible assets	(50)	(112)
Expenditures for property and equipment	(2,066)	(1,547)
Net cash provided by investing activities	9,727	7,728
Financing activities:		
Proceeds from the exercise of stock options	1,826	1,465
Proceeds from employee stock purchase plan	159	95
Return of common stock from escrow	(50)	(66)
Net cash provided by financing activities	1,935	1,494
Effect of exchange rate changes on cash	(101)	130

Net (decrease) increase in cash and cash equivalents	(1,751)	289
Cash and cash equivalents at beginning of period	7,832	7,618
Cash and cash equivalents at end of period	$ 6,081	$ 7,907

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Nature of Business and Basis of Preparation

Abiomed, Inc. (the Company or Abiomed) is a leading provider of medical devices that provide circulatory support to acute heart failure patients across the continuum of care in heart recovery. Our products are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. We are focused on establishing heart recovery as the standard of care for patients with failing but potentially recoverable hearts. We expect this standard of care 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 accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s audited annual financial statements. These audited statements are contained in the accompanying prospectus dated October 17, 2006.

In the opinion of management, the accompanying 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 to summarize fairly the financial position and results of operations as of December 31, 2006 and for the nine months then ended. The results of operations for the interim period 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 percutaneous cardiovascular support systems headquartered in Aachen, Germany (See Note 9). All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform with the current year presentation. Specifically, amortization of intangibles has been shown separately in the statement of operations in fiscal 2007 versus prior year presentation of reflecting intangibles amortization in research and development and selling, general and administrative expenses to more clearly reflect the amortization impact on the financial statements. Reclassifications have also been made to the Company s statements of cash flow to conform to current year presentation with respect to the inclusion in depreciation and amortization the amount of

amortization expense recorded for inventory used for demonstration purposes.

2. Significant Accounting Policies

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.

Table of Contents

Goodwill

The Company periodically evaluates goodwill for impairment using forecasts of discounted future cash flows. Estimates of future cash flows require assumptions related to revenue and operating income growth, asset-related expenditures, working capital levels and other factors. Different assumptions from those made in the analysis could materially affect projected cash flows and the evaluation of goodwill for impairment. Should the fair value of our goodwill decline because of reduced operating performance, market declines, delays in regulatory approval, or other indicators of impairment, or as a result of changes in the discount rate, charges for impairment of goodwill may be necessary. The Company performed its annual impairment review for fiscal 2007 as of October 31, 2006 and determined that goodwill was not impaired. The carrying amount of goodwill at December 31, 2006 was $26.4 million.

3. Accounting for Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), *Share-based Payment*. SFAS No. 123(R) requires compensation costs related to share-based transactions, including employee share options, to be recognized in the financial statements based on the grant-date fair value.

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 No. 123(R). For stock options issued prior to the adoption of SFAS No. 123(R), the accelerated method is used for expense recognition.

Prior to April 1, 2006, the Company accounted for stock-based compensation in accordance with the provisions of APB No. 25. The Company elected to follow the disclosure-only alternative requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*. 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. The modified prospective transition method of SFAS No. 123(R) requires the presentation of pro forma net income (loss) and net income (loss) per share as if the Company had accounted for its stock plans under the fair value method of SFAS No. 123 for periods presented prior to the adoption of SFAS No. 123(R).

Table of Contents

In the process of adopting SFAS No. 123(R), the Company determined that the historical estimated forfeiture rates used in the SFAS No. 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, 2006, 2005 and 2004. This revision resulted in an increase in pro forma expense and pro forma net loss, from amounts previously reported, in the amount of $1.1 million for the nine months ended December 31, 2005 and an increase in net loss per share of $0.05 for the nine months ended December 31, 2005, which are reflected in the table below.

	Nine months ended December 31, 2005
Net loss, as reported	$ (25,767)
Add: Stock-based employee compensation included in reported net loss	179
Deduct: Total stock-based employee compensation determined under fair value based method for all awards	(4,335)
Pro forma net loss	$ (29,923)
Basic and diluted net loss per share:	
As reported	$ (1.01)
Pro forma	$ (1.18)

Stock Option Plans

Consistent with the policies and practices of the Company pertaining to stock options, all outstanding stock options of the Company as of December 31, 2006 were granted with an exercise price equal to the fair market value on the date of grant with the exception of 3,557 outstanding options that were granted to certain employees during the fiscal year ended March 31, 2004, with an exercise price of $0.01 per share. For the options granted at $0.01 per share 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.

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 December 31, 2006, 145,700 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.

Table of Contents

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 Company estimates the fair value of each stock option granted at the grant date using the Black-Scholes option valuation model, consistent with the provisions of SFAS No. 123(R), SEC SAB No. 107 *Share-based Payment* and the Company s prior period pro forma disclosure of net loss, including stock-based compensation (determined under a fair value method as prescribed by SFAS No. 123). The fair value of options granted during the nine months ended December 31, 2006 and December 31, 2005 were calculated using the following assumptions:

	Nine Months Ended December 31	
	2006	2005
Risk-free interest rate	4.58 5.04%	3.90 4.36%
Expected volatility	65.00%	73.00%
Expected option life (years)	6.25	7.40

The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of grant for a term consistent with the expected life of the stock options. Volatility assumptions are calculated based on a combination of the historical volatility of our stock and adjustments for factors not reflected in historical volatility that are more indicative of future volatility. By using this combination, the Company is taking into consideration estimates of future volatility that the Company believes will differ from historical volatility as a result of product diversification and the Company s acquisition of Impella. 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. 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. In addition, an expected dividend yield of zero is used in the option valuation model, because the Company does not pay dividends and does not expect to pay any cash dividends in the foreseeable future.

The weighted average grant-date fair value for options granted during the nine months ended December 31, 2006 was $8.75 per share. The weighted average grant date fair value for options granted during the nine months ended December 31, 2005 was $6.89 per share.

The application of SFAS No. 123(R) resulted in expense of $4.6 million for the nine months ended December 31, 2006 which is recorded within the applicable operating expense where the

Company reports the option holders compensation cost in the condensed consolidated statements of operations. The remaining unrecognized stock-based compensation expense for unvested stock option awards at December 31, 2006 was approximately $10.2 million, net of forfeitures, and the weighted average time over which this cost will be recognized is 2.0 years. The stock-based compensation expense resulted in a $0.17 decrease in earnings per share for the nine months ended December 31, 2006.

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow. Because the Company does not recognize the benefit of tax deductions in excess of recognized compensation cost due to its net operating loss position, this change had no impact on the Company s consolidated statement of cash flows for the nine months ended December 31, 2006.

Table of Contents

The following table summarizes the stock option activity for the nine months ended December 31, 2006:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at March 31, 2006	3,962	$ 10.11		
Granted	1,057	13.54		
Exercised	(287)	7.45		
Cancelled	(261)	11.26		
Outstanding at December 31, 2006	4,471	$ 11.02	7.27	$ 15,961
Exercisable at December 31, 2006	1,966	$ 10.76	5.56	$ 8,731

The total intrinsic value of options exercised during the nine months ended December 31, 2006 was $1.7 million. The total fair value of stock options which vested during the nine months ended December 31, 2006 was $4.5 million.

Restricted Stock

On March 1, 2005, the Company issued a restricted stock grant of 24,000 shares to an officer of the Company, of which 8,000 shares vested on March 1, 2006. The remaining 16,000 shares will vest in 8,000 share increments on March 1, 2007 and 2008, respectively. The restricted stock grant compensation expense is recognized on a straight-line basis over a vesting period of three years. At December 31, 2006, there was $0.1 million of unrecognized compensation cost related to these restricted shares.

Employee Stock Purchase Plan

In March of 1988, the Company adopted the 1988 Employee Stock Purchase Plan (ESPP) under which 500,000 shares of common stock were reserved for issuance. Eligible employees may purchase a limited number of shares of the Company s common stock at 85% of the lower of the market value on the offering date or the market value on the purchase date. During the nine months ended December 31, 2006 and December 31, 2005, 14,549 shares of common stock and 11,169 shares of common stock were issued under the ESPP, respectively.

Compensation expense recognized related to the Company s ESPP was $39,000 for the nine months ended December 31, 2006. The weighted average grant-date fair value of the purchases under the Employee Stock Purchase Plan was $3.42 per share. The fair value

of these purchases was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.79 %
Expected volatility	38.32%
Expected option life (years)	0.50

Table of Contents

4. Warranties

The Company routinely accrues for estimated future warranty costs on its product sales at the time of sale. The Company s products are subject to rigorous regulation and quality standards. The following table summarizes the activities of the warranty reserves for the nine months ended December 31, 2006 and 2005 (in thousands):

	Nine months ended December 31,	
	2006	**2005**
Balance at March 31	$ 167	$ 231
Accrual for warranties	84	121
Warranty cost incurred during the period	(42)	(215)
Balance at December 31	$ 209	$ 137

5. Inventories

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

	December 31, 2006	**March 31, 2006**
Raw materials and supplies	$ 3,134	$ 1,764
Work-in-process	1,318	659
Finished goods	2,431	2,445
	$ 6,883	$ 4,868

All of the Company s inventories relate to circulatory care product lines that include the AB5000, BVS 5000, AbioCor and Impella products. Finished goods and work-in-process inventories consist of direct material, labor and overhead. From time to time, the Company loans finished goods inventory to customers for demonstration purposes. This cost of demo inventory amounted to $1.2 million at December 31, 2006 and the net carrying value was $0.5 million. The Company amortizes finished goods that are used for demonstration purposes over a three-year life.

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

6. 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	Lower of life of asset or life of lease

Depreciation expense related to property and equipment was $1.4 million and $1.0 million for the nine months ended December 31, 2006 and 2005, respectively.

Table of Contents

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

	December 31, 2006	March 31, 2006
Machinery and equipment	$ 15,141	$ 12,509
Furniture and fixtures	1,388	1,352
Leasehold improvements	2,619	2,545
Construction in progress	436	987
Total cost	19,584	17,393
Less accumulated depreciation	(14,012)	(12,569)
	$ 5,572	$ 4,824

Certain reclassifications were made to property and equipment and accumulated depreciation as previously reported at March 31, 2006 to accurately reflect balances associated with our Europe facility.

7. Net Loss Per Common Share

In accordance with SFAS No. 128, *Earnings Per Share*, basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of dilutive common shares outstanding during the period. Diluted shares outstanding is calculated by adding to the weighted shares outstanding any potential (unissued) shares of common stock from outstanding stock options and warrants based on the treasury stock method. In periods when a net loss is reported, such as the nine months ended December 31, 2006 and December 31, 2005, 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 the calculation of basic and dilutive loss per share results in the same value.

The calculation of diluted weighted average shares outstanding for the nine months ended December 31, 2006 and 2005 excludes warrants to purchase up to 400,000 shares of common stock issued in connection with the purchase of intellectual property. Also excluded from the calculation of diluted weighted average shares outstanding for the nine months ended December 31, 2006 and 2005 are stock options outstanding in the amount of 4,471,277 and 3,964,129, respectively, and unvested shares of restricted stock in the amount of 16,000 shares and 24,000 shares, respectively.

8. Marketable Securities

The Company classifies any security with a maturity date of greater than 90 days at the time of purchase as marketable securities. In accordance with 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 December 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 approximates market value of held-to-maturity short-term marketable securities and was approximately $16.9 million and $10.2 million at March 31, 2006 and December 31, 2006, respectively.

The Company has classified the portion of its investment portfolio consisting of corporate asset-backed securities as available-for-sale securities. The cost of these securities approximates market value and was $6.1 million and $1.0 million at March 31, 2006 and December 31, 2006, respectively. 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.

Table of Contents

9. Acquisition

In May 2005, the Company acquired all of the shares of outstanding capital stock of Impella CardioSystems AG (Impella). 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 aggregate initial 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. The Company issued 4,029,004 shares of 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 purchase agreement for the acquisition of Impella provides that the Company may be required to make additional contingent payments to Impella s former shareholders based on both the Company s future stock price performance and milestones related to FDA approvals and unit sales of Impella products.

The contingent payment based on stock price performance as of the 18-month anniversary of the closing date was not required to be paid as the average of the daily volume weighted average price per share of Abiomed s common stock for the 20 trading days prior to November 10, 2006 was below $15.00.

The Company also agreed, subject to certain exceptions based on future stock price performance described below, 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 the Company s 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. If any contingent payments are made, they will result in an increase in the carrying value of goodwill. The Company reached the 1,000 unit milestone in the third quarter of fiscal 2007. The Company accounted for this contingent milestone by increasing goodwill and recording a liability at December 31, 2006 for $5.6 million. The Company expects to

issue approximately 403,000 shares of common stock during the fourth quarter of fiscal 2007 to satisfy this milestone obligation of $5.6 million.

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 that any of the milestones is achieved is $22 or more, no additional contingent consideration will be required with respect to that milestone. 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 following represents the pro forma results of the ongoing operations for Abiomed and Impella as though the acquisition of Impella had occurred on April 1, 2005 (in thousands, except per share data). The pro forma information, however, is not necessarily indicative of the results that would have resulted had the acquisition occurred on that date.

		Nine months ended December 31, 2005
Revenues	$	30,040
Net loss	$	(15,621)
Net loss per common share (basic and diluted)	$	(0.60)

Table of Contents

10. Intangible Assets and Goodwill

The carrying amount of goodwill was $26.4 million at December 31, 2006 and was recorded in connection with the Company s acquisition of Impella. As part of the Impella acquisition in May of 2005, the Company recorded tax-deductible goodwill amounting to $15.5 million. As discussed in Note 9, goodwill was increased during the third fiscal quarter of 2007 by $5.6 million in connection with the Impella 1,000 unit milestone obligation. This increase to goodwill will be tax-deductible once shares of common stock are issued in the fourth quarter. Additional changes in goodwill as compared to March 31, 2006 reflect the fluctuation in foreign currency.

The Company s intangible assets in the accompanying consolidated balance sheets are detailed as follows, each with a weighted average amortization period of seven years (in thousands):

	December 31, 2006		March 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$ 7,544	$ 2,407	$ 6,990	$ 1,564
Trademarks and tradenames	438	159	407	109
Distribution agreements	648	154	754	99
Acquired technology	2,235	532	2,054	269
	$ 10,865	$ 3,252	$ 10,205	$ 2,041

11. Research and Development

Research and development costs are expensed when incurred and include direct materials and labor, depreciation, contracted services and other costs associated with developing and testing of new products and significant enhancements to existing products. Research and development costs consist of the following amounts (in thousands):

	Nine months ended December 31,	
	2006	2005
Internally funded	$ 16,251	$ 12,336
Incurred under government contracts and grants	78	181
Total research and development expense	$ 16,329	$ 12,517

12. Expensed In-Process Research and Development

The Company recorded a charge of $0.8 million during the quarter ended June 30, 2006 in connection with the acquisition of certain circulatory care device patents and know-how. This charge relates to costs to acquire in-process research and development projects and technologies, which have not reached technological feasibility at the date of the asset acquisition and have no alternative future use, and are expensed as incurred.

The Company recorded a $13.3 million non-cash charge to in-process research and development expense during the quarter ended June 30, 2005 in connection with the Company s acquisition of Impella on May 10, 2005. This charge relates to costs to acquire in-process research and development projects and technologies, which have not reached technological feasibility at the date of the business acquisition and have no alternative future use, and are expensed as incurred.

Table of Contents

13. Comprehensive Loss

Comprehensive loss details follow (in thousands):

	Nine months ended December 31,	
	2006	2005
Net loss	$ (21,532)	$ (25,767)
Other comprehensive loss:		
Foreign currency translation adjustments	2,227	(2,582)
Comprehensive loss	$ (19,305)	$ (28,349)

14. Income Taxes

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

As of December 31, 2006, the Company has accumulated a net deferred tax liability in the amount of $0.9 million which is primarily the result of a difference in accounting for the Company s goodwill which is amortized over 15 years for tax purposes but not amortized for book purposes, in accordance with SFAS No. 142. The net deferred tax liability cannot be offset against the Company s deferred tax assets under U.S. generally accepted accounting principles since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period. For the nine months ended December 31, 2006, the Company has recorded a deferred tax provision relating to amortization of goodwill for tax purposes in the amount of $0.3 million. For the nine months ended December 31, 2005, the Company recorded a deferred tax provision relating to amortization of goodwill in the amount of $0.3 million.

15. 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 operates in one business segment the research, development and sale of medical devices to assist or replace the pumping function of the failing heart. The Company s chief operating decision maker (determined to be the Chief Executive Officer) does not manage any part of the Company separately, and the allocation of resources and assessment of performance are based on the Company s consolidated operating results. Approximately 48% of the Company s total consolidated assets are located within the United States as of December 31, 2006. Remaining assets are located in

Europe, related to our Impella production facility, and include goodwill of $26.4 million at December 31, 2006 associated with the Impella acquisition from May 2005 as discussed in Note 9. Total assets in Europe excluding goodwill were $12.5 million at December 31, 2006 and amounted to 17% of total consolidated assets. International sales (sales outside the United States) accounted for 11% and 14% of total product revenue during the nine months ended December 31, 2006 and 2005, respectively.

16. Commitments and Contingencies

The Company s acquisition of Impella provides that Abiomed may be required to make additional contingent payments to Impella s former shareholders (see Note 9). As described in Note 9, the Company has accrued $5.6 million related to the sale of 1,000 Impella units since the date of acquisition. The Company may

Table of Contents

make additional contingent payments to Impella s former shareholders based on additional milestones related to FDA approvals in the amount of up to $11.2 million. These contingent payments may be made in a combination of cash or stock under circumstances described in the purchase agreement.

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. The claim seeks 600,000 unrestricted shares of Abiomed common 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 instituted a legal action in Federal Court to determine the arbitrability of the claims asserted and the Federal Court has stayed the arbitration of a portion of the claim. Arbitration has commenced and the Company continues to vigorously defend against the claims asserted. The Company has applied the concepts of SFAS No. 5 *Accounting for Contingencies* , and has determined that no accrual is warranted.

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

The Company enters into agreements with other companies in the ordinary course of business, typically with underwriters, contractors, clinical sites and customers that include indemnification provisions. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of its activities. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. Abiomed has never incurred any material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2006.

Clinical study agreements In the Company s clinical study agreements, Abiomed has agreed to indemnify the participating institutions against losses incurred by them for claims related to any personal injury of subjects taking part in the study to the extent they relate to uses of the Company s devices in accordance with the clinical study agreement, the protocol for the device and Abiomed s instructions. The indemnification provisions contained within the Company s clinical study agreements do not generally include limits on the claims. The Company has never incurred any

material costs related to the indemnification provisions contained in its clinical study agreements.

17. New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without discounting for the time value of money. FIN 48 also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of the unrecognized tax benefits. FIN 48 will become effective with the Company s fiscal year beginning April 1, 2008. The Company is assessing the impact of FIN 48, but does not expect that this standard will have a material impact on its financial statements.

Table of Contents

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 provides guidance regarding the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality assessments. The method established by SAB No. 108 requires each of our financial statements and the related financial statement disclosures to be considered when quantifying and assessing the materiality of the misstatement. The provisions of SAB No. 108 are effective for the fiscal year ending March 31, 2007. The Company does not expect SAB No. 108 to have a material impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* . Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure requirements regarding fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company is evaluating the impact of adopting SFAS No. 157 on its financial statements.

Table of Contents

Annex List of Selected Clinical Materials

Included below is a list of peer-reviewed publications of which we are aware that have been published since 2004 and which relate to our AB5000 or Impella products. We cannot assure you that this list represents all of the clinical studies and other publications relating to our AB5000 or our Impella products. Moreover, these clinical studies and publications present a wide variety of findings, and any other studies or publications, including future studies, may present additional or different findings. You should not make an investment decision based upon the data contained in these publications. Before making an investment decision, you should carefully consider the risks and other information we include or incorporate by reference in this prospectus supplement, including our consolidated financial statements and the related notes.

AB5000

Zhang L, Kapetanakis EI, Cooke RH, Sweet LC, Boyce SW. Bi-ventricular circulatory support with the Abiomed AB5000 system in a patient with idiopathic refractory ventricular fibrillation. Ann Thorac Surg. 2007 Jan;83(1):298-300.

Sai-Sudhakar CB, Firstenberg MS, Sun B. Biventricular mechanical assist for complex, acute post-infarction ventricular septal defect. J Thorac Cardiovasc Surg. 2006 Nov;132(5):1238-9.

Anderson M, Madani M, Sun B, Raess D, Samuels L. Ventricular assist devices improve recovery outcomes in acute myocardial infarction cardiogenic Shock: Benchmark of the US multicenter experience against SHOCK trial. (TCT 2006). TCT 2006 poster.

Anderson M, Madani M, Sun B, Raess D, Samuels L. Is cardiac recovery with ventricular assist devices after cardiogenic shock post acute myocardial infarction sustainable? Long-term follow-up of a US multicenter study (TCT 2006). TCT 2006 poster.

Anderson M, Acker M, Kasirajan V, Madani M, Naka Y, Raess D, Samuels L, Sun B. Mechanical circulatory support improves recovery outcomes in profound cardiogenic shock post acute myocardial infarction: A US multicenter study. (TCT 2005). Am J Cardiol. 2006 96 [7(Supp)], 11H.

Crumbley AJ, Mandani M, Elefteriades JA, Barrett PW. Clinical bridge to transplant experience with the AB5000 VAD [abstract]. Transplantation. 2006;82 (1 Supp 2):744-5.

Samuels, LE, Holmes EC, Garwood P, Ferdinand F. Initial experience with the Abiomed AB5000: A successful option for extended bridge-to-recovery patients ventricular assist device system. Ann Thorac Surg. 2005 Jul;80(1):309-12.

Leyvi G, Taylor DG, Hong S, Garcia JP, Crooke G, Wasnick JD. Intraoperative off-bypass management of the Abiomed AB5000 ventricle. J Cardiothorac Vasc Anesth. 2005 Feb.;19(1):76-8.

Impella

Garatti A, Colombo T, Vitali E. Placement of the Impella Recover LD microaxial blood pump through a bioprosthesis is technically feasible. J Thorac Cardiovasc Surg. 2006 Oct;132(4):989-90.

Tevaearai HT, Schmidli J, Mohacsi P, Rothen HU, Eckstein FS, Carrel TP. Leakage of the arterial prosthesis of an Impella RVAD. Ann Thorac Surg. 2006 Oct;82(4):1527-9.

Garatti A, Colombo T, Russo C, Lanfranconi M, Milazzo F, Catena E, Bruschi G, Frigerio M, Vitali E. Left ventricular mechanical support with the Impella Recover left direct microaxial blood pump: a single-center experience. Artif Organs. 2006 Jul;30(7):523-8.

Niccoli G, Siviglia M, De Vita M, Altamura L, Fusco B, Leone AM, Ferrante G, Rebuzzi AG, Crea F. A case of fatal stent thrombosis after Carbostent implantation: Is clopidogrel alone antiplatelet therapy a safe alternative to aspirin alone antiplatelet therapy? Int J Cardiol. 2006 Jun 4.

Table of Contents

Lee MS, Makkar RR. Percutaneous left ventricular support devices. Cardiol Clin. 2006 May;24(2):265-75, vii.

LaRocca GM, Shimbo D, Rodriguez CJ, Stewart A, Naka Y, Weinberger J, Homma S, Pizzarello R. The Impella Recover LP 5.0 left ventricular assist device: a bridge to coronary artery bypass grafting and cardiac transplantation. J Am Soc Echocardiogr. 2006 Apr;19(4):468-7.

Henriques JP, Remmelink M, Baan J, Jr., van der Schaaf RJ, Vis MM, Koch KT, Scholten EW, de Mol BA, Tijssen JG, Piek JJ, de Winter RJ. Safety and feasibility of elective high-risk percutaneous coronary intervention procedures with left ventricular support of the Impella Recover LP 2.5. Am J Cardiol. 2006 Apr 1;97(7):990-2.

Minden HH, Lehmann H, Meyhofer J, Butter C. Transradial unprotected left main coronary stenting supported by percutaneous Impella((R)) Recover LP 2.5 assist device. Clin Res Cardiol. 2006 Mar 21.

Vlasselaers D, Desmet M, Desmet L, Meyns B, Dens J. Ventricular unloading with a miniature axial flow pump in combination with extracorporeal membrane oxygenation. Intensive Care Med. 2006 Feb;32(2):329-33.

Ramondo A, Napodano M, Tarantini G, Calzolari D, Nalli C, Cacciavillani L, Iliceto S. High-risk percutaneous coronary intervention using the intracardiac microaxial pump Impella Recover . J Cardiovasc Med. 2006;7:149-52.

Strauch JT, Franke UF, Breuer M, Wippermann J, Wittwer T, Madershahian N, Kaluza M, Wahlers T. Technical feasibility of Impella Recover 100 microaxial left ventricular assist device placement after biologic aortic valve replacement (21 mm) for postcardiotomy failure. J Thorac Cardiovasc Surg. 2005 Dec;130(6):1715-6.

Catena E, Barosi A, Milazzo F, Paino R, Pelenghi S, Garatti A, Colombo T, Vitali E. Three-dimensional echocardiographic assessment of a patient supported by intravascular blood pump Impella Recover 100. Echocardiography. 2005 Sep;22(8):682-5.

Valgimigli M, Steendijk P, Sianos G, Onderwater E, Serruys PW. Left ventricular unloading and concomitant total cardiac output increase by the use of percutaneous Impella Recover LP 2.5 assist device during high-risk coronary intervention. Catheter Cardiovasc Interv. 2005 Jun;65(2):263-7.

Bierbach B, Kasper-Konig W, Haist T, Meier M, Pritzer H, Hanenkamp U, Horstick G, Kempski O, Oelert H. Effect of different operative techniques for myocardial revascularisation on hemodynamics and myocardial perfusion in a porcine model. Thorac Cardiovasc Surg. 2005 Apr;53(2):103-9.

Garatti A, Colombo T, Russo C, Lanfranconi M, Milazzo F, Catena E, Bruschi G, Frigerio M, Vitali E. Different applications for left ventricular mechanical support with the Impella Recover 100 microaxial blood pump. J Heart Lung Transplant. 2005 Apr;24(4):481-5.

Windecker S, Meier B. Impella assisted high risk percutaneous coronary intervention. Kardiovasc Medizin. 2005;8(5):187-9.

Catena E, Milazzo F, Merli M, Paino R, Garatti A, Colombo T, Vitali E. Echocardiographic evaluation of patients receiving a new left ventricular assist device: the Impella Recover 100 Eur J Echocardiogr. 2004 Dec;5(6):430-7.

Strecker T, Fischlein T, Pfeiffer S. Impella Recover 100: successful perioperative support for off pump coronary artery bypass grafting surgery in a patient with end-stage ischemic cardiomyopathy. J Cardiovasc Surg. (Torino) 2004 Aug;45(4):381-4.

Catena E, Milazzo F, Pittella G, Paino R, Colombo T, Garatti A, Vitali E, Merli M. Echocardiographic approach in a new left ventricular assist device: Impella Recover 100. J Am Soc Echocardiogr. 2004 May;17(5):470-3.

Table of Contents

Jurmann MJ, Siniawski H, Erb M, Drews T, Hetzer R. Initial experience with miniature axial flow ventricular assist devices for postcardiotomy heart failure. Ann Thorac Surg. 2004 May;77(5):1642-7.

Garatti A, Colombo T, Russo C, Lanfranconi M, Bruschi G, Milazzo F, Catena E, Vitali E. Impella Recover 100 microaxial left ventricular assist device: the Niguarda experience. Transplant Proc. 2004 Apr;36(3):623-6.

Siegenthaler MP, Brehm K, Strecker T, Hanke T, Notzold A, Olschewski M, Weyand M, Sievers H, Beyersdorf F. The Impella Recover microaxial left ventricular assist device reduces mortality for postcardiotomy failure: a three-center experience. J Thorac Cardiovasc Surg. 2004 Mar;127(3):812-22.

Table of Contents

PROSPECTUS

ABIOMED, Inc.

7,500,000 Shares of

Common Stock

By this prospectus, we may offer up to 7,500,000 shares of our common stock from time to time. We may offer the common stock to or through underwriters or dealers, through agents or directly to investors. We will provide a prospectus supplement each time we offer common stock. The prospectus supplement will inform you about the specific terms of an offering and may also supplement, update or change the information in this prospectus.

This prospectus may not be used to complete sales of common stock unless it is accompanied by a prospectus supplement.

Our common stock trades on the NASDAQ Global Market under the symbol ABMD. The last reported sale price of our common stock on the NASDAQ Global Market on September 28, 2006 was $15.09 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Unless the context otherwise requires, all references to ABIOMED, we, our, us or our company in this prospectus refer to ABIOMED, Inc., a Delaware corporation and its subsidiaries.

The date of this prospectus is October 17, 2006.

Table of Contents

TABLE OF CONTENTS

You should rely on the information contained in this prospectus, in any applicable prospectus supplement and in the documents incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where their offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only at the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the securities. Our business, financial condition, results of operations and prospects may have changed since the date indicated on the front cover of this prospectus.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, and reference is made to the actual documents filed with the United States Securities and Exchange Commission, or SEC, for complete information. Copies of some of the documents referred to herein have been filed, will be filed or incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under Where You Can Find More Information.

ABIOMED and ABIOCOR are trademarks of ABIOMED, Inc., and are registered in the U.S.A. and certain foreign countries. BVS is a trademark of ABIOMED, Inc. and is registered in the U.S.A. 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 U.S.A. and certain foreign countries. This prospectus may also include trademarks of companies other than ABIOMED.

Table of Contents

SUMMARY

This summary is a brief discussion of material information contained in, or incorporated by reference into, this prospectus as further described below under Where You Can Find More Information. This summary does not contain all of the information that you should consider before investing in our common stock being offered by this prospectus. We urge you to read carefully this entire prospectus, the documents incorporated by reference into this prospectus and all applicable prospectus supplements relating to our common stock before making an investment decision.

About this Prospectus

This prospectus is part of a registration statement that we filed with the SEC using a shelf registration process. Under this shelf registration process, we may sell up to 7,500,000 shares of common stock in one or more offerings on a delayed or continuous basis.

This prospectus provides a general description of the common stock we may offer. Each time we offer common stock, we will provide a prospectus supplement that will contain specific information about the terms of the offering. The prospectus supplement may also supplement, update or change the information in this prospectus. In that event, the information in the prospectus supplement will supersede the information in this prospectus.

This prospectus and the applicable prospectus supplement will include all material information regarding an offering. This prospectus may not be used to complete sales of common stock unless it is accompanied by a prospectus supplement.

You should read this prospectus, the applicable prospectus supplement and the additional information described under the heading Where You Can Find More Information beginning on page 13.

About ABIOMED, Inc.

We are a leading provider of medical products and services in the area of circulatory care. Our strategy is centered around establishing recovery as the standard of care for acute patients. We have two products designed for heart recovery following acute events, the AB5000 and BVS® 5000, both of which have been approved by the FDA. Our AB5000 Circulatory Support System is a heart assist product designed to provide enhanced patient mobility within and between medical centers, to facilitate patient ambulation and to provide enhanced features and ease of use for caregivers. The AB5000 console serves as a platform for ongoing and future blood pump product line enhancements expected to meet patient needs across a broader spectrum of temporary heart assist applications. Our AB5000 marketing efforts were initially focused on introducing the system in the largest cardiothoracic surgical centers through sales of consoles and blood pumps. It is

our intention to seek expansion of the current approved indications for use of the AB5000 in order to allow support of expanded patient populations for longer periods of support.

The BVS and AB5000 systems each consist of single-use external blood pumps and cannulae and a reusable pneumatic drive and control console. Both are capable of assuming the full pumping function of a patient s failing heart, and are designed to provide either univentricular or biventricular support. Both are currently approved by the FDA for temporary use while the patient s heart is allowed to rest, heal and recover. The AB5000 console is capable of controlling both the BVS and the AB5000 blood pumps and ventricles and a patient can be switched from a BVS VAD to an AB5000 VAD without surgery due to the compatible design of the cannulae used with the products.

Table of Contents

Our AbioCor is a battery-powered totally implantable replacement heart system, designed to operate without wires or any other material penetrating the patient s skin. We applied for and have received initial FDA market approval for the AbioCor to treat a defined subset of irreversible end-stage heart failure patients under a Humanitarian Device Exemption (HDE). The FDA decision was completed after extensive review of the clinical testing of the AbioCor, beginning with clinical trials that started in 2001 under an Investigational Device Exemption. As a result of this approval, the AbioCor will be available to a limited patient population in the United States, with no more than 4,000 patients receiving the technology each year.

Through our Germany operations, we manufacture, sell and support our Impella products, which include the world s smallest micro blood pumps. These high-performance, minimally invasive pumps feature integrated motors and sensors for use in interventional cardiology and heart surgery. Our Recover System pumps are designed to provide ventricle support for patients requiring hemodynamic stabilization, or suffering from reduced cardiac output and can potentially aid in recovering the hearts of patients suffering from acute myocardial infarction (AMI or Heart Attack). Currently several of the Impella Recover devices, including the 5.0 catheter-based circulatory support system, the 2.5 minimally invasive ventricular assist device, the LD left ventricular unloading catheter, and the RD right ventricular unloading catheter, have the CE mark and we market each of these devices throughout Europe. We intend to seek FDA approval to sell the Recover System blood pumps in the United States. We also intend to seek regulatory approval in other countries in order to address wider market opportunities for circulatory care.

In May 2006, we received FDA approval to commence our pilot clinical trial immediately in the United States for the Impella 2.5 ventricular assist device. The indication for use is as a left ventricular assist device providing support for up to five days during high-risk angioplasty. Angioplasty, performed in the catheterization lab, is the insertion of a catheter-guided balloon that is used to open a narrowed coronary artery. A stent (a wire-mesh tube that expands to hold the artery open) is usually placed at the narrowed section. An angioplasty is considered high-risk if the patient has poor cardiac function and the procedure is performed on an unprotected left main coronary artery lesion or the last patent coronary conduit. It is estimated that 5 to 10 percent of the approximately one million annual U.S. angioplasty cases are high-risk.

In June 2006, we received conditional FDA approval to commence immediately a pilot clinical trial in the United States for the Impella 5.0. This system is already available in Europe, where it has been used to treat more than 250 patients in need of cardiac support resulting from postcardiotomy cardiogenic shock, myocarditis, low cardiac output post-acute myocardial infarction, post-coronary intervention procedures, or as a bridge to other circulatory support devices, including our AB5000 and BVS 5000 Circulatory Support Systems.

We are a Delaware corporation, incorporated in 1981, with our principal executive offices located at 22 Cherry Hill Drive, Danvers, Massachusetts 01923. We commenced operations in 1981. Our telephone number is (978) 777-5410 and our web address is www.abiomed.com. We make available free of charge through the Investor section of our website, all reports filed with the Securities and Exchange Commission. We include our website address in this prospectus only as an inactive textual reference and do not intend it to be an active link to our website.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the risks detailed below, please see the risk factors described under the heading Risk Factors in our annual report on Form 10-K for the fiscal year ended March 31, 2006, which is incorporated by reference in this prospectus.

Before making an investment decision, you should carefully consider these risks as well as the other information we include or incorporate by reference in this prospectus, including our consolidated financial statements and the related notes. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties of which we are unaware or that we currently deem immaterial may also adversely affect our business operations. If any of these risks materializes, the trading price of our common stock could fall and you might lose all or part of your investment.

This section includes or refers to forward-looking statements; you should read the explanation of the qualifications and limitations on such forward-looking statements discussed elsewhere in this prospectus.

Risks Related to a Common Stock Offering

Management has broad discretion over the use of proceeds of an offering pursuant to this prospectus and could apply the proceeds to uses that do not increase our market value or improve our operating results.

Management has broad discretion over the use of proceeds of an offering pursuant to this prospectus including the use of proceeds for making acquisitions of assets, businesses or securities, share repurchases, repayment of debt, capital expenditures, and for working capital. We have not reserved or allocated the net proceeds for any specific purpose and our management will have considerable discretion in applying the net proceeds. We may use the remaining net proceeds for purposes that do not result in any increase in our market value or improve our results of operations.

The market price of our common stock is volatile.

The market price of our common stock has fluctuated widely and may continue to do so. For example, from August 30, 2005 to August 30, 2006 the price of our stock ranged from a high of $14.62 per share to a low of $7.81 per share. Many factors could cause the market price of our common stock to rise and fall. Some of these factors are:

variations in our quarterly results of operations;

- the status of regulatory approvals for our products;
- the introduction of new products by us or our competitors;
- acquisitions or strategic alliances involving us or our competitors;
- changes in accounting principles;
- changes in estimates of our performance or recommendations by securities analysts;
- the hiring or departure of key personnel
- future sales of shares of common stock in the public market; and
- market conditions in the industry and the economy as a whole.

In addition, the stock market, at times, experiences significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company s

Table of Contents

stock drops significantly, stockholders often institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources, or otherwise harm our business.

The sale of material amounts of common stock could encourage short sales by third parties and depress the price of our common stock. As a result, you may lose part of your investment.

The downward pressure on our stock price caused by the sale of a significant number of shares of common stock pursuant to this prospectus could cause our stock price to decline, thus allowing short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our common stock may further depress the price of our common stock.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This prospectus contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this prospectus, and they may also be made a part of this prospectus by reference to other documents filed with the SEC, which is known as incorporation by reference.

Words such as may, anticipate, estimate, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance, identify forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks include, but are not limited to, the risks and uncertainties set forth in Risk Factors, beginning on page 3 of this prospectus, as well as those set forth in our other SEC filings incorporated by reference herein.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this prospectus or in any document incorporated by reference might not occur. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus or the date of the document incorporated by reference in this prospectus. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements attributable to us or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

HOW WE INTEND TO USE THE PROCEEDS

We intend to use the net proceeds from any sale of the securities for building our global distribution, investing in research and development to continue to broaden our portfolio of products across the clinical spectrum of circulatory care, and for general corporate purposes, including, without limitation, making acquisitions of assets, businesses, or securities, share repurchases, repayment of debt, capital expenditures, and for working capital. When particular securities are offered, the prospectus supplement relating thereto will set forth our intended use of the net proceeds we receive from the sale of the securities. Pending the application of the net proceeds, we intend to invest our net proceeds in short-term, investment-grade securities, interest-bearing securities, or guaranteed obligations of the United States or its agencies.

Based upon our historical and anticipated future growth and our financial needs, we may engage in additional financings of a character and amount that we determine as the need arises.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

By this prospectus, we may offer, from time to time, in one or more offerings, up to 7,500,000 shares of our common stock. Our authorized capital stock consists of 100,000,000 shares of common stock, par value $.01 per share, and 1,000,000 shares of preferred stock, par value $.01 per share, of which 25,000 have been designated Series A Junior Participating Preferred Stock. The following summary description of our capital stock is qualified by reference to our restated certificate of incorporation and restated by-laws which are incorporated by reference into this prospectus. As of September 19, 2006, there were 26,692,319 shares of common stock and no shares of preferred stock issued and outstanding.

Common Stock

Holders of our common stock are entitled to one vote per share for each share held of record on all matters submitted to a vote of our stockholders. Subject to preferences that may be applicable to the holders of outstanding preferred stock, if any, the holders of common stock are entitled to receive whatever lawful dividends the board of directors may declare. In the event of a liquidation, dissolution, or winding up of our affairs, whether voluntary or involuntary, and subject to the rights of the holders of outstanding preferred stock, if any, the holders of common stock will be entitled to receive pro rata all of our remaining assets available for distribution to our stockholders. Our common stock has no preemptive, redemption, conversion, or subscription rights. All outstanding shares of common stock are fully paid and non-assessable.

Class B Preferred Stock

Our board of directors is authorized, subject to any limitations prescribed by Delaware law, without further stockholder approval, to issue from time to time up to an aggregate of 1,000,000 shares of Class B preferred stock, in one or more series. Our board of directors is also authorized, subject to the limitations prescribed by Delaware law, to establish the number of shares to be included in each series and to fix the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of any series, including the dividend rights, dividend rates, conversion rights, voting rights, redemption terms and prices, liquidation preferences and the number of shares constituting any series. Our board of directors is authorized to issue preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of common stock.

Series A Junior Participating Preferred Stock

As of September 19, 2006, we had no shares of preferred stock outstanding. As of September 19, 2006, 25,000 shares of our Series A junior participating preferred stock were reserved for issuance upon exercise of our preferred share purchase rights. For a description of the rights, designations and preferences of our

Series A junior participating preferred stock and our preferred stock purchase rights see The Rights Plan below.

Anti-Takeover Effects of Provisions of our Restated Certificate of Incorporation and Restated By-Laws and Delaware Law

Delaware Anti-Takeover Law

Provisions of Delaware law and our restated certificate of incorporation and restated by-laws could make it more difficult to acquire us by means of a tender offer, a proxy contest, open market purchases, removal of incumbent directors and otherwise. These provisions, summarized below, are expected to discourage types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because negotiation of these proposals could result in an improvement of their terms.

Table of Contents

We must comply with Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to an interested stockholder. An interested stockholder includes a person who, together with affiliates and associates, owns, or did own within three years before the determination of interested stockholder status, 15% or more of the corporation s voting stock. The existence of this provision generally will have an anti-takeover effect for transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Our by-laws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to our board of directors. These provisions may have the effect of deterring hostile takeovers or delaying changes in our control or management.

Classified Board of Directors

Our board of directors is divided into three classes designated as Class I, Class II and Class III, respectively. The term of one class of directors expires each year at our Annual Meeting of Stockholders. Each director also continues to serve as a director until his or her successor is duly elected and qualified. Designation of a classified board of directors is permitted under Section 141(d) of the General Corporation Law of the State of Delaware. Our restated certificate of incorporation and restated by-laws require us to have at least three directors but no more than 12. Each class shall consist, as nearly may be possible, of one third of the number of directors constituting the entire board of directors. The principal purposes for a classified board of directors are to promote continuity and stability in the Company s leadership and policies and to encourage any persons who might wish to acquire the Company to negotiate with its management rather than to attempt to effect certain types of business combinations without the approval of management or of a substantial portion of the Company s stockholders.

Undesignated Preferred Stock

The authorization of our undesignated preferred stock makes it possible for our board of directors to issue our preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes of control of our management.

The Rights Plan

Summary of the Rights Plan

In August 1997, we adopted a rights plan. Under the rights plan, we distributed one preferred stock purchase right as a dividend on each outstanding share of our common stock. The rights will expire on August 13, 2007, unless they are redeemed or exchanged before that time. Each right entitles the holder to purchase one one-thousandth of a share of our Series A junior participating preferred stock at a purchase price of $90.00 per right, subject to adjustment.

If any person or group becomes the beneficial owner of 15% or more of the shares of our common stock, except in a tender or exchange offer for all shares at a fair price as determined by the outside members of the board of directors, each right not owned by the 15% stockholder will entitle its holder to purchase that number of shares of our common stock which equals the exercise price of the right divided by one-half of the market price of our common stock at the date of the occurrence of the event. In addition, if we are involved in a merger or other business combination transaction with another entity in which we are not the surviving corporation or in

Table of Contents

which our common stock is changed or converted, or if we sell or transfer 50% or more of our assets or earning power to another entity, each right will entitle its holder to purchase a number of shares of common stock of the other entity that equals the exercise price of the right divided by one-half of the market price of that common stock at the date of the occurrence of the event.

The rights will not be exercisable until:

- ten days after the public announcement that a person or group has become an acquiring person by obtaining beneficial ownership of 15% or more of our outstanding common stock or, if earlier,
- ten business days (or a later date determined by our board of directors before any person or group becomes an acquiring person) after a person or group begins, or announces an intention to begin, a tender or exchange offer that, if completed, would result in that person or group becoming an acquiring person.

We generally will be entitled to redeem the rights at $.001 per right at any time until the tenth business day following public announcement that a 15% stock position has been acquired and in specified other circumstances. The terms of our rights plan may be amended by our board of directors without the consent of the holders of our rights. After a person or group becomes an acquiring person, our board of directors may not amend the agreement in a way that adversely affects holders of our rights.

The purpose of the rights plan is to protect our stockholders from coercive or otherwise unfair takeover tactics. In general terms, our rights agreement works by imposing a significant penalty upon any person or group that acquires 15% or more of all of our outstanding common stock, without the approval of our board of directors. The rights have anti-takeover effects. The rights should not interfere with any merger or other business combination approved by the board, since we may redeem the rights at $.001 per right.

Please note that the above description is only a summary of our rights plan, is not complete, and should be read together with our entire rights agreement, which has been publicly filed as an exhibit to our Form 8-A filed with the SEC on August 25, 1997, and is incorporated herein by reference.

Our Series A Junior Participating Preferred Shares

Each one one-thousandth of a share of our Series A junior participating preferred stock, if issued:

will not be redeemable;

will entitle holders to quarterly dividend payments of $.01 per share, or an amount equal to the dividend paid on one share of our common stock, whichever is greater;

will entitle holders upon liquidation, dissolution or winding-up to receive, prior and in preference to the common stock and any additional junior ranking securities, an amount equal to the payment that would be made on one share of our common stock;

will have the same voting power as one share of our common stock; and

if shares of our common stock are exchanged via merger, consolidation or a similar transaction, will entitle holders to a per share payment equal to the payment made on one share of our common stock.

The value of one one-thousandth interest in a share of our Series A junior participating preferred stock purchasable upon exercise of each right should approximate the value of one share of our common stock.

Limitation of Liability

Our restated certificate of incorporation provides that no member of our board of directors shall be personally liable to us or to our stockholders for monetary damages for breach of fiduciary duty as a director,

Table of Contents

except that the limitation shall not eliminate or limit liability to the extent that the elimination or limitation of such liability is not permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended.

Our restated certificate of incorporation further provides for the indemnification of our directors and officers to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, including circumstances in which indemnification is otherwise discretionary. A principal effect of these provisions is to limit or eliminate in most situations the potential liability of our directors for monetary damages arising from breaches of their duty of care. These provisions may also shield directors from liability under federal and state securities laws.

Officers, directors or other persons controlling us may be entitled under these indemnification provisions to indemnification for liabilities arising under the Securities Act of 1933. We have been informed that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Stock Transfer Agent

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Table of Contents

PLAN OF DISTRIBUTION

We may sell the securities from time to time in one or more transactions:

- to purchasers directly;
- to underwriters and through underwriting syndicates for public offering and sale by them;
- to and through agents;
- through dealers; or
- through a combination of any of the foregoing methods of sale.

We may also make direct sales through subscription rights distributed to our stockholders on a pro rata basis, which may or may not be transferable. In any distribution of subscription rights to stockholders, if all of the underlying common stock are not subscribed for, we may then sell the unsubscribed common stock directly to third parties or may engage the services of one or more underwriters, dealers or agents, including standby underwriters, to sell the unsubscribed common stock to third parties.

We may distribute the securities from time to time in one or more transactions at:

- a fixed price or prices, which may be changed;
- market prices prevailing at the time of sale;
- prices related to such prevailing market prices; or
- negotiated prices.

Any of the prices may represent a discount to prevailing market prices.

We may sell the securities directly to institutional investors or others. A prospectus supplement will describe the terms of any sale of the securities we are offering hereunder.

To Underwriters

The applicable prospectus supplement will name any underwriter involved in a sale of the securities. Underwriters may offer and sell common stock at a fixed price or prices, which may be changed, or from time to time at market prices or at negotiated prices. Underwriters may be deemed to have received compensation from us for sales of the securities in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the securities for whom they may act as agent.

Underwriters may sell the securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions (which may be changed from time to time) from the purchasers for whom they may act as agent.

Any underwritten offering may be on a best efforts or a firm commitment basis. If underwriters are used in the sale, the common stock acquired by the underwriters will be for their own account. The underwriters may resell the common stock in one or more transactions, including without limitation negotiated transactions, at a fixed public offering price or at a varying price determined at the time of sale. Unless otherwise provided in a prospectus supplement, the obligations of any underwriters to purchase the securities will be subject to certain conditions, and the underwriters will be obligated to purchase all of the securities if any are purchased, which is known as a firm commitment offering. Any public offering price and any discounts or concessions allowed, reallowed or paid to dealers may be changed from time to time. We may grant to the underwriters options to purchase additional securities to cover over-allotments, if any, at the public offering price with additional underwriting discounts and commissions, as may be set forth in the applicable prospectus supplements. If we grant any over-allotment option, the terms will be set forth in the applicable prospectus supplement.

Table of Contents

Until the distribution of the common stock is completed, rules of the SEC may limit the ability of any underwriters and selling group members to bid for and purchase the common stock. As an exception to these rules, underwriters are permitted to engage in some transactions that stabilize the price of the common stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock.

If any underwriters create a short position in the common stock in an offering in which they sell more common stock than is set forth on the cover page of the applicable prospectus supplement, the underwriters may reduce that short position by purchasing the common stock in the open market.

The lead underwriters may also impose a penalty bid on other underwriters and selling group members participating in an offering. This means that if the lead underwriters purchase common stock in the open market to reduce the underwriters short position or to stabilize the price of the common stock, they may reclaim the amount of any selling concession from the underwriters and selling group members who sold those common stock as part of the offering.

In general, purchases of common stock for the purpose of stabilization or to reduce a short position could cause the price of the common stock to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of the common stock to the extent that it were to discourage resales of the common stock before the distribution is completed.

We do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above might have on the price of the common stock. In addition, we do not make any representation that underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice at any time.

Through Agents and Dealers

We will name any agent involved in a sale of the securities, as well as any commissions payable by us to such agent, in a prospectus supplement. Unless we indicate differently in the prospectus supplement, any such agent will be acting on a reasonable efforts basis for the period of its appointment.

If we utilize a dealer in the sale of the securities, we may sell the shares of our common stock to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale.

To comply with applicable state securities laws, the common stock offered by this prospectus will be sold, if necessary, in such jurisdictions only through registered or licensed brokers or dealers. In addition common stock may not be sold in some states unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification

requirement is available and is complied with.

Delayed Delivery Contracts

If we so specify in the applicable prospectus supplement, we will authorize underwriters, dealers, and agents to solicit offers by certain institutions to purchase the securities pursuant to contracts providing for payment and delivery on future dates. Such contracts will be subject to only those conditions set forth in the applicable prospectus supplement.

The underwriters, dealers, and agents will not be responsible for the validity or performance of the contracts. We will set forth in the prospectus supplement relating to the contracts the price to be paid for the securities, the commissions payable for solicitation of the contracts and the date in the future for delivery of the securities.

Table of Contents

General Information

Underwriters, dealers, and agents participating in a sale of the securities may be deemed to be underwriters as defined in the Securities Act of 1933, as amended, or Securities Act, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. We may have agreements with underwriters, dealers, and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act, and to reimburse them for certain expenses.

Underwriters or agents and their associates may be customers of, engage in transactions with, or perform services for us or our affiliates in the ordinary course of business.

We may indemnify underwriters, dealers, or agents who participate in the distribution of securities against certain liabilities, including liabilities under the Securities Act, and may agree to contribute to payments that these underwriters, dealers, or agents may be required to make.

Our common stock is listed and traded on the NASDAQ Global Market.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

Available 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.

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 registration statement:

(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 current report on Form 8-K/A dated May 10, 2005 (as filed on July 27, 2005);

(d) Our current report on Form 8-K dated May 25, 2006 (as filed on May 25, 2006);

(e) Our current report on Form 8-K dated May 30, 2006 (as filed on June 1, 2006);

(f)

Our current report on Form 8-K dated June 27, 2006 (as filed on June 28, 2006);

(g) Our current report on Form 8-K dated September 5, 2006 (as filed on September 5, 2006);

(h) Our current report on Form 8-K dated September 5, 2006 (as filed on September 8, 2006);

(i) 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

(j) 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.

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 the initial filing of this prospectus and before the date the registration statement is declared effective 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 a registration statement 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 statement. For further information about us and our securities, you should read the prospectus and the exhibits filed with the registration statement, as well as all prospectus supplements.

LEGAL MATTERS

Unless otherwise indicated in the prospectus supplement, the validity of the shares of common stock offered hereby will be passed upon for us by Foley Hoag LLP, Boston, Massachusetts.

EXPERTS

The financial statements included in this Prospectus and 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 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.

Table of Contents

ABIOMED, INC. AND SUBSIDIARIES

Consolidated Financial Statements

Index

Table of Contents

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

Table of Contents

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)

	March 31, 2005	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)
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.

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	$ (0.45)	$ (0.11)	$ (1.15)

Share:			
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	23,970		204					204	

stock purchase plan								
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

Table of Contents

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

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.

Table of Contents

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 Assests.*. 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.

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 $1.53, $3.94 and $4.11 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.

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

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 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.

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	Gross Carrying Amount	Accumulated Amortization	Weighted Average

	Amount		Amortization Period	Amount		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.

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, *Guarantor s 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 guarantor s 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,

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 Director s 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 Options	Exercise Price		Weighted Avg. Exercise Price Per Share
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.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding As of March 31, 2006	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Exercisable As of March 31, 2006	Weighted Avg. Exercise 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

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

Table of Contents

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.

Table of Contents

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 our Annual Report on Form 10-K for the year ended March 31, 2006 that has been filed with the SEC and is incorporated by reference into this registration statement.

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.

Table of Contents

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.

Table of Contents

5,000,000 Shares

COMMON STOCK

Prospectus Supplement

MORGAN STANLEY *UBS Investment Bank*

March , 2007