ABIOMED INC
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-09585

ABIOMED, INC.

(Exact name of registrant as specified in its charter)

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

22 CHERRY HILL DRIVE

DANVERS, MASSACHUSETTS 01923

(Address of principal executive offices, including zip code)

(978) 646-1400

(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 26, 2016, 43,380,993 shares of the registrant's common stock, $.01 par value, were outstanding.

ABIOMED, INC. AND SUBSIDIARIES

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NOTE REGARDING COMPANY REFERENCES

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

NOTE REGARDING TRADEMARKS

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

PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS
ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

	September 30, 2016	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,709	$48,231
Short-term marketable securities	178,236	163,822
Accounts receivable, net	46,607	42,821
Inventories	31,491	26,740
Prepaid expenses and other current assets	8,827	6,778
Total current assets	319,870	288,392
Long-term marketable securities	4,004	1,000
Property and equipment, net	50,207	23,184
Goodwill	32,582	33,003
In-process research and development	15,199	15,396
Long-term deferred tax assets, net	48,614	58,534
Other assets	4,422	4,422
Total assets	$ 474,898	$423,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,066	$9,381
Accrued expenses	28,013	28,382
Deferred revenue	9,103	8,778
Current portion of capital lease obligation	740	—
Total current liabilities	51,922	46,541
Other long-term liabilities	4	220
Contingent consideration	7,749	7,563
Long-term deferred tax liabilities	821	832
Capital lease obligation, net of current portion	15,961	—
Total liabilities	76,457	55,156
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Class B Preferred Stock, $.01 par value	—	—
Authorized - 1,000,000 shares; Issued and outstanding - none		
Common stock, $.01 par value	433	426

Authorized - 100,000,000 shares; Issued - 44,905,284 shares at September 30, 2016 and 43,973,119 shares at March 31, 2016		
Outstanding - 43,333,607 shares at September 30, 2016 and 42,596,228 shares at March 31, 2016		
Additional paid in capital	536,859	508,624
Accumulated deficit	(77,290)	(99,075)
Treasury stock at cost - 1,571,677 shares at September 30, 2016 and 1,376,891 shares at March 31, 2016	(46,266)	(26,660)
Accumulated other comprehensive loss	(15,295)	(14,540)
Total stockholders' equity	398,441	368,775
Total liabilities and stockholders' equity	$ 474,898	$423,931

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

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ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Product revenue	$ 102,928	$ 76,354	$ 205,917	$ 149,780
Funded research and development	27	5	33	11
	102,955	76,359	205,950	149,791
Costs and expenses:				
Cost of product revenue	17,309	12,144	32,379	23,012
Research and development	18,052	11,569	33,712	21,779
Selling, general and administrative	53,086	39,829	104,118	77,152
	88,447	63,542	170,209	121,943
Income from operations	14,508	12,817	35,741	27,848
Other income (expense):				
Investment income, net	342	62	611	125
Other (expense) income, net	(114)	87	(191)	140
	228	149	420	265
Income before income taxes	14,736	12,966	36,161	28,113
Income tax provision	5,861	5,231	14,376	11,519
Net income	$ 8,875	$ 7,735	$ 21,785	$ 16,594
Basic net income per share	$ 0.21	$ 0.18	$ 0.51	$ 0.40
Basic weighted average shares outstanding	43,129	42,228	42,971	41,963
Diluted net income per share	$ 0.20	$ 0.17	$ 0.49	$ 0.37
Diluted weighted average shares outstanding	44,580	44,922	44,493	44,778

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

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
Net income	$8,875	$7,735	$21,785	$16,594
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	812	710	(887)	2,308
Net unrealized gains (losses) on marketable securities	(18)	6	132	16
Other comprehensive income (loss)	794	716	(755)	2,324
Comprehensive income	$9,669	$8,451	$21,030	$18,918

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

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the Six Months Ended September 30,	
	2016	2015
Operating activities:		
Net income	$21,785	$16,594
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,958	1,352
Bad debt expense	(13)	(18)
Stock-based compensation	18,047	15,592
Write-down of inventory	1,354	952
Excess tax benefit from stock-based awards	(3,631)	(383)
Deferred tax provision	9,777	10,803
Change in fair value of contingent consideration	186	307
Changes in assets and liabilities:		
Accounts receivable	(3,807)	(5,214)
Inventories	(6,284)	(6,855)
Prepaid expenses and other assets	(2,029)	456
Accounts payable	1,906	(1,817)
Accrued expenses and other liabilities	3,157	(2,674)
Deferred revenue	330	(239)
Net cash provided by operating activities	43,736	28,856
Investing activities:		
Purchases of marketable securities	(134,235)	(99,002)
Proceeds from the sale and maturity of marketable securities	116,685	101,453
Purchase of other investment	—	(750)
Purchases of property and equipment	(10,453)	(3,419)
Net cash used for investing activities	(28,003)	(1,718)
Financing activities:		
Proceeds from the exercise of stock options	5,764	7,971
Excess tax benefit from stock-based awards	3,631	383
Taxes paid related to net share settlement of vesting of stock awards	(19,608)	(3,810)
Proceeds from the issuance of stock under employee stock purchase plan	769	451
Principal payments on capital lease obligation	(83)	—
Net cash (used for) provided by financing activities	(9,527)	4,995
Effect of exchange rate changes on cash	272	(113)
Net increase in cash and cash equivalents	6,478	32,020
Cash and cash equivalents at beginning of period	48,231	22,401

Cash and cash equivalents at end of period	$54,709	$54,421
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$560	$576
Cash paid for interest on capital lease obligation	89	—
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment under capital lease obligation	16,784	—
Property and equipment in accounts payable and accrued expenses	3,810	396

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

ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

Note 1. Nature of Business and Basis of Preparation

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

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature and are necessary for a fair presentation of results for the interim periods presented. The results of operations for any interim period may not be indicative of results for the full fiscal year or any other subsequent period.

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

Leases

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with ASC 840, Leases. When any one of the four test criteria in ASC 840 is met, the lease then qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Company’s normal depreciation policy for tangible fixed assets. Interest charges are expensed over the period of the term of the capital lease obligation in relation to the carrying value of the capital lease.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

Recent Accounting Pronouncements

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

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

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

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2016-09 on its consolidated financial statements.

Note 2. Net Income Per Share

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
Basic Net Income Per Share				
Net income	$ 8,875	$ 7,735	$ 21,785	$ 16,594
Weighted average shares used in computing basic net income per share	43,129	42,228	42,971	41,963

Net income per share - basic	$ 0.21	$ 0.18	$ 0.51	$ 0.40

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
Diluted Net Income Per Share				
Net income	$ 8,875	$ 7,735	$ 21,785	$ 16,594
Weighted average shares used in computing basic net income per share	43,129	42,228	42,971	41,963
Effect of dilutive securities	1,451	2,694	1,522	2,815
Weighted average shares used in computing diluted net income per share	44,580	44,922	44,493	44,778
Net income per share - diluted	$ 0.20	$ 0.17	$ 0.49	$ 0.37

For the three and six months ended September 30, 2016, approximately 1,500 and 8,800 shares underlying out-of-the-money stock options, respectively, were excluded in the computation of diluted earnings per share because their effect would have been anti-dilutive. Also, approximately 186,000 restricted shares in each of the three and six months ended September 30, 2016, respectively, related to performance-based awards for which milestones have not been met, were not included in the computation of diluted earnings per share.

For the three and six months ended September 30, 2015, approximately 1,000 shares underlying out-of-the-money stock options, respectively, were excluded in the computation of diluted earnings per share because their effect would have been anti-dilutive. Also, approximately 227,000 and 226,000 restricted shares in each of the three and six months ended September 30, 2015, respectively, related to performance-based awards for which milestones had not been met were not included in the computation of diluted earnings per share.

Note 3. Marketable Securities and Fair Value Measurements

Marketable Securities

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

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

	Amortized Cost (in $000's)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
September 30, 2016:				
Short-term US Treasury mutual fund securities	$37,141	$ 9	$ (1)	$37,149
Short-term government-backed securities	90,823	39	(3)	90,859
Short-term corporate debt securities	50,079	165	(16)	50,228
Long-term US Treasury mutual fund securities	2,003	1	-	2,004
Long-term government-backed securities	1,999	1	-	2,000
	$182,045	$ 215	$ (20)	$182,240

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

Fair Value Hierarchy

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

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

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

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

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

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

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

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

September 30, 2016:	Level 1	Level 2	Level 3	Total
	(in $000's)			
Assets				
Short-term U.S. Treasury mutual fund securities	$—	$37,149	$—	$37,149
Short-term government-backed securities	—	90,859	—	90,859
Short-term corporate debt securities	—	50,228	—	50,228
Long-term U.S. Treasury mutual fund securities	—	2,004	—	2,004
Long-term government-backed securities	—	2,000	—	2,000
Liabilities				
Contingent consideration	—	—	7,749	7,749

March 31, 2016:	Level 1	Level 2	Level 3	Total
	(in $000's)			
Assets				
U.S. Treasury mutual fund securities	$—	$45,656	$—	$45,656
Short-term government-backed securities	—	118,166	—	118,166
Long-term government-backed securities	—	1,000	—	1,000
Liabilities				
Contingent consideration	—	—	7,563	7,563

The Company’s investments in U.S. Treasury mutual fund securities, short-term government-backed securities, short-term corporate debt securities and long-term government-backed securities are reported as Level 2 financial assets as they are not exchange-traded instruments.

The Company’s financial liabilities consisted of contingent consideration potentially payable related to the acquisition of ECP Entwicklungsgesellschaft mbH (“ECP”) and AIS GmbH Aachen Innovative Solutions (“AIS”), in July 2014. This liability is reported as Level 3 as the estimated fair value of the contingent consideration related to the acquisition of the ECP requires significant management judgment or estimation and is calculated using the income approach, using various revenue and cost assumptions and applying a probability to each outcome.

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the contingent consideration for the three and six months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
	(in $000's)		(in $000's)	
Level 3 liabilities, beginning balance	$7,739	$6,661	$7,563	$6,510
Additions	—	—	—	—
Payments	—	—	—	—
Change in fair value	10	156	186	307
Level 3 liabilities, ending balance	$7,749	$6,817	$7,749	$6,817

The change in fair value of the contingent consideration was primarily due to the passage of time on the fair value measurement of milestones related to the ECP acquisition. Adjustments associated with the change in fair value of contingent consideration are included in research and development expenses in the Company’s condensed consolidated statements of operations.

The following table presents quantitative information about the inputs and valuation methodologies used for the Company's fair value measurements as of September 30, 2016 classified as Level 3:

	Fair Value at September 30, 2016 (in $000's)	Valuation Methodology	Significant Unobservable Input	Weighted Average (range, if applicable)
Contingent consideration	$ 7,749	Probability weighted income approach	Milestone dates	2018 to 2021
			Discount rate	8% to 12%
			Probability of occurrence	Probability adjusted level of 50% for the base case scenario and 5% to 20% for various upside and downside scenarios

Other Investments

The Company periodically makes investments in private medical device companies that focus on heart failure and heart pump technologies. The aggregate carrying amount of the Company's other investments was $4.4 million at each of September 30, 2016 and March 31, 2016, respectively, and is classified within other assets in the unaudited condensed consolidated balance sheets. These investments are accounted for using the cost method and are measured at fair value only if there are identified events or changes in circumstances that may have a significant adverse effect on the fair value of these investments.

Note 4. Property and Equipment

The components of property and equipment are as follows:

	September 30, 2016	March 31, 2016

Machinery and equipment	27,045	25,211
Capital lease assets	$ 16,784	$ -
Leasehold improvements	10,863	11,833
Furniture and fixtures	2,117	1,510
Construction in progress	14,145	3,712
Total cost	70,954	42,266
Less accumulated depreciation	(20,747)	(19,082)
	$ 50,207	$23,184

In August 2016, the Company entered into a new lease agreement for its existing corporate headquarters in Danvers, Massachusetts (see Note 9). The Company recorded $16.8 million as a capital lease asset with depreciation expense being recorded on a straight line basis over 15 years.

Note 5. Goodwill and In-Process Research and Development

The carrying amount of goodwill at September 30, 2016 and March 31, 2016 was $32.6 million and $33.0 million, respectively, and has been recorded in connection with the Company's acquisition of Impella Cardiosystems AG ("Impella Cardiosystems"), in May 2005 and ECP and AIS in July 2014. The goodwill activity is as follows:

	(in $000's)
Balance at March 31, 2016	$33,003
Foreign currency translation impact	(421)
Balance at September 30, 2016	$32,582

The Company evaluates goodwill and in-process research and development assets ("IPR&D") assets at least annually at October 31, as well as whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. The Company has no accumulated impairment losses on goodwill or IPR&D assets.

The carrying amount of IPR&D assets at September 30, 2016 and March 31, 2016 was $15.2 million and $15.4 million, respectively, and has been recorded in conjunction with the Company's acquisition of ECP and AIS, in July 2014. The estimated fair value of IPR&D assets at the acquisition date was determined using a probability-weighted income approach, which discounts expected future cash flows to present value. The projected cash flows from the expandable catheter pump technology were based on certain key assumptions, including estimates of future revenue and expenses, taking into account the stage of development of the technology at the acquisition date and the time and resources needed to complete development. The Company used a discount rate of 22.5% and cash flows that have been probability adjusted to reflect the risks of product commercialization, which the Company believes are appropriate and representative of market participant assumptions.

The carrying value of the Company's IPR&D assets and the change in the balance for the six months ended September 30, 2016 are as follows:

	(in $000's)
Balance at March 31, 2016	$15,396
Foreign currency translation impact	(197)
Balance at September 30, 2016	$15,199

Note 6. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2016	March 31, 2016
	(in $000's)	
Employee compensation	$17,319	$18,359
Research and development	2,946	1,587
Sales and income taxes	2,675	