Vision Quest

ABIOMED, INC.
2004 ANNUAL REPORT
for fiscal year ended
March 31, 2004

ABIOMED®

TABLE OF CONTENTS

OUR VISION

We are committed to help make real the day when cessation of heart function will not mean the end of life, or the ability to enjoy life.

Above: ABIOMED team at Company headquarters in Danvers, Massachusetts.

On the cover (from left to right): Dr. Bud Frazier, chief of Cardiopulmonary Transplantation and director of Surgical Research at the Texas Heart Institute, and chief of Transplant Services at St. Luke's Episcopal Hospital, the new AB5000™ Ventricle, and BVS® 5000 patient Avimael Santos and his family.

In the more than twenty-year history of ABIOMED, we have never waivered from our mission: the artificial heart.

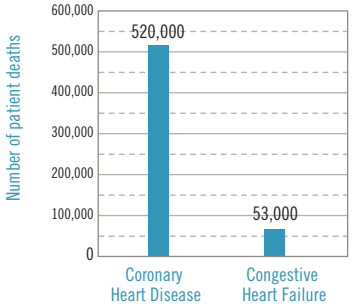
In the process, we've learned a great deal about saving lives, and we've created an incredible business that stems from that mission—with six products, dozens of patents and hundreds of trade secrets. In partnership with our surgeons, supported by our investors, we've created a business based on technology that has saved thousands of patients whose hearts needed support.

This year the AbioCor® Implantable Replacement Heart is on track to become a reality—to move beyond clinical trials and to become available to those who need it most.

Cardiovascular diseases affect more than 64 million Americans and accounted for over 900,000 deaths in 2001. Among acute conditions, Coronary Heart Disease is responsible for over half a million of those deaths. An additional 53,000 deaths were attributed to the chronic congestive heart failure condition.

Source: American Heart Association, *Heart Disease and Stroke Statistics,* 2004 Update

U.S. Heart Disease Mortality



To our

Patients, Employees, Customers and Shareholders:

The last year was one of substantial progress for ABIOMED as the company continued its vision quest: extending life and the ability to enjoy it after the heart fails. Significant achievements for the year included:

- FDA marketing approval for the AB5000™ Circulatory Support System;
- Progress toward the introduction of the AbioCor® Implantable Replacement Heart under a Humanitarian Device Exemption;
- Solid revenue growth, thanks to the efforts of our dedicated sales team and an enthusiastic reaction by our customers to the AB5000;
- Improved operating results, stemming from improved management of operations.

With these accomplishments, ABIOMED is set firmly on a path towards profitability, growth and success.

In April, I was honored to be chosen to succeed ABIOMED's Founder and Chairman, David M. Lederman, Ph.D., as the company's Chief Executive Officer and President and to join the company's Board of Directors. I was attracted by ABIOMED's extraordinary mission and David's lifetime commitment. I was also drawn to the company's culture and how it is focused on leading in innovation and technology to improve patient quality of life. In the months I've been here, as I've learned more about ABIOMED's technology, markets and potential, I've grown even more excited about our future.

Our focus every day centers on four themes that will help us realize our vision:

- Saving Lives
- Leading in Technology and Innovation
- Growing Profitability and Shareholder Value
- Creating a Winning Culture

Highlights of the Year

- FDA marketing approval for the AB5000™ Circulatory Support System
- Progress toward the introduction of the AbioCor® Implantable Replacement Heart under a Humanitarian Device Exemption
- Solid revenue growth, thanks to the efforts of our dedicated sales team and an enthusiastic reaction by our customers to the AB5000
- Improved operating results, stemming from improved management of operations

^ **David M. Lederman,** Chairman of the Board
Michael R. Minogue, CEO, President and Director

Saving Lives

Every year, nearly 700,000 people in the United States die of heart failure. Lifestyle changes, drug therapies, pacemakers, defibrillators and stents can mitigate symptoms or slow the progression of heart disease, but none of these options can stop it. For those patients whose hearts have failed but have the potential to recover, ABIOMED has created technologies that can help. Every day, doctors at more than 700 hospitals around the world rely on ABIOMED's BVS 5000 and AB5000 systems to rescue patients who need temporary circulatory support. For those patients who suffer complete heart failure, ABIOMED believes the AbioCor Implantable Replacement Heart will be able to extend life and the ability to enjoy it.

Since joining ABIOMED in April, I have heard dozens of stories about how our products have helped give patients extra life and quality of life. Several patients are featured in this report.

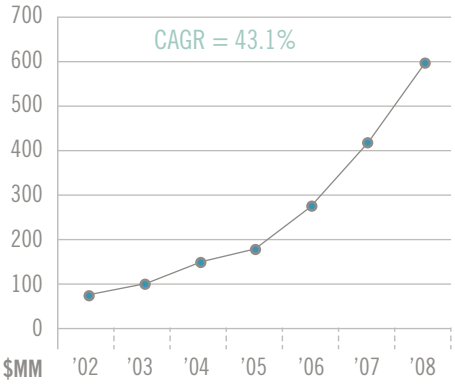
> On the cover is Avimael Santos and his family. Avimael was 39 years old when he suffered cardiac arrest and shock following a procedure to repair a heart valve. The BVS 5000 kept his heart pumping for two weeks, after which he was switched to a longer-term device and received a heart transplant at CHRISTUS Transplant Institute in San Antonio, Texas. Since his transplant, Avimael and his wife have welcomed a new baby into their family.

> Monna Swisher, a mother of three from Atwood, Illinois, found herself in critical condition when her heart went into shock following a routine coronary artery bypass graft. She was 30 years old. Monna was put on the BVS, recovered and returned home.

> Randy Mattox of Keyes, California was 46 years old when he suffered a heart attack which required quadruple bypass surgery. When his heart went into shock, he was transferred from his local hospital to UCLA, where he was supported by the BVS until he could receive a transplant.

> Tom Christerson from Central City, Kentucky was the second patient in the world to be implanted with the AbioCor Implantable Replacement Heart. Despite being gravely ill when he was implanted, he lived for seventeen months following the surgery. During that time, he was able to attend sporting events, dine in restaurants and spend time with loved ones, including a great-grandchild born after the AbioCor was implanted.

Circulatory Assist Market Growth



The circulatory assist market is estimated to be worth $150M, and is growing at more than 40% a year.

Source: Health Research International: *U.S. Opportunities in Heart Failure Technologies,* March 2004

> On the last page, we tell the story of Thomas Fincher of Myrtle Beach, South Carolina. After suffering a massive heart attack, Thomas was implanted with the AB5000, recovered and returned home. He was the first AB5000 patient in the nation to do so.

Leading in Technology and Innovation

ABIOMED has a proud history of technology leadership and innovation. Our BVS 5000 was the first advanced mechanical circulatory support system to gain FDA approval. Our AB5000™ Console is the first flexible and upgradeable platform capable of supporting a full line of ventricular assist products. The new AB5000™ Ventricle is setting a new standard for ease of use, and the commercialization of the AbioCor Implantable Replacement Heart will stand as one of the great achievements in medical technology.

Innovation takes many forms. New products are developed to address previously untreatable conditions. Refinements make existing products work better for patients and caregivers. Spin-off products create new revenue streams from core proprietary technologies, and process breakthroughs yield significant efficiency and quality dividends. On all of these fronts, ABIOMED's entire team is dedicated to the principle that technology leadership and the spirit of innovation are essential to our business goals and to our mission.

Growing Profitability and Shareholder Value

ABIOMED has technology leadership and an exciting portfolio of products in a rapidly expanding multi-billion dollar market. We can and must translate our position into one of solid revenue and profit growth.

We are analyzing every area of our product development, manufacturing, purchasing and other internal operations in search of increased efficiencies. We are also monitoring the new product and revenue potential contained in our technology and intellectual property portfolio. We are building a coordinated global distribution organization that fully aligns our sales, marketing, clinical applications and customer service functions.

Finally, we are taking every opportunity to tell our story to the investment community. We are proud of what we have already accomplished, and we will continue to build a consistent record of technical achievement, business growth, and solid profitability.

Creating a Winning Culture

The employees at ABIOMED possess a unified dedication to a critical goal: to help extend life and quality of life after the heart fails. We will continue to pursue that goal and be committed to the highest standards of business and personal ethics. ABIOMED is a great place to work—a place where employees look forward to each day because of the challenges they face, the progress they see, and the energy and excitement that comes with being part of our team. This culture of integrity and focus on the patient inspires every individual in the company to continually contribute and improve.

Further details of our mission are laid out in the following report.

Finally, I was honored to be present at the implant of the AbioCor Replacement Heart for our thirteenth patient enrolled in the clinical trial. It was a very moving experience that reinforced why ABIOMED is a special place with a special mission. I am proud to be a part of this team and personally committed to our vision quest.

Regards,

Michael R. Minogue,
CEO and President

Market Imperative 2003-2010

To become the undisputed market leader in advanced circulatory support, providing solutions to meet the needs of every group of heart assist and heart replacement patients.

ABIOMED's entire team is dedicated to the principle that technology leadership and the spirit of innovation are essential to our business goals and to our mission.

^ Photo from ABIOMED's April 2004 National Sales Meeting, representing members of management, engineering, corporate staff, sales and clinical applications teams.

Saving Lives

is the mission that drives our business

Providing life and the ability to enjoy it after the heart fails means not only creating the best technologies to support the heart, but also making sure they get in the hands of those on the front lines—the hospitals and their cardiologists and surgeons. In addition, we are committed to educating our customers on best practices and providing the highest level of support and service to ensure positive outcomes.

In the process of developing the AbioCor Implantable Replacement Heart, ABIOMED has produced many technologies that have saved lives. The AB5000 Circulatory Support System launched this year is based on AbioCor technology.

Recovery is the Best Option

ABIOMED is the only company in the circulatory support market offering a system designed for the best outcome of all: recovery. Thousands of patients with failing hearts have been put on the BVS 5000 and either recovered, returning to their normal lives untethered by devices, or received heart support and improved organ function until they received a transplant.

The potential to help patients whose hearts could recover is tremendous. Currently, about 1,000 patients a year are supported by the BVS 5000. However, there are nearly 60,000 patients in the US whose hearts could potentially recover after a cardiac event such as a heart attack or shock following coronary bypass surgery.

In addition, ABIOMED is working to expand the availability of these bridge-to-recovery systems globally. ABIOMED will be working to ensure that patients and surgeons have access to this life saving, cost-effective technology across the world.

Therapeutic Flexibility

With the introduction of the AB5000 Circulatory Support System this year, we've expanded our product line to give our surgeons the tools they need to make the best possible decisions on behalf of their patients. The AB5000 provides temporary support for one or both sides of the natural heart in circumstances where the heart has failed. This support gives the patient's heart the opportunity to rest and potentially recover and allows surgeons the therapeutic flexibility necessary to determine the best endpoint for treatment.

In addition to providing surgeons with time to assess the best clinical course, the AB5000 Console provides flexibility by being easily moveable. The console is designed to allow patients to leave their rooms and walk within the hospital. Patient ambulation, or walking, has been shown to greatly assist the recovery

< From the left: Drs. Robert Dowling and Laman Gray, lead AbioCor investigators at Jewish Hospital in Louisville, KY.

process. The AB5000's ease of transport between hospitals means that patients can be put on support at their local hospital and transported to a more advanced cardiac center if necessary.

Education, Support and Service

For more than a decade we've provided temporary circulatory assist devices to our customers. During that time, we've collected a clinical database of patient care from every hospital in our installed base and have analyzed how to ensure the best possible outcomes.

For example, we've learned that the most important factor in patient outcome is early implantation. ABIOMED's BVS 5000 is the most cost-effective blood pump in the industry, making it the first choice for early implant. Designed for short-term support, both local hospitals and transplant centers can use this economical option to stabilize patients following a heart attack or other heart failure. After patients are stabilized with the BVS 5000, clinicians can determine whether recovery is likely or whether additional therapies will be required.

Early implant is just one example of the best practice topics covered in our new service program rolling out this year. This program will ensure that our patients and customers not only have the most responsive service in the industry, but also receive education and support on critical topics to increase the success of treatment. We'll be sharing data and analysis on best practices, providing remote monitoring and diagnostics, offering a kit to help customers navigate issues such as reimbursement, and leading training sessions for medical personnel.

^ **Randy Mattox,** BVS 5000 patient and his wife

Tom Christerson, AbioCor patient, and his wife Speedy ^

^ **Monna Swisher,** BVS 5000 patient and her family

Leading

in Technology and Innovation

ABIOMED is the leader across a broad spectrum of circulatory support applications, ranging from acute post-surgical heart assistance to implantable heart replacement. We are committed to providing products with the critical mix of leading technology, reliability and ease of use.

^ **Heart Replacement**

AbioCor Implantable Replacement Heart

AbioCor II

Fully implantable, the AbioCor and AbioCor II are the world's only totally implantable artificial hearts. Designed for patients who have suffered complete heart failure, these systems are designed to fit inside the body without skin penetration so patients can remain mobile, have a good quality of life and be less susceptible to infection. The initial clinical trial for the AbioCor is finishing up this year and AbioCor II is currently in development, with animal trials planned for this year. It is smaller than the AbioCor and has a goal of five years of reliability.

Cardiac Assist

The AB5000™ Circulatory Support System and the BVS® 5000 Bi-ventricular Support System provide temporary support for one or both sides of the natural heart in circumstances where the heart has failed but has the potential to recover. The BVS® 5000 Blood Pump and AB5000 Ventricle are both driven by the AB5000 Console, part of the AB5000 System approved last year. This console has an advanced computer platform with upgradeable software. The AB5000 is designed to support a family of products that allow doctors to make the best and most cost-effective decisions without another surgery.

Unlike other ventricular assist systems that can require multiple drivers for a single patient—some of which are the size of a dishwasher and unmoveable—patients on the AB5000 require only a single console, regardless of their condition.

The average clinical use for the BVS has been 5 days, while the AB5000 Ventricle's clinical use has averaged 15 days. In addition, the AB5000 has maintained bench performance exceeding 100 days of operation. Doctors can switch patients at any time from the BVS 5000 Blood Pump to the AB5000 Ventricle without having to perform another surgery. This is an exclusive ABIOMED option.

By offering products capable of varying durations of support, ABIOMED offers surgeons the choices necessary to save lives while managing costs.

Permanent Heart Replacement

ABIOMED is poised to make history by seeking approval for the world's first and only implantable replacement heart—the AbioCor. We'll be completing the initial 15 patient clinical trial, and seeking limited FDA commercial approval for the heart under a Humanitarian Device Exemption. This approval would make the device available to a selected population of up to 4,000 patients per year.

Future Development

In addition to seeking limited

< Bob Sousa, Design Assurance Technician

commercial approval this year for the AbioCor, ABIOMED is committed to the continued improvement of its existing products and is actively engaged in pursuing the next generation of cardiac assist and replacement technologies. In the near term, product upgrades planned for the AB5000 include enhanced software, improved cannulae, and remote monitoring and diagnostic capability. We'll be investing in future developments of the AB5000 product line to improve duration of support, comfort and mobility. We're also continuing to work on the AbiocCor II which is smaller, has a goal of five-year reliability and is designed to fit virtually the entire adult population.

In addition, ABIOMED has a rich portfolio of patents and trade secrets that have been developed on our way to accomplishing our mission—many of which represent new opportunities to grow our business. In the months and years ahead, we'll be evaluating which of these technologies can be translated into commercially viable products.

Finally, we remain committed to maintaining leadership across the entire spectrum of circulatory support applications. In addition to developing technologies in-house, we are continually monitoring technologies worldwide to evaluate whether there are strategic business developments that would enhance our offerings.

AB5000 Circulatory Support System:

^ **AB5000 Ventricle**
> **AB5000 Console** (top right)

The AB5000 Circulatory Support System provides temporary circulatory support when the heart has failed, allowing physicians to determine the best endpoint for treatment. The system has supported a patient for up to 149 days. The console features the most advanced computer technology in the industry, and can be used with either the BVS 5000 Blood Pump or the AB5000 Ventricle.

BVS 5000 Bi-ventricular Support System:

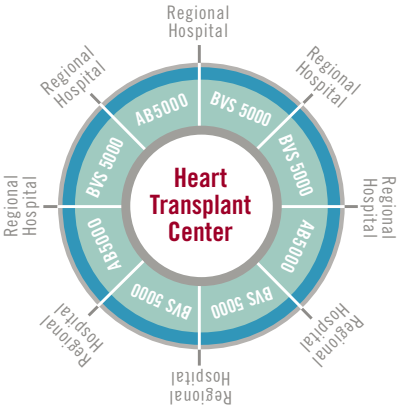
^ **BVS 5000 Blood Pump**
< **BVS 5000 Console**

The BVS 5000 Bi-ventricular Support System is the most widely used cardiac assist system in the world. It is designed to provide short-term support for patients whose hearts have failed but have the potential to recover.

Growing

Profitability and Shareholder Value

ABIOMED is at a critical, exciting, and momentous juncture in its history. Not only is the company working toward the approval of the world's first implantable heart this year, but we are also poised to turn the corner into profitability of our existing business operations. Our technology gives us a strong position in a growth market. We intend to achieve double-digit growth over the next year, with the intention of becoming a $500M company within 7 years.



There are two types of cardiac hospitals: **"Spoke,"** or regional non-transplant cardiac centers, and **"Hub"** transplant facilities. Under the Hub and Spoke℠ program, patients can be put on cardiac support at their regional cardiac facility and transported to a more advanced "Hub" center if necessary. This approach maximizes patients' options for treatment and improves patient outcomes. It also optimizes costs and improves allocation of resources.

We are expanding our sales and clinical applications teams and ramping up manufacturing efforts accordingly. We've also put in place internal management processes and analysis tools designed to improve forecasting and streamline costs.

We are expanding our European business and are committed to realizing the potential of global markets with initiatives in areas including Canada, Latin America, Japan and China.

Market Size, Penetration, and Potential

The AbioCor is the future of the company—but the short-term opportunities to save lives and grow the business are impressive on their own. The introduction of the AB5000 has given us a stronghold in the ventricular assist device (VAD) market, a nearly $150M market growing at over 40% a year[1]. By any measure, market size for heart replacement in the US is greater than $1B.

ABIOMED will be entering the heart replacement market with the largest existing installed base in the circulatory assist segment. The company has installed more than 700 consoles for its BVS 5000. The BVS 5000 has a 70 percent market share in hospitals that perform more than 500 open heart surgeries a year.

Reimbursement to Hospitals

In addition to making the most clinical sense, ABIOMED's products make the most economic sense. Under Diagnosis Related Group (DRG) 525, Medicare payment for the BVS and AB5000 product lines substantially increased in October 2003. This adjustment allows

[1] Health Research International: U.S. Opportunities in Heart Failure Technologies, March 2004.

physicians to determine usage of the BVS and AB5000 based on clinical need without financial penalty to their hospitals.

Furthermore, under this new structure, surgeons are not penalized for implanting early with a temporary device—an approach that supports positive outcomes and gives surgeons therapeutic flexibility. Under Medicare's payment policy, a patient whose life is saved by the BVS at one hospital may be transferred to a transplant center for assignment to the AB5000 or other appropriate therapy, and each hospital is reimbursed independently for the services it provides.

Product Strategy & Positioning

ABIOMED is a leader across a broad spectrum of circulatory support applications, ranging from acute post-surgical heart assistance to implantable heart replacement.

Projected Product Development Goals *

Calendar Year	2003	2004	2005	2006	2007	2008
AB5000						
> Console	■					
> Ventricle	■					
> Product and software upgrades		■	■	■	■	■
AbioCor						
> Humanitarian Use Designation (HUD)	■					
> Completion of initial clinical trial		■				
> Humanitarian Device Exemption (HDE) Submission		■				
> Commercial Sales			■	■	■	■
AbioCor II						
> Preclinical		■				
> Investigational Device Exemption (IDE) Submission				■		
> Clinical Trial					■	
> Premarket Approval (PMA)						■

* Contingent upon FDA processes and approvals

From the left: Seana Richardson, Design Assurance Engineer, and Jamie O'Hare, > Design Assurance Technician, at the company's "birthday" party, celebrating four years of lab operation for the AbioCor and one year for the AB5000.

Creating

a Winning Culture

Working at ABIOMED is more than a job, it is a mission.

Every member of this team focuses on that mission each day. It is ingrained into everything we do. New members of our team are all required to reach out to survivors, hear their stories, and share those stories with the rest of the team. They're required to wear a battery pack, as an AbioCor patient does, for one day. These initiations are just two small examples of how we remain focused on continuing to improve the quality of life for our patients with the artificial heart.

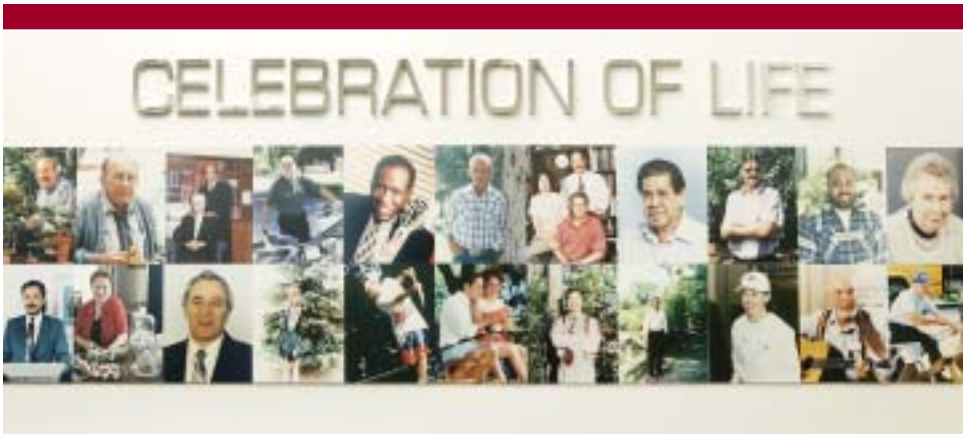
When we walk into headquarters in the morning, we see the faces of the people whose lives we helped save covering the walls of our reception area. That is our vision—to preserve life and the ability to enjoy it after the heart fails.

"There are no words to describe it when a doctor looks at you and says there is nothing he can do," said Jan Fincher, whose husband of 35 years, Thomas, suffered a massive heart attack last year. On Christmas Eve, he was sent by helicopter from his local hospital to MUSC in Charleston, SC, where he was implanted with the AB5000 ventricle to support both sides of his heart while he recovered.

"The AB5000 was his best chance," she said. "When it would make its swishing sound, it got so I would breathe with it. It gave Thomas his life back."

Since coming home, he has been able to return to many of things he used to enjoy, including fishing and cooking for his wife and two daughters, Jaymi and Jessica.

It's a vision worth realizing, and worth celebrating, each time we save a life.



ABIOMED, Inc. and Subsidiaries

Consolidated Financial Statements
As of March 31, 2003 and 2004

Index

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' deficit and cash flows present fairly, in all material respects, the financial position of ABIOMED, Inc, and its subsidiaries at March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public 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 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.

PricewaterhouseCoopers LLP
Boston, Massachusetts
May 7, 2004

Consolidated Balance Sheets

(in thousands, except share data)

Years Ended March 31,	2003	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 44,572	$ 6,893
Short-term marketable securities	9,877	20,432
Accounts receivable, net of allowance for doubtful accounts of approximately $171 and $131 at March 31, 2003 and 2004, respectively	5,224	5,972
Inventories	2,856	2,695
Prepaid expenses and other current assets	884	987
Total current assets	63,413	36,979
Long-term investments (Note 2)	–	18,216
Property and equipment, at cost:		
Machinery and equipment	9,231	9,549
Furniture and fixtures	1,160	1,190
Leasehold improvements	2,167	2,236
	12,558	12,975
Less—Accumulated depreciation and amortization	8,550	9,774
	4,008	3,201
Intellectual property and other assets, net	1,095	765
Total assets	$ 68,516	$ 59,161
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,399	$ 1,368
Accrued expenses	4,152	3,267
Deferred revenue	875	190
Total current liabilities	6,426	4,825
Commitments and contingencies (Note 6)		
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 and outstanding—21,047,918 shares and 21,386,919 shares at March 31, 2003 and 2004, respectively	210	214
Additional paid-in capital	163,951	165,696
Deferred stock-based compensation	–	(57)
Accumulated deficit	(102,071)	(111,517)
Total stockholders' equity	62,090	54,336
Total liabilities and stockholders' equity	$ 68,516	$ 59,161

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

Consolidated Statements of Operations

(in thousands, except per share and share data)

Years Ended March 31,	2002	2003	2004
Revenues:			
Products	$ 24,747	$ 23,127	$ 25,070
Funded research and development	2,214	183	669
	26,961	23,310	25,739
Costs and expenses:			
Cost of product revenues	7,925	7,501	7,591
Research and development (Note 8)	27,108	20,552	14,299
Selling, general and administrative	16,066	14,748	14,101
	51,099	42,801	35,991
Loss from operations	(24,138)	(19,491)	(10,252)
Other income, net			
Investment income	2,938	1,147	634
Foreign exchange gain or (loss)	(70)	155	156
Other	77	18	16
	2,945	1,320	806
Net loss	$ (21,193)	$ (18,171)	$ (9,446)
Basic and diluted net loss per share:	$ (1.02)	$ (0.87)	$ (0.45)
Weighted average shares outstanding:	20,869,160	20,993,598	21,153,014

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

	Common Stock		Accumulated Paid-in Capital	Deferred Stock-based Compensation	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Par Value				
Balance, March 31, 2001	20,770,714	$ 208	$ 162,313	$ –	$ (62,707)	$ 99,814
Stock options exercised	158,752	2	768	–	–	770
Stock-based compensation	–	–	240	–	–	240
Stock issued under employee stock purchase plan	20,516	–	222	–	–	222
Stock issued to directors	951	–	15	–	–	15
Net loss	–	–	–	–	(21,193)	(21,193)
Balance, March 31, 2002	20,950,933	210	163,558	–	(83,900)	79,868
Stock options exercised	25,250	–	139	–	–	139
Stock issued under employee stock purchase plan	66,331	–	194	–	–	194
Stock issued to directors	5,404	–	60	–	–	60
Net loss	–	–	–	–	(18,171)	(18,171)
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

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

Consolidated Statements of Cash Flows

(in thousands)

Years Ended March 31,	2002	2003	2004
Cash flows from operating activities:			
Net loss	$ (21,193)	$ (18,171)	$ (9,446)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,771	1,704	1,388
Bad debt expense, net	45	183	35
Net loss on disposition of fixed assets	33	–	–
Loss on abandonment of patents	63	235	55
Stock-based compensation	255	60	103
Other noncash gain	–	–	(156)
Changes in assets and liabilities:			
Accounts receivable	1,521	1,649	(587)
Inventories	(689)	1,377	198
Prepaid expenses, other current assets and other assets	(71)	(393)	(289)
Accounts payable	(154)	(576)	314
Accrued expenses	250	(754)	(887)
Deferred revenue	(1,379)	(1,498)	(864)
Long-term liabilities	(64)	–	–
Net cash used in operating activities	(19,612)	(16,184)	(10,136)
Cash flows from investing activities:			
Proceeds from the maturity of short-term marketable securities	14,391	30,425	10,197
Purchases of short-term marketable securities	(38,009)	(14,648)	(20,752)
Purchases of long-term investments	–	–	(18,216)
Proceeds from disposal of equipment	–	26	12
Additions to patents	(441)	(153)	(41)
Purchases of property and equipment	(1,624)	(840)	(429)
Net cash provided by (used in) investing activities	(25,683)	14,810	(29,229)
Cash flows from financing activities:			
Proceeds from exercise of stock options and stock issued under employee stock purchase plan	992	333	1,589
Repayments of long-term debt and capital lease obligations	(492)	(54)	–
Net cash provided by financing activities	500	279	1,589
Net decrease in cash and cash equivalents	(44,795)	(1,095)	(37,776)
Effect of exchange on cash	–	–	97
Cash and cash equivalents, excluding marketable securities, at beginning of year	90,462	45,667	44,572
Cash and cash equivalents, excluding marketable securities, at end of year	$ 45,667	$ 44,572	$ 6,893
Supplemental disclosures:			
Interest paid	$ 17	$ 2	$ –
Income taxes paid, net of refunds	$ 16	$ 69	$ 33

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

1. Summary of Operations

ABIOMED, Inc. and subsidiaries (the Company) is engaged primarily in the development, manufacture and marketing of medical products designed to safely and effectively assist or replace the pumping function of the failing heart. The Company is currently undergoing clinical trials for its battery-powered totally implantable replacement heart system for patients who would otherwise die from heart failure. The Company currently markets and sells ventricular assist devices for the temporary support of patients with reversible heart failure.

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.

(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. Actual results could differ from those estimated or assumed. The more significant estimates reflected in these financial statements include unit pricing of our BVS blood pumps sold under extended-term contracts, collectibility of accounts receivable, inventory valuation and judgmental accrued expenses.

(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 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. The Company believes that its revenue recognition policies are in compliance with SAB 104.

We derive our revenues from two principal sources; (1) product sales, including maintenance service agreements, and (2) funded research and development contracts and grants from government and other third party sources. In fiscal 2002 and 2003, product revenues were derived from sales of the Company's BVS biventricular assist system, including related products and services. In fiscal 2004 product revenues also included initial sales of our new AB5000 circulatory support system and related products. The majority of our BVS and AB5000 product revenues are derived from our shipment of products to fulfill customer orders for a specified number of consoles and blood pumps for a specified price. We recognize revenues and record costs related to such sales upon product shipment.

During the three years ending March 31, 2004 a declining percentage of our BVS product revenue was derived from extended-term contracts with certain of our customers, which provide the customers with units of our BVS product under contracts terms of one to three years. These contracts provide for the Company to receive a fixed, non-refundable amount of money over a set period of time in return for our providing these customers with BVS product at the start of the contract and restocking the customer with BVS blood pumps during the term of the contract. The exact quantity of such additional pumps to be supplied, if any, is limited to the actual blood pump usage by the customer to support their patients. In addition to SAB 104, we follow the more recent guidance of EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, in our calculation and recognition of the relative sales value for each element of these extended-term contracts. In so doing, we recognize revenue, and record related cost of product revenues, ratably over the term of the contract using an estimated per unit selling price based upon actual shipments of pumps to customers compared to the maximum number of additional pumps allowable under the contract. When a maximum number of pumps is not specified in the sales contract, we compare actual shipments to our estimate of additional pumps that might be required by the customer. In the majority of contracts that contain contractual limits on the number of pumps, customers do not use the maximum number of allowable pumps and, as a result, we recognize the remaining deferred revenue at the end of the contract term with no associated incremental cost at that time. For a small number of older contracts that reached termination in fiscal 2004, we did not have a contractual maximum number of pumps upon which to rely. For these contracts, we estimated customer blood pump usage and resulting per unit selling price based upon historical experience. Revenue recognized from extended-term contracts approximated $5,200,000, $4,100,000 and $1,000,000 for the fiscal years ending March 31, 2002, 2003 and 2004, respectively.

Maintenance service revenues are less than 5% of total revenues and are recognized ratably over the term of the service contracts based upon the elapsed term of the service contract.

International sales represented 8%, 6% and 8% of product revenues for the fiscal years ended March 31, 2002, 2003 and 2004, respectively. No single customer accounted for greater than 10% of product revenues or accounts receivable during fiscal 2002, 2003 or 2004.

(d) Allowance for Doubtful Accounts

The Company continuously monitors collections and payments from its customers and maintains a provision for estimated losses based upon historical experience and any specific customer collection issues that are identified. While such credit losses have historically been within expectations and the provisions established, no guarantee can be made that the Company will experience the same credit loss rates that it has in the past. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

(e) Funded Research and Development Revenues

A portion of the Company's research and development expenses has been supported by contracts and grants with various government agencies and other third party sources. The government-sponsored research and development contracts and grants generally provide for payment on a cost-plus-fixed-fee basis. The Company recognizes revenues under its government contracts and grants as work is performed, provided that 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. The Company retains rights to all technological discoveries and products resulting from these efforts.

(f) 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. While the Company engages in extensive product quality programs and processes, including monitoring and evaluating the quality of component suppliers, its warranty obligation is affected by product failure rates. Operating results could be adversely effected if the actual cost of product failures exceeds the estimated warranty provision. Warranty costs are included in costs of sales within the consolidated statements of operations. The Company estimated its obligation at $245,000 for fiscal 2004.

The following table summarizes the activities in the warranty reserve for the year ended March 31, 2004 (in thousands):

Balance at the beginning of the period	$ 170
Accrual for warranties issued during the period	114
Accrual related to pre-existing warranties (including change in estimates)	197
Warranty expense incurred for the period	(236)
Balance at the end of the period	$ 245

(g) Inventories

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

March 31,	2003	2004
Raw materials	$ 1,407	$ 690
Work-in-process	794	450
Finished goods	655	1,555
	$ 2,856	$ 2,695

All of the Company's inventories on the balance sheet relate to the AB5000 and BVS product line. Because the AbioCor replacement heart is not yet available for commercial sale, inventories do not currently include any costs associated with AbioCor manufactured systems or component parts. Finished goods and work-in-process inventories consist of direct material, labor and overhead.

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. The inventory balances at March 31, 2003 and March 31, 2004 are net of impairment write-downs of $722,000 and $1,119,000, respectively.

2. Significant Accounting Policies (continued)

(h) Property and Equipment

The Company provides for depreciation and amortization 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	3-5 Years
Furniture and fixtures	5-10 Years
Leasehold improvements	Life of lease

Depreciation and amortization expense related to property and equipment was $1,636,000, $1,513,000 and $1,230,000 for the fiscal years ended March 31, 2002, 2003 and 2004, respectively.

(i) 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 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.

(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 is calculated by adding to the weighted shares outstanding any potential (unissued) common stock 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, 2002, 2003 and 2004, 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.

The calculation of diluted weighted-average shares outstanding for the fiscal years ended March 31, 2002, 2003 and 2004 excludes potential stock from unexercised stock options that have a purchase price below the average market price as shown below.

Year Ended March 31,	Potential Dilutive Shares from Exercise of Common Stock Options
2002	1,420,831
2003	58,343
2004	222,593

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, 2002, 2003 and 2004, the weighted average number of these potential shares totaled 341,495, 2,463,715 and 1,908,347 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 4).

(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.

(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. Under 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.

The amortized cost, including interest receivable, and market value of short-term marketable securities were approximately $9,877,000 and $9,858,000 at March 31, 2003, and $20,432,000 and $20,433,000 at March 31, 2004, respectively.

The amortized costs, including interest receivable, and market value of the long-term investments were approximately $18,216,000 and $18,290,000 at March 31, 2004, respectively. There were no long-term marketable securities at March 31, 2003.

At March 31, 2004 the investment portfolio consisted primarily of government securities and corporate bonds with maturities of two years or less.

(m) Disclosures about Fair Value of Financial Instruments

As of March 31, 2003 and 2004, 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

SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of all components of comprehensive income and loss on an annual and interim basis. Comprehensive income and loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Other than the reported net loss, there were no components of comprehensive income or loss which require disclosure for the years ended March 31, 2002, 2003 and 2004.

(o) Segment Information

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.

(p) Impairment of Long-Lived Assets

The Company assesses the realizability of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment of Long-lived Assets and Disposal of Long-lived Assets*. The Company reviews its long-lived assets for impairment as events and circumstances indicate the carrying amount of an asset may not be recoverable. The Company evaluates the realizability of its long-lived assets based on profitability and cash flow expectations for the related asset. As a result of its review, the Company does not believe that any impairment currently exists related to its long-lived assets.

(q) 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*, and related interpretations and 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.

The Company records compensation expense for certain stock option related events requiring remeasurement in accordance with FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25*. Stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS 123.

If compensation cost for the Company's fiscal 2002, 2003 and 2004 grants issued under stock-based compensation plans, including costs related to prior years grants 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):

	2002	2003	2004
Net loss, as reported	$ (21,193)	$ (18,171)	$ (9,446)
Add: Stock based employee compensation included in reported net loss	255	60	103
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,774)	(1,919)	(1,690)
Pro forma net loss	$ (22,712)	$ (20,030)	$ (11,033)
Basic and diluted loss per share			
As reported	$ (1.02)	$ (0.87)	$ (0.45)
Pro forma	$ (1.09)	$ (0.95)	$ (0.52)

The fair value per share of the options granted during fiscal 2002, 2003 and 2004 was computed as $3.74, $1.69 and $1.53, per share, respectively, and was calculated using the Black-Scholes option-pricing model with the following assumptions.

2. Significant Accounting Policies (continued)

	2002	2003	2004
Risk-free interest rate	5.00%	2.92%	2.56%
Expected dividend yield	–	–	–
Expected option term in years	5.0 years	5.0 years	5.3 years
Assumed stock price volatility	69%	85%	86%

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 $39,000, $44,000 and $19,000 for fiscal 2002, 2003 and 2004, 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.

(r) Translation of Foreign Currencies

The U.S. dollar is the functional currency for the Company's single foreign subsidiary, ABIOMED B.V. The financial statements of ABIOMED B.V. are remeasured into U.S. dollars using current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets. Foreign exchange gains and losses are included in the results of operations in other income, net.

(s) Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Adoption of EITF Issue 00-21 did not have a material impact on our financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement is effective in fiscal 2004 for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial position. Most of the guidance in SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. The adoption of this statement did not have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104, *Revenue Recognition*, which supercedes SAB No. 101, *Revenue Recognition in Financial Statements*. SAB 104 rescinds accounting guidance in SAB 101 related to multiple-element arrangements, as this guidance has been superseded as a result of the issuance of EITF No. 00-21. The adoption of SAB 104 did not have a material impact on our financial position, results of operations or cash flows.

(t) Reclassification

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

3. Intellectual Property and Other Assets

Intellectual property and other assets includes costs related to the Company's awarded and pending patents. The Company is amortizing the cost of these patents on a straight-line basis over seven years, the estimated useful lives of the patents. The unamortized cost of these patents approximated $742,000 and $569,000 as of March 31, 2003 and 2004, respectively. Amortization expense for patents totaled $135,000, $191,000 and $158,000 for the years ending March 31, 2002, 2003 and 2004 respectively. Expense for abandonment of certain patents totaled $63,000, $235,000 and $55,000 for the years ended March 31, 2002, 2003 and 2004.

4. 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, at least 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.

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, 2004, 400,000 warrants were outstanding and none were exercisable.

5. 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 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.

At March 31, 2004, the Company had federal and state NOL carryforwards of approximately $61,100,000 and $30,200,000, which begin to expire in 2005. Additionally, at March 31, 2004, the Company had federal and state research and experimentation credit carryforwards of approximately $4,500,000 and $3,000,000, respectively, which begin to expire in 2006. Based upon the Internal Revenue Code, certain changes in company ownership may subject these carryforwards to an annual limitation.

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

	2003	2004
Assets		
NOL carryforwards and tax credit carryforwards	$ 28,904	$ 30,136
Capitalized research and development	13,260	16,340
Nondeductible reserves	357	99
Nondeductible accruals	757	680
Deferred revenue	290	58
Depreciation	468	1,063
Other, net	599	1,118
	44,635	49,494
Valuation allowance	(44,635)	(49,494)
Net deferred taxes	$ –	$ –

5. Income Taxes (continued)

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 for its operating losses and tax credits. Of the total valuation allowance, approximately $2,400,000 relates to stock option compensation deductions. The tax benefit associated with the stock option compensation deductions will be credited to equity when realized.

6. 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. While the Company engages in extensive product quality programs and processes, including monitoring and evaluating the quality of component suppliers, its warranty obligation is affected by product failure rates. 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, 2004, the Company had entered into leases for its facilities, including its primary operating facility in Danvers, Massachusetts, with terms through fiscal 2010. The Company has elected not to exercise a buyout option available under its primary lease that would have allowed for early termination in 2005. Total rent expense under these leases, included in the accompanying consolidated statements of operations, was approximately $856,000, $823,000 and $821,000 for the fiscal years ended March 31, 2002, 2003 and 2004, respectively.

During the fiscal year ended March 31, 2000, the Company entered into 36-month operating leases totaling approximately $644,000 for the lease of office furniture. These leases ended in fiscal year 2003 and at the Company's option the furniture was purchased. Rental expense recorded for these leases during the fiscal years ended March 31, 2002 and 2003 was approximately $215,000 and $127,000 respectively.

During fiscal 2000, the Company entered into a 36-month capital lease for computer equipment and software for approximately $221,000. This lease ended in fiscal year 2003 and at the Company's option these assets were purchased.

Future minimum lease payments under all non-cancelable operating leases as of March 31, 2004 are approximately as follows (in thousands):

Year ending March 31,	Operating Leases
2005	$ 781
2006	776
2007	769
2008	772
2009	772
Thereafter	708
Total future minimum lease payments	$ 4,578

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, will not have a material adverse effect on the Company.

7. Stock Option and Purchase Plans

With the exception of 15,654 options outstanding at March 31, 2004 that were granted to certain employees with an exercise price of $0.01 per share, all stock options granted by the Company under the below-described plans were granted with an exercise price equal to the fair market value on the date of grant. For the options granted below fair market value, compensation expense of $72,000 will be recognized ratably over the four-year vesting period in accordance with SFAS 123. 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 restatement 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, 2004, 927,420 of these options remain outstanding and eligible for future exercise. These options are held by Company employees and generally become exercisable ratably over five years.

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 2,900,000 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.

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

	Number of Options	Exercise Price	Weighted Avg. Exercise Price Per Share
Outstanding, March 31, 2001	2,867,089	$ 2.81 – $ 36.53	$ 9.05
Granted	376,700	$ 11.56 – $ 24.12	20.10
Exercised	(158,752)	$ 3.13 – $ 15.34	5.86
Canceled	(274,400)	$ 5.63 – $ 33.63	15.62
Outstanding, March 31, 2002	2,810,637	$ 2.81 – $ 36.53	10.09
Granted	756,000	$ 4.81 – $ 11.25	6.89
Exercised	(25,250)	$ 5.50 – $ 5.63	5.50
Canceled	(441,095)	$ 4.75 – $ 36.53	10.06
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
Exercisable, March 31, 2004	1,627,765	$ 2.81 – $ 36.53	$ 8.94
Exercisable, March 31, 2003	1,594,167	$ 2.81 – $ 36.53	$ 7.26
Exercisable, March 31, 2002	1,360,076	$ 2.81 – $ 19.69	$ 6.07
Shares available for future issuance, March 31, 2004	2,047,029		

7. Stock Option and Purchase Plans (continued)

During the fiscal year ended March 31, 2002, certain optionholders exercised options in cashless exercises. The total number of options exercised in this manner was 35,000. These cashless transactions triggered remeasurement on the date of exercise for the difference between the fair market value of the common stock underlying the stock options and the exercise price of the stock options. The Company recorded expense of $240,000 for the year ended March 31, 2002 to reflect these remeasurements. The options had originally been granted to the optionholders with exercise prices equal to the fair market value of the stock on the date of grant. No cashless exercises of stock options occurred during the fiscal years ended March 31, 2003 and 2004.

The following table summarizes certain data for options outstanding and exercisable under all plans at March 31, 2004.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding As of March 31, 2004	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Exercisable As of March 31, 2004	Weighted-Avg. Exercise Price
$ 0.00 – $ 3.65	18,154	8.0	$ 0.40	2,500	$ 2.81
$ 3.66 – $ 7.31	2,293,220	5.8	6.15	1,237,920	6.14
$ 7.32 – $ 10.96	42,100	9.0	8.16	6,000	7.47
$ 10.97 – $ 14.61	21,975	6.9	13.19	6,750	13.19
$ 14.62 – $ 18.27	362,500	6.3	15.66	218,725	15.65
$ 18.28 – $ 21.92	165,140	7.1	18.67	86,420	18.82
$ 21.93 – $ 25.57	136,000	7.2	23.88	46,800	23.70
$ 25.58 – $ 29.22	28,000	6.5	27.15	16,800	27.15
$ 29.23 – $ 32.88	5,000	6.5	30.00	3,000	30.00
$ 32.89 – $ 36.53	4,750	6.5	36.06	2,850	36.06
Total	3,076,839	6.1	$ 9.05	1,627,765	$ 8.94

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 six 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 305,350 shares are available for future issuance as of March 31, 2004. During the fiscal years ended March 31, 2002, 2003 and 2004, 20,516, 66,331 and 28,837 shares of common stock, respectively, were sold pursuant to the Purchase Plan.

8. 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, primarily related to cardiac assist and heart replacement, including the continued enhancement of the AB5000 and BVS products and related technologies. 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, including amortized costs of purchased technology. Costs associated with government-funded contracts and grants are recorded in the accompanying consolidated statements of operations as part of research and development expenses as shown in the table below.

The Company, at its sole discretion, may elect to further develop government-funded technologies or products by spending resources outside or above the contract limits. In fiscal 2002, 2003 and 2004, the majority of the Company's research and development expenditures were directed towards the development and preparation of the AbioCor Implantable Replacement Heart, which is in initial human clinical trials. Future costs for such development cannot be definitively estimated at this time and are likely to be highly variable based upon a number of factors, including clinical results and regulatory requirements.

Research and development costs consist of the following amounts (in thousands):

Year Ended March 31,	2002	2003	2004
Internally funded	$ 26,703	$ 20,259	$ 13,877
Incurred under government contracts and grants	405	293	422
Total research and development	$ 27,108	$ 20,552	$ 14,299

9. Employee Deferred Compensation Profit-Sharing Plan and Trust

The Company has an employee deferred compensation profit-sharing plan (the 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 $635,000, $273,000 and $241,000 for the fiscal years ended March 31, 2001, 2002 and 2004, respectively.

10. Accrued Expenses

Accrued expenses consist of the following (in thousands):

March 31,	2003	2004
Salaries and benefits	$ 2,186	$ 2,207
Contract services	850	364
Professional fees	386	304
Other	730	392
	$ 4,152	$ 3,267

11. Subsequent Events

In April 2004 David M. Lederman, Ph.D., ABIOMED's founder, stepped down as President and Chief Executive Officer and was succeeded in those positions by Michael R. Minogue. Dr. Lederman remains Chairman of the Board and an employee of the Company. Subsequent to our fiscal year ending March 31, 2004, ABIOMED's management team has been strengthened by a number of new appointments to fill existing vacancies and/or newly defined senior management functions. We estimate that one-time costs associated with recruiting and relocation for these new personnel, much of which will be recorded during the Company's first quarter of its fiscal year ending March 31, 2005, will approximate $750,000.

Selected Consolidated Financial Data

(in thousands, except per share data)

Fiscal Years Ended March 31,	2000	2001	2002	2003	2004
Statement of Operations Data:					
Revenues:					
Products	$ 18,521	$ 19,724	$ 24,747	$ 23,127	$ 25,070
Funded research and development	4,572	3,142	2,214	183	669
Total revenues	23,093	22,866	26,961	23,310	25,739
Costs and expenses:					
Cost of product revenues	5,870	7,222	7,925	7,501	7,591
Research and development[1]	15,633	28,667	27,108	20,552	14,299
Selling, general and administrative	12,562	12,469	16,066	14,748	14,101
Total costs and expenses	34,065	48,358	51,099	42,801	35,991
Loss from operations	(10,972)	(25,492)	(24,138)	(19,491)	(10,252)
Other income, net	1,106	6,160	2,945	1,320	806
Net loss	$ (9,866)	$ (19,332)	$ (21,193)	$ (18,171)	$ (9,446)
Basic and diluted net loss per share	$ (0.56)	$ (0.94)	$ (1.02)	$ (0.87)	$ (0.45)
Weighted average shares outstanding	17,579	20,583	20,869	20,994	21,153

Balance Sheet Data:

March 31,	2000	2001	2002	2003	2004
Cash, cash equivalents, marketable securities and long-term investments	$ 106,384	$ 92,498	$ 71,321	$ 54,449	$ 45,541
Working capital	107,438	94,651	74,127	56,987	32,154
Total assets	120,132	110,961	89,176	68,516	59,161
Long-term liabilities	715	368	–	–	–
Stockholders' equity	111,238	99,814	79,868	62,090	54,336

[1] Research and development expenses include certain contract costs.

Market Price

Our common stock is traded on the Nasdaq National Market under the symbol "ABMD." The following table sets forth the range of high and low sales prices per share of common stock, as reported by the Nasdaq National Market for our two most recent fiscal years:

Fiscal Year Ended March 31, 2003	High	Low
First Quarter	$ 11.30	$ 5.41
Second Quarter	8.48	3.25
Third Quarter	5.46	2.35
Fourth Quarter	5.50	3.42

Fiscal Year Ended March 31, 2004	High	Low
First Quarter	$ 7.56	$ 3.00
Second Quarter	9.83	4.77
Third Quarter	9.50	6.69
Fourth Quarter	8.60	6.69

Executive Officers

Michael R. Minogue
Chief Executive Officer and President

Anthony W. Bailey
Vice President, Manufacturing

Edward E. Berger, Ph.D.
Vice President, Policy, Reimbursement and External Communications

William J. Bolt
Sr. Vice President, Design Assurance and Quality Assurance

Charles B. Haaser
Principal Accounting Officer and Acting Chief Financial Officer

Javier Jimenez
Vice President, Operations

Raymond J. Kelley
Vice President, Marketing

Robert T. V. Kung, Ph.D.
Sr. Vice President, Chief Scientific Officer

Christopher D. Macdonald
Sr. Vice President, Global Sales, Applications and Service

Eugene D. Rabe
Vice President, US Sales

Board of Directors

David M. Lederman, Ph.D.
Founder and Chairman

Michael R. Minogue
Chief Executive Officer and President

W. Gerald Austen, M.D.
Edward D. Churchill Professor of Surgery, Harvard Medical School and the Massachusetts General Hospital

Paul B. Fireman
Chairman and Chief Executive Officer
Reebok International, Inc.

David Gottlieb
Managing Partner
Noble Bridge Group, LLC

John F. O'Brien
Retired Chief Executive Officer
Allmerica Financial

Desmond H. O'Connell, Jr.
Chairman, Serologicals Corporation; Management Consultant

Dorothy E. Puhy
Executive Vice President, Chief Financial Officer and Assistant Treasurer
Dana-Farber Cancer Institute, Inc.

Henri A. Termeer
Chairman, Chief Executive Officer and President
Genzyme Corporation

Corporate Offices and Subsidiaries

ABIOMED, Inc.
22 Cherry Hill Drive
Danvers, Massachusetts 01923, USA
Phone: (978) 777-5410
Fax: (978) 777-8411
Email: ir@abiomed.com

ABIOMED B.V.
Ekkersrijt 4006
5692 DA Son en Breugel
The Netherlands
Phone: 31-499-488850
Fax: 31-499-488851
Email: abmd_europe@abiomed.com

ABD Holding Company, Inc.
300 Delaware Avenue
Wilmington, Delaware 19801

Nasdaq National Market System

Trading Symbol: ABMD

Annual Meeting

The Annual Meeting of stockholders will be held on Wednesday, August 11, 2004 at 8:00 a.m. at the offices of Foley Hoag LLP, 155 Seaport Boulevard, Boston, Massachusetts.

Dividends

The Company has never paid any cash dividends on its capital stock and does not plan to pay any cash dividends in the foreseeable future. The current policy of the Company's Board of Directors is to retain any future earnings for use in the business of the Company.

Available Publications

The Company's annual report is distributed regularly to stockholders. Additional publications are available to stockholders, including the Company's annual report on Form 10-K, and quarterly reports on Form 10-Q, as filed with the Securities and Exchange Commission, news releases issued by the Company and brochures on specific products. Such publications are available on our website at www.abiomed.com or by writing us at:
ABIOMED, Inc., 22 Cherry Hill Drive, Danvers, Massachusetts 01923, USA.

Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

Independent Accountants

PricewaterhouseCoopers LLP
One Post Office Square
Boston, Massachusetts 02109

Trademarks

Factors That May Affect Future Results

Certain statements in this annual report, including statements made in the letter to the shareholders, employees, customers and their patients, narrative text, captions and graphics, constitute "forward-looking statements," such as statements regarding the Company's plans, objectives, expectations and intentions. These statements can often be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "believe," "plan," "intend," "could," "estimates," "is being," "goal," "schedule" or other variations of these terms or comparable terminology. All forward-looking statements, including statements regarding timing and results of AbioCor clinical trials, BVS and AB5000 revenue growth and introduction of new products, involve risks and uncertainties. Actual results, events or performance could differ materially from those set forth in the forward-looking statements. Factors that could cause or contribute to such differences are discussed under the heading "Risk Factors" in the Company's annual report on Form 10-K for the fiscal year ended March 31, 2004 and the Company's other filings with the U.S. Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements that might be made to reflect any change in the Company's expectations or in events, conditions or circumstances on which any statement is based.

ABIOMED®

ABIOMED, Inc.
22 Cherry Hill Drive
Danvers, MA 01923, USA
www.abiomed.com

Ekkersrijt 4006
5692 DA Son en Breugel
The Netherlands