

ANGIODYNAMICS INC
Form 10-Q
April 09, 2015
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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 February 28, 2015

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 0-50761

AngioDynamics, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-3146460
(I.R.S. Employer
Identification No.)

14 Plaza Drive Latham, New York
(Address of principal executive offices)
(518) 795-1400

12110
(Zip Code)

Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, par value \$.01

Preferred Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Name of each exchange on which registered

NASDAQ Global Select Market

NASDAQ Global Select Market

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the Issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 6, 2015
Common Stock, par value \$.01	35,917,738

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(unaudited)

(in thousands of dollars, except per share data)

	Three Months Ended		Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014	Feb 28, 2015	Feb 28, 2014
Net sales	\$86,597	\$88,150	\$266,077	\$260,365
Cost of sales	48,746	43,357	134,745	128,107
Gross profit	37,851	44,793	131,332	132,258
Operating expenses				
Research and development	6,855	7,045	19,642	20,757
Sales and marketing	19,355	20,700	60,405	61,736
General and administrative	6,917	6,445	22,213	19,542
Amortization of intangibles	5,106	4,248	13,182	12,696
Change in fair value of contingent consideration	(10,044)	(4,154)	(8,626)	(2,481)
Acquisition, restructuring and other items, net	18,779	3,016	23,745	7,697
Medical device excise tax	1,034	980	3,105	2,955
Total operating expenses	48,002	38,280	133,666	122,902
Operating income (loss)	(10,151)	6,513	(2,334)	9,356
Other (expenses) income				
Interest expense	(859)	(917)	(2,451)	(3,122)
Interest income	2	—	3	—
Other expense	(971)	(1,053)	(2,950)	(2,604)
Total other expenses, net	(1,828)	(1,970)	(5,398)	(5,726)
Income (loss) before income tax expense (benefit)	(11,979)	4,543	(7,732)	3,630
Income tax expense (benefit)	(7,717)	28	(5,278)	(251)
Net income (loss)	\$(4,262)	\$4,515	\$(2,454)	\$3,881
Income (loss) per share				
Basic	\$(0.12)	\$0.13	\$(0.07)	\$0.11
Diluted	\$(0.12)	\$0.13	\$(0.07)	\$0.11
Basic weighted average shares outstanding	35,755	35,184	35,568	35,088
Diluted weighted average shares outstanding	35,755	35,704	35,568	35,372

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands of dollars)

	Three Months Ended		Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014	Feb 28, 2015	Feb 28, 2014
Net Income (Loss)	\$ (4,262	) \$ 4,515	\$ (2,454	) \$ 3,881
Other comprehensive income (loss), before tax:				
Unrealized gain (loss) on interest rate swap	133	132	289	(71)
Unrealized gain (loss) on marketable securities	(17	) (18	) (129	) (18)
Foreign currency translation gain (loss)	(624	) 106	(728	) 246
Other comprehensive income (loss), before tax	(508	) 220	(568	) 157
Income tax (expense) benefit related to items of other comprehensive income	(43	) (42	) (59	) 33
Other comprehensive income (loss), net of tax	(551	) 178	(627	) 190
Total comprehensive income (loss), net of tax	\$ (4,813	) \$ 4,693	\$ (3,081	) \$ 4,071

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands of dollars, except share data)

	Feb 28, 2015	May 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$19,704	\$16,105
Marketable securities	1,682	1,809
Accounts receivable, net of allowances of \$2,339 and \$1,736 respectively	57,770	61,968
Inventories	68,710	61,234
Deferred income taxes	2,638	4,625
Prepaid income taxes	1,929	510
Prepaid expenses and other	4,859	5,471
Total current assets	157,292	151,722
Property, plant and equipment - at cost, net	58,295	66,590
Other assets	4,060	4,447
Intangible assets, net	186,547	205,256
Goodwill	360,473	360,473
Deferred income taxes, long-term	16,469	10,403
TOTAL ASSETS	\$783,136	\$798,891
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$21,696	\$32,895
Accrued liabilities	19,946	17,251
Income Taxes Payable	677	689
Current portion of long-term debt	7,500	5,000
Current portion of contingent consideration	9,868	10,918
Total current liabilities	59,687	66,753
Long-term debt, net of current portion	141,410	137,660
Deferred income taxes, long-term	1,146	1,146
Contingent consideration, net of current portion	37,137	56,413
Other long-term liabilities	—	84
Total liabilities	239,380	262,056
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
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 36,023,413 and 35,442,004 shares and outstanding 35,881,108 and 35,299,699 shares at February 28, 2015 and May 31, 2014, respectively	360	353
Additional paid-in capital	518,349	508,354
Retained earnings	29,047	31,501
Treasury stock, 142,305 shares, at cost	(2,104)	(2,104)
Accumulated other comprehensive loss	(1,896)	(1,269)
Total stockholders' equity	543,756	536,835
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$783,136	\$798,891

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

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AngioDynamics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands of dollars)

	Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014
Cash flows from operating activities:		
Net income (loss)	\$(2,454	) \$3,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,776	21,113
Stock based compensation	4,389	4,022
Change in fair value of contingent consideration	(8,626	) (2,481
Deferred income taxes	(4,138	) 1,700
Impairment loss on indefinite-lived intangible assets	6,400	—
Impairment loss on fixed and other long-term assets	9,188	—
Bad debt expense	659	281
Tax effect on exercise of stock options and issuance of performance shares	—	(146
Amortization of acquired inventory basis step-up	—	150
Other	(70	) (50
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,535	(9,668
Inventories	(7,476	) (3,491
Prepaid expenses and other assets	(2,319	) (2,958
Accounts payable, accrued and other liabilities	(6,428	) 2,821
Net cash provided by operating activities	15,436	15,174
Cash flows from investing activities:		
Additions to property, plant and equipment	(11,038	) (9,003
Acquisition of business, net of cash acquired	—	(4,169
Acquisition of intangibles	(1,004	) (180
Purchases of marketable securities	—	(25
Proceeds from sale or maturity of marketable securities	—	353
Net cash used in investing activities	(12,042	) (13,024
Cash flows from financing activities:		
Proceeds from issuance of and borrowings on long-term debt	15,000	141,410
Repayment of long-term debt	(8,750	) (145,000
Deferred financing costs on long-term debt	—	(677
Payment of contingent consideration previously established in purchase accounting	(11,222	) (14,597
Proceeds from exercise of stock options and employee stock purchase plan	5,613	2,208
Net cash provided by (used in) financing activities	641	(16,656
Effect of exchange rate changes on cash and cash equivalents	(436	) 86
Increase (decrease) in cash and cash equivalents	3,599	(14,420
Cash and cash equivalents at beginning of period	16,105	21,802
Cash and cash equivalents at end of period	\$ 19,704	\$ 7,382
Supplemental disclosure of non-cash investing and financing activities:		
Contractual obligations for acquisition of intangibles and business	\$ 349	\$ 4,970
Contractual obligations for acquisition of fixed assets	\$ 211	\$ 1,200

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(unaudited)

(in thousands of dollars, except share data)

	Common Stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at May 31, 2014	35,442,004	\$ 353	\$508,354	\$31,501	\$ (1,269)	(142,305)	\$(2,104)	\$536,835
Net income (loss)				(2,454)				(2,454)
Exercise of stock options	321,134	3	4,192					4,195
Purchase of common stock under ESPP	119,001	2	1,414					1,416
Issuance of performance shares	141,274	2						2
Stock based compensation			4,389					4,389
Other comprehensive loss, net of tax					(627)			(627)
Balance at February 28, 2015	36,023,413	\$ 360	\$518,349	\$29,047	\$ (1,896)	(142,305)	\$(2,104)	\$543,756

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

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE A – CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of February 28, 2015, the consolidated statement of stockholders' equity and consolidated statement of cash flows for the nine months ended February 28, 2015, the consolidated statements of income (loss) and the consolidated statements of comprehensive income (loss) for the three and nine months ended February 28, 2015 and 2014 have been prepared by us without audit. The consolidated balance sheet as of May 31, 2014 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 (consisting of normal recurring adjustments) necessary to state fairly the financial position, changes in stockholders' equity and comprehensive income, results of operations and cash flows as of and for the period ended February 28, 2015 (and for all periods presented) have been made.

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/A for the fiscal year ended May 31, 2014. Our most significant accounting policies are disclosed in Note A to the consolidated financial statements included in the aforementioned Form 10-K/A for the fiscal year ended May 31, 2014. The results of operations in the fiscal periods ended February 28, 2015 and 2014 are not necessarily indicative of the operating results for the respective full fiscal years.

The unaudited interim consolidated financial statements for the three and nine months ended February 28, 2015 and February 28, 2014 include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, collectively, the "Company". All intercompany balances and transactions have been eliminated.

During the financial closing process for the first quarter of fiscal year 2015, the Company determined that financial management had incorrectly accounted for certain asset, liability and income statement balances, beginning in 2011. The Company has identified amounts and concluded that they were not material individually or in the aggregate to any of its previously issued annual and interim financial statements. Although management has determined the amounts individually and in the aggregate are not material to prior periods, in accordance with authoritative accounting literature on considering the effects of misstatements in prior years when quantifying misstatements in the current year, the financial statements included herein have been adjusted to correct for the impact of these items. Refer to Note P for further details.

Recent Developments

In the third quarter of 2015, the Company initiated a voluntary recall of the Morpheus Smart PICC CT product and concurrently discontinued the product line. The Company accrues for costs of product recalls, customer sales allowances and other related costs based on management's best estimates when it is probable a charge or liability has been incurred, management commits to a plan, and/or regulatory requirement dictates the need for corrective or preventive action and the amount of loss can be reasonably estimated. Product recall related charges, recognized in cost of sales, include materials, costs to address identified issues, deployment costs such as labor, freight, product disposal and other customer accommodations. Customer sales allowances charges, recognized as a reduction of Net sales, include amounts to be offered to customers, which may be used as a credit for transition to alternative technology. Other costs associated with the recall are recognized in acquisition, restructuring and other items, net. These costs include disposals of fixed assets, storage costs, commissions and cancellation fees. Results for the quarter ended February 28, 2015 include a \$0.2 million reserve recorded as a reduction in Net sales, a \$5.0 million write-off of inventory in Cost of sales and \$0.9 million of other costs in acquisition, restructuring and other items, net.

In the third quarter of 2015, the Company made a decision to discontinue investment in and development of an Automated Power Injector, a product the Company anticipated launching to address a need in the fluid management market. This decision was made after an evaluation of the anticipated opportunity, risks and costs necessary to complete the regulatory and development path required to launch the product. As a result of this decision, and the absence of anticipated cash flow from the product and existing fixed assets, the Company recorded an \$8.2 million impairment charge, representing a full impairment on the fixed assets. This project termination decreased the long-term sales forecasts for products sold with the NAMIC brand. At the time of the Navylist acquisition in fiscal 2012 the Company, as part of purchase accounting, recorded a \$28.6 million indefinite-lived intangible associated with this trademark. Primarily as a result of removing expected sales of the

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Automated Power Injector, the value of the trademark was deemed to be impaired, resulting in a \$6.4 million charge during the three and nine months ended February 28, 2015. Refer to Note D for further details.

On March 2, 2015, the Company filed an 8-K stating that it executed a non-binding letter of intent to enter into a strategic relationship with privately-held EmboMedics Inc., which develops injectable and resorbable embolic microspheres. On April 9, 2015 the Company entered into a License, Distribution, Manufacturing and Purchase Option Agreement with EmboMedics Inc, subject to certain approvals by EmboMedics shareholders.

Under the terms of the agreement, AngioDynamics receives an exclusive worldwide license to market and sell, upon regulatory clearances, EmboMedics' microsphere technology. AngioDynamics will also control manufacturing of the products. AngioDynamics will make an initial \$2.0 million equity investment in EmboMedics through the purchase of preferred stock. The Company may make an additional \$9.0 million in equity, as well as milestone driven investments, and can execute an exclusive option to acquire EmboMedics, based on the achievement of certain milestones.

NOTE B – ACQUISITIONS

Acquisition of Clinical Devices

On August 15, 2013 we acquired all the outstanding shares of capital stock of Clinical Devices, B.V., exclusive distributor of our fluid management products in the Netherlands. The stock purchase agreement provided for the payment of \$3.7 million in cash at closing, which was subject to a working capital adjustment and \$400,000 holdback, plus future earn out consideration payable in cash. Earn out consideration was based on our net sales of the fluid management products during the five quarters following the closing as well as milestone payments for achieving regulatory approvals of certain in process research and development for a next-generation tip location technology. The holdback and net sales related amounts were paid in September 2014. The total purchase consideration of \$8.7 million included the upfront payment and the estimated fair value of contingent consideration at the time of acquisition of \$5.0 million.

Goodwill recorded as a result of the acquisition was approximately \$4.8 million and is not deductible for tax purposes. Intangible assets acquired, other than goodwill, totaled approximately \$5.1 million, of which \$3.6 million has been identified as in-process research and development, \$1.4 million as customer relationships (15-year estimated useful life) and \$70,000 as trademarks (5-year estimated useful life). We also recorded a deferred tax liability of \$1.2 million. The acquisition has been accounted for as a purchase and, accordingly, we have included the results of operations in the financial statements effective August 15, 2013. The pro forma effects of the acquisition on our income statement and balance sheet were not material.

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NOTE C – INVENTORIES

Inventories are stated at lower of cost (using the first-in, first-out method) or market. As of February 28, 2015 and May 31, 2014, inventories consisted of the following:

	Feb 28, 2015 (in thousands)	May 31, 2014
Raw materials	\$28,155	\$24,734
Work in process	12,050	11,992
Finished goods	28,505	24,508
Inventories	\$68,710	\$61,234

NOTE D – GOODWILL AND INTANGIBLE ASSETS

Intangible assets other than goodwill and indefinite lived intangible assets are amortized over their estimated useful lives, which range between two and fifteen years, on either a straight-line basis or proportionately to the benefit being realized. We periodically review the estimated useful lives of our intangible assets and review such assets for impairment, based on estimated future cash flows, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If an intangible asset is considered to be impaired, the amount of the impairment will equal the excess of the carrying value over the fair value of the asset.

Goodwill and intangible assets that have indefinite useful lives are not amortized, but rather, are tested for impairment annually or more frequently if impairment indicators arise. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Goodwill and intangible assets have been recorded at either incurred or allocated costs based on respective fair market values at the date of acquisition.

For goodwill, the impairment test requires a comparison of the estimated fair value, based on future cash flows, of the reporting unit to which the goodwill is assigned to the sum of the carrying value of the assets and liabilities of that unit. If the sum of the carrying value of the assets and liabilities of a reporting unit exceeds the fair value of the reporting unit, the carrying value of the reporting unit's goodwill is reduced to its implied fair value through an adjustment to the goodwill balance, resulting in an impairment charge.

We consider our business to be a single operating segment entity - the development, manufacture and sale on a global basis of medical devices for vascular access, peripheral vascular disease, oncology and surgery.

To determine fair value, we considered two market-based approaches and an income approach. Under the market-based approaches, we utilized information regarding our own as well as publicly available industry information to determine earnings multiples and sales multiples. Under the income approach, we determined fair value based on estimated future cash flows of the reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. We determined the discounted cash flow as the best indicator to determine fair value and therefore assigned a weight of 75% with the remaining 25% assigned to the market approach.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, operating margins, discount rates and future market conditions, among others. These assumptions are highly sensitive and changes in these estimates could result in impairment. Solely for purposes of establishing inputs for the fair value calculations, we assumed that the current economic conditions would continue through fiscal year 2015. In addition, we applied gross margin assumptions, showing some improvement over historical trends, at various revenue levels and used a capitalization rate of 8.0% to calculate the terminal value of the reporting unit. In addition, we used a discount rate of 12% to calculate the fair value of our reporting unit.

We completed our annual goodwill impairment test as of December 31, 2014. At December 31, 2014, our reporting unit is the same as our reportable segment. Our assessment of goodwill impairment indicated that the fair value of our reporting unit exceeded its carrying value and therefore goodwill was not impaired. The fair value of our reporting unit exceeded its carrying value by 18%. The fair value of the reporting unit was reconciled to our current stock market capitalization as of December 31, 2014.

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Since early November 2008, our stock market capitalization has at times been lower than our shareholders' equity or book value. However, our reporting unit has continued to generate significant cash flows from operations, and we expect to continue to do so in fiscal 2015 and beyond. Furthermore, we believe that a reasonable potential buyer would offer a control premium for our business that would adequately cover the difference between our stock market capitalization and our book value.

We also completed our annual indefinite lived asset (NAMIC trademark) test as of December 31, 2014 using the income approach to determine fair value. Under this approach, the relief from royalty method was applied using a 3% long-term growth rate, a 3% royalty rate and a 12% discount rate. Our assessment of the NAMIC trademark indicated that the carrying value exceeded the fair value by \$6.4 million; therefore, the asset was impaired and a \$6.4 million impairment charge was taken during Q3 2015. This charge is included in Acquisition, restructuring and other items on our consolidated statement of profit (loss). We also re-evaluated the NAMIC trademark at February 28, 2015 and determined that it is no longer an indefinite-lived intangible. We have assigned it a remaining useful life of 12 years, consistent with customer relationships, and we will begin amortization in the fourth quarter of 2015.

Even though we determined that there was no goodwill impairment as of December 31, 2014, the future occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, a material negative change in relationships with significant customers, strategic decisions made in response to economic or competitive conditions, loss of key personnel or a more-likely-than-not expectation that the reporting unit or a significant portion of the reporting unit will be sold or disposed of, would require an interim assessment for the reporting unit prior to the next required annual assessment as of December 31, 2015.

It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material. Events that could, in the future, result in impairment include, but are not limited to, declining sales for a significant product or in a significant geographic region.

There were no adjustments to goodwill for the nine months ended February 28, 2015.

As of February 28, 2015 and May 31, 2014, intangible assets consisted of the following:

	February 28, 2015			
	Gross carrying value	Accumulated amortization	Net carrying value	Weighted avg useful life
	(in thousands)			(years)
Product technologies	\$ 148,776	\$(38,724)	\$ 110,052	10.2
Customer relationships	86,397	(41,770)	44,627	12.0
Trademark-NAMIC	22,200	—	22,200	12.0
Licenses	7,913	(5,709)	2,204	8.7
Trademarks	6,345	(2,481)	3,864	8.0
In-process R&D acquired	3,600	—	3,600	Indefinite
Distributor relationships	900	(900)	—	3.0
	\$276,131	\$(89,584)	\$ 186,547	

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	May 31, 2014			Weighted
	Gross	Accumulated	Net carrying	avg useful
	carrying	amortization	value	life
	value			(years)
	(in thousands)			
Product technologies	\$ 150,298	\$(32,930)	\$ 117,368	10.2
Customer relationships	86,645	(37,848)	48,797	11.9
Trademark-NAMIC	28,600	—	28,600	Indefinite
Licenses	7,639	(5,211)	2,428	8.4
Trademarks	6,345	(1,882)	4,463	8.0
In process R&D acquired	3,600	—	3,600	Indefinite
Distributor relationships	900	(900)	—	3.0
	\$ 284,027	\$(78,771)	\$ 205,256	

NOTE E – ACCRUED LIABILITIES

As of February 28, 2015 and May 31, 2014, accrued liabilities consisted of the following:

	Feb 28,	May 31,
	2015	2014
	(in thousands)	
Payroll and related expenses	\$ 10,535	\$ 8,114
Royalties	2,149	2,620
Accrued severance	472	765
Sales and franchise taxes	697	1,327
Interest rate swap liability	267	555
Accrued taxes payable	1,808	371
Other	4,018	3,499
	\$ 19,946	\$ 17,251

NOTE F – LONG TERM DEBT

On September 19, 2013, we entered into a Credit Agreement (the “Credit Agreement”) with the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Keybank National Association as co-syndication agents, and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Keybank National Association as joint bookrunners and joint lead arrangers.

The Credit Agreement provides for a \$100 million senior secured term loan facility (“Term Loan”) and a \$100 million senior secured revolving credit facility, which includes up to a \$20 million sublimit for letters of credit and a \$5 million sublimit for swingline loans (the “Revolving Facility”, and together with the Term Loan, the “Facilities”).

The proceeds of the Revolving Facility may be used for general corporate purposes of AngioDynamics and its subsidiaries. The Facilities have a five year maturity. The Term Loan has a quarterly repayment schedule equal to 5%, 5%, 10%, 15% and 65% of its principal amount in years one through five. Interest on both the Term Loan and Revolving Facility are based on a base rate or Eurodollar rate plus an applicable margin which increases as our total leverage ratio increases, with the base rate and Eurodollar rate having ranges of 0.50% to 1.25% and 1.5% to 2.25% respectively. After default, the interest rate may be increased by 2.0%. The Revolving Facility will also carry a commitment fee of 0.2% to 0.35% per annum on the unused portion.

Our obligations under the Facilities are unconditionally guaranteed, jointly and severally, by our material direct and indirect domestic subsidiaries (the “Guarantors”). All obligations of AngioDynamics and the Guarantors under the Facilities are secured by first priority security interests in substantially all of the assets of AngioDynamics and the Guarantors.

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We have entered into an interest rate swap agreement, (the “Swap Agreement”), with an initial notional amount of \$100 million, to limit the effect of rising of interest rates. The Swap Agreement, which qualified for hedge accounting under authoritative guidance, was a contract to exchange floating interest rate payments for fixed interest rate payments on the outstanding balance of the loan over the life of the agreement without the exchange of the underlying notional amounts. The Swap Agreement provides for a fixed rate of 0.74% above the applicable rate provided for in the Credit Agreement. The Swap matures during 2016.

On September 19, 2013, we borrowed \$100 million under the Term Facility and approximately \$41.4 million under the Revolving Facility to repay the Former Credit Agreement. As of February 28, 2015, \$92.5 million and \$56.4 million were outstanding under the Term Facility and Revolving Facility, respectively. The Credit Agreement includes customary representations, warranties and covenants, and acceleration, indemnity and events of default provisions, including, among other things, two financial covenants. The first financial covenant requires us to maintain, as of the end of each of our fiscal quarters, a ratio of consolidated adjusted EBITDA minus consolidated capital expenditures to consolidated interest expense paid or payable in cash plus scheduled principal payments in respect of indebtedness under the Credit Agreement of not less than 1.35 to 1.00. The second financial covenant requires us to maintain, as of the end of each of our fiscal quarters, a ratio of consolidated total indebtedness to consolidated adjusted EBITDA of not greater than 3.75 to 1.00. We were in compliance with both covenants as of February 28, 2015.

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NOTE G - INCOME TAXES

The following table presents the components of income tax expense(benefit) for the three and nine months ended February 28, 2015 and 2014 (in thousands of dollars):

	Three Months Ended		Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014	Feb 28, 2015	Feb 28, 2014
Income (loss) before Income Taxes	\$ (11,979)	\$ 4,543	\$ (7,732)	\$ 3,630
Less discrete book income (expense):				
Non taxable portion of revaluation of contingent consideration	9,229	5,000	9,229	5,000
Taxable portion of revaluation of contingent consideration	1,323	—	1,323	—
Morpheus product recall and discontinuance	(6,145)	—	(6,145)	—
Impairment of Automated Power Injector fixed asset	(8,200)	—	(8,200)	—
Impairment of indefinite-lived intangible asset	(6,400)	—	(6,400)	—
Ordinary income (loss) before income taxes	(1,786)	(457)	2,461	(1,370)
Income tax expense (benefit) based on ordinary income (loss) at estimated tax rates of 51.8% and 42.9% for the three and nine months ended February 28, 2015 and February 28, 2014, respectively	\$ (461)	\$ (233)	\$ 1,276	\$ (587)
Discrete tax expense (benefit):				
Morpheus product recall and discontinuance	(2,243)	—	(2,243)	—
Impairment of Automated Power Injector fixed asset	(2,993)	—	(2,993)	—
Taxable gain on revaluation of contingent consideration liability	483	—	483	—
Impairment of indefinite-lived intangible asset	(2,336)	—	(2,336)	—
Adjustment for elimination of the ASC 718 APIC pool	289	62	974	123
Retroactive renewal of the Research and Experimentation credit	(519)	—	(519)	—
Adjustment to fully reserved capital losses	—	43	—	43
Adjustments to prior period tax liabilities	63	156	80	170
Total income tax expense (benefit)	\$ (7,717)	\$ 28	\$ (5,278)	\$ (251)

The third quarter estimated effective tax rate prior to discrete items was 51.8% in 2015, as compared to 42.9% for the same period in 2014. The tax rates are greater than the 35% US statutory tax rate primarily due to the impact of non-deductible items (such as the non-deductible portion of meals and entertainment and non-deductible interest on contingent payments) caused by the limited ordinary income (loss) before income taxes in 2015 and 2014.

Our ASC 718 APIC pool was depleted in the quarter ended November 30, 2013. Prior to its depletion, the APIC pool was reduced when share-based compensation cost previously recognized by us was greater than the deduction allowed for income tax purposes based on the price of our common stock on the date of exercise or vesting. Due to its depletion we recorded a discrete tax expense in the three and nine months ended February 2015 and 2014, as noted in the above table.

During the fiscal third quarter of 2015, the Tax Increase Prevention Act of 2014 (H.R. 5771) was enacted and retroactively extended the research credit from January 1, 2014 to December 31, 2014. Accordingly, the retroactive benefit related to this renewal has been reflected in our third quarter results.

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We have recorded a net deferred tax asset in the US of \$19.1 million which includes the benefit of \$139 million of loss carryforwards recorded in business acquisitions, which expire as follows:

Expiration Date	NOL Available (in thousands)
FY 2017	\$ 802
FY 2019	11,898
FY 2020	8,128
FY 2022	7,526
FY 2023	2,346
FY 2027	20,167
FY 2028	22,527
FY 2029	27,684
FY 2030	28,043
FY 2031	5,647
FY 2032	600
FY 2033	3,389

The Company's analysis of the need for a valuation allowance considered that the Company has incurred a cumulative loss in the U.S. over the three year period ending February 28, 2015. A majority of the cumulative loss has been caused by the charges associated with the product recall and discontinuance and the impairment of fixed and intangible assets recorded in the quarter end February 28, 2015, as well as restructuring and integration expenses in the period since the acquisition of Navilyst Medical in May 2012. We anticipate a return to profitability in fiscal 2016. Consideration has also been given to our history of not having Federal tax loss carryforwards expire unused, as well as the period over which the net deferred tax assets can be realized, including the expiration of our loss carryforwards as presented in the table above and IRC Section 382 limitations.

Based on our assessment, it appears more likely than not that our U.S. net deferred tax asset will be realized through future taxable earnings, the reversal of existing taxable temporary differences, and tax planning strategies.

Accordingly no valuation allowance has been recorded on this net asset. We will continue to assess the need for a valuation allowance in the future.

If future results are less than projected in the U.S. and if tax planning alternatives do not offset those effects, a valuation allowance may be required to reduce the deferred tax asset, which could have a material impact on our results of operations in the period in which it is recorded. While the net deferred tax asset at February 28, 2015 is \$19.1 million, if the Company were required to record a valuation allowance it could be greater than this amount due to deferred tax liabilities related to intangibles that have an indefinite reversal period.

NOTE H - SHARE-BASED COMPENSATION

We have two stock-based compensation plans that provide for the issuance of up to approximately 5.8 million shares of common stock. The 2004 Stock and Incentive Award Plan (the "2004 Plan") provides for the grant of incentive options to our employees and for the grant of non-statutory stock options, restricted stock, stock appreciation rights, performance units, performance shares and other incentive awards to our employees, directors and other service providers. We also have an employee stock purchase plan.

For the quarters ended February 28, 2015 and 2014, share-based payment expense was \$1.5 million and \$1.6 million, respectively.

In the third quarter of fiscal year 2015 and 2014, the company granted stock options and restricted stock units under the 2004 Plan to certain employees and members of the Board of Directors. Stock option awards are valued using the Black-Scholes option-pricing model and then amortized on a straight-line basis over the requisite service period of the award. Restricted stock unit awards are valued based on the closing trading value of our shares on the date of grant

and then amortized on a straight-line basis over the requisite service period of the award.

In the first quarter of fiscal year 2015 and the second quarter of 2014, the company granted performance share awards under the 2004 Plan to certain employees. The awards may be earned by achieving relative performance levels over the three year requisite service period. The performance criteria are based on the total shareholder return ("TSR") of the company's

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common stock relative to the TSR of the common stock of a pre-defined industry peer-group. The fair value of these awards are based on the closing trading value of our shares on the date of grant and use a Monte Carlo simulation model.

As of February 28, 2015, there were \$12.1 million of unrecognized compensation expenses related to share-based payment arrangements. These costs are expected to be recognized over a weighted-average period of approximately four years. The company has sufficient shares to satisfy expected share-based payment arrangements.

NOTE I – EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. In addition, diluted earnings per share include the dilutive effect of potential common stock consisting of stock options, restricted stock units and performance stock units, provided that the inclusion of such securities is not antidilutive. In periods with a net loss, stock options and restricted stock units are not included in the computation of basic loss per share as the impact would be anti-dilutive.

The following table reconciles basic to diluted weighted-average shares outstanding for the three and nine months ended February 28, 2015 and 2014 (in thousands):

	Three Months Ended		Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014	Feb 28, 2015	Feb 28, 2014
Basic	35,755	35,184	35,568	35,088
Effect of dilutive securities	—	520	—	284
Diluted	35,755	35,704	35,568	35,372
Securities excluded as their inclusion would be anti-dilutive	362	677	674	2,306

NOTE J – SEGMENT AND GEOGRAPHIC INFORMATION

We consider our business to be a single operating segment entity engaged in the development, manufacture and sale on a global basis of medical devices for vascular access, peripheral vascular disease, oncology and surgery. Our chief operating decision maker (CEO) evaluates the various global product portfolios on a net sales basis. Executives reporting to the CEO include those responsible for commercial operations, manufacturing operations, regulatory and quality and certain corporate functions. The CEO evaluates profitability, investment and cash flow metrics on a consolidated worldwide basis due to shared infrastructure and resources.

The table below summarizes net sales by product category (in thousands of dollars):

	Three Months Ended		Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014	Feb 28, 2015	Feb 28, 2014
Net sales				
Peripheral Vascular	\$46,195	\$47,358	\$142,996	\$141,718
Vascular Access	26,400	27,259	80,793	78,113
Oncology/Surgery	13,066	11,968	39,062	35,692
Supply Agreement	936	1,565	3,226	4,842
Total	\$86,597	\$88,150	\$266,077	\$260,365

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The table below presents net sales by geographic area based on external customer location (in thousands of dollars):

	Three Months Ended		Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014	Feb 28, 2015	Feb 28, 2014
Net sales				
United States	\$68,410	\$69,814	\$208,848	\$206,466
International	17,251	16,771	54,003	49,057
Supply Agreement	936	1,565	3,226	4,842
Total	\$86,597	\$88,150	\$266,077	\$260,365

NOTE K – FAIR VALUE

Our financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable, interest rate swap agreement and contingent earn outs. The carrying amount of cash and cash equivalents, accounts receivable, marketable securities and accounts payable approximates fair value due to the immediate or short-term maturities. The interest rate swap agreement has been recorded at its fair value based on a valuation received from an independent third party. The contingent earn out has been recorded at fair value using the income approach.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This policy establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The policy describes three levels of inputs that may be used to measure fair value which are provided in the table below.

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include bank time deposits, money market funds, mutual funds and U.S. Treasury securities that are traded in an active exchange market.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include US government securities and corporate bonds. When quoted market prices are unobservable, we obtain pricing information from an independent pricing vendor. The pricing vendor uses various pricing models for each asset class that are consistent with what other market participants would use. The inputs and assumptions to the model of the pricing vendor are derived from market observable sources including: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market-related data. Since many fixed income securities do not trade on a daily basis, the methodology of the pricing vendor uses available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. The pricing vendor considers all available market observable inputs in determining the evaluation for a security. Thus, certain securities may not be priced using quoted prices, but rather determined from market observable information. These investments are included in Level 2 and primarily comprise our portfolio of corporate and government fixed income securities. Additionally included in Level 2 are interest rate swap agreements which are valued using a mid-market valuation model.

Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category currently includes the auction rate securities where independent pricing information was not able to be obtained and the contingent earn out. Our investments in auction-rate securities were classified as Level 3 as quoted prices were unavailable since these auction rate securities issued by New York state and local government authorities failed auction. Due to limited

market information, we utilized a discounted cash flow (“DCF”) model to derive an estimate of fair value for all periods presented. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, forward projections of the interest rate benchmarks, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with auction-rate securities. The contingent earn outs were valued utilizing a discounted cash flow method as detailed below.

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The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis as of February 28, 2015 and May 31, 2014 (in thousands of dollars):

	Fair Value Measurements using inputs considered as:			Fair Value at February 28, 2015
	Level 1	Level 2	Level 3	
Financial Assets				
Marketable securities				
U.S. government agency obligations	\$—	\$—	\$1,682	\$1,682
Total	—	—	1,682	1,682
Total Financial Assets	\$—	\$—	\$1,682	\$1,682
Financial Liabilities				
Interest rate swap agreements	\$—	\$267	\$—	\$267
Contingent liability for acquisition earn out	—	—	47,005	47,005
Total Financial Liabilities	\$—	\$267	\$47,005	\$47,272

	Fair Value Measurements using inputs considered as:			Fair Value at May 31, 2014
	Level 1	Level 2	Level 3	
Financial Assets				
Cash equivalents				
Money market funds	\$445	\$—	\$—	\$445
Total	\$445	\$—	\$—	\$445
Marketable securities				
U.S. government agency obligations	\$—	\$—	\$1,809	\$1,809
Total	—	—	1,809	1,809
Total Financial Assets	\$445	\$—	\$1,809	\$2,254
Financial Liabilities				
Interest rate swap agreements	\$—	\$555	\$—	\$555
Contingent liability for acquisition earn out	—	—	67,331	67,331
Total Financial Liabilities	\$—	\$555	\$67,331	\$67,886

There were no transfers in and out of Level 1, 2 and 3 measurements for the nine months ended February 28, 2015.

The table below presents the changes in fair value components of Level 3 instruments in the nine months ended February 28, 2015 (in thousands of dollars):

	Financial Assets Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Financial Liabilities Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance, May 31, 2014	\$1,809	\$67,331
Change in present value of contingent consideration (1)	—	(8,626)
Currency (gain) loss from remeasurement	—	(478)
Included in other comprehensive income	(127)	—)
Contingent consideration payments	—	(11,222)
Balance, February 28, 2015	\$1,682	\$47,005

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(1) Change in present value of contingent consideration is included in earning and comprised of changes in estimated earn out payments based on projections of company performance and the amortization of the present value discount. Contingent Liabilities for Acquisition Earn Outs

Certain of our business combinations involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones or various other performance conditions. Payment of the additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels or product development targets. Contingent consideration is recorded at the estimated fair value of the contingent payments on the acquisition date. The fair value of the contingent milestone consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within change in fair value of contingent consideration in the consolidated statements of income. We measure the initial liability and remeasure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements.

Contingent consideration liabilities fair value is determined using a discounted cash flow model applied to projected net sales, using probabilities of payment and projected payment dates. Projected net sales are based on our internal projections and extensive analysis of the target market and the sales potential. Increases or decreases in any valuation inputs in isolation may result in a significantly lower or higher fair value measurement in the future.

The recurring Level 3 fair value measurements of the contingent consideration liabilities include the following significant unobservable inputs as of February 28, 2015 (in thousands of dollars):

	Fair value at Feb 28, 2015	Valuation Technique	Unobservable Input	Range
Revenue based payments	\$44,383	Discounted cash flow	Discount rate	4%
			Probability of payment	75-100%
			Projected fiscal year of payment	2016 - 2022
Milestone based payments	2,622	Discounted cash flow	Discount rate	16%
			Probability of payment	75-100%
			Projected fiscal year of payment	2017
Total	\$47,005			

At February 28, 2015, the estimated potential amount of undiscounted future contingent consideration that we expect to pay as a result of all completed acquisitions is approximately \$54.2 million. The milestones associated with the contingent consideration must be reached in future periods ranging from fiscal years 2016 to 2022 in order for the associated consideration to be paid.

NOTE L – MARKETABLE SECURITIES

Marketable securities, which are principally government agency bonds, auction rate investments and corporate commercial paper, are classified as “available-for-sale securities” in accordance with authoritative guidance issued by FASB and are reported at fair value, with unrealized gains and losses excluded from operations and reported as accumulated other comprehensive income (loss), net of the related tax effects, in stockholders’ equity. Cost is determined using the specific identification method. We hold investments in auction rate securities in order to generate higher than typical money market rate investment returns. Auction rate securities 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. Sell orders for any security traded through an auction process could exceed bids and, in such cases, the auction fails and we may be unable to liquidate our position in the securities in the near term. As of February 28, 2015 and May 31, 2014, we had \$1.7 million and \$1.8 million, respectively, in investments in two auction rate securities issued by New York state and local government authorities that failed

auctions. The authorities are current in their interest payments on the securities.

As of February 28, 2015 and May 31, 2014, marketable securities consisted of the following (in thousands of dollars):

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As of February 28, 2015	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sales securities				
U.S. government agency obligations	\$1,825	\$—	\$(143)	\$ 1,682
	\$1,825	\$—	\$(143)	\$ 1,682
As of May 31, 2014	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sales securities				
U.S. government agency obligations	\$1,825	\$—	\$(16)	\$ 1,809
	\$1,825	\$—	\$(16)	\$ 1,809

NOTE M – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved in various legal proceedings, including commercial, intellectual property, product liability, regulatory and environmental matters of a nature considered normal for its business. The Company accrues for amounts related to these matters if it is probable that a liability has been incurred, and an amount can be reasonably estimated. The Company discloses such matters when there is at least a reasonable possibility that a material loss may have been incurred. However, the Company cannot predict the outcome of any litigation or the potential for future litigation.

AngioDynamics v. biolitec

On January 2, 2008, we commenced an action in the United States District Court for the Northern District of New York entitled *AngioDynamics, Inc. v. biolitec, Inc.* In this action, we sought judgment against biolitec for defense and indemnification in two lawsuits which we previously settled. Our claims arise out of a Supply and Distribution Agreement (“SDA”) entered into with biolitec on April 1, 2002. On September 27, 2011, the U.S. District Court granted key portions of our motion for summary judgment in our legal case against biolitec. The Court also dismissed biolitec’s counterclaims against us. The court denied one portion of our summary judgment motion, which sought to recover additional costs from biolitec, leaving this for adjudication at trial. On November 8, 2012, the Court granted partial judgment to us in the amount of \$23.2 million. Biolitec appealed this judgment. On August 23, 2013, the U.S. Court of Appeals for the Second Circuit dismissed biolitec’s appeal.

In October 2009, we commenced an action in the United States District Court for the District of Massachusetts entitled *AngioDynamics, Inc. v. biolitec AG and Wolfgang Neuberger*. The Complaint in this action was amended in March 2010. This action seeks to recover against biolitec, Inc.’s parent entities and CEO for tortiously interfering with biolitec, Inc.’s contractual obligation to defend and indemnify us, and also seeks to pierce the corporate veil of biolitec, Inc. and to invalidate certain alleged fraudulent transfers in order to hold biolitec, Inc.’s parent entities jointly and severally liable for the alleged breach of the SDA. On September 13, 2012, the Massachusetts Court granted our request for a preliminary injunction prohibiting the downstream merger of biolitec AG with its Austrian subsidiary. On April 1, 2013, the U.S. Court of Appeals for the First Circuit affirmed the preliminary injunction. On January 14, 2014, the District Court entered judgment in our favor as to liability. On March 18, 2014, the District Court entered judgment in our favor against Biolitec AG, Biomed Technology Holdings, Ltd., and Wolfgang Neuberger, jointly and severally, in the amount of \$74.9 million. The defendants have appealed this judgment.

August 29, 2013, we became co-plaintiffs in an adversary proceeding in the United States Bankruptcy Court for the District of New Jersey entitled *Cyganowski, Trustee, et al. v. Biolitec U.S., Inc., et al.* In this action, we assert claims of conversion, unjust enrichment, tortious interference, and unfair competition against various biolitec entities for alleged violation of Bankruptcy Court settlement and sale orders under which we acquired certain assets of Biolitec,

Inc. On September 3, 2013, we, along with our co-plaintiff, obtained a temporary restraining order against the defendants in this action. On January 22, 2015, the Bankruptcy Court entered a permanent injunction on our behalf for an additional two years.

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C.R. Bard, Inc. v. AngioDynamics, Inc.

On January 11, 2012, C.R. Bard, Inc. filed a suit in the United States District Court of Utah claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the "Utah Action"). Bard is seeking unspecified damages and other relief. The Court denied Bard's motion for pre-trial consolidation with separate actions it filed on the same day against Medical Components, Inc. and Smiths Medical ASD, Inc., but had asked for supplemental briefing on the issue of whether to conduct a common Markman hearing. Meanwhile, we filed petitions for reexamination in the US Patent and Trademark Office ("PTO") which seek to invalidate all three patents asserted in the litigation. Our petitions have been granted and 40 of 41 patent claims have been and remain rejected. The Patent Office has issued a Final Rejection of all the claims subject to reexamination and Bard has filed appeals. The parties have completed briefing on the appeals and are awaiting further direction by the Board of Appeals and Interferences. The case has been stayed pending final resolution of the PTO process. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

On March 10, 2015, C.R. Bard, Inc. and Bard Peripheral Vascular, Inc. filed suit in the United States District Court for the District of Delaware claiming certain of our implantable port products infringe three Bard patents (the "Delaware Action"). Bard is seeking unspecified damages and other relief; and the patents asserted in the Delaware Action are different than those asserted in the Utah Action.

By stipulation, we have until June 1, 2015 to answer, move or otherwise respond to the complaint in the Delaware Action. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

BTG International, Inc.

We received a subpoena from the U.S. Department of Justice (the "DOJ") requesting documents in relation to a purported criminal investigation the DOJ is conducting regarding BTG International, Inc.'s LC Bead® product beginning in 2003. RITA Medical Systems and AngioDynamics, Inc., after its acquisition of RITA, was the exclusive distributor of LC Beads in the United States from 2006 through December 31, 2011. We are cooperating fully with this investigation and at this time are unable to predict its scope, duration or outcome.

EndoVention v. AngioDynamics

On November 21, 2014, EndoVention, Inc. filed a complaint in the United States District Court for the Northern District of California, alleging that our AngioVac products infringe two of EndoVention's patents. On February 4, 2015, the matter was settled and on March 3, 2015, the case was dismissed with prejudice. The terms of the confidential settlement did not have a material adverse effect on our financial position or results of operations.

Regulatory Matter

On November 5, 2014, the Company received a Warning Letter from the FDA relating to observations noted during FDA's inspection of the Company's Navilyst Medical facilities located in Marlborough, Massachusetts and Glens Falls, New York in 2014. The matters raised in the Warning Letter and observations focused on design control processes related to packaging validations and accelerated and real time aging testing in connection with the Company's fluid management and PICC families of products, inconsistency of a manufacturing product test process used among similar valved PICC products, a particular verification test of valved PICC products and non-conforming product control procedures. The Company takes these matters seriously and is committed to complying with all applicable laws, regulations and rules in connection with the manufacturing, sale and marketing of its products. The Company has made a comprehensive response to the issues raised in the letter and is committed to working with the FDA to resolve all outstanding issues. The Company does not expect this matter will have a material adverse effect on its

financial position or results of operations.

NOTE N – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB and the International Accounting Standards Board (“IASB”) issued their final standard on revenue from contracts with customers. The standard, issued as an ASU by the FASB and as International Financial Reporting

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Standards 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for the Company in its first quarter beginning January 1, 2017 and is not expected to have a material impact on the Company's consolidated financial statements. In June 2014, the FASB issued an ASU that clarified that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target is met. This ASU is effective for the Company in its first quarter beginning January 1, 2016 and is not expected to have a material impact on the Company's consolidated financial statements.

NOTE O – RESTRUCTURING

During the three and nine months ended February 28, 2015 we initiated a restructuring of finance, R&D and S&M organizations to improve our profitability. As part of the restructuring, we recorded \$(0.1) million and \$1.1 million of severance expense, respectively, which is included in "Acquisition, restructuring and other items, net" in the statements of income.

NOTE P – IMMATERIAL ERROR CORRECTIONS

During the financial closing process for the first quarter of fiscal year 2015, the Company determined that financial management had incorrectly accounted for certain asset, liability and income statement balances, beginning in 2011. The Company has identified amounts and concluded that they were not material individually or in the aggregate to any of its previously issued annual and interim financial statements. Although management has determined the amounts individually and in the aggregate are not material to prior periods, in accordance with authoritative accounting literature on considering the effects of misstatements in prior years when quantifying misstatements in the current year, the financial statements included herein have been adjusted to correct for the impact of these items.

The Company has corrected the relevant financial information from previous reporting periods contained in these financial statements. The immaterial error corrections identified were primarily related to our failure to recognize the expense associated with prepaid and other assets in accordance with the underlying contractual terms (cumulative impact of approximately \$1.2 million) and depreciation expense (cumulative impact of approximately \$0.4 million), and other individually immaterial items. Also, approximately \$5.4 million of contingent consideration liabilities that had been classified as current are classified as long term in the balance sheet.

The impacts of these revisions are shown in the tables below:

	Three months ended February 28, 2014			
	As previously reported	Adjustments	As revised	
Net sales	\$88,195	\$(45	) \$88,150
Cost of sales	43,277	80	43,357	
Gross profit	44,918	(125	) 44,793
Total operating expenses	38,066	214	38,280	
Operating income	6,852	(339	) 6,513
Total other income (expense)	(1,985) 15	(1,970)
Income (loss) before taxes	4,867	(324) 4,543	

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Income tax benefit (expense)	(176) 148	(28)
Net income (loss)	4,691	(176) 4,515	
Total comprehensive income (loss), net of tax	4,869	(176) 4,693	

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	Nine months ended February 28, 2014		
	As previously reported	Adjustments	As revised
Net sales	\$260,390	\$(25)	) \$260,365
Cost of sales	128,060	47	128,107
Gross profit	132,330	(72)	) 132,258
Total operating expenses	122,617	285	122,902
Operating income	9,713	(357)	) 9,356
Total other income (expense)	(5,579)	) (147)	) (5,726)
Income (loss) before taxes	4,134	(504)	) 3,630
Income tax benefit (expense)	32	219	251
Net income (loss)	4,166	(285)	) 3,881
Total comprehensive income (loss), net of tax	4,356	(285)	) 4,071

During the quarter ended February 28, 2015, the Company recorded aggregate out of period corrections of \$0.4 million, net of tax, which negatively impacted net income (loss) in the period. These corrections were primarily associated with research and development expense that should have been recorded in the first half of fiscal 2015. The Company has determined that these adjustments were not material to any prior annual or interim periods.

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 sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding AngioDynamics' expected future financial position, results of operations, cash flows, business strategy, budgets, projected costs, capital expenditures, products, competitive positions, growth opportunities, plans and objectives of management for future operations, as well as statements that include the words such as "expects," "reaffirms," "intends," "anticipates," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions, are forward-looking statements. These forward looking statements are not guarantees of future performance and are subject to risks and uncertainties. Investors are cautioned that actual events or results may differ from our expectations. Factors that may affect our actual results achieved include, without limitation, our ability to develop existing and new products, future actions by FDA or other regulatory agencies, results of pending or future clinical trials, the results of ongoing litigation, overall economic conditions, general market conditions, market acceptance, foreign currency exchange rate fluctuations, the effects on pricing from group purchasing organizations and competition, as well as our ability to integrate purchased businesses. Other risks and uncertainties include, but are not limited to, the factors described from time to time in our reports filed with the SEC, including our Form 10-K/A for the fiscal year ended May 31, 2014.

Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this quarterly report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. 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. AngioDynamics 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.

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Overview

We design, manufacture and sell a wide range of medical, surgical and diagnostic devices used by professional healthcare providers for vascular access, for the treatment of peripheral vascular disease and for use in oncology and surgical settings. Our devices are generally used in minimally invasive, image-guided procedures. Most of our products are intended to be used once and then discarded, or they may be temporarily implanted for short- or long-term use.

Our sales and profitability growth depends, in part, on the introduction of new and innovative products, together with ongoing enhancements to our existing products. Expansions to our product offerings are created through internal product development, technology licensing and strategic alliances. In recent years we have acquired or developed, and launched several new products, including the AngioVac cannula and circuit, the BioFlo family of products, and the Acculis microwave system, which are all expected to be growth drivers of our business. We recognize the importance of, and intend to continue to make investments in, research and development activities and business development opportunities.

We sell our products in the United States through a direct sales force and outside the U.S. through a combination of direct sales and distributor relationships. We expect our international business to grow in both sales and profit through geographic expansion, market penetration, and increasing our direct presence.

Our ability to further increase our profitability will depend in part on improving gross profit and operating margins. A portion of improved gross margin we expect to deliver through the acquisition, development and sale of innovative products, such as those mentioned above. Additionally, we have an active a company-wide operational excellence program designed to create greater manufacturing efficiencies and drive improved business performance. Further, we anticipate being able to manage increases in our operating expenses at a rate slower than our sales growth to provide further operating margin expansion.

Recent Events

Morpheus PICC recall and product line discontinuance - during the quarter ended February 28, 2015 we made a decision to voluntarily recall our Morpheus PICC product line and concurrently discontinue the product. The recall decision was made following an internal evaluation commenced as a result of communications from two international regulatory bodies which noted product complaints. Based on the evaluation performed and the lack of clear root cause, we determined the best course of action was to recall the product. Further, consistent with our strategy to transition toward our transformational BioFlo product offerings, we decided to discontinue the Morpheus line. The result was \$6.1 million in charges during the quarter, including \$0.2 million of sales returns allowances included in "Net sales", \$5.0 million of inventory write-offs included in "Cost of sales", as well as \$0.9 million of costs associated with product returns, storage costs and other expenses which are included in "Acquisition, Restructuring and Other Items, net".

Automated Power Injector - over the last several years we have invested in the development of a new technology which was intended to create a transformational shift in our fluid management product line. As a result of recent concerns related to an extended and difficult path to regulatory approval for the differentiating technology, we evaluated the long-term opportunity, as well as the expected risk and costs associated with bringing this technology to market. Based on that evaluation, in the quarter ended February 28, 2015 we made a decision to shift away from this technology toward other strategies and opportunities within the fluid management market. As a result we no longer expect cash flows to be generated by certain fixed assets and recorded a full impairment charge of \$8.2 million in the quarter. In addition, the sales projected on this product were a significant portion of the long-term sales projections under the NAMIC brand. The NAMIC trademark was acquired in the Navilyst Medical acquisition and was accounted for as an indefinite lived intangible asset with a value of \$28.6 million at that time. Primarily as a result of the reduction in expected NAMIC product sales driven by the discontinuance of this project, we recorded an impairment charge of \$6.4 in the quarter.

EmboMedics, Inc. - on March 2, 2015, the Company filed an 8-K stating that it executed a non-binding letter of intent to enter into a strategic relationship with privately-held EmboMedics Inc., which develops injectable and resorbable embolic microspheres. On April 9, 2015 the Company entered into a License, Distribution, Manufacturing and Purchase Option Agreement with EmboMedics Inc, subject to certain approvals by EmboMedics shareholders.

Under the terms of the agreement, AngioDynamics receives an exclusive worldwide license to market and sell, upon regulatory clearances, EmboMedics' microsphere technology. AngioDynamics will also control manufacturing of the products. AngioDynamics will make an initial \$2.0 million equity investment in EmboMedics through the purchase of preferred stock. The Company may make an additional \$9.0 million in equity, as well as milestone driven investments, and can execute an exclusive option to acquire EmboMedics, based on the achievement of certain milestones.

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Immaterial Error Corrections

During the financial closing process for the first quarter of fiscal year 2015, the Company determined that financial management had incorrectly accounted for certain asset, liability and income statement balances, beginning in 2011. The Company has identified amounts and concluded that they were not material individually or in the aggregate to any of its previously issued annual and interim financial statements. Although management has determined the amounts individually and in the aggregate are not material to prior periods, in accordance with authoritative accounting literature on considering the effects of misstatements in prior years when quantifying misstatements in the current year, the financial statements included herein have been adjusted to correct for the impact of these items. The Company has corrected the relevant financial information from previous reporting periods contained in these financial statements.

New Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note N to our consolidated financial statements in this Quarterly Report on Form 10-Q.

Results of Operations for the Three and Nine Months ended February 28, 2015 and February 28, 2014

For the three months ended February 28, 2015, we reported a net loss of \$4.3 million, or \$(0.12) per diluted share, on net sales of \$86.6 million, compared with a net income of \$4.5 million, or \$0.13 per share, on net sales of \$88.2 million during the same quarter of the prior year.

Net Sales

Net sales - Net sales are derived from the sale of our products and related freight charges, less discounts and returns.

Net sales for the three months ended February 28, 2015 and 2014:

	Three months ended			Currency Impact (Pos) Neg	Constant Currency Growth
	Feb 28, 2015	Feb 28, 2014	% Growth		
Net Sales by Product Category					
Peripheral Vascular	\$46,195	\$47,358	-2%		
Vascular Access	26,400	27,259	-3%		
Oncology/Surgery	13,066	11,968	9%		
Total Excluding Supply Agreement	85,661	86,585	-1%	1%	0%
Supply Agreement	936	1,565	-40%	0%	-40%
Total	\$86,597	\$88,150	-2%	1%	-1%
Net Sales by Geography					
United States	\$68,410	\$69,814	-2%	0%	-2%
International	17,251	16,771	3%	5%	8%
Supply Agreement	936	1,565	-40%	0%	-40%
Total	\$86,597	\$88,150	-2%	1%	-1%

For the three months ended February 28, 2015, net sales decreased \$1.6 million to \$86.6 million compared to the same period in the prior year. As shown in the table above, while consolidated net sales declined by 2%, excluding the planned reduction in sales under our supply agreement and a negative impact from fluctuations in currency exchange rates, our sales were flat year over year.

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From a product line perspective, Peripheral Vascular sales decreased \$1.2 million primarily attributable to the modest decline in our venous business combined with the impact of currency rates noted above. Vascular Access sales decreased \$0.9 million due to reductions in our PICC sales, which was unfavorably impacted by the Morpheus voluntary recall and product discontinuance. Oncology/Surgery sales increased \$1.1 million primarily due to the performance of our microwave and NanoKnife products.

From a geographic perspective, U.S. sales decreased \$1.4 million due to a modest decline in our venous line and the negative impact of the Morpheus product recall and discontinuance, partially offset by NanoKnife sales growth. International sales increased 8% on a constant-currency basis, attributable to increased sales of total ablation product lines, including both Radio Frequency and Microwave products. Our supply agreement arrangement, which we do not include in either the U.S. or International geographic sales, declined \$0.6 million as we continue to wind down that relationship.

Changes in sales were significantly impacted by unfavorable movement in currency exchange rates, particularly the euro, pound, and Canadian dollar, with the remainder of the change as compared to the prior year period driven by volume.

Net sales for the nine months ended February 28, 2015 and 2014

	Nine months ended			Currency Impact (Pos) Neg	Constant Currency Growth
	Feb 28, 2015	Feb 28, 2014	% Growth		
Net Sales by Product Category					
Peripheral Vascular	\$142,996	\$141,718	1%		
Vascular Access	80,793	78,113	3%		
Oncology/Surgery	39,062	35,692	9%		
Total Excluding Supply Agreement	262,851	255,523	3%	0%	3%
Supply Agreement	3,226	4,842	-33%	0%	-33%
Total	\$266,077	\$260,365	2%	1%	3%
Net Sales by Geography					
United States	\$208,848	\$206,466	1%	0%	1%
International	54,003	49,057	10%	3%	13%
Supply Agreement	3,226	4,842	-33%	0%	-33%
Total	\$266,077	\$260,365	2%	1%	3%

For the nine months ended February 28, 2015, net sales increased \$5.7 million to \$266.1 million compared to the same period in the prior year. This represents 2% growth, or on a constant-currency basis 3% growth year-over-year.

From a product line perspective, Peripheral Vascular sales increased \$1.3 million primarily attributable growth in AngioVac and Fluid Management sales. Vascular Access sales increased \$2.7 million primarily due to the Port product line and growing adoption of our BioFlo technology across all Vascular Access products. Oncology/Surgery sales increased \$3.4 million primarily due to the performance of our NanoKnife and microwave products.

From a geographic perspective, U.S. sales increased \$2.4 million primarily due to the growth in our AngioVac and port products. International sales increased 13% on a constant-currency basis, attributable to increased sales of Oncology/Surgery and Fluid Management product lines. Our supply agreement arrangement, which we do not include in either the U.S. or International geographic sales, declined \$1.6 million as we continue to wind down that relationship.

Changes in sales were significantly impacted by unfavorable movement in currency exchange rates, particularly the euro, pound, and Canadian dollar, with the remainder of the change as compared to the prior year period driven by volume.

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Gross Profit, Operating expenses, and Other income (expense)

	Three months ended			Nine months ended		
	Feb 28, 2015	Feb 28, 2014	% Change	Feb 28, 2015	Feb 28, 2014	% Change
Gross profit	\$37.9	\$44.8	-15.4 %	\$131.3	\$132.3	-0.8 %
Gross profit % of sales	43.7 %	50.8 %		49.4 %	50.8 %	
Research and development	\$6.9	\$7.0	-1.4 %	\$19.6	\$20.8	-5.8 %
% of sales	7.9 %	8.0 %		7.4 %	8.0 %	
Selling and marketing	\$19.4	\$20.7	-6.3 %	\$60.4	\$61.7	-2.1 %
% of sales	22.4 %	23.5 %		22.7 %	23.7 %	
General and administrative	\$6.9	\$6.4	7.8 %	\$22.2	\$19.5	13.8 %
% of sales	8.0 %	7.3 %		8.3 %	7.5 %	
Medical device excise tax	\$1.0	\$1.0	0.0 %	\$3.1	\$3.0	3.3 %
% of sales	1.2 %	1.1 %		1.2 %	1.1 %	

Gross profit - Gross profit consists of net sales less the cost of goods sold, which includes the costs of materials, products purchased from third parties and sold by us, manufacturing personnel, royalties, freight, business insurance, depreciation of property and equipment and other manufacturing overhead. The decrease for the three and nine months is largely attributable to \$5.0 million of expenses associated with Morpheus PICC inventory on hand at the time of the recall and product discontinuance. Further decreases were the result of currency exchange fluctuations which negatively impacted our sales with minimal reduction to our cost of sales. These headwinds were partially offset by product cost reductions generated by our active Operational Excellence program and favorable shifts in product mix. Additionally, for the nine month period the headwinds were further offset by sales growth in the first six months of the fiscal year.

Research and development expenses - Research and development (“R&D”) expenses include internal and external costs to develop new products, enhance existing products, validate new and enhanced products, manage clinical, regulatory and medical affairs and our intellectual property. The decrease in R&D costs for the three and nine month periods relates to savings generated by restructuring activities in fiscal 2015, offset by increased project spend.

Sales and marketing expenses - Sales and marketing (“S&M”) expenses consist primarily of salaries, commissions, travel and related business expenses, attendance at medical society meetings, product promotions and marketing activities. Decreases in S&M expense for the three and nine months is the result of a reorganization of our international sales organization, combined with the impact of attrition in our US sales force.

General and administrative expenses - General and administrative (“G&A”) expenses include executive management, finance, information technology, human resources, business development, legal, and the administrative and professional costs associated with those activities. Increases in G&A expenses for the three and nine months are primarily the result of higher depreciation expense particularly as a result of the ERP implementation in the prior year and increased stock-based compensation costs from annual grants issued in the first quarter of fiscal 2015.

Medical device excise tax - Medical devices excise tax is assess on our US product sales subject to exclusions and adjustments. The increase for the three and nine months is attributable to the mix of taxable products within the US market.

	Three months ended			Nine months ended		
	Feb 28, 2015	Feb 28, 2014	\$ Change	Feb 28, 2015	Feb 28, 2014	\$ Change
Amortization of intangibles	\$5.1	\$4.2	\$0.9	\$13.2	\$12.7	\$0.5
Change in fair value of contingent consideration	\$(10.0)	\$(4.2)	\$(5.8)	\$(8.6)	\$(2.5)	\$(6.1)
Acquisition, restructuring and other items, net	\$18.8	\$3.0	\$15.8	\$23.7	\$7.7	\$16.0
Other expense	\$(1.8)	\$(2.0)	\$0.2	\$(5.4)	\$(5.7)	\$0.3

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Amortization of intangibles - Amortization of intangibles for the three and nine months ended increased primarily as a result of expense on intangible assets associated with our AngioVac technology.

Change in fair value of contingent consideration - represents changes in contingent consideration driven by changes to estimated future payments on earn-out liabilities created through acquisitions and amortization of present value discounts on long-term contingent consideration. The three and nine month periods ended February 28, 2015 included \$10.2 million in gains recognized as a result of reducing the estimated present value of future payments due on earn-outs as compared to \$5.0 million in the fiscal 2014 comparative periods. These gains were partially offset in each period by amortization of the discount based on the present value of the liabilities.

Acquisition, restructuring and other items, net - Expense for the three and nine months ended February 28, 2015 consists of \$9.2 million of fixed and long-term asset impairments, \$6.4 million of impairment on the NAMIC trademark, and other costs associated with the recall of Morpheus, our operational excellence program, litigation expense, and other miscellaneous items. The impairment charges were primarily driven by a change in strategy within our fluid management product development pipeline, as we moved away from our planned design of an Automated Power Injector.

Other expenses - Other expenses include interest expense, credit card processing fees, foreign currency impacts, bank fees, amortization of deferred financing costs. Expenses were consistent year over year in composition.

	Three months ended		Nine months ended	
	Feb 28,	Feb 28,	Feb 28,	Feb 28, 2014
	2015	2014	2015	
Income tax expense (benefit)	\$(7.7)	\$—	\$(5.3)	\$(0.3)
Effective tax rate including discrete items	64.4 %	0.6 %	68.3 %	6.9 %

Income taxes - Our effective tax rate including discrete items for the three and nine month periods ended February 28, 2015 was a 64.4% benefit and a 68.3% benefit, respectively; compared with a 0.6% expense and 6.9% benefit respectively, for the prior year period. The current year benefit reflects the benefit of the \$9.2 million nontaxable adjustment to the contingent liabilities related to Vortex Medical and Clinical Devices, and a benefit from the R&D tax credit legislation that had previously expired on December 31, 2013 and was retroactively extended to December 31, 2014 during the quarter, offset by non-deductible interest expense related to contingent payments and true-ups of our fiscal year 2014 US income tax returns. The prior period reflects the benefit of a \$5.0 million nontaxable adjustment to the contingent liability related to Vortex Medical, Inc., and only a seven month benefit from the R&D tax credit that expired on December 31, 2013, offset by non-deductible interest expense related to contingent payments and true-ups of our fiscal year 2013 US income tax returns.

In addition, our ASC 718 APIC pool became fully depleted in the quarter ended November 30, 2013. Prior to its depletion, the APIC pool was reduced when share-based compensation cost previously recognized was greater than the deduction allowed for income tax purposes based on the price of our common stock on the date of exercise or vesting. Due to its depletion, we recorded a discrete tax expense of \$289 thousand and \$974 thousand in the three and nine months ended February 28, 2015 respectively, compared to \$62 thousand and \$123 thousand in the three and nine months ended February 28, 2014.

Liquidity and Capital Resources

Our cash and cash equivalents totaled \$19.7 million as of February 28, 2015, compared with \$16.1 million as of May 31, 2014. Marketable securities totaled \$1.7 million and \$1.8 million as of February 28, 2015 and May 31, 2014, respectively, and consist of auction rate securities. As of February 28, 2015, total debt was \$148.9 million primarily comprised of short and long-term bank debt. The fair value of contingent milestone payments as of February 28, 2015 was \$47.0 million.

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The table below summarizes our cash flows for the nine months ended February 28, 2015 and 2014 (in thousands of dollars):

	Nine Months Ended	
	Feb 28, 2015	Feb 28, 2014
Cash provided by (used in):		
Operating activities	\$ 15,436	\$ 15,174
Investing activities	(12,042)	(13,024)
Financing activities	641	(16,656)
Effect of exchange rate changes on cash and cash equivalents	(436)	86
Net change in cash and cash equivalents	\$ 3,599	\$ (14,420)

Cash provided by operating activities during the nine months ended February 28, 2015 and 2014, was primarily the result of net income excluding non-cash items offset by unfavorable shifts in working capital. In the current year period, favorable working capital change in accounts receivable were partially offset by increases in inventories and other assets and reductions in payables and accrued expenses.

The net cash used in investing activities for the current year period consisted of \$11.0 million in fixed asset additions, a large portion of which is associated with facility investments, and \$1.0 million in intangible asset additions. The prior year use of cash consisted primarily of \$9.0 million of fixed asset additions, particularly the ERP implementation, and \$4.2 million as part of the Clinical Devices acquisition.

The net cash provided by financing activities is the result of a \$6.3 million net increase in long-term debt used to fund contingent earn-out payments and working capital needs and \$5.6 million of proceeds from stock option and ESPP activity, almost completely offset by \$11.2 million in payments on earn-out liabilities.

Our contractual obligations and their effect on liquidity and cash flows have not changed substantially from that disclosed in our Annual Report on Form 10-K/A for our fiscal year ended May 31, 2014.

We believe that our current cash and investment balances, together with cash generated from operations and our remaining revolving credit facility capacity of \$43.6 million as of February 28, 2015, will provide sufficient liquidity to meet our anticipated needs for capital for at least the next 12 months. If we seek to make significant acquisitions of other businesses or technologies in the future for cash, we may require external financing.

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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, the current swap contract matures on May 31, 2016, prior to the September 19, 2018 maturity date of our credit facility. If we do not enter into a new swap contract prior to the maturity of the existing swap, we would be exposed to fluctuations in interest rates.

The majority of our sales have historically been denominated in United States dollars. We do transact sales in other currencies, particularly the Euro, British pound and Canadian dollar. These currencies have significantly weakened relative to the U.S. Dollar in the last year, and in particularly the most recent quarter. As our international business continues to grow as a percentage of our consolidated revenue and we increase our direct presence in international markets, our exposure to currency fluctuations will increase.

Our excess cash is invested in highly liquid, short-term, investment grade securities with maturities primarily of less than two years. 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. We hold investments in auction rate securities (“ARS”) in order to generate higher than typical money market investment income. ARS typically are high credit quality, generally achieved with municipal bond insurance and credit risk is eased by the historical track record of bond insurers, which back a majority of this market.

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Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based solely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) promulgated under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our Company's Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of our disclosure controls and procedures as of August 31, 2014. At the time our Annual Report on Form 10-K/A for the year ended May 31, 2014 was filed on August 14, 2014, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of May 31, 2014.

Subsequent to that evaluation, in assessing the control deficiencies that contributed to the immaterial error corrections described in Note A and Note P which were identified during our financial close process for the period ended August 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of May 31, 2014 and February 28, 2015 because of the material weaknesses in our internal control over financial reporting described below.

A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

We did not maintain effective controls over the preparation, review and approval of certain account reconciliations. Specifically, the Company did not maintain effective controls over the completeness and analysis of supporting schedules and underlying data supporting account reconciliations prepared for certain prepaid expenses and other assets and fixed assets and accumulated depreciation.

We lacked a sufficient complement of personnel with a level of financial reporting expertise commensurate with our financial reporting requirements, specifically, with respect to resources capable of: monitoring and accurately recording certain routine transactions specifically in prepaid expenses and other assets, fixed assets and accumulated depreciation; evaluating the presentation and disclosure of contingent consideration liabilities and intangible assets; effectively performing testing related to our enterprise resource planning ("ERP") implementation specifically associated with the configuration of certain intercompany transactions and the conversion of data related to depreciation; and properly performing account reconciliations as noted above.

These material weaknesses resulted in the revision to our previously reported interim and annual financial statements for the fiscal year ended May 31, 2014 and for the fiscal years ended May 31, 2013, 2012, and 2011, as described in Note P of this Quarterly Report. Accordingly, the Company amended its Annual Report on Form 10-K for the year ended May 31, 2014 to reflect the conclusion by the Company's management that internal control over financial reporting and disclosure controls and procedures were not effective as of May 31, 2014.

These material weaknesses could result in misstatements that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected.

In response to these material weaknesses, our management performed additional analysis and procedures, including enhanced business performance reviews and analysis, in order to conclude that despite the material weaknesses reported above, the consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in

light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

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Remediation Plan

During the quarter ended August 31, 2014, we developed a plan to enhance our internal controls over financial reporting, which we believe also will address the material weaknesses discussed above, including the specific remediation initiatives described below:

- Enhancing our internal finance and accounting organizational structure, which includes changes to personnel in place as of May 31, 2014 and hiring additional resources.
- Strengthening our internal policies and processes, including training for personnel, for ensuring account reconciliations are completed and reviewed properly.
- Continued investments in our ERP to improve the transactional accounting and processes supporting the recording of certain routine transactions.

As part of this plan, the following steps were taken during our first nine months of our fiscal year ended May 31, 2015:

- Hired additional full-time and temporary accounting resources with appropriate levels of experience, including a new Global Controller, Assistant Controller and Senior Accounting Manager to drive improvement of and oversee day-to-day accounting activities.
- Implemented an account reconciliation policy and monitoring program.
- Added financial planning and analysis resources to strengthen to overall internal control environment.
- Reallocated responsibilities across accounting organization to ensure the appropriate level of knowledge and experience is applied based on risk and complexity.
- Commenced a detailed review of our ERP to identify opportunities to improve the accuracy of routine transaction processing, specifically with respect to accounting transactions related to purchasing and payables.

Changes in Internal Control over Financial Reporting

Other than items described above related to steps taken under our remediation plan during the quarter, there was no change in our internal control over financial reporting in the nine months ended February 28, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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AngioDynamics, Inc. and Subsidiaries

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

AngioDynamics v. biolitec

On January 2, 2008, we commenced an action in the United States District Court for the Northern District of New York entitled *AngioDynamics, Inc. v. biolitec, Inc.* In this action, we sought judgment against biolitec for defense and indemnification in two lawsuits which we previously settled. Our claims arise out of a Supply and Distribution Agreement (“SDA”) entered into with biolitec on April 1, 2002. On September 27, 2011, the U.S. District Court granted key portions of our motion for summary judgment in our legal case against biolitec. The Court also dismissed biolitec’s counterclaims against us. The court denied one portion of our summary judgment motion, which sought to recover additional costs from biolitec, leaving this for adjudication at trial. On November 8, 2012, the Court granted partial judgment to us in the amount of \$23.2 million. Biolitec appealed this judgment. On August 23, 2013, the U.S. Court of Appeals for the Second Circuit dismissed biolitec’s appeal.

In October 2009, we commenced an action in the United States District Court for the District of Massachusetts entitled *AngioDynamics, Inc. v. biolitec AG and Wolfgang Neuberger*. The Complaint in this action was amended in March 2010. This action seeks to recover against biolitec, Inc.’s parent entities and CEO for tortiously interfering with biolitec, Inc.’s contractual obligation to defend and indemnify us, and also seeks to pierce the corporate veil of biolitec, Inc. and to invalidate certain alleged fraudulent transfers in order to hold biolitec, Inc.’s parent entities jointly and severally liable for the alleged breach of the SDA. On September 13, 2012, the Massachusetts Court granted our request for a preliminary injunction prohibiting the downstream merger of biolitec AG with its Austrian subsidiary. On April 1, 2013, the U.S. Court of Appeals for the First Circuit affirmed the preliminary injunction. On January 14, 2014, the District Court entered judgment in our favor as to liability. On March 18, 2014, the District Court entered judgment in our favor against Biolitec AG, Biomed Technology Holdings, Ltd., and Wolfgang Neuberger, jointly and severally, in the amount of \$74.9 million. On March 11, 2015, the United States Court of Appeals for the First Circuit affirmed the judgment.

August 29, 2013, we became co-plaintiffs in an adversary proceeding in the United States Bankruptcy Court for the District of New Jersey entitled *Cyganowski, Trustee, et al. v. Biolitec U.S., Inc., et al.* In this action, we assert claims of conversion, unjust enrichment, tortious interference, and unfair competition against various biolitec entities for alleged violation of Bankruptcy Court settlement and sale orders under which we acquired certain assets of Biolitec, Inc. On September 3, 2013, we, along with our co-plaintiff, obtained a temporary restraining order against the defendants in this action. On January 22, 2015, the Bankruptcy Court entered a permanent injunction on our behalf for an additional two years.

C.R. Bard, Inc. v. AngioDynamics, Inc.

On January 11, 2012, C.R. Bard, Inc. filed a suit in the United States District Court of Utah claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the “Utah Action”). Bard is seeking unspecified damages and other relief. The Court denied Bard’s motion for pre-trial consolidation with separate actions it filed on the same day against Medical Components, Inc. and Smiths Medical ASD, Inc., but had asked for supplemental briefing on the issue of whether to conduct a common Markman hearing. Meanwhile, we filed petitions for reexamination in the US Patent and Trademark Office (“PTO”) which seek to invalidate all three patents asserted in the litigation. Our petitions have been granted and 40 of 41 patent claims have been and remain rejected. The Patent Office has issued a Final Rejection of all the claims subject to reexamination and Bard has filed appeals. The parties have completed briefing on the appeals and are awaiting further direction by the Board of Appeals and Interferences. The case has been stayed pending final resolution of the PTO process. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

On March 10, 2015, C.R. Bard, Inc. and Bard Peripheral Vascular, Inc. filed suit in the United States District Court for the District of Delaware claiming certain of our implantable port products infringe three Bard patents (the “Delaware Action”). Bard is seeking unspecified damages and other relief; and the patents asserted in the Delaware Action are different than those asserted in the Utah Action.

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By stipulation, we have until June 1, 2015 to answer, move or otherwise respond to the complaint in the Delaware Action. We believe these claims are without merit and intend to defend vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

BTG International, Inc.

We received a subpoena from the U.S. Department of Justice (the “DOJ”) requesting documents in relation to a purported criminal investigation the DOJ is conducting regarding BTG International, Inc.’s LC Bead® product beginning in 2003. RITA Medical Systems and AngioDynamics, Inc., after its acquisition of RITA, was the exclusive distributor of LC Beads in the United States from 2006 through December 31, 2011. We are cooperating fully with this investigation and at this time are unable to predict its scope, duration or outcome.

EndoVention v. AngioDynamics

On November 21, 2014, EndoVention, Inc. filed a complaint in the United States District Court for the Northern District of California, alleging that our AngioVac products infringe two of EndoVention’s patents. On February 4, 2015, the matter was settled and on March 3, 2015, the case was dismissed with prejudice. The terms of the confidential settlement did not have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors.

In addition to information set forth in this report, you should carefully consider the factors discussed in “Part I, Item 1A. Risk Factors” of our annual report on Form 10-K/A for our fiscal year ended May 31, 2014 which set forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. You should review and consider such Risk Factors in making any investment decision with respect to our securities. An investment in our securities continues to involve a high degree of risk. There have been no material changes to the risk factors previously disclosed in our annual report on Form 10-K/A, except for the following related to our internal controls:

We have determined that material weaknesses exist in our internal control over financial reporting which could, if not remediated, have a material adverse impact on our ability to produce timely and accurate financial statements.

We are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. As discussed in Part I - Item 4, we identified material weaknesses in our internal control over financial reporting as of May 31, 2014. Solely as a result of these material weaknesses, management concluded that our internal control over financial reporting was not effective as of May 31, 2014.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Although we continue to devote significant time and attention to remedy the identified material weaknesses in internal control over financial reporting, we expect to complete our remediation plan and testing of the remediated controls during the fiscal year ended May 31, 2015. There is the potential that our remedial efforts may not be successful. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate or we encounter difficulties in the implementation or maintenance of our internal control over financial reporting or disclosure controls and procedures, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and/or remain in compliance with certain covenants included in our outstanding debt agreements. In addition, any failure to implement or any difficulties we encounter with our remediation plan could result in additional material weaknesses or deficiencies in our internal control or future material misstatements in our annual or interim consolidated financial statements.

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

The following table provides information with respect to the shares of the company's common stock repurchased during the three months ended February 28, 2015:

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Period	Issuer Purchases of Equity Securities			Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	
December 1 - December 31, 2014	1,856	\$18.46	—	—
January 1 - January 31, 2015	1,479	\$19.03	—	—
February 1 - February 28, 2015	—	\$—	—	—
Total	3,335	\$18.71	—	—

(1) The company repurchased 3,335 shares during the three months ended February 28, 2015 from employees to satisfy tax withholding requirements on the vesting of restricted shares from equity-based awards.

Item 3. Defaults on Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.
EXHIBIT INDEX

No.	Description
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
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Documents
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Documents
101.PRE	XBRL Presentation Linkbase Documents

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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.

ANGIODYNAMICS, INC.
(Registrant)

Date: April 9, 2015

/ S / JOSEPH M. DEVIVO
Joseph M. DeVivo, President,
Chief Executive Officer
(Principal Executive Officer)

Date: April 9, 2015

/ S / MARK T. FROST
Mark T. Frost, Executive Vice President,
Chief Financial Officer
(Principal Financial and Chief Accounting Officer)