

ANGIODYNAMICS INC  
Form 10-Q  
January 09, 2008  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended November 30, 2007

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 1-50761

\_\_\_\_\_  
**AngioDynamics, Inc.**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_

**Delaware**  
(State or other jurisdiction of  
  
incorporation or organization)  
**603 Queensbury Ave., Queensbury, New York**  
(Address of principal executive offices)

**(518) 798-1215**

**11-3146460**  
(I.R.S. Employer  
  
Identification No.)  
**12804**  
(Zip Code)

Registrant's telephone number, including area code

Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

---

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 January 2, 2008 there were 24,111,525 shares of the issuer's common stock outstanding.

---

**Table of Contents**

**AngioDynamics, Inc. and Subsidiaries**

**INDEX**

	<b>Page</b>
<b><u>Part I: Financial Information</u></b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets – November 30, 2007 (unaudited) and June 2, 2007</u>	3
<u>Consolidated Statements of Income – three and six months ended November 30, 2007 and December 2, 2006 (unaudited)</u>	4
<u>Consolidated Statement of Stockholders' Equity and Comprehensive Income – six months ended November 30, 2007 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows – six months ended November 30, 2007 and December 2, 2006 (unaudited)</u>	6 7
<u>Notes to Consolidated Financial Statements</u>	8 - 18
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19 26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	28
<b><u>Part II: Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	29 31
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3. <u>Defaults Upon Senior Securities</u>	32
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	32
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	33

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

(in thousands)

	November 30, 2007 (unaudited)	June 2, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 22,759	\$ 28,313
Restricted cash	11,195	1,786
Marketable securities, at fair value	45,612	43,191
Total cash, cash equivalents and marketable securities	79,566	73,290
Accounts receivable, net of allowance for doubtful accounts of \$ 653 and \$1,207, respectively	22,216	20,798
Inventories, net	27,527	28,007
Deferred income taxes	2,317	2,247
Prepaid expenses and other	2,802	2,957
Total current assets	134,428	127,299
PROPERTY, PLANT AND EQUIPMENT-AT COST, less accumulated depreciation and amortization	19,242	16,832
<b>OTHER ASSETS</b>	4,460	1,787
INTANGIBLE ASSETS, less accumulated amortization of \$6,783 and \$3,553, respectively	48,026	49,148
NON-REFUNDABLE DEPOSIT	5,139	5,139
GOODWILL	154,430	153,787
DEFERRED INCOME TAXES	27,095	29,289
<b>TOTAL ASSETS</b>	<b>\$ 392,820</b>	<b>\$ 383,281</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,974	\$ 7,567
Accrued liabilities	8,008	8,136
Income taxes payable	72	900
Current portion of long-term debt and convertible note	10,040	315
Litigation provision	10,031	
Other current liabilities	4,500	3,500
Total current liabilities	39,625	20,418
LONG-TERM DEBT, net of current portion	7,245	17,115
LITIGATION PROVISION		9,790
Total liabilities	46,870	47,323
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.01 per share, 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value \$.01 per share, 45,000,000 shares authorized; issued and outstanding 24,082,226 and 23,961,750 shares, respectively	241	240
Additional paid-in capital	346,237	341,760
Accumulated deficit	(501)	(5,981)
Accumulated other comprehensive loss	(27)	(61)

Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

Total stockholders' equity	345,950	335,958
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 392,820	\$ 383,281

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

- 3 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	November 30, 2007	December 2, 2006	November 30, 2007	December 2, 2006
Net sales	\$ 41,497	\$ 24,369	\$ 79,023	\$ 44,634
Cost of sales	16,042	10,125	31,067	18,464
<b>Gross profit</b>	<b>25,455</b>	<b>14,244</b>	<b>47,956</b>	<b>26,170</b>
Operating expenses				
Research and development	3,694	1,637	6,405	3,264
Sales and marketing	11,267	6,689	21,815	12,419
General and administrative	4,063	2,809	8,195	5,524
Amortization of purchased intangibles	1,641	105	3,229	136
<b>Total operating expenses</b>	<b>20,665</b>	<b>11,240</b>	<b>39,644</b>	<b>21,343</b>
Operating income	4,790	3,004	8,312	4,827
Other income (expenses)				
Interest income	892	1,037	1,736	2,080
Interest expense	(367)	(30)	(741)	(62)
Other income (expense)	(362)	42	(545)	201
<b>Total other income (expenses)</b>	<b>163</b>	<b>1,049</b>	<b>450</b>	<b>2,219</b>
Income before income tax provision	4,953	4,053	8,762	7,046
Income tax provision	1,853	1,599	3,282	2,693
Net income	\$ 3,100	\$ 2,454	\$ 5,480	\$ 4,353
Earnings per common share				
Basic	\$ 0.13	\$ 0.16	\$ 0.23	\$ 0.28
Diluted	\$ 0.13	\$ 0.15	\$ 0.23	\$ 0.27

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

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

Six Months Ended November 30, 2007

(unaudited)

(in thousands, except share data)

	Common Stock		Additional paid in capital	Accumulated deficit	Accumulated other comprehensive loss	Total	Comprehensive income
	Shares	Amount					
Balance at June 2, 2007	23,961,750	\$ 240	\$ 341,760	\$ (5,981)	\$ (61)	\$ 335,958	
Net Income				5,480		5,480	\$ 5,480
Exercise of stock options	98,454	1	1,458			1,459	
Tax benefit on exercise of stock options and issuance of performance shares	4,385		211			211	
Purchase of common stock under Employee Stock Purchase Plan	17,637		262			262	
Stock-based compensation			2,546			2,546	
Unrealized gain on marketable securities, net of tax of \$60					103	103	103
Unrealized loss on interest rate swap, net of tax of \$40					(69)	(69)	(69)
<b>Comprehensive income</b>							<b>\$ 5,514</b>
Balance at November 30, 2007	24,082,226	\$ 241	\$ 346,237	\$ (501)	\$ (27)	\$ 345,950	

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

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(in thousands)

	<b>Six Months Ended</b>	
	<b>November 30, 2007</b>	<b>December 2, 2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,480	\$ 4,353
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	4,323	699
Amortization of bond discount	(276)	(191)
Tax benefit on exercise of stock options and issuance of performance shares	186	141
Deferred income taxes	2,105	(416)
Write offs of excess and obsolete inventory	368	
Stock based compensation	2,546	1,417
Provision for doubtful accounts	147	252
Other	52	7
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,626)	(979)
Inventories	(19)	(2,719)
Prepaid expenses and other	(1,519)	981
Accounts payable and accrued liabilities	(901)	834
Litigation provision	241	
Income taxes payable	(828)	639
<b>Net cash provided by operating activities</b>	<b>10,279</b>	<b>5,018</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(3,554)	(600)
Payment of non-refundable deposit		(5,157)
Payment of deferred acquisition costs		(890)
Acquisition of intangible assets and business	(2,488)	(1,528)
Change in restricted cash	(9,409)	
Purchases of marketable securities	(28,432)	(30,979)
Proceeds from sale or maturity of marketable securities	26,449	42,163
<b>Net cash (used in) provided by investing activities</b>	<b>(17,434)</b>	<b>3,009</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	(145)	(90)
Payment of deferred financing costs		(54)
Payments of costs related to issuance of common stock		(329)
Proceeds from exercise of stock options and ESPP	1,721	1,130
Tax benefit on the exercise of stock options and issuance of performance shares	25	432
<b>Net cash provided by financing activities</b>	<b>1,601</b>	<b>1,089</b>
(Decrease) increase in cash and cash equivalents	(5,554)	9,116
Cash and cash equivalents		



Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

Beginning of period	28,313	64,042
End of period	\$ 22,759	\$ 73,158

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

- 6 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

(unaudited)

(in thousands)

	<b>Six Months Ended</b>	
	<b>November 30,</b>	<b>December 2,</b>
	<b>2007</b>	<b>2006</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 512	\$ 62
Income taxes	1,593	1,333
<b>Supplemental disclosure of non-cash operating, investing and financing activities:</b>		
Acquisition of other assets	\$ 1,000	\$
Issuance of performance shares		214
Acquisition of patent rights		3,500

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

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE A CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated balance sheet as of November 30, 2007, the consolidated statement of stockholders' equity and comprehensive income for six months ended November 30, 2007, and the consolidated statements of income and cash flows for the periods ended November 30, 2007 and December 2, 2006, have been prepared by the Company without audit. The consolidated balance sheet as of June 2, 2007 was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include only normally recurring adjustments) necessary to state fairly the financial position, changes in stockholders' equity and comprehensive income, results of operations and cash flows as of November 30, 2007 (and for all periods presented) have been made. Certain prior period amounts have been reclassified for comparative purposes to conform to current quarter presentation. The reclassification, made for the purpose of excluding hardware units used for demonstrations and temporary replacement for customers units under repair from saleable inventory, resulted in a decrease in Inventories, net and an increase in Other assets in the amount of \$560,000 as of June 2, 2007. These units are expensed on straight line basis over their expected useful life.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these unaudited interim consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended June 2, 2007, filed by the Company on August 14, 2007. The results of operations for the periods ended November 30, 2007 and December 2, 2006 are not necessarily indicative of the operating results for the respective full fiscal years.

The unaudited interim consolidated financial statements for the three and six months ended November 30, 2007, include the accounts of AngioDynamics, Inc., and its wholly-owned subsidiaries, Leocor, Inc. ( Leocor ), and Royal I, LLC since January 29, 2007 (collectively, the Company ). On January 29, 2007, the name of Royal I, LLC was changed to RITA Medical Systems, LLC. All significant intercompany balances and transactions have been eliminated. The Company's operations are classified in one segment, the manufacture and sale of medical devices, as management of the Company's products and services follows principally the same marketing, production, and technology strategies. The chief operating decision maker makes decisions based upon Company-wide revenue and costs. The assets and expenses are not allocated by product line. As such, the chief operating decision maker is basing decisions upon a single segment.

**NOTE B PREPAID ROYALTIES**

On August 13, 2007, the Company entered into a Distribution, Manufacturing and Purchase Option Agreement ( the Agreement ) with a company to acquire the exclusive worldwide rights to manufacture and distribute certain products. The Company also has the option to purchase certain intellectual property associated with these products in the future. The Company will pay royalties on net sales of the products covered in the Agreement. As defined in the Agreement, the Company will make prepaid royalty payments of \$3.0 million, the payment of which is tied to the achievement of certain milestones. These milestone payments will be credited against quarterly royalties due subject to certain contractual limitations in the first two years following the initial sale of product. As of November 30, 2007, the Company has recorded prepaid royalties of \$3.0 million which is included in the caption Other assets on the balance sheet. Of this amount, \$2.0 million has been paid and \$1.0 million has been accrued on the balance sheet in the caption Other current liabilities . Beginning in year 4, and continuing through year 10 of the contract, certain minimum annual royalties are due.

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE C ACQUISITIONS***RITA Medical Systems, Inc.*

On January 29, 2007, the Company completed the acquisition of RITA Medical Systems, Inc. ( RITA ) for a total purchase price of approximately \$244 million, comprised of approximately 7.9 million shares of the Company's common stock, assumption of outstanding RITA options and other convertible securities, which are exercisable for an additional 1.9 million shares of the Company's common stock, and approximately \$24 million in cash.

The Company acquired RITA for its market position, premium product offerings, developed and emerging technologies in the fields of interventional oncology and vascular access, and its highly skilled workforce. The merger was pursued and completed because the management groups and stockholders of the Company and RITA believe the combined entity will achieve higher sales and profitability than either or both of the pre-merger companies on a stand-alone basis.

The Company has accounted for the acquisition of RITA as a business combination under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of RITA were recorded as of the acquisition date, at their respective fair values, and consolidated with those of AngioDynamics. The valuation of the fair value of the assets and liabilities of RITA required the use of significant assumptions and estimates, including expected future cash flows and the applicable discount rates for the acquired intangibles, Black-Scholes assumptions for the valuation of the exchanged options and warrants, and estimates for IRC Section 382 limitations for the deferred tax assets. These estimates were based on assumptions that the Company believed to be reasonable as of the date of acquisition. However, the Company's actual results may differ from these estimates. Goodwill increased by approximately \$643,000 during the six months ended November 30, 2007. The increase related to finalization of contract termination costs, and minimal additional adjustments to the preliminary purchase price allocation. In certain circumstances, the allocations of the purchase price are based on preliminary estimates and assumptions. The preliminary purchase price allocation may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed. The valuation of intangible assets was finalized as of June 2, 2007. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed:

	<b>(in thousands)</b>
Current assets	\$ 18,164
Property, plant and equipment	1,638
Deferred tax asset	27,522
Goodwill	154,430
Customer relationships	27,500
Distributor relationships	900
Product technologies	13,900
Trademarks	600
Purchased R&D	12,100
Other assets	1,040
<b>Total assets acquired</b>	<b>257,794</b>
Current liabilities	4,588
Long-term convertible debt	9,700

Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

Total liabilities assumed	14,288
Net assets acquired	\$ 243,506

- 9 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE C ACQUISITIONS (continued)**

In connection with the acquisition of RITA, the Company assumed all outstanding options to acquire RITA common stock (the RITA Options ). Upon exercise, the RITA Options will result in the Company issuing approximately 988,815 shares of the Company's common stock with a weighted average exercise price of \$17.30, net of the cash component, as defined in the agreement. Except for RITA Options that were fully vested due to employee terminations and change-of-control provisions in connection with the completion of the acquisition of RITA, options under these plans maintain their original vesting provisions and generally expire ten years from the original date of grant. The Company does not anticipate future grants will be made under these plans. As of November 30, 2007, RITA Options to acquire 684,729 shares of Company common stock were outstanding, of which RITA Options to acquire 609,150 shares of Company common stock were exercisable.

The purchase price includes \$4.5 million of employee severance, relocation costs and contract termination costs of which \$4.4 million have been paid and \$100,000 have been included under the heading Accrued liabilities in the consolidated balance sheet as of November 30, 2007. The Company does not anticipate further material changes in the purchase price allocation.

RITA's operating results have been consolidated with those of AngioDynamics beginning on the date of the acquisition, January 29, 2007.

Oncobionic, Inc.

In June 2004, the Company and Oncobionic, Inc. ( Oncobionic ) entered into a distribution and purchase option agreement ( Distribution Agreement ) under which the Company was granted the worldwide exclusive right to market and distribute products called tissue portal for use in the field of image-guided tumor ablation, subject to certain limitations set forth in the agreement. The Distribution Agreement also provided for an option to purchase Oncobionic, which expired unexercised in August 2005. The Distribution Agreement will survive any termination of the Purchase Agreement. During the quarter ended December 2, 2006, the Company made the final \$200,000 installment payment under the Distribution Agreement to Oncobionic, which was recorded as a component of research and development expenses in the period made.

On October 12, 2006, the Company entered into a Stock Purchase Agreement (the Purchase Agreement ) with Oncobionic and the shareholders of Oncobionic to acquire all of the issued and outstanding shares of the capital stock of Oncobionic.

Under the Purchase Agreement, the Company has agreed to pay a total purchase price consisting of (i) a fixed purchase price of \$25 million, less Oncobionic's long-term debt as of the closing date of the acquisition (the Fixed Purchase Price ) and (ii) a contingent purchase price equal to three (3%) percent of net sales (as defined in the Purchase Agreement) of any catheter-based products sold by the Company that incorporate Oncobionic's irreversible electroporation technology ( IRE ) for use in reducing the incidence of restenosis (the recurrence of narrowing or constriction of the arteries) associated with angioplasty procedures. Oncobionic holds a license to such technology under a license agreement with the Regents of the University of California (the UC License ).

\$5.0 million of the Fixed Purchase Price, constituting a non-refundable deposit, was paid by the Company upon the execution of the Purchase Agreement, and together with the costs to execute the agreement of \$139,000, has been recorded on the balance sheet under the heading Non-refundable deposit as of November 30, 2007. Of the balance of the Fixed Purchase Price, 50% is payable at the closing of the acquisition, 25% is payable six months after the closing, and the remaining 25% is payable 18 months after the closing.

The closing of the acquisition is subject to Oncobionic's successful performance and completion of human use tests confirming the acute efficacy of irreversible electroporation in ablating prostate cancer. If the human use tests do not achieve the results contemplated by the test protocol, the Company may either: (i) terminate the Purchase Agreement, (ii) waive the closing condition or (iii) propose one-time revisions to the test protocol and an extension of the test period, subject to Oncobionic's consent and at the Company's expense. Oncobionic may terminate the Purchase Agreement if the human use tests do not achieve the results set forth in the test protocol (after giving effect to any revisions thereof and

## Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

extension thereto), unless the Company waives such closing condition. In the event of any such termination, the Oncobionic shareholders will be entitled to retain the \$5.0 million deposit payment received from the Company. Results of these tests are expected to be available within the next 6 months.

- 10 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE C ACQUISITIONS (continued)**

The closing of the acquisition is also subject to customary closing conditions, including any governmental or other consents or approvals. In addition, the Purchase Agreement provides that concurrently with the closing of the acquisition, the Company will enter into non-competition agreements and consulting agreements with certain of the principals of Oncobionic.

The Purchase Agreement also permits Oncobionic to license its irreversible electroporation technology for Cardiac Arrhythmia Application (as defined in the Purchase Agreement) to a single licensee and to appoint an affiliate of certain of the shareholders of Oncobionic as its agent (the Agent ) for a period of four years, commencing on the execution of the Purchase Agreement, to identify a potential licensee for such license. Under the Purchase Agreement, prior to the closing, the Company has a right of first refusal on any third-party offers for a license to the Cardiac Arrhythmia Application.

Under a commission agreement between Oncobionic and the Agent entered into concurrently with the Purchase Agreement, Oncobionic has agreed to pay the Agent fifty (50%) percent of all license fees and royalties received from any licensee identified by the Agent after payment of all license fees due under the UC License. Additionally, Oncobionic has agreed to pay the Agent a termination fee equal to fifty (50%) percent of (i) the unconditional, non-refundable, up-front fees and (ii) the guaranteed minimum royalty payments that would have been paid to Oncobionic under a proposed license in excess of the fees due under the UC License, if Oncobionic rejects a bona fide offer by a potential licensee or is otherwise unable in good faith to reach an agreement with a potential licensee.

**NOTE D ASSET PURCHASE AGREEMENTS**

**Medron, Inc.**

On May 1, 2006, the Company entered into an Asset Purchase Agreements (the Agreement ) with Medron Inc. to acquire the rights, titles, and interests in, and to, Patent Pending Technology for purposes of manufacturing, marketing, and selling proprietary Vascular Access Ports, following administrative approval. As of November 30, 2007, the Company has paid \$2.0 million in accordance with the Agreement. That amount in aggregate with the \$3.5 million future period payment described below has been included on the balance sheet under the caption Intangible assets and is being amortized on a straight line basis over the expected useful life of the asset.

Future periodic payments under the Agreement are as follows:

\$3.5 million on the 2-year anniversary of the effective date of the Agreement (May 1, 2008), or upon the first commercial sale of the product by the Company, whichever is earlier. The amount has been included on the balance sheet under Other current liabilities as of November 30, 2007.

\$2.5 million upon issuance (within 10 years of the effective date of the Agreement) of a U.S. patent claiming priority to the patent application, or any issuance of a patent to the Company within 10 years of the effective date of the Agreement in which the original owners are the inventors.

**NeverTouch**

On August 20, 2007, the Company entered into an agreement to acquire all technology rights, including patent rights, to the NeverTouch technology (the Agreement ). As of November 30, 2007, the Company has made payments of approximately \$2.0 million which have been recorded on the balance sheet under Intangible assets and are being amortized on a straight line basis over the expected useful life of the asset. An additional \$1.0 million will be payable upon achievement of a certain specified milestone.





**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE E INVENTORIES, net**

Inventories consist of the following:

	November 30, 2007	June 2, 2007
	(in thousands)	
Finished goods	\$ 14,800	\$ 15,342
Work in process	2,907	2,915
Raw materials	9,820	9,750
	\$ 27,527	\$ 28,007

Reserves for excess and obsolete inventory were \$3,128,000 and \$2,760,000 at November 30, 2007 and June 2, 2007, respectively.

**NOTE F GOODWILL AND INTANGIBLE ASSETS**

Goodwill is not amortized but rather is tested for impairment annually or more frequently if impairment indicators arise. Intangible assets with determinable useful lives are amortized over their useful lives. Goodwill and intangible assets have been recorded at either incurred or allocated cost. Allocated costs were based on respective fair market values at the date of acquisition.

Changes in the carrying amount of goodwill for the six months ended November 30, 2007 are as follows (in thousands):

Balance, June 3, 2007	\$ 153,787
Adjustments to purchase price allocation	643
Balance, November 30, 2007	\$ 154,430

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE F GOODWILL AND INTANGIBLE ASSETS (continued)**

The balances of intangible assets are as follows:

	November 30, 2007			Weighted avg useful life (years)
	Gross carrying value	Accumulated amortization (in thousands)	Net carrying value	
Licenses	\$ 4,545	\$ (303)	\$ 4,242	9.5
Customer relationships	27,500	(3,077)	24,423	7.5
Distributor relationships	900	(250)	650	3.0
Trademarks	600	(50)	550	10.0
Product technologies	21,264	(3,103)	18,161	11.9
	\$ 54,809	\$ (6,783)	\$ 48,026	

  

	June 2, 2007			Weighted avg useful life (years)
	Gross carrying value	Accumulated amortization (in thousands)	Net carrying value	
Licenses	\$ 2,518	\$ (183)	\$ 2,335	7.4
Customer relationships	27,500	(1,231)	26,269	7.5
Distributor relationships	900	(100)	800	3.0
Trademarks	600	(20)	580	10.0
Product technologies	21,183	(2,019)	19,164	11.9
	\$ 52,701	\$ (3,553)	\$ 49,148	

Amortization expense was \$1,641,000 and \$3,229,000 for the three and six months ended November 30, 2007 and \$105,000 and \$136,000 for the three and six months ended December 2, 2006, respectively. The increase in amortization expense is primarily attributable to the intangibles obtained in the RITA acquisition.

**NOTE G ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

	November 30, 2007	June 2, 2007
	(in thousands)	
Payroll and related expenses	\$ 4,392	\$ 4,267
Sales and franchise taxes	1,364	1,352
Royalties	673	768
Fair value of interest rate swap	414	98
Other	1,165	1,651
 Total	 \$ 8,008	 \$ 8,136

- 13 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE H SALES**

Net sales (in thousands) by product category and geography were as follows:

	Three months ended		Six months ended	
	November 30, 2007	December 2, 2006	November 30, 2007	December 2, 2006
<b>Net Sales by Product Category</b>				
Interventional Products	\$ 32,135	\$ 24,369	\$ 61,038	\$ 44,634
Oncology Products	9,362		17,985	
Total	\$ 41,497	\$ 24,369	\$ 79,023	\$ 44,634
<b>Net Sales by Geography</b>				
United States	\$ 37,588	\$ 23,264	\$ 71,596	\$ 42,823
International	3,909	1,105	7,427	1,811
Total	\$ 41,497	\$ 24,369	\$ 79,023	\$ 44,634

**NOTE I INCOME TAXES**

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted this statement on June 3, 2007. There was no cumulative effect of adopting FIN 48. Upon adoption, the liability for unrecognized tax benefits was zero.

During the three and six months ended November 30, 2007, the Company did not recognize any tax liabilities related to uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax benefits within its global operations as a component of income tax expense. This accounting policy did not change as a result of the adoption of FIN 48. Accrued interest and penalties recognized in the consolidated balance sheet were \$0 as of June 2, 2007 and November 30, 2007.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. Open tax years in these jurisdictions range from 2003-2007.

Management does not anticipate that the amount of unrecognized tax benefits will significantly change in the next twelve months.



**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE J STOCK BASED COMPENSATION**

The Company accounts for stock based compensation under Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), which requires the measurement and recognition of all share-based payment awards made to employees and directors, including stock options and employee stock purchases related to the Company's Employee Stock Purchase Plan (the Stock Purchase Plan or ESPP ) based on estimated fair values.

The following table summarizes stock-based compensation in accordance with SFAS 123(R) for the three and six months ended November 30, 2007 and December 2, 2006, which was allocated as follows:

	Three Months Ended		Six Months Ended	
	November 30, 2007	December 2, 2006	November 30, 2007	December 2, 2006
	(In thousands)		(In thousands)	
Cost of sales	\$ 162	\$ 101	\$ 315	\$ 190
Research and development	213	140	403	265
Sales and marketing	400	218	725	376
General and administrative	561	315	1,103	586
Stock based compensation expense included in operating expenses	1,174	673	2,231	1,227
Total stock based compensation	\$ 1,336	\$ 774	\$ 2,546	\$ 1,417
Tax benefit	(399)	(275)	(777)	(496)
Stock based compensation expense, net of tax	\$ 937	\$ 499	\$ 1,769	\$ 921

**NOTE K EARNINGS PER COMMON SHARE**

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share further includes the dilutive effect of potential common stock consisting of stock options, warrants, restricted stock units, and shares issuable upon conversion of convertible debt into shares of common stock, provided that the inclusion of such securities is not antidilutive.

The Company accounts for convertible debt under EITF Issue No. 04-08, The Effect of Contingently Convertible Debt on Diluted Earnings per Share ( EITF 04-08 ). EITF 04-08 indicates that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. For the three and six months ended November 30, 2007, shares issuable upon conversion of convertible debt into 414,476 shares of common stock, with a conversion price of \$20.41 per share, have been excluded from the calculation of diluted earnings per share, as their inclusion would not be dilutive.

The following table sets forth the reconciliation of the weighted-average number of common shares:

Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

	Three Months Ended		Six Months Ended	
	November 30, 2007	December 2, 2006	November 30, 2007	December 2, 2006
Basic	24,033,860	15,645,742	24,001,740	15,572,862
Effect of dilutive securities	331,569	262,443	313,053	308,620
<b>Diluted</b>	<b>24,365,429</b>	<b>15,908,185</b>	<b>24,314,793</b>	<b>15,881,482</b>

Excluded from the calculation of diluted earnings per common share, are options and warrants issued to employees and non-employees to purchase 1,805,145 and 1,894,662 shares of common stock for the three and six months ended November 30, 2007 and 707,130 and 578,368 shares of common stock for the three and six months ended December 2, 2006, respectively as their inclusion would not be dilutive. The exercise prices of these options were between \$11.93 and \$198.69 at November 30, 2007 and \$17.25 and \$28.45 at December 2, 2006.

- 15 -



---

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE L LITIGATION**

*Diomed v. AngioDynamics*

On January 6, 2004, Diomed filed an action against the Company entitled *Diomed, Inc. v. AngioDynamics, Inc., et al.*, civil action no. 04 10019 RGS in the U.S. District Court for the District of Massachusetts. Diomed's complaint alleges that the Company infringed on Diomed's U.S. patent no. 6,398,777 by selling a kit for the treatment of varicose veins (now called the VenaCure Procedure Kit) and two diode laser systems (the Precision 980 Laser and the Precision 810 Laser), and by conducting a training program for physicians in the use of the VenaCure Procedure Kit. The complaint alleges the Company's actions have caused, and continue to cause, Diomed to suffer substantial damages. The complaint seeks to prohibit the Company from continuing to market and sell these products, as well as conducting the training program, and asks for compensatory and treble money damages, reasonable attorneys' fees, costs and pre-judgment interest.

On March 28, 2007, the jury returned a verdict in favor of Diomed and awarded compensatory monetary damages in the amount of \$8.36 million. The jury concluded, however, that there was no willful infringement by the Company. On May 22, 2007, the judge for the Federal District Court in Boston denied the Company's motion to overturn the verdict and increased the judgment for compensatory damages by \$1.35 million, to \$9.71 million, to cover pretrial interest and post-verdict sales of the infringing products. The judgment also requires the Company to pay interest to Diomed at an annual rate of approximately 5% of the damage award for the period of time between the verdict and actual payment of the award. As such, the Company has accrued approximately \$10.0 million, including interest, under the heading "Litigation provision" on the consolidated balance sheet as of November 30, 2007. The Company has set aside cash and cash equivalents for the purpose of fulfilling the obligation incurred as a result of the decision; these funds are included under the heading "Restricted cash" on the consolidated balance sheets as of November 30, 2007.

The Company has disputed the infringement verdict and on June 20, 2007, filed an appeal in the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. The Company filed an appeal brief in October 2007 and Diomed filed a brief in December 2007. The Company expects to file its final reply brief in January 2008 and anticipates a ruling being made in mid-2008. As a result of the anticipated timing, the Company has classified the liability as current.

On July 2, 2007, the judge for the Federal District Court in Boston, Massachusetts, issued an injunction that prohibits the Company from selling its original bare fiber VenaCure kits and the laser consoles for use with those kits. In anticipation of this injunction, the Company stopped selling its bare fiber kits in April 2007, and on June 2, 2007, began selling its new NeverTouch disposable kits and laser consoles which, the Company believes, are unaffected by the injunction.

Until April 2007, the Company purchased the lasers and laser fibers for its laser systems from biolitec under the biolitec Supply Agreement. In 2006, biolitec advised the Company that, based on the refinement of the claims in the Diomed action, biolitec believed such claims were not within biolitec's indemnification obligations under the biolitec Supply Agreement. The Company advised biolitec that it disagreed with biolitec's position and that the Company expected biolitec to continue to honor its indemnification obligations to the Company under the biolitec Supply Agreement. Pending the outcome of ongoing discussions regarding this issue, biolitec agreed to continue to provide, at its cost and expense, the Company's defense in the Diomed action. In April 2007, biolitec informed the Company that, as of April 15, 2007, biolitec would terminate any further defense of the Company in this action. As a result of biolitec's actions, and to protect the Company's interests, since April 15, 2007, the Company has paid its own defense costs with regard to this matter.

On January 2, 2008, the Company filed an action against biolitec to enforce the Company's rights against biolitec to honor its obligations under the Supply Agreement. The Company will continue to vigorously enforce its rights under the Supply Agreement. However, in the event it is ultimately determined that the claims asserted in this action are not within biolitec's indemnification obligations under the biolitec Supply Agreement, the Company may be required to reimburse biolitec for the costs and expenses of defending the Diomed action and may be responsible for paying any settlements or judgments in this action.

Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

*VNUS Medical Technologies v. Diomed, Vascular Solutions, and AngioDynamics*

On October 4, 2005, VNUS Medical Technologies, Inc. ( VNUS ) filed an action against AngioDynamics and others (collectively, the Defendants ) entitled *VNUS Medical Technologies, Inc. v. Diomed Holdings, Inc., Diomed Inc., AngioDynamics, Inc., and*

- 16 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE L LITIGATION (continued)**

Vascular Solutions, Inc., case no. C05-2972 MMC, filed in the U.S. District Court for the Northern District of California. The

complaint alleges that the Defendants infringed on VNUS's U.S. patent nos. 6,258,084, 6,638,273, 6,752,803, and 6,769,433 by making, using, selling, offering to sell and/or instructing users how to use Diomed's EVLT products, AngioDynamics' VenaCure products, and Vascular Solutions' Vari-Lase products. The complaint alleges the Defendants' actions have caused, and continue to cause, VNUS to suffer substantial damage. The complaint seeks to prohibit the Defendants from continuing to market and sell these products and asks for compensatory and treble money damages, reasonable attorneys' fees, costs and pre-judgment and post-judgment interest. The Company believes that its products do not infringe the VNUS patents and that the patents are invalid. The Company has filed an answer to the complaint, including a counterclaim for relief and a demand for jury trial. The court originally scheduled the trial in this action to commence on October 29, 2007; however, since that time the trial has been postponed by the court and the Company anticipates the trial commencing during 2008. The range of potential loss has been reduced since the court has dismissed VNUS's claim of willful infringement, eliminating the possibility of treble damages and attorneys' fees. There is a reasonable possibility of an outcome unfavorable to the Company in this action, with a range of potential loss between \$0 and \$10 million.

*Hazel Smart v. St. Mary's Hospital*

The Company was named as a defendant in an action entitled Karen Incardona, Temporary Administrator of the Estate of Hazel Smart v. St. Mary's Hospital, et al., filed in the District Court of Waterbury, Connecticut, on January 3, 2007. The complaint alleges that the Company and its co-defendant, Medical Components, Inc. (Medcomp), manufactured and sold a defective catheter that was used in the treatment of, and caused the death of, a hemodialysis patient, as well as committing other negligent acts. The complaint seeks compensatory and other monetary damages in unspecified amounts. Under the Company's distribution agreement with Medcomp, Medcomp is required to indemnify the Company against all the Company's costs and expenses, as well as losses, liabilities and expenses (including reasonable attorneys' fees) that relate in any way to products covered by the agreement. The Company tendered the defense of the Smart action to Medcomp, and Medcomp accepted defense of this action. Based upon the Company's prior experience with Medcomp, the Company expects Medcomp to honor its indemnification obligation if it is unsuccessful in defending this action.

*S.D. v. RITA Medical Systems Health Benefits Plan*

On October 31, 2006, S.D. filed an action entitled S.D., on her own behalf and as guardian of T.D., and Island View Residential Treatment Center, Inc. v. RITA Medical Systems Health Benefits Plan and Blue Cross of California, case number 1:06-cv-135 DB, in the U.S. District Court for the District of Utah. The claim asserts a cause of action for recovery of benefits under 29 U.S.C. section 1132(a)(1)(B). The complaint alleges that the action of defendants in failing to make payment for the treatment provided by Island View Residential Treatment Center is a violation of the RITA Benefits Plan, the Blue Cross insurance policy, and California state law. RITA Benefits Plan denies all wrongdoing and intends to vigorously defend this action. On June 11, 2007, the court stayed the action pending resolution of an independent lawsuit involving Island View and Blue Cross of California and having similar issues. Progress in this action has not reached a point to assess with any reasonable degree of certainty the likelihood of an unfavorable outcome or an estimate of any potential loss.

*Donald Neal Wilkerson v. Tasha Christian and RITA Medical Systems, Inc.*

The Company has been named as a defendant in a wrongful death action entitled Donald Neal Wilkerson, individually and as the Administrator of the Estate of Sandra Hatcher Wilkerson, deceased v. Tasha Christian and RITA Medical Systems, Inc., civil action number 06-871, and related arbitration proceedings, filed in the U.S. District Court for the Middle District of North Carolina on October 4, 2006. The plaintiff seeks unspecified damages, including both compensatory and punitive damages, costs, and such other relief as the court may deem appropriate in allegedly causing the death of Sandra Wilkerson.



**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**NOTE L LITIGATION (continued)**

On November 20, 2006, RITA filed a motion to dismiss the complaint on the ground that plaintiff's claims are time barred by the applicable statute of limitations. On November 29, 2006, plaintiff filed an Amended Complaint. RITA moved to dismiss the Amended Complaint on December 13, 2006, on statute of limitations grounds. Progress in this action has not reached a point to assess with any reasonable degree of certainty the likelihood of an unfavorable outcome or an estimate of any potential loss.

The Company is party to other legal actions that arise in the ordinary course of business. The Company believes that any liability resulting from any currently pending litigation will not, individually or in the aggregate, have a material adverse effect on its business or financial condition. The liability resulting from any currently pending litigation could individually, or in the aggregate, have a material adverse effect on the Company's results of operations or cash flows in the period settled.

**NOTE M RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement focuses on creating consistency and comparability in fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (the Company's 2009 fiscal year), and interim periods within those fiscal years. The Company is currently evaluating the impact this adoption will have on the Company's consolidated financial statements.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for fiscal years beginning after November 15, 2007 (the Company's 2009 fiscal year). The Company is currently evaluating the impact this adoption will have on the Company's consolidated financial statements.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination recognized and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired or gain from a bargain purchase; and determines what information to disclose to enable readers of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year) and will be applied prospectively.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards that require companies to more clearly identify in the financial statements and disclose the impact of noncontrolling interest in a consolidated subsidiary on the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year), and interim periods within those fiscal years. The adoption of this pronouncement is not expected to have a material impact on the Company's financial statements.

---

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following information should be read together with the consolidated financial statements and the notes thereto and other information included elsewhere in this Quarterly Report on Form 10-Q.

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Investors can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements contain words such as "expect," "reaffirm," "anticipate," "plan," "believe," "estimate," "may," "will," "predict," "project," "might," "could," "would," "should," "estimate," "seek," "continue," "pursue," or "our future success depends," or the negative or other variations thereof or other terminology, are intended to identify such forward-looking statements. In particular, they include statements relating to, among other things, future actions, strategies, future performance, and future financial results of the Company. These forward-looking statements are based on current expectations and projections about future events.

Investors are cautioned that forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that cannot be predicted or quantified and, consequently, the actual performance or results of the Company may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the factors described from time to time in the Company's reports filed with the SEC, including the Company's Form 10-K for the fiscal year ended June 2, 2007, financial community and rating agency perceptions of the Company; the effects of economic, credit and capital market conditions on the economy in general, and on medical device companies in particular; domestic and foreign health care reforms and governmental laws and regulations; third-party relations and approvals, technological advances and patents attained by competitors; and challenges inherent in new product development, including obtaining regulatory approvals. In addition to the matters described above, the ability of the Company to develop its products, future actions by the FDA or other regulatory agencies, results of pending or future clinical trials, the outcome of pending patent litigation, overall economic conditions, general market conditions, market acceptance, foreign currency exchange rate fluctuations, and the effects on pricing from group purchasing organizations and competition, may affect the actual results achieved by the Company.

Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. The Company disclaims any obligation to update the forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date stated, or if no date is stated, as of the date of this document.

**Overview**

AngioDynamics is a provider of innovative medical devices used in minimally invasive, image-guided procedures to treat peripheral vascular disease, or PVD, and local oncology therapy options for treating cancer, including radiofrequency ablation (RFA) and systems and embolization products for treating cancerous tumors. We design, develop, manufacture and market a broad line of therapeutic and diagnostic devices that enable interventional physicians (interventional radiologists, vascular surgeons, interventional and surgical oncologists and others) to treat PVD, tumors, and other non-coronary diseases. We believe that we are the only company whose primary focus is to offer a comprehensive product line for the interventional treatment of these diseases. For the past five fiscal years, over 95% of our net sales were from single-use, disposable products.

We sell our broad line of quality devices in the United States through a direct sales force and outside the U.S. through a combination of direct sales and distributor relationships. As of November 30, 2007, our sales organization numbered 106 in the U.S. and 13 outside the U.S. Historically, less than 5% of our net sales have been in non-US markets. However, in the three months and six months ended November 30, 2007, 9% of our net sales were attributable to non-US sales, primarily as a result of the RITA Medical Systems, Inc. (RITA) acquisition.



---

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

Our growth depends in large part on the continuous introduction of new and innovative products, together with ongoing enhancements to our existing products, through internal product development, technology licensing and strategic alliances. For each of the past three fiscal years, we invested at least 7% of our net sales in research and development ( R&D ). R&D expenditures were 8.9% and 8.1% of net sales for the three and six months ended November 30, 2007, respectively, compared with 6.7% and 7.3% for the three and six months ended December 2, 2006. We expect that our R&D expenditures will remain in the range of 8 to 9% of net sales for fiscal 2008 and thereafter. However, downturns in our business could cause us to reduce our R&D spending.

We are also seeking to grow through selective acquisitions of complementary businesses and technologies. In January 2007, we completed the acquisition of RITA. This acquisition creates a diversified medical technology company with a broad line of access, diagnostic and therapeutic products that enable interventional physicians and surgeons to treat peripheral vascular disease and cancerous tumors. Interventional oncology is a large and growing area for our existing customer base and RITA's leadership position, premium products and excellent reputation fit our strategy. RITA had a very strong position in vascular access ports, which are an ideal sales fit with our Morpheus<sup>®</sup> CT PICC and the vascular access port technology we purchased from Medron, Inc. in May 2006. In addition, our recently acquired irreversible electroporation (IRE) soft tissue ablation technology, which we expect to commercialize in mid-2008, will be complementary to RITA's diverse offering of local oncology therapies, which include its market-leading RFA systems, Habib Sealer<sup>™</sup> resection devices and LC Beads<sup>™</sup> for tumor embolization.

Although we completed a public offering of our common stock in fiscal 2006, we used a substantial portion of our available cash in the RITA acquisition and our remaining cash resources are somewhat limited. Except to the extent we can further use our equity securities as acquisition capital, we will require additional equity or debt financing to fund any future significant acquisitions.

In 2003, 2006 and 2007, we expanded our manufacturing and warehousing facilities in Queensbury, New York, to provide us with significantly greater manufacturing and warehousing capacity and to accommodate additional research, development and administrative requirements. However, we anticipate requiring additional office space for additional engineering, marketing and administrative personnel in the near future.

Our ability to further increase our profitability will depend in large part on improving gross profit margins. Factors such as changes in our product mix, new technologies and unforeseen price pressures may cause our margins to grow at a slower rate than we have anticipated or to decline.

**Recent Developments**

*Acquisition of RITA Medical Systems, Inc.*

On January 29, 2007, we completed the acquisition of RITA Medical Systems, Inc. ( RITA ) for a total purchase price of approximately \$244 million, comprised of approximately 7.9 million shares of the Company's common stock, assumption of outstanding RITA options and other convertible securities, which are exercisable for an additional 1.9 million shares of the Company's common stock, and approximately \$24 million in cash.

We acquired RITA for its market position, premium product offerings, developed and emerging technologies in the fields of interventional oncology and vascular access, and its highly skilled workforce. The merger was pursued and completed because the management groups and stockholders of the Company and RITA believe the combined entity will achieve higher sales and profitability than either or both of the pre-merger companies on a stand-alone basis.

We have accounted for the acquisition of RITA as a business combination under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of RITA were recorded as of the acquisition date, at their respective fair values, and consolidated with those of AngioDynamics. The preparation of the valuation of the fair value of the assets and liabilities of



## Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

RITA required the use of significant assumptions and estimates, including expected future cash flows and the applicable discount rates for the acquired intangibles, Black-Scholes assumptions for the valuation of the exchanged options and warrants, and estimates for IRC Section 382 limitations for the deferred tax assets. These estimates were based on assumptions that we believed to be reasonable as of the date of acquisition. However, our actual results may differ from these estimates.

- 20 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

The preliminary purchase price allocation may be adjusted within one year of the purchase date for certain contingencies which may impact the fair value of assets acquired and liabilities assumed. We do not anticipate further material changes to the purchase price allocation.

RITA's operating results have been consolidated with those of AngioDynamics beginning on the date of the acquisition, January 29, 2007.

**Results of Operations****Three months ended November 30, 2007 and December 2, 2006**

**Financial Summary.** For the second quarter of fiscal 2008, we reported net income of \$3.1 million, or \$ 0.13 per diluted common share, on sales of \$41.5 million, compared with net income of \$2.5 million, or \$0.15 per diluted common share, on sales of \$24.4 million in the second quarter of the prior year. Gross profit percentage improved to 61.3% for the second quarter of 2008 from 58.5% one year ago.

The following table sets forth certain operating data as a percentage of sales for the quarters ended November 30, 2007 and December 2, 2006:

	<b>Three Months Ended</b>	
	<b>November 30, 2007</b>	<b>December 2, 2006</b>
Net sales	100.0%	100.0%
Gross profit	61.3%	58.5%
Research and development expenses	8.9%	6.7%
Sales and marketing expenses	27.1%	27.5%
General and administrative expenses	9.8%	12.0%
Amortization of purchased intangibles	4.0%	0.0%
Operating income	11.5%	12.3%
Other income	0.4%	4.3%
Net income	7.5%	10.1%

**Net sales.** Net sales for the fiscal second quarter of 2008 increased by 70%, or \$17.1 million, to \$41.5 million, compared with the fiscal second quarter of 2007. The increase in sales was primarily attributable to sales of products acquired in the acquisition of RITA Medical Systems, Inc. ( RITA ) on January 29, 2007. RITA products accounted for \$15.3 million of the increase and AngioDynamics products increased \$1.8 million or 7% over the same period in the prior year. We also saw growth from recently released products as well as growing sales of our existing product lines, including Morpheus CT PICC, Morpheus Bedside Insertion Kit, Profiler balloon catheter, Sotredecol and the new NeverTouch product that was introduced in late fiscal year 2007.

---

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Gross Profit.** For the fiscal second quarter of 2008, our gross profit as a percentage of sales increased to 61.3% from 58.5% from the same period in the prior year. The increase in gross profit percentage was primarily the result of a favorable product mix from increased sales of higher margin products, including the RITA products. These increases were partially offset by costs associated with the start up of new product production and increases to inventory reserves due to continued focus on product line optimization.

**Research and development expenses.** Research and development ( R&D ) expenses increased by \$2.0 million, or 125%, to \$3.7 million, primarily due to the addition of RITA engineering personnel in Fremont, California and Manchester, Georgia, and increased engineering personnel and activities in Queensbury. R&D expenses were 8.9% of net sales for the 2008 second fiscal quarter, compared with 6.7% of net sales for the same prior year quarter. At November 30, 2007, we employed 55 people in research, development and regulatory activities.

**Sales and marketing expenses.** Sales and marketing ( S&M ) expenses increased \$4.6 million or 68% to \$11.3 million. Sales expenses accounted for \$4.0 million of the increase, of which \$3.0 million is attributable to the addition of the sales force acquired with the RITA acquisition, with the remainder due to personnel expenses related to the increased number of sales territories, commissions on higher sales and stock-based compensation. Marketing expenses increased \$500,000, or 26%, over the prior year period, primarily due to increased personnel expenses and the costs of marketing programs. As a percentage of net sales, S&M expenses were 27.1% for the fiscal second quarter of 2008, compared with 27.5% for the prior year period. At November 30, 2007, we employed 150 people in sales, marketing and customer service activities.

**General and administrative expenses.** General and administrative ( G&A ) expenses increased \$1.3 million, or 45%, to \$4.1 million primarily due to increased compensation costs related to new hires, legal and other professional fees and other costs related to the growth of the Company following the acquisition of RITA. We incurred \$622,000 in legal fees in the second fiscal quarter of 2008 related to patent infringement litigation with Diomed and VNUS. G&A expenses were 9.8% of net sales for the 2008 second fiscal quarter, compared with 12.0% for the prior year second fiscal quarter. This decrease as a percentage of sales is attributable to synergies achieved in the integration of RITA. As of November 30, 2007, we employed 37 people in general and administrative activities.

**Amortization of purchased intangibles.** Amortization of purchased intangibles increased to \$1.6 million, from \$105,000 in the same period of the prior year. The increase is primarily attributable to the amortization of intangibles acquired in the acquisition of RITA.

**Other income (expenses).** Other income decreased \$900,000 due primarily to an increase in interest expense incurred on the debt assumed in the RITA acquisition and the December 2006 bond offering; interest expense for the litigation provision; unrealized losses on the Company's interest rate swap agreement; and decreased interest income on lower invested cash balances.

**Income taxes.** Our effective tax rate for the 2008 quarter was 37.4% compared to 39.5% for the 2007 quarter. The decrease is primarily attributable to the effect of graduated tax rates on taxable income in the 2007 quarter.

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Net income.** For the fiscal second quarter of 2008, we reported net income of \$3.1 million, an increase of 26.3%, or \$646,000, over net income of \$2.5 million for the prior year second quarter. The increase in net income was attributable primarily to increased sales and higher gross profit margin, partially offset by higher operating expenses, including a \$1.5 million increase in amortization of

purchased intangibles. Stock-based compensation expense was \$937,000 and \$499,000 in the second fiscal quarter of 2008 and 2007, respectively.

**Six months ended November 30, 2007 and December 2, 2006**

**Financial Summary.** For the six months ended November 30, 2007, we reported net income of \$5.5 million, or \$0.23 per diluted common share, on sales of \$79.0 million, compared with net income of \$4.4 million, or \$0.27 per diluted common share, on sales of \$44.7 million in the comparable prior year period. Gross profit percentage improved to 60.7% for the 2008 period from 58.6% one year ago. Cash flow from operations for the 2008 period was \$10.3 million compared with \$5.0 million in the prior year.

The following table sets forth certain operating data as a percentage of sales for the six months ended November 30, 2007 and December 2, 2006:

	Six Months Ended	
	November 30, 2007	December 2, 2006
Net sales	100.0%	100.0%
Gross profit	60.7%	58.6%
Research and development expenses	8.1%	7.3%
Sales and marketing expenses	27.6%	27.8%
General and administrative expenses	10.4%	12.7%
Amortization of purchased intangibles	4.1%	0.0%
Operating income	10.5%	10.8%
Other income	0.6%	5.0%
Net income	6.9%	9.8%

**Net sales.** For the six months ended November 30, 2007, net sales increased by 77%, or \$34.4 million, to \$79.0 million, compared with prior year period. The increase in sales was primarily attributable to sales of products acquired in the acquisition of RITA Medical Systems, Inc. ( RITA ) on January 29, 2007. RITA products accounted for \$29.6 million of the increase and AngioDynamics products increased \$4.8 million or 11% over the same period in the prior year. We saw growth from recently released products as well as growing sales of our existing product lines, including Morpheus PICC, Morpheus Bedside Insertion Kit, Profiler balloon catheter, Sotredocol and the new NeverTouch product that was introduced in late fiscal year 2007.

**Gross Profit.** For the six months ended November 30, 2007, our gross profit as a percentage of sales increased to 60.7% from 58.6% in the same period of the prior year. The increase in gross profit percentage was primarily the result of a favorable product mix from increased sales of higher margin products, including the RITA products such as the HABIB laproscopic resection devices along with recently released products including the Morpheus CT PICC, Dura Flow catheter, and Total Abscession drainage catheter. These increases were partially offset by costs associated with the start up of new product production and increases to inventory reserves due to continued focus on product line optimization.

**Research and development expenses.** For the six months ended November 30, 2007, research and development ( R&D ) expenses increased by \$3.1 million, or 96%, to \$6.4 million over the same period of the prior year. This increase was primarily due to the addition of RITA engineering

## Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

personnel in Fremont, California and Manchester, Georgia and increased engineering personnel and activities in Queensbury. R&D expenses were 8.1% of net sales for the first six months of fiscal 2008, compared with 7.3% of net sales for the same prior year period.

Sales and marketing expenses. For the six months ended November 30, 2007, sales and marketing ( S&M ) expenses increased \$9.4 million or 76% to \$21.8 million over the same period of the prior year. Sales expenses accounted for \$8.4 million of the increase, of which \$6.0 million is attributable to the addition of the sales force acquired with the RITA acquisition, with the remainder due to personnel expenses related to the increased number of sales territories, commissions on higher sales and stock-based compensation.

- 23 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

For the six months ended November 30, 2007, marketing expenses increased \$1.0 million, or 28%, over the prior year period, primarily due to increased personnel expenses, and the costs of marketing programs. As a percentage of net sales, S&M expenses were 27.6% for the six months ended November 30, 2007, compared with 27.8% for the prior year period.

General and administrative expenses. For the six months ended November 30, 2007, general and administrative ( G&A ) expenses increased \$2.7 million, or 48%, to \$8.2 million over the same period of the prior year. This increase was primarily due to increased compensation costs related to new hires, legal and other professional fees and other costs related to the growth of the Company following the acquisition of RITA. We experienced an increase in legal fees of approximately \$1.4 million related to patent infringement litigation with Diomed and VNUS in the six months ended November 30, 2007 over the same period of the prior year. G&A expenses were 10.4% of net sales for the six months ended November 30, 2007 compared with 12.7% for the prior year period. This decrease as a percentage of sales is attributable to synergies achieved in the integration of RITA.

Amortization of purchased intangibles. For the six months ended November 30, 2007, amortization of purchased intangibles increased to \$3.2 million from \$136,000 in the same period of the prior year. The increase is primarily attributable to the amortization of intangibles acquired in the acquisition of RITA.

Other income (expenses). For the six months ended November 30, 2007, other income decreased \$1.8 million from the same prior year period due primarily to an increase in interest expense incurred on the debt assumed in the RITA acquisition; interest expense for the litigation provision; and unrealized losses relating to the Company's interest rate swap agreement; and decreased interest income on lower invested cash balances.

Income taxes. Our effective tax rate for the six month period ended November 30, 2007 was 37.5% compared to 38.2% for the same prior year period. The decrease is primarily attributable to the effect of graduated tax rates on taxable income in the 2007 fiscal period.

Net income. For the six months ended November 30, 2007, we reported net income of \$5.5 million, an increase of 25.9%, or \$1.1 million over net income of \$4.4 million for the prior year period. The increase in net income was attributable primarily to increased sales, higher gross profit margin, partially offset by higher operating expenses, a portion of which was related to an increase of \$3.4 million of amortization of purchased intangibles. Stock-based compensation expense was \$1,693,000 and \$921,000 in the six month periods ended November 30, 2007 and December 2, 2006, respectively.

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities totaled \$79.6 million at November 30, 2007, compared to \$73.3 million at June 2, 2007. Restricted cash includes amounts set aside for a specific purpose, including future payment of the litigation provision recorded and expenditures in connection with our facility expansion. Marketable securities are comprised of U.S. government issued or guaranteed securities, auction rate securities and corporate bonds. At November 30, 2007, total debt was \$17.3 million, compared with \$17.4 million at June 2, 2007 which was comprised of short and long-term bank debt that financed our facility expansions in Queensbury, New York, and \$9.7 million of convertible debt assumed in the RITA acquisition. At November 30, 2007, other current liabilities consisted of \$3.5 million for a future payment due on our asset purchase agreement with Medron, Inc., a \$1.0 million future royalty payment, and \$10.0 million for damages and related interest assessed in a patent infringement action that is under appeal.

Net cash provided by operating activities for the six month period ended November 30, 2007 was \$10.3 million compared with \$5.0 million in the same prior year period, primarily due to the amortization of intangibles and deferred income taxes resulting from the RITA acquisition, increased stock compensation costs, and higher net income, partially offset by an increase in deferred royalties and other working capital changes.

Net cash used in investing activities was \$17.4 million for the six months ended November 30, 2007 compared to net cash provided of \$3.0 million for the same prior year period. This net cash use in fiscal 2008 is primarily due to an increase in restricted cash related to a litigation award under appeal, capital expenditures, and the acquisition of intangible assets.

Net cash provided by financing activities was \$1.6 million for the six months ended November 30, 2007 compared to \$1.1 million for the comparable prior year period. Cash provided by financing activities for the six months ended November 30, 2007 primarily consisted of proceeds from the exercise of stock options and from the issuance of common stock under our employee stock purchase plan.

Our contractual obligations and their effect on liquidity and cash flows have not changed substantially from what we previously disclosed in our Annual Report on Form 10-K for our fiscal year ended June 2, 2007.

In December 2006, we closed on the financing for the expansion of our warehouse and manufacturing facility in Queensbury, New York. The expansion is being financed principally with taxable adjustable rate notes (the Notes) issued by us aggregating \$5,000,000. The Notes were issued under a trust agreement by and between us and a bank, as trustee (the Trustee). In connection with the issuance of the Notes, we entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with the bank that requires the maintenance of a letter of credit to support principal and certain interest payments on the Notes and requires payment of an annual fee on the outstanding balance. We also entered into a remarketing agreement, pursuant to which the remarketing agent is required to use its best efforts to arrange for sales of the Notes in the secondary market.

In connection with this financing, we entered into an interest rate swap agreement (the Swap Agreement) with the bank, effective December 2006, with an initial notional amount of \$5,000,000, to limit the effect of variability due to interest rates on its rollover of the Notes. The Swap Agreement, which is not treated as a hedge for accounting purposes under SFAS No. 133, is a contract to exchange floating interest rate payments for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional amounts. The Swap Agreement requires us to pay a fixed rate of 5.06% and receive payments based on 30-day LIBOR repriced every seven days through December 2016.

The Reimbursement Agreement contains certain financial covenants relating to fixed charge coverage and interest coverage, as defined. Amounts borrowed under the Reimbursement Agreement are collateralized by the aforementioned letter of credit and all of our assets.





**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

In connection with the acquisition of RITA on January 29, 2007, we assumed subordinated Senior Convertible Notes (the "Convertible Notes") with an aggregate principal amount of \$9.7 million. The Convertible Notes are convertible into shares of the Company's common stock at a conversion price of \$20.41 per share of common stock, net of a cash component, subject to adjustment in certain circumstances including common stock splits or other standard anti-dilution provisions. Until conversion or maturity, the Convertible Notes bear interest at 6.5% per year, payable semi-annually. Absent conversion, the Convertible Notes mature on August 5, 2008 (the "Maturity Date"). If on the Maturity Date, the closing price of the Company's common stock has been at or above 102% of the then conversion price for at least 10 consecutive business days immediately preceding the Maturity Date, then any remaining principal outstanding under the Convertible Notes shall automatically be converted into the Company's common stock, subject to certain conditions. The entire principal amount has been classified as "Current portion of long-term debt and convertible note" in our consolidated balance sheet as of November 30, 2007.

In October 2006, we entered into a Stock Purchase Agreement with Oncobionic that will require the use of a significant portion of our cash and investment balances. Under the terms of our Stock Purchase Agreement with Oncobionic, \$10.0 million of the remaining Fixed Purchase Price is payable at the closing of the acquisition, \$5.0 million is payable six months after the closing, and the remaining \$5.0 million is payable 18 months after the closing. The closing of the acquisition is subject to Oncobionic's successful performance and completion of human use tests confirming the acute efficacy of IRE in ablating prostate cancer. We expect the results of these tests to be available within the next six months.

We believe that our current cash and investment balances, which include the net proceeds from our public offerings, together with cash generated from operations, will provide sufficient liquidity to meet our anticipated needs for capital for at least the next 12 months. If we seek to make significant additional acquisitions of other businesses or technologies for cash, we will, in all likelihood, require additional financing. We cannot assure you that such financing will be available on commercially reasonable terms, if at all.

- 26 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to market risk from changes in interest rates on investments and financing that could impact our results of operations and financial position. Although we have entered into interest rate swaps with a bank to limit our exposure to interest rate change on our variable interest rate financings, we do not currently engage in any other hedging or market risk management tools.

At November 30, 2007, we maintained variable interest rate financing of \$7.6 million in connection with our facility expansions. We have limited our exposure to interest rate risk by entering into interest rate swap agreements with a bank under which we agreed to pay the bank a fixed annual interest rate and the bank assumed our variable interest payment obligations under the financing.

Nearly all of our sales have historically been denominated in United States dollars. Although not significant, in 2007 we began to make sales in other currencies, particularly the Euro, GB pound and Canadian dollar. We currently have no significant direct foreign currency exchange risk and such risk in the future is expected to be modest.

Our excess cash is invested in highly liquid, short-term, investment grade securities with maturities primarily of less than two years. These investments are not held for speculative or trading purposes. Changes in interest rates may affect the investment income we earn on cash, cash equivalents and marketable securities and therefore affect our cash flows and results of operations. As of November 30, 2007, we were exposed to interest rate change market risk with respect to our investments in callable U.S. government corporation and agency obligations in the amount of \$7,500,000. The bonds bear interest at a floating rate established weekly. Each 100 basis point (or 1%) fluctuation in interest rates will increase or decrease interest income. We hold investments in highly liquid auction rate securities ("ARS") in order to generate higher than typical money market investments. ARS typically are high credit quality, generally achieved with municipal bond insurance. Credit risks are eased by the historical track record of bond insurers, which back a majority of this market. Although rare, sell orders for any security traded through an auction process could exceed bids. Such instances are usually the result of a drastic deterioration of issuer credit quality. Should there be a failed auction, we may be unable to liquidate our position in the securities in the near term.

We are party to legal actions that arise in the ordinary course of business as described in Note K. The Company has accrued approximately \$10.0 million, including interest, under the heading "Litigation provision" on the consolidated balance sheet as of November 30, 2007.

- 27 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Item 4. Controls and Procedures.  
Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us (including our consolidated subsidiaries) in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting in the fiscal quarter ended November 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**AngioDynamics, Inc. and Subsidiaries**

**Part II: Other Information**

**Item 1. Legal Proceedings.**

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our annual report on Form 10-K for the fiscal year ended June 2, 2007.

*Diomed v. AngioDynamics*

On January 6, 2004, Diomed filed an action against the Company entitled *Diomed, Inc. v. AngioDynamics, Inc., et al.*, civil action no. 04 10019 RGS in the U.S. District Court for the District of Massachusetts. Diomed's complaint alleges that we have infringed on Diomed's U.S. patent no. 6,398,777 by selling a kit for the treatment of varicose veins (now called the VenaCure Procedure Kit) and two diode laser systems (the Precision 980 Laser and the Precision 810 Laser), and by conducting a training program for physicians in the use of our VenaCure Procedure Kit. The complaint alleges our actions have caused, and continue to cause, Diomed to suffer substantial damages. The complaint seeks to prohibit the Company from continuing to market and sell these products, as well as conducting our training program, and asks for compensatory and treble money damages, reasonable attorneys' fees, costs and pre-judgment interest.

On March 28, 2007, the jury returned a verdict in favor of Diomed and awarded compensatory monetary damages in the amount of \$8.36 million. The jury concluded, however, that there was no willful infringement by the Company. On May 22, 2007, the judge for the Federal District Court in Boston denied our motion to overturn the verdict and increased the judgment for compensatory damages by \$1.35 million, to \$9.71 million, to cover pretrial interest and post-verdict sales of the infringing products. The judgment also requires the Company to pay interest to Diomed at an annual rate of approximately 5% of the damage award for the period of time between the verdict and actual payment of the award. As such, the Company has accrued approximately \$10.0 million, including interest, under the heading "Litigation provision" on our consolidated balance sheet as of November 30, 2007. We have set aside cash and cash equivalents for the purpose of fulfilling the obligation incurred as a result of the decision; these funds are included under the heading "Restricted cash" on the consolidated balance sheet as of November 30, 2007.

We have disputed the infringement verdict and on June 20, 2007, filed an appeal in the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. We filed an appeal brief in October 2007 and Diomed filed a brief in December 2007. We expect to file our final reply brief in January 2008 and anticipate a ruling being made in mid-2008. As a result of the anticipated timing, we have classified the liability as current.

On July 2, 2007, the judge for the Federal District Court in Boston, Massachusetts, issued an injunction that prohibits us from selling our original bare fiber VenaCure kits and the laser consoles for use with those kits. In anticipation of this injunction, we stopped selling our bare fiber kits in April 2007, and on June 2, 2007, began selling our new NeverTouch disposable kits and laser consoles which, we believe, are unaffected by the injunction.

Until April 2007, we purchased the lasers and laser fibers for our laser systems from biolitec under the biolitec Supply Agreement. In 2006, biolitec advised us that, based on the refinement of the claims in the Diomed action, biolitec believed such claims were not within biolitec's indemnification obligations under the biolitec Supply Agreement. We advised biolitec that we disagreed with biolitec's position and that we expected biolitec to continue to honor its indemnification obligations to us under the biolitec Supply Agreement. Pending the outcome of ongoing discussions regarding this issue, biolitec agreed to continue to provide, at its cost and expense, our defense in the Diomed action. In April 2007, biolitec informed us that, as of April 15, 2007, biolitec would terminate any further defense of us in this action. As a result of

## Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

biolitec's actions, and to protect our own interests, since April 15, 2007, we have paid our own defense costs with regard to this matter.

On January 2, 2008, we filed an action against biolitec to enforce our rights against biolitec to honor its obligations under the Supply Agreement. We will continue to vigorously enforce our rights under the biolitec Supply Agreement. However, in the event it is ultimately determined that the claims asserted in this action are not within biolitec's indemnification obligations under the biolitec Supply Agreement, we may be required to reimburse biolitec for the costs and expenses of defending the Diomed action and may be responsible for paying any settlements or judgments in this action.

- 29 -

---

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

*VNUS Medical Technologies v. Diomed, Vascular Solutions, and AngioDynamics*

On October 4, 2005, VNUS Medical Technologies, Inc. ( VNUS ) filed an action against AngioDynamics and others (collectively, the Defendants ) entitled *VNUS Medical Technologies, Inc. v. Diomed Holdings, Inc., Diomed Inc., AngioDynamics, Inc., and Vascular Solutions, Inc.*, case no. C05-2972 MMC, filed in the U.S. District Court for the Northern District of California. The complaint alleges that the Defendants infringed on VNUS 's U.S. patent nos. 6,258,084, 6,638,273, 6,752,803, and 6,769,433 by making, using, selling, offering to sell and/or instructing users how to use Diomed 's EVLT products, AngioDynamics ' VenaCure products, and Vascular Solutions ' Vari-Lase products. The complaint alleges the Defendants ' actions have caused, and continue to cause, VNUS to suffer substantial damage. The complaint seeks to prohibit the Defendants from continuing to market and sell these products and asks for compensatory and treble money damages, reasonable attorneys ' fees, costs and pre-judgment and post-judgment interest. We believe that our products do not infringe the VNUS patents and that the patents are invalid. We have filed an answer to the complaint, including a counterclaim for relief and a demand for jury trial. The court originally scheduled the trial in this action to commence on October 29, 2007; however, since that time the trial has been postponed by the court and we anticipate the trial commencing during 2008. The range of potential loss has been reduced since the court has dismissed VNUS 's claim of willful infringement, eliminating the possibility of treble damages and attorney 's fees. There is a reasonable possibility of an outcome unfavorable to us in this action, with a range of potential loss between \$0 and \$10 million.

*Hazel Smart v. St. Mary 's Hospital*

We were named as a defendant in an action entitled *Karen Incardona, Temporary Administrator of the Estate of Hazel Smart v. St. Mary 's Hospital*, et al., filed in the District Court of Waterbury, Connecticut, on January 3, 2007. The complaint alleges that we and our co-defendant, Medical Components, Inc. ( Medcomp ), manufactured and sold a defective catheter that was used in the treatment of, and caused the death of, a hemodialysis patient, as well as committing other negligent acts. The complaint seeks compensatory and other monetary damages in unspecified amounts. Under our distribution agreement with Medcomp, Medcomp is required to indemnify us against all our costs and expenses, as well as losses, liabilities and expenses (including reasonable attorneys ' fees) that relate in any way to products covered by the agreement. We tendered the defense of the *Smart* action to Medcomp, and Medcomp accepted defense of this action. Based upon our prior experience with Medcomp, we expect Medcomp to honor its indemnification obligation if it is unsuccessful in defending this action.

*S.D. v. RITA Medical Systems Health Benefits Plan*

On October 31, 2006, S.D. filed an action entitled *S.D., on her own behalf and as guardian of T.D., and Island View Residential Treatment Center, Inc. v. RITA Medical Systems Health Benefits Plan and Blue Cross of California*, case number 1:06-cv-135 DB, in the U.S. District Court for the District of Utah. The claim asserts a cause of action for recovery of benefits under 29 U.S.C. section 1132(a)(1)(B). The complaint alleges that the action of defendants in failing to make payment for the treatment provided by Island View Residential Treatment Center is a violation of the RITA Benefits Plan, the Blue Cross insurance policy, and California state law. RITA Benefits Plan denies all wrongdoing and intends to vigorously defend this action. On June 11, 2007, the court stayed the action pending resolution of an independent lawsuit involving Island View and Blue Cross of California and having similar issues. Progress in this action has not reached a point to assess with any reasonable degree of certainty the likelihood of an unfavorable outcome or an estimate of any potential loss.

*Donald Neal Wilkerson v. Tasha Christian and RITA Medical Systems, Inc.*

We have been named as a defendant in a wrongful death action entitled *Donald Neal Wilkerson, individually and as the Administrator of the Estate of Sandra Hatcher Wilkerson, deceased v. Tasha Christian and RITA Medical Systems, Inc.*, civil action number 06-871, and related arbitration proceedings, filed in the U.S. District Court for the Middle District of North Carolina on October 4, 2006. The plaintiff seeks unspecified damages, including both compensatory and punitive damages, costs, and such other relief as the court may deem appropriate in allegedly causing the death of Sandra Wilkerson.

## Edgar Filing: ANGIODYNAMICS INC - Form 10-Q

On November 20, 2006, RITA filed a motion to dismiss the complaint on the ground that plaintiff's claims are time barred by the applicable statute of limitations. On November 29, 2006, plaintiff filed an Amended Complaint. RITA moved to dismiss the Amended

- 30 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

Complaint on December 13, 2006, on statute of limitations grounds. Progress in this action has not reached a point to assess with any reasonable degree of certainty the likelihood of an unfavorable outcome or an estimate of any potential loss.

We are party to other legal actions that arise in the ordinary course of our business. We believe that any liability resulting from any currently pending litigation will not, individually or in the aggregate, have a material adverse effect on our business or financial condition. The liability resulting from any currently pending litigation, could individually, or in the aggregate, have a material adverse effect on the Company's results of operations or cash flows in the period settled.

- 31 -



**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors disclosed in Part I. Item 1A, of our annual report on Form 10-K for our fiscal year ended June 2, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission Of Matters to a Vote of Security Holders.**

At our Annual Meeting of Stockholders held on October 22, 2007, the following persons were elected as directors of the Company:

Class I Directors: (until the 2010 Annual Meeting)

Paul S. Echenberg

Jeffrey Gold

Dennis S. Meteny

In this election, 21,430,777 votes were cast for Mr. Echenberg, 21,591,058 votes were cast for Mr. Gold and 21,589,916 votes were cast for Mr. Meteny, respectively and 287,840 shares were withheld from voting for Mr. Echenberg, 127,559 shares were withheld from voting for Mr. Gold and 128,701 shares were withheld from voting for Mr. Meteny, respectively.

The following directors continue in office for the duration of their terms:

Class II Directors: (until 2008 Annual Meeting)

Howard W. Donnelly

Robert E. Flaherty

Vincent Bucci

Class III Directors: (until 2009 Annual Meeting)

Eamonn P. Hobbs

Wesley E. Johnson, Jr.

Steve LaPorte

The action of the audit committee of the board of Directors in appointing PricewaterhouseCoopers, LLP as the Company's independent registered public accounting firm for fiscal year 2008 was approved by a vote of 21,644,147 in favor, 59,488 against and 14,982 abstentions.

**Item 5. Other Information.**

None.

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**Item 6. Exhibits.**

<b>No.</b>	<b>Description</b>
31.1	Certification pursuant to Rule 13a-14(a) or 15d-14 under the Securities Exchange Act of 1934.
31.2	Certification pursuant to Rule 13a-14(a) or 15d-14 under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 33 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: January 9, 2008

ANGIODYNAMICS, Inc.  
(Registrant)

/s/ Eamonn P. Hobbs  
Eamonn P. Hobbs, President,  
Chief Executive Officer (Principal Executive Officer)

Date: January 9, 2008

/s/ D. Joseph Gersuk  
D. Joseph Gersuk, Executive Vice President,  
Chief Financial Officer (Principal Financial and Chief Accounting  
Officer)

- 34 -

**Table of Contents**

AngioDynamics, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2007 and December 2, 2006

(unaudited)

**EXHIBIT INDEX**

<b>No.</b>	<b>Description</b>
31.1	Certification pursuant to Rule 13a-14(a) or 15d-14 under the Securities Exchange Act of 1934.
31.2	Certification pursuant to Rule 13a-14(a) or 15d-14 under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 35 -