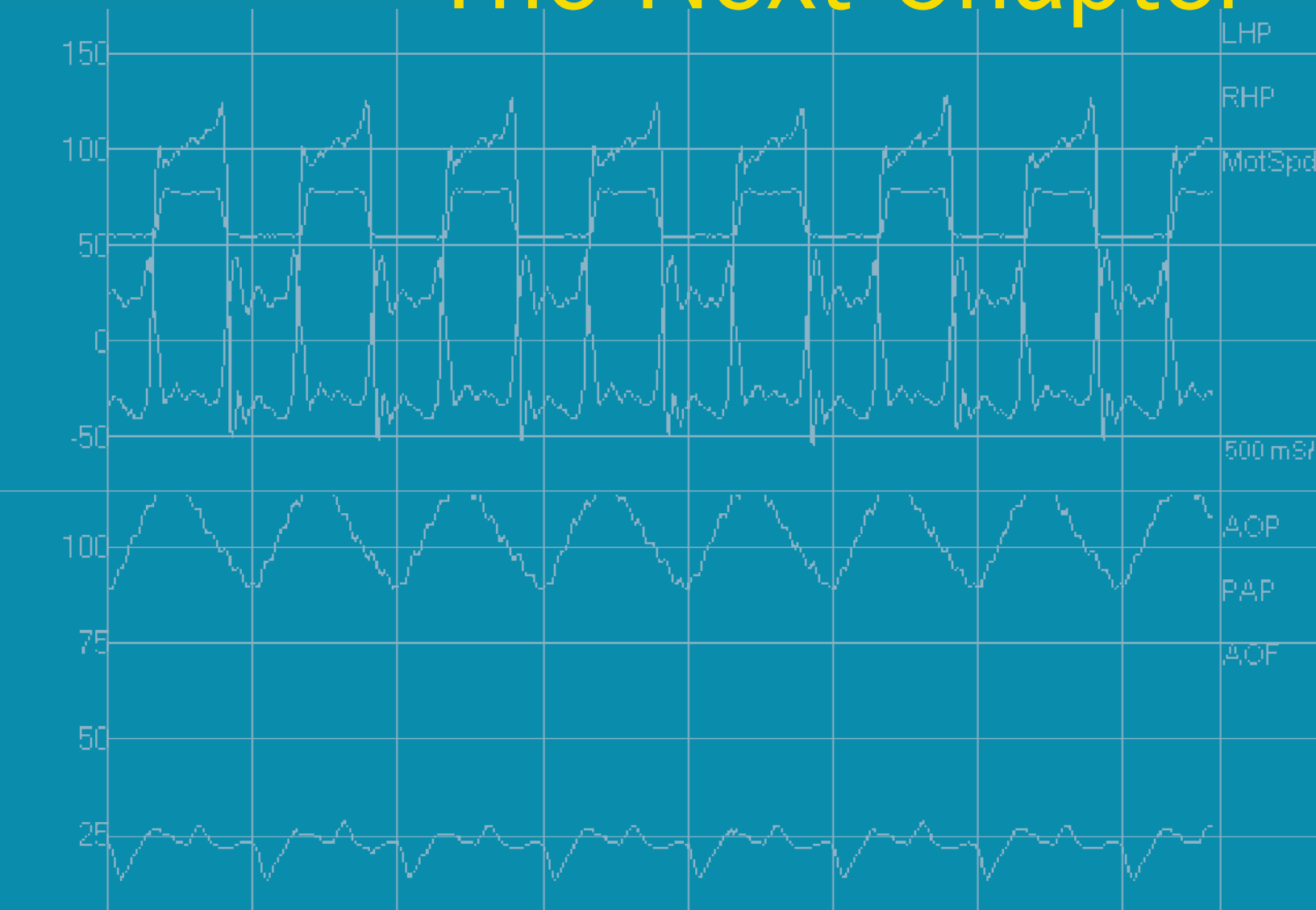
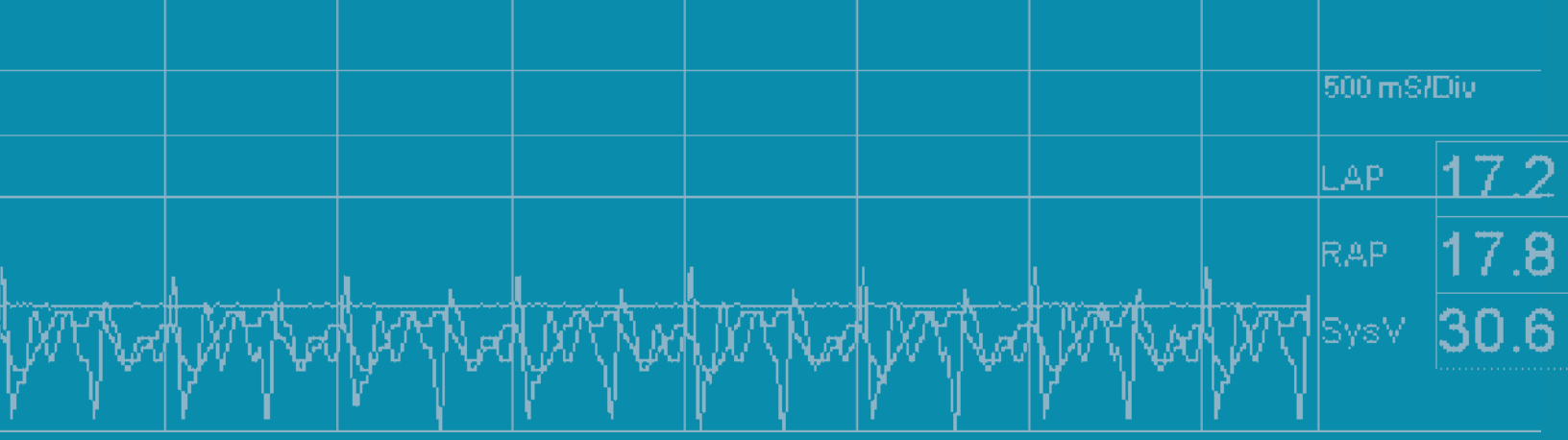
ABIOMED, Inc. | **2003 ANNUAL REPORT**
for fiscal year ended March 31, 2003

ABIOMED

The Next Chapter





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.

Our Mission To provide a 100% perfect experience to our customers whenever they use our heart assist and heart replacement products to save or improve the lives of their patients.

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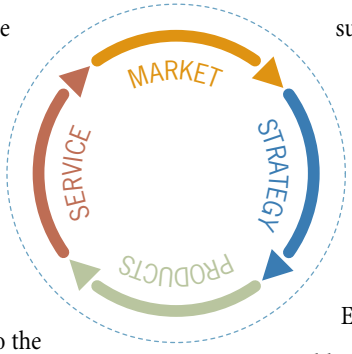
The Next Chapter

Heart disease exacts an enormous toll. Too many lives end with much left to accomplish, with important lessons left to teach, promises to keep, tasks to be finished. Too many people live with pain or constant fatigue, unable to enjoy the simplest pleasures of family and friends. We don't believe it has to be that way.



ABIOMED is dedicated to help win the fight against heart disease. We strive to apply advanced technology to the task of assisting or replacing the human heart in order to give people with heart disease, those beyond the help of current medicines or less invasive treatment options, longer and better lives. The challenges we face are great, but the rewards will be greater.

Until now, ABIOMED's story has been about developmental research and the promise of things to come. Looking ahead, our story must be about performance, about commercial growth through effective execution of our plans for introduction of products, service to our markets, and achievement of profitability. Our success will depend upon our ability to demonstrate excellence in all critical elements of our business plan.

The first and possibly most critical requirement of these elements is understanding the *markets* we serve —the hospitals that buy our products, the physicians and surgeons who refer patients, perform surgeries and provide care, and most importantly the patients whose lives are supported. Understanding our markets allows development of a clear and comprehensive *strategy* for addressing those markets. Effective implementation of strategy yields *products* that will be well accepted by customers and patients. Finally, dedication to the highest level of *service* through communication with and responsiveness to our customers solidifies our business while promoting continuous refinement of our market knowledge.

These four critical elements reinforce each other in a continuous process. Further adaptation of strategy and product line improvements follow. Our organizational challenge today is to institutionalize this process, to assure that the links in the chain remain unbroken, that the process of integrating ever-improving understanding of our markets into everything we do is never interrupted or compromised.

Dedicated surgeons and caregivers, together with patients and families of rare courage, are striving to show that an AbioCor® replacement heart capable of sustaining a satisfactory quality of life is a reality, not a distant dream.

Photos courtesy of the Texas Heart® Institute

Market

Letter from the Chairman and CEO

To our shareholders, employees, customers and their patients

ABIOMED was founded more than two decades ago with a singular mission—to make real the day when heart disease need not mean the end of life or the ability to enjoy life. Over the years, that mission has inspired hundreds of individual contributors to work together to meet the complex and varied technical challenges posed by the integration of mechanical and biological systems. We have accumulated technological expertise in human circulatory support that I believe is unmatched by any organization anywhere in the world. We believe that we have demonstrated, in our ongoing clinical trial with our first generation AbioCor®, that a replacement heart capable of sustaining a satisfactory quality of life is now feasible, not a distant dream.

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.

The Next Chapter

We take enormous satisfaction in how far we have come and how close we are to the realization of our founding dream. But new and different challenges remain to be overcome before we can declare "Mission accomplished."

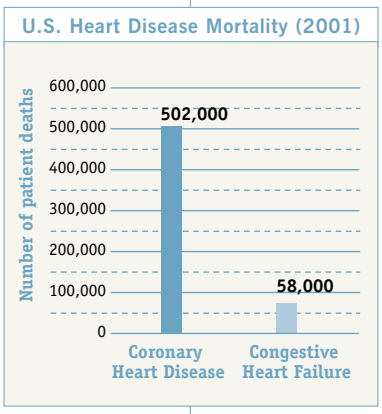
Preparing for commercial growth at a time of immense change in the business and financial environment has demanded that we formulate a new strategy, realign our human resources, and adapt our organization to the new direction. Internal needs and challenges have evolved, and external realities impose major change and offer new opportunities. We have reduced resources, primarily in some technical areas where we had excess capacity, in response to changed needs. Some valuable long-time contributors have been reassigned to new areas and others, sadly, are no longer with the Company. We are adding new people at all levels in some functions such as market development, to provide capabilities we have lacked in the past and require for the present and future. We recently enhanced our Board of Directors, and have begun grooming a new generation of leaders to guide ABIOMED in the future.

Our Increased Understanding of the Need

The central challenge facing ABIOMED today is to complete our transformation into an operationally effective entity responsive to the wants and needs of our customers and the demands of a competitive marketplace. We believe that we are well positioned for success, with the support of our customers and a good understanding of their needs. We have spent thousands of hours in direct contact with those customers, and have listened carefully

to them. We understand the clinical issues that surgeons deal with every time they implant a circulatory support device, and the frustration they feel at the lack of an effective solution for a dying patient. We know the patient care issues confronted daily by the nurses and doctors caring for recuperating patients, and what their experience can tell us about how to design our products. We appreciate the operational and financial issues confronting hospitals, and the potential impact of those issues on their ability to serve patients.

We have also made a concerted effort to more completely understand the markets we want to address. Mechanical circulatory support, whether to assist the natural heart or to replace it, is only now emerging from a long infancy. Our expectations for the market potential of our emerging products remain as high as they have been. At the same time, we know more than ever before about the factors that affect product adoption rates, and how to gradually increase the addressable portion of each market by introducing improved new generations of our products.



A New Direction

Our improved understanding of the market is already yielding benefits. Our BVS® heart assist business line is widely accepted in the marketplace, and saves many lives every year, but has not met our growth expectations in recent years. Reassessment of market opportunities and customer requirements led us to conclude that new product offerings were necessary in order to grow this segment of our business. Our team was able to execute quickly, and we are well advanced toward the commercial introduction this year of the AB5000™ product, our first significant new product since the original launch of the BVS.

Increased activity in our heart assist segment does not indicate any retreat from our commitment to the AbioCor. Our new strategy, responsive to changed external business realities and our responsibility to our shareholders, is to achieve profitability as soon as possible. This requires maximizing our revenue opportunities and our market penetration in the heart assist business while we simultaneously pursue the ambitious goal of obtaining a Humanitarian Device Exemption for our first generation AbioCor. These efforts reinforce each other. Together, they provide a strong foundation for ABIOMED to secure future market leadership across the entire spectrum of heart assist and heart replacement systems.

Progress with the AbioCor Implantable Heart

In the last year, we have made very substantial progress toward commercial introduction of the AbioCor. We know today that the basic design of the AbioCor is sound. Within the initial clinical trial we have observed no unexpected mechanical failures, no device-related infections, excellent circulatory support, and the

Shareholder Value

"Our share value needs to be aligned with our real worth and accomplishments. We plan to achieve this goal by executing and adapting our strategy effectively."

quiet operation required to provide a good quality of life. The AbioCor has demonstrated the ability to promote rehabilitation of extraordinarily fragile patients through the restoration of circulation to vital organs like the liver, kidneys and lungs as well as to overcome transient medical conditions that would have been lethal to the natural heart. The trial has shown that discharge of an AbioCor patient to home with a good quality of life is possible, and that it can be cost-effective, requiring only a few hundred dollars per month in the home environment.

While we had originally hoped for more rapid patient enrollment in the initial AbioCor clinical trial, we are proud that our clinical colleagues and we have conducted the trial in the most responsible way with patient interests always given the highest priority. The purpose of a clinical trial is to assess a technology and learn what needs to be changed in future generations in order to improve its safety and efficacy. We are now focusing our efforts to address the potential for adverse events, such as stroke, on operative surgical techniques, and also on increasing the durability of our first generation AbioCor. Had we proceeded more rapidly, we would not have accrued the resulting knowledge that should benefit future patients in the initial trial.

Our smaller AbioCor II (based on the energy converter from the Penn State heart and ventricles and electronics from the AbioCor) made remarkable progress this year, and reached initial preclinical tests. The AbioCor II is under development to address smaller sized patients and has already benefited greatly from clinical trial lessons learned with the first generation AbioCor.

Appreciation

The pursuit of our founding mission has been exciting, sometimes frustrating, but always gratifying. With success in sight, much remains to be done. Our share value needs to be aligned with our real worth and accomplishments. We plan to achieve this goal by executing and adapting our strategy effectively, not by words alone. We thank our shareholders for their continued support.

Highlights of the Year

- FDA approval of new AB5000 Circulatory Support System console
- AbioCor initial clinical trial on path toward domestic launch under a Humanitarian Device Exemption
- Year-to-year growth in domestic BVS blood pump usage
- Increased commercial focus, and steady reduction in cash consumption
- Internally-funded product development focus

We are increasingly committed to providing our current and prospective new investors with a steady flow of information to evaluate our performance. We have the resources and the will to succeed.

Our achievements to date could not have been possible without the invaluable contributions of a dedicated management team, dozens and dozens of extraordinarily talented employees, past and present, and the support and encouragement of a peerless Board of Directors. Our clinical partners, their clinical support teams, the independent patient advocates for the AbioCor trial, and most importantly our patients and their families, have taught us many things we would not otherwise have learned, and have inspired us with their dedication and their courage. We owe them all our greatest respect and gratitude.

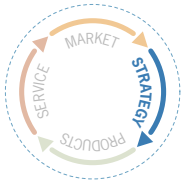
Sincerely,

David Lederman

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

Strategy

Charting the Course



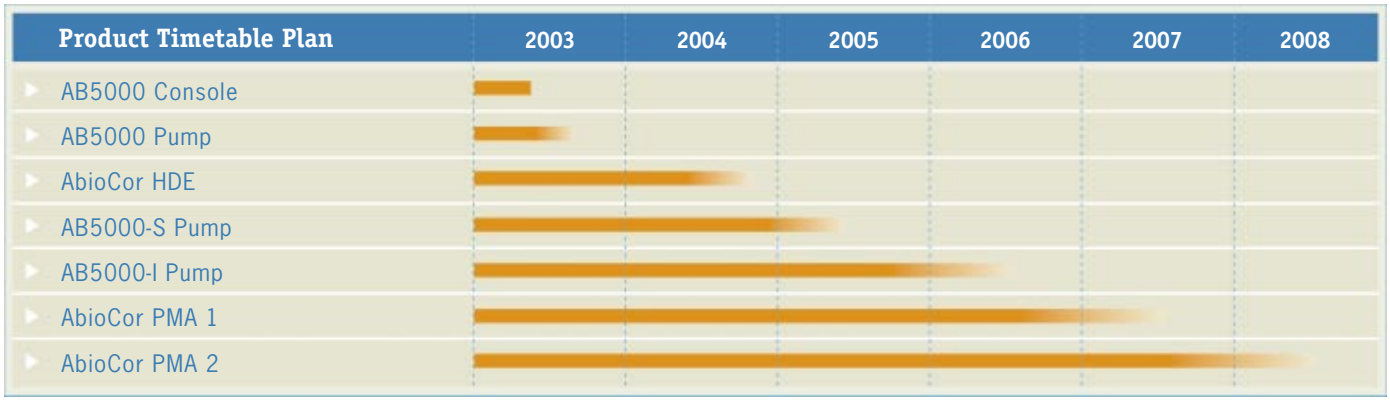
ABIOMED's goal is clear: to translate technological excellence into market leadership across the full range of heart assist and replacement applications. Lives saved that would otherwise have been lost. Patients and families given hope where there had been none. Physicians provided tools to treat their sickest patients. Steady progress made toward profitability and measurable returns to our investors. These are some of the ways we will measure our success as we pursue our mission and execute our business plan.

The Road Ahead

Our foundation is strong. ABIOMED's BVS has become the standard of care for short-term support of patients with failed but potentially recoverable hearts. Reliable, economical, and easy to use, the BVS has been adopted by more than 550 U.S. open-heart centers, and is the most often used advanced ventricular support system in the world. ABIOMED's AbioCor is the first and only implantable replacement heart to enter clinical evaluation. Widely recognized for the excellence of its engineering and design, the AbioCor clearly establishes ABIOMED as an industry leader in cutting-edge technology.

The road ahead is well marked. In the heart assist arena, ABIOMED has embarked on an aggressive program to update and broaden our product offerings to better meet our customers' needs, to provide a better experience for patients, to broaden the range of patients we can help, and to strengthen our commercial base. Our AB5000 Circulatory Support System console was introduced in May 2003. The first of a number of planned new disposable blood pumps for this system has already been submitted to the FDA for review. We seek to establish the same level of trust and market acceptance for these products that our customers have long had for the BVS system.

In heart replacement, ABIOMED is pursuing a regulatory path for early market entry for the first generation AbioCor Heart to treat a



Leadership today is not enough.
New generations of advanced products
hold the potential to provide better and better
alternatives to patients and physicians.

limited patient population. The practical experience in patient management gained through a carefully monitored initial rollout will be invaluable to the long-term success of the AbioCor. As we continue to refine the current system, and move closer to subsequent generations that will operate for longer periods of time and fit increasing portions of the total patient population, there is no substitute for clinical experience.

Leadership today is not enough. New generations of technology, new approaches to circulatory support still in early stages of investigation, may hold the potential to provide better alternatives for patients and physicians. ABIOMED is actively engaged in research on such technologies. We have a rich portfolio of intellectual property that provides us with important leverage when we decide to pursue development of products incorporating next generation technologies. We are committed to maintaining our leadership position.

Into the Future

Realization of our product introduction plan and our long-term goals requires that we achieve profitability in the near-term. Revenue growth through enhancement of our heart assist product offerings is a key element in this effort, as are revenues from initial commercial rollout of the AbioCor. But operational efficiency, the effective deployment of resources, is an equally important element in our strategy: getting the most out of the resources we have; finding creative ways to allow our employees to work together to maximize the impact of their individual contributions; nurturing the next generation of leaders to take ABIOMED into the future.

AbioCor:
Planning for Comfort, Mobility and Quality of Life

- During recovery in the hospital
- To enable rehabilitation
- At home
- In the community
- In the workplace

Technology to Serve Patient Needs

Our goal is to provide patients the greatest possible freedom and mobility consistent with their medical condition.

AB5000™ Circulatory Support System Console

AbioCor® II Implantable Replacement Heart

ABIOMED's blood-contacting components for all of the Company's circulatory support products are manufactured at our corporate facility using proprietary materials and processes.

Products

The Promise Made Real

ABIOMED's products are employed when a human life is at risk. Our customers need to know that our heart assist and replacement systems are highly reliable: maintaining the circulation of blood through the body for extended periods of time, without harmful side effects.

Study and Deliver

Every ABIOMED product and component represents the application to a specific purpose of all that we know about how to pump blood safely and effectively. Our customers know that every ABIOMED product is designed to deliver the functionality they need for a particular clinical application, with the necessary high level of reliability and the greatest possible ease of use. That is why we study the operational environment of the hospital and the patient's home as intently as the technical realms of fluid mechanics, energy conversion and systems control.

We take pride in our ability to bring our products through the regulatory process and into the marketplace. To that end, we are committed to timely, open and fully informed communications with the FDA and other regulatory agencies. Frequent and direct interaction between ABIOMED's scientific and technical personnel and their counterparts within the FDA assure that our regulatory submissions are complete and responsive to all of their patient safety insights and concerns.

Manufacturing and Quality Assurance

Our mission demands that we strive to achieve precise, high quality manufacturing. The blood-contacting plastic valves and blood pumps used in our BVS, AB5000 and AbioCor products are fabricated at our corporate manufacturing facility, using proprietary materials and techniques, subject to demanding tolerances and acceptance criteria. Mechanical subassemblies and electronic components manufactured by contractors are also subject to rigorous standards and quality reviews. No product is shipped to a customer without undergoing a comprehensive final inspection. Our manufacturing and quality assurance teams represent a combination of skill and discipline that is essential to our past success and our continued growth.

Quality in manufacturing must be married to efficiency. We are dedicated, through process improvements, to increasing manufacturing yields and lowering unit costs without compromising quality in any way. Our engineers are constantly searching for refinements that can make our products simpler and easier to make while enhancing functionality. They work to take both variability and cost out of components and final products, while improving durability, reliability, and clinical performance. Our manufacturing and quality assurance personnel translate these initiatives into production. It is their skill and dedication, their ability to deliver on the promise implicit in engineers' designs, that leads to enhanced customer satisfaction and improved financial performance for the Company.

Service

Closing the Circle

Listening to customers, and responding creatively to what they tell us, is fundamental to our mission. The surgeons who implant the BVS and the AbioCor know what is required to assure the greatest chance of success every time they enter the operating room. The physicians and nurses who care for recovering patients deal every day with the problems of bringing those patients through the recovery period. The patients and their families teach us new things every day about living with a mechanical circulatory support system, and how our systems might better support a good quality of life. Hospital administrators keep us aware of the importance of making our systems affordable for the customer and for the health care system as a whole.

What We Believe

Every ABIOMED patient deserves the benefit of all of ABIOMED's cumulative experience every day.

Constant Communication

Our sales force, which we believe to be the most knowledgeable and experienced in our industry, is in constant communications with our hospital and surgeon customers. Our clinical consultants spend thousands of hours each year on site with surgeons and nurses, training them in the use of our products and helping them address the practical clinical issues that arise as they care for patients. Both of these groups were realigned this year to target their efforts in regions of densest heart disease population. Our customer service and customer support groups, in the field and at the home office, work tirelessly to satisfy our customers. And every one of these dedicated employees brings back what they learn to inform and enrich our ongoing efforts to improve our products and better serve our customers.

Listening to Our Customers

The AB5000 Circulatory Support System console, introduced in May 2003, was prompted by our customers' need for a single advanced unit that could drive and control our BVS blood pumps at the bedside, for mobility within the hospital, and for transport between hospitals. The flexibility and ease of use of the AB5000 greatly simplifies the tasks faced by caregivers as they support patient ambulation during recovery or patient transfer to a new care setting. Added mobility improves the quality of patients' experience and facilitates their recovery. Hospital bioengineering departments can look forward to simplification of their equipment monitoring and support burden.

Our planned heart assist product line enhancements are similarly rooted in what our customers have been telling us they need. We are developing a series of new blood pumps to provide more flexible operation and greatly improved support for patient mobility without sacrificing the ease of use and reliability that have been hallmarks of the BVS. Over time, we expect these blood pumps to provide treatment opportunities for expanded applications, filling

The patients and their families teach us new things every day about living with a mechanical circulatory support system, and how our systems might better support a good quality of life.

a market need for a simple and cost-effective system for the circulatory support needs of increasing numbers and types of patients.

Serving Our Customers

Our initial AbioCor patients have taught us an enormous amount about what they need in order to have a comfortable and enjoyable life outside the hospital. We have undertaken a comprehensive redesign of the AbioCor's external system in order to make it simpler, more intuitive, and more patient and family friendly. Less time thinking about the equipment will leave patients and their families more time for the good things in life.

Serving our customers—listening and responding in every way we can—is at the heart of everything we do.

From left to right:

Diane M. Welsh, Manager of Customer Service, **Barbara J. Cross,** Director of Marketing Programs, **Eugene D. Rabe,** Sr. Vice President, Global Sales and Services, **Roy P. Kratman,** Director of Worldwide Service Operations

Going Forward

We have invested two decades in critical research and development. Today we begin to write a new chapter in our story, adding a strong focus on commercial growth. In the next few years, if our efforts are successful, we expect that chapter to include the realization of the clinical and commercial promise of the AbioCor replacement heart, progress with the smaller AbioCor II, use of the new AB5000 console as a platform for gradual expansion of our heart assist product line to serve a larger and more diverse patient population, and ABIOMED's emergence as the clear technology and market leader in advanced circulatory support.

Achievement of these near-term goals and emergence as a commercially vibrant and growing Company should not be the end of the story. We are looking further into the future, and we see extraordinary challenges and opportunities ahead. Our unrivaled technology base, including our assist and replacement devices, should continue to evolve to provide ever lengthening periods of reliable and care-free operation, to create the potential for ever-improving quality of life, and to more fully meet the evolving needs of physicians, caregivers, patients and their families. Some of those needs are well understood today; others should become clear as we gain further clinical experience with our increasing family of products.

ABIOMED's research activities focus on enhancement of current products and advanced development of commercially viable opportunities in cardiac care.

We will continue to apply our energies at the frontiers of technology to make all of our products the very best they possibly can be, and to help support the best possible quality of life for those who receive them. There will always be more that can be done, and ABIOMED intends to lead the way.

ABIOMED, Inc. and Subsidiaries

Consolidated Financial Statements
As of March 31, 2002 and 2003

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Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of ABIOMED, Inc. and its subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 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 auditing standards generally accepted in the United States of America, which 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 16, 2003

Consolidated Balance Sheets

(in thousands, except share data)

Years Ended March 31,	2002	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 45,667	$ 44,572
Short-term marketable securities	25,654	9,877
Accounts receivable, net of allowance for doubtful accounts of approximately $139 and $171 at March 31, 2002 and 2003, respectively	7,056	5,394
Inventories	4,233	2,856
Prepaid expenses and other current assets	825	884
Total current assets	83,435	63,583
Property and equipment, at cost:		
Machinery and equipment	8,749	9,231
Furniture and fixtures	963	1,160
Leasehold improvements	2,041	2,167
	11,753	12,558
Less—Accumulated depreciation and amortization	7,046	8,550
	4,707	4,008
Intellectual property and other assets, net	1,034	746
	$ 89,176	$ 68,337
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,975	$ 1,050
Accrued expenses	4,906	4,152
Deferred revenue	2,373	1,045
Current portion of long-term liabilities	54	–
Total current liabilities	9,308	6,247
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—20,950,933 shares and 21,047,918 shares at March 31, 2002 and 2003, respectively	210	210
Additional paid-in capital	163,558	163,951
Accumulated deficit	(83,900)	(102,071)
Total stockholders' equity	79,868	62,090
	$ 89,176	$ 68,337

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,	2001	2002	2003
Revenues:			
Products	$ 19,724	$ 24,747	$ 23,127
Funded research and development	3,142	2,214	183
	22,866	26,961	23,310
Costs and expenses:			
Cost of product revenues	7,222	7,925	7,501
Research and development (Note 8)	28,667	27,108	20,552
Selling, general and administrative	12,469	16,066	14,748
	48,358	51,099	42,801
Loss from operations	(25,492)	(24,138)	(19,491)
Other income, net			
Investment income	6,078	2,938	1,147
Foreign exchange gain or (loss)	2	(70)	155
Other	80	77	18
	6,160	2,945	1,320
Net loss	$ (19,332)	$ (21,193)	$ (18,171)
Basic and diluted net loss per share	$ (0.94)	$ (1.02)	$ (0.87)
Weighted-average shares outstanding	20,583,363	20,869,160	20,993,598

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

	Common Stock		Additional		Total
	Number of Shares	$.01 Par Value	Paid-in Capital	Accumulated Deficit	Stockholders' Equity
Balance, March 31, 2000	20,455,694	$ 205	$ 154,408	$ (43,375)	$ 111,238
Issuance of common stock and warrants to acquire in-process research and development	110,000	1	6,290	–	6,291
Stock options exercised	192,344	2	670	–	672
Stock-based compensation	–	–	753	–	753
Stock issued under employee stock purchase plan	10,772	–	162	–	162
Stock issued to directors	1,904	–	30	–	30
Net loss	–	–	–	(19,332)	(19,332)
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

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

Consolidated Statements of Cash Flows

(in thousands)

Years Ended March 31,	2001	2002	2003
Cash flows from operating activities:			
Net loss	$ (19,332)	$ (21,193)	$ (18,171)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,907	1,771	1,704
Bad debt expense, net	–	45	183
Net loss on disposition of fixed assets	–	33	–
Loss on abandonment of patents	–	63	235
Stock-based compensation	783	255	60
Write-off of acquired in-process research and development	6,291	–	–
Changes in assets and liabilities:			
Accounts receivable	(3,363)	1,521	1,479
Inventories	(96)	(689)	1,377
Prepaid expenses, other current assets and other assets	(245)	(71)	(44)
Accounts payable	576	(154)	(925)
Accrued expenses	(1,699)	250	(754)
Deferred revenue	3,717	(1,379)	(1,328)
Long-term liabilities	(105)	(64)	–
Net cash used in operating activities	(11,566)	(19,612)	(16,184)
Cash flows from investing activities:			
Proceeds from the maturity of short-term marketable securities	11,135	14,391	30,425
Purchases of short-term marketable securities	(9,504)	(38,009)	(14,648)
Proceeds from disposal of equipment	–	–	26
Additions to patents	(511)	(441)	(153)
Purchases of property and equipment	(2,407)	(1,624)	(840)
Net cash provided by (used in) investing activities	(1,287)	(25,683)	14,810
Cash flows from financing activities:			
Proceeds from exercise of stock options and stock issued under employee stock purchase plan	834	992	333
Repayments of long-term debt and capital lease obligations	(236)	(492)	(54)
Net cash provided by financing activities	598	500	279
Net decrease in cash and cash equivalents	(12,255)	(44,795)	(1,095)
Cash and cash equivalents, excluding marketable securities, at beginning of year	102,717	90,462	45,667
Cash and cash equivalents, excluding marketable securities, at end of year	$ 90,462	$ 45,667	$ 44,572

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 systems for patients who would otherwise die from heart failure. The Company currently markets and sells a ventricular assist device called the BVS® 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. 101 ("SAB 101") provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 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 101 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 101.

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 2001, 2002 and 2003, all product revenues were derived from sales of the Company's BVS and related products. The majority of our BVS product revenues are derived from our shipment of products to fulfill customer orders for a specified number of BVS consoles and blood pumps for a specified price. We recognize revenues and record costs related to such sales upon product shipment.

Other of our product revenues is derived from extended-term contracts with certain of our customers, which provide the customers with units of our BVS product under extended-term contracts. These contracts, which typically have terms of one to three years, 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. Under these contracts, 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, or when a maximum number is not specified, compared 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 limited number of contracts that have termination dates in fiscal 2004, we do not have a contractual maximum number of pumps upon which to rely. For these contracts, we estimate customer blood pump usage and resulting per unit selling price based upon historical experience and based on information from customers. We update these estimates over the term of a contract based upon significant and quantifiable changes in customer information.

Cash received in advance of revenue in connection with the sale of blood pumps under extended-term contracts is recorded as deferred revenue and is classified as a current or long-term liability depending on the expected shipment dates of the blood pumps.

Maintenance service revenues, which are not material, are recognized ratably over the term of the service contracts based upon the elapsed term of the service contract.

International sales represented 4%, 8% and 6% of product revenues for the fiscal years ended March 31, 2001, 2002 and 2003, respectively. No single customer accounted for greater than 10% of product revenues or accounts receivable during fiscal 2001, 2002 or 2003.

(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 BVS product line is 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 on the consolidated statements of operations. The Company estimated its obligation at $170,000 for fiscal 2003.

(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,	**2002**	**2003**
Raw materials	$ 2,170	$ 1,407
Work-in-process	709	794
Finished goods	1,354	655
	$ 4,233	$ 2,856

All of the Company's inventories on the balance sheet relate to the BVS product line. Because the AbioCor 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 records a provision for excess and obsolete inventory based primarily on an estimated forecast of product demand and production requirements for the next twelve months. If actual demand or market conditions are less favorable than projections, 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.

(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

Machinery and equipment included $221,000 related to assets held under capital leases at March 31, 2002. Accumulated amortization related to these assets at March 31, 2002 was $166,000. There were no capital lease obligations at March 31, 2003. Depreciation and amortization expense related to property and equipment was $1,754,000, $1,636,000 and $1,513,000 for the fiscal years ended March 31, 2001, 2002 and 2003, 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 on a straight-line basis over a period of 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. The Company does not capitalize maintenance fees for patents.

(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. Diluted weighted-average shares reflect the dilutive effect, if any, of potential common stock such as options and warrants based on the treasury stock method. No potential common stock is considered dilutive in periods in which a loss is reported, such as the fiscal years ended March 31, 2001, 2002 and 2003, because all such common equivalent shares would be antidilutive. The calculation of diluted weighted-average shares outstanding for the years ended March 31, 2001, 2002 and 2003 excludes the options to purchase common stock as shown below.

Year Ended March 31,	Potential Dilutive Shares from Exercise of Common Stock Options
2001	1,808,322
2002	1,420,831
2003	58,343

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 of ABIOMED Common Stock during the period. For the fiscal years ending March 31, 2001, 2002 and 2003, the weighted-average number of these potential shares totaled 61,661, 341,495 and 2,463,715 shares, respectively. The calculation of diluted weighted-average shares outstanding for the years ended March 31, 2001, 2002 and 2003 also excludes warrants to purchase 400,000 shares 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

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 and market value of marketable securities were approximately $25,654,000 and $25,661,000 at March 31, 2002, and $9,877,000 and $9,858,000 at March 31, 2003, respectively. At March 31, 2003, these short-term investments consisted primarily of government securities.

(M) Disclosures about Fair Value of Financial Instruments

As of March 31, 2002 and 2003, 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, 2001, 2002 and 2003.

(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

In 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, an amendment of SFAS No. 123, *Accounting for Stock-Based Compensation* which provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects of reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company has adopted SFAS No. 148 for the quarter ended March 31, 2003 as it relates to the amended disclosure provisions only. 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. 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 No. 123.

If compensation cost for the Company's fiscal 2001, 2002 and 2003 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):

Years Ended March 31,	**2001**	**2002**	**2003**
Net loss, as reported	$ (19,332)	$ (21,193)	$ (18,171)
Add: Stock based employee compensation included in reported net loss	783	255	60
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,957)	(1,774)	(1,919)
Pro forma net loss	$ (20,506)	$ (22,712)	$ (20,030)
Basic and diluted loss per share			
As reported	$ (0.94)	$ (1.02)	$ (0.87)
Pro forma	$ (1.00)	$ (1.09)	$ (0.95)

The fair value per share of the options granted during fiscal 2001, 2002 and 2003 was computed as $3.59, $3.74 and $1.69, per share, respectively, and was calculated using the Black-Scholes option-pricing model with the following assumptions.

	2001	**2002**	**2003**
Risk-free interest rate	5.20%	5.00%	2.92%
Expected dividend yield	–	–	–
Expected option term in years	5 years	5 years	5 years
Assumed stock price volatility	64%	69%	85%

(Q) Accounting for Stock-Based Compensation (continued)

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 $29,000, $39,000 and $44,000 for fiscal 2001, 2002 and 2003, 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 transaction gains and losses are included in the results of operations in other income, net.

(S) Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement amends FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The provisions of this statement are effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this statement did not have a material impact on the Company's consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair market value when the liability is incurred, rather than at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have an impact on the Company's consolidated financial statements.

In 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, an amendment of SFAS No. 123, *Accounting for Stock-Based Compensation* which provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company has incorporated the disclosure requirements of SFAS No. 148 at March 31, 2003, which require a tabular pro forma presentation of net loss had SFAS No. 123 been adopted, in Note (2)(Q).

In November 2002, the FASB issued FASB Interpretation (FIN No. 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34*. This interpretation expands the disclosure requirements of guarantee obligations and requires the guarantor to recognize a liability for the fair value of the obligation assumed under a guarantee. In general, FIN No. 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying instrument that is related to an asset, liability, or equity security of the guaranteed party. Other guarantees are subject to the disclosure requirements of FIN No. 45 but not to the recognition provisions. The disclosure requirements of FIN No. 45 are effective for financial statement periods ending after December 15, 2002. The adoption of this standard did not have a material impact on the Company's financial statements at March 31, 2003. In addition, the impact of new arrangements entered into since January 1, 2003 is not significant. The Company has incorporated the disclosure requirements of FIN No. 45 in Note 6.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB 51* (FIN No. 46). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (Variable Interest Entities or "VIEs") and to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. The disclosure requirements of FIN No. 46 became effective for financial statements issued after January 31, 2003. The adoption of this standard did not have an impact on the Company's consolidated financial statements at March 31, 2003.

(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 lives of the patents. The unamortized cost of these patents approximated $1,015,000 and $742,000 as of March 31, 2002 and 2003, respectively. Amortization expense for patents totaled $95,000, $135,000 and $191,000 for the years ending March 31, 2001, 2002 and 2003 respectively. Expense for abandonment of certain patents totaled $63,000 and $235,000 for the years ended March 31, 2002 and March 31, 2003. No abandonment of patents occurred during the year ended March 31, 2001.

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 have been fully expensed as in-process research and development on the date of acquisition. As of March 31, 2003, 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*. 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.

At March 31, 2003, the Company had federal and state NOL carryforwards of approximately $55.8 million and $50.7 million, which begin to expire in 2005 and 2004, respectively. Additionally, at March 31, 2003, the Company had federal and state research and experimentation credit carryforwards of approximately $4.1 million and $2.5 million, respectively, which begin to expire in 2004. Based upon the Internal Revenue Code, certain changes in company ownership may subject these carryforwards to an annual limitation.

5. Income Taxes (continued)

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

Years Ending March 31,	2002	2003
Assets		
NOL carryforwards and tax credit carryforwards	$ 34,469	$ 28,904
Purchased Technology	1,329	–
Capitalized Research and Development	–	13,260
Nondeductible Reserves	410	357
Nondeductible Accruals	1,846	757
Deferred Revenue	758	290
Depreciation	740	468
Other, net	899	599
	40,451	44,635
Valuation Allowance	(40,451)	(44,635)
Net deferred taxes	$ –	$ –

The effective tax rate of zero differs from the statutory rate of 35% 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 $2.9 million relates to stock option compensation deductions. The tax benefit associated with the stock option compensation deductions will be credited to equity when realized.

6. Commitments and Contingencies

As discussed in Note 2(S), the Company applies the disclosure provisions of FIN 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.

Agreements in the ordinary course of its business – The Company enters into indemnification provisions under its agreements with other companies in its ordinary course of business, typically with underwriters, contractors, clinical sites and customers. Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's 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. The Company 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 March 31, 2003.

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.

Indemnification of Officers and Directors – The Company's corporate by-laws require that, except to the extent expressly prohibited by law, the Company may indemnify its officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to the Company and its subsidiaries. The indemnification does not apply if the person is adjudicated not to have acted in good faith in the reasonable belief that his or her actions were in the best interests of the Company. The by-laws provide no limit on the amount of the indemnification, however, the Company has purchased directors and officers insurance coverage to cover claims made against the directors and officers during the applicable policy periods. As a result of the insurance policy coverage, the estimated fair value of these indemnification provisions is minimal. Accordingly, the Company has no liabilities recorded for these provisions as of March 31, 2003.

As of March 31, 2003, the Company had entered into leases for its facilities under various operating lease agreements with terms through fiscal 2010. At the Company's election, the lease for its primary operating facility in Danvers, Massachusetts may be terminated in 2005 at

a lump sum buyout cost of approximately $1.1 million. Total rent expense under these leases, included in the accompanying consolidated statements of operations, was approximately $893,000, $856,000 and $823,000 for the fiscal years ended March 31, 2001, 2002 and 2003, 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 at its fair market value. Rental expense recorded for these leases during the fiscal years ended March 31, 2001, 2002 and 2003 was approximately $215,000, $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 at the stipulated buyout price.

Future minimum lease payments under all non-cancelable operating leases as of March 31, 2003 are approximately as follows (in thousands):

Year ending March 31,	**Operating Leases**
2004	$ 781
2005	776
2006	776
2007	769
2008	772
Thereafter	1,480
Total future minimum lease payments	$ 5,354

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

All stock options granted by the Company under the below-described plans were granted at the fair value of the underlying common stock at the date of grant. 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, 2003, 1,286,042 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), 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 1,400,000 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 vested 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 Directors' Plan have vesting periods of 1 to 5 years from the date of grant.

7. Stock Option and Purchase Plans (continued)

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, 2000	2,613,696	$ 2.82 – $ 33.63	$ 6.20
Granted	713,000	$15.56 – $ 36.53	18.47
Exercised	(203,046)	$ 2.88 – $ 9.00	4.82
Canceled	(235,352)	$ 3.75 – $ 33.63	10.03
Outstanding, March 31, 2001	2,888,298	$ 2.81 – $ 36.53	9.05
Granted	376,700	$11.56 – $ 24.12	20.10
Exercised	(179,961)	$ 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
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
Exercisable, March 31, 2001	1,092,381	$ 2.81 – $ 7.47	$ 5.49
Shares available for future issuance, March 31, 2003	902,494		

During the fiscal years ended March 31, 2001 and 2002, certain optionholders exercised options in cashless exercises. The total number of options exercised during these years in this manner was 29,500 and 35,000, respectively. 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 $753,000 and $240,000 in the years ended March 31, 2001 and 2002, respectively, 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 year ended March 31, 2003.

The following table summarizes certain data for options outstanding and exercisable under all plans at March 31, 2003.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding As of March 31, 2003	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Exercisable As of March 31, 2003	Weighted-Avg. Exercise Price
$ 0.00 – $ 3.65	15,372	1.1	$ 3.09	15,372	$ 3.09
$ 3.66 – $ 7.31	2,260,820	5.2	6.19	1,377,970	5.85
$ 7.32 – $ 10.96	9,000	3.5	7.47	9,000	7.47
$ 10.97 – $ 14.61	51,250	8.3	12.24	–	–
$ 14.62 – $ 18.27	389,500	7.2	15.67	122,550	15.67
$ 18.28 – $ 21.92	188,600	7.7	18.67	50,450	19.04
$ 21.93 – $ 25.57	143,000	8.8	23.85	6,000	22.50
$ 25.58 – $ 29.22	30,000	7.5	27.15	9,000	27.15
$ 29.23 – $ 32.88	7,000	7.5	30.43	2,100	30.43
$ 32.89 – $ 36.53	5,750	6.3	35.71	1,725	35.71
Total	3,100,292	5.8	$ 9.35	1,594,167	$ 7.26

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. The Company has reserved 200,000 shares of common stock for issuance under the Purchase Plan, of which 34,187 shares are available for future issuance as of March 31, 2003. During the fiscal years ended March 31, 2001, 2002 and 2003. 10,772, 20,516 and 66,331 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 BVS 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 improving 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 2001, 2002 and 2003, 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,	2001	2002	2003
Internally funded	$ 20,114	$ 26,703	$ 20,259
Incurred under government contracts and grants	2,262	405	293
Acquisition of in-process development costs represented by the Penn State Heart	6,291	–	–
Total research and development	$ 28,667	$ 27,108	$ 20,552

In connection with the Company's acquisition of exclusive rights to the Penn State Heart, the Company committed to The Pennsylvania State University that it would use reasonable efforts to further develop the underlying patent rights and technology. If the Company does not make such an effort for at least three years from the date of acquisition, the technology rights can revert back to the University, excluding all improvements made thereto by the Company.

9. Royalty Obligation

Through August 3, 2000, the Company incurred a royalty to certain third parties equal on a net basis to approximately 2.1% of certain revenues derived from the BVS. For the year ended March 31, 2001, the amount of this royalty, net of certain reimbursed expenses, was approximately $138,000. This amount was reflected as part of the cost of product revenues in the accompanying consolidated statements of operations.

10. 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 $508,000, $635,000 and $273,000 for the fiscal years ended March 31, 2001, 2002 and 2003 respectively. No expense has been recorded for the fiscal year ending March 31, 2003 for a discretionary profit-sharing contribution.

11. Accrued Expenses

Accrued expenses consist of the following (in thousands):

March 31,	2002	2003
Salaries and benefits	$ 3,204	$ 2,186
Contract services	575	278
Professional fees	233	386
Other	894	1,302
	$ 4,906	$ 4,152

Selected Consolidated Financial Data

(in thousands, except per share data)

Years Ended March 31,	1999	2000	2001	2002	2003
	(unaudited)				
Statement of Operations Data:					
Revenues:					
Products	$ 17,260	$ 18,521	$ 19,724	$ 24,747	$ 23,127
Funded research and development	4,472	4,572	3,142	2,214	183
Total revenues	21,732	23,093	22,866	26,961	23,310
Costs and expenses:					
Cost of product revenues	6,464	5,870	7,222	7,925	7,501
Research and development[1]	13,450	15,633	28,667	27,108	20,552
Selling general and administrative	9,570	12,562	12,469	16,066	14,748
Total costs and expenses	29,484	34,065	48,358	51,099	42,801
Loss from operations	(7,752)	(10,972)	(25,492)	(24,138)	(19,491)
Interest and other income, net	1,192	1,106	6,160	2,945	1,320
Net loss	$ (6,560)	$ (9,866)	$ (19,332)	$ (21,193)	$ (18,171)
Basic and diluted net loss per share	$ (0.38)	$ (0.56)	$ (0.94)	$ (1.02)	$ (0.87)
Weighted-average shares outstanding	17,238	17,579	20,583	20,869	20,994

Balance Sheet Data:

March 31,	1999	2000	2001	2002	2003
	(unaudited)				
Cash, cash equivalents and marketable securities	$ 18,181	$ 106,384	$ 92,498	$ 71,321	$ 54,449
Working capital	20,733	107,438	94,651	74,127	57,336
Total assets	30,808	120,132	110,961	89,176	68,337
Long-term liabilities	205	715	368	–	–
Stockholders' equity	24,797	111,238	99,814	79,868	62,090

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

Market Price

Our common stock is traded on the Nasdaq Stock Market 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, 2002	High	Low
First Quarter	$ 27.500	$ 10.500
Second Quarter	28.230	12.800
Third Quarter	24.100	14.140
Fourth Quarter	16.780	8.960

Fiscal Year Ended March 31, 2003	High	Low
First Quarter	$ 11.300	$ 5.410
Second Quarter	8.480	3.250
Third Quarter	5.460	2.350
Fourth Quarter	5.500	3.420

Executive Officers

David M. Lederman, Ph.D.
Chief Executive Officer and President

Anthony W. Bailey
Vice President, Business Development

Edward E. Berger, Ph.D.
Vice President, Strategic Planning
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

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

Eugene D. Rabe
Sr. Vice President, Global Sales and Services

Board of Directors

David M. Lederman, Ph.D.
Chairman

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.

John F. O'Brien
Retired Chief Executive Officer
ALLMERICA

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

Dorothy E. Puhy
Sr. 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

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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 13, 2003 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:
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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 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, 2003 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.

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