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EZ EM INC
Form 10-Q
October 16, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 1, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-11479

E-Z-EM, Inc.

(Exact name of registrant as specified in its charter)

Delaware	11-1999504
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

717 Main Street, Westbury, New York	11590
-----	-----
(Address of principal executive offices)	(Zip Code)

(516) 333-8230

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
----- -----

As of October 9, 2001, there were 4,004,520 shares of the issuer's Class A Common Stock outstanding and 5,839,280 shares of the issuer's Class B Common

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Stock outstanding.

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E-Z-EM, Inc. and Subsidiaries

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(in thousands)

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ASSETS	September 1, 2001 ----- (unaudited)	June 2, 2001 ----- (audited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,770	\$ 4,391
Debt and equity securities	13,861	13,748
Accounts receivable, principally trade, net	20,312	23,371
Inventories	23,195	22,021
Other current assets	4,385	5,901
	-----	-----
Total current assets	68,523	69,432
PROPERTY, PLANT AND EQUIPMENT - AT COST, less accumulated depreciation and amortization		
	19,784	19,750
COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED, less accumulated amortization		
	372	376
INTANGIBLE ASSETS, less accumulated amortization		
	1,298	1,329
DEBT AND EQUITY SECURITIES		
	303	846
INVESTMENT AT COST		
	600	
OTHER ASSETS		
	5,969	5,722
	-----	-----
	\$96,849	\$97,455
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 1, 2001 ----- (unaudited)	June 2, 2001 ----- (audited)
CURRENT LIABILITIES		
Notes payable	\$ 825	\$ 854
Current maturities of long-term debt	191	156
Accounts payable	5,367	4,798
Accrued liabilities	6,653	7,329

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Accrued income taxes	138	111
	-----	-----
Total current liabilities	13,174	13,248
LONG-TERM DEBT, less current maturities	477	408
OTHER NONCURRENT LIABILITIES	2,841	2,795
	-----	-----
Total liabilities	16,492	16,451
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.10 per share - authorized, 1,000,000 shares; issued, none		
Common stock		
Class A (voting), par value \$.10 per share - authorized, 6,000,000 shares; issued and outstanding 4,008,398 shares at September 1, 2001 and 4,011,396 shares at June 2, 2001 (excluding 44,858 and 41,860 shares held in treasury at September 1, 2001 and June 2, 2001, respectively)	401	401
Class B (non-voting), par value \$.10 per share - authorized, 10,000,000 shares; issued and outstanding 5,841,330 shares at September 1, 2001 and 5,843,426 shares at June 2, 2001 (excluding 397,347 and 395,251 shares held in treasury at September 1, 2001 and June 2, 2001, respectively)	584	584
Additional paid-in capital	20,041	20,066
Retained earnings	63,026	63,138
Accumulated other comprehensive income (loss)	(3,695)	(3,185)
	-----	-----
Total stockholders' equity	80,357	81,004
	-----	-----
	\$ 96,849	\$ 97,455
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

Thirteen weeks ended

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	September 1, 2001	September 2, 2000
Net sales	\$ 27,641	\$ 27,733
Cost of goods sold	16,971	16,264
Gross profit	10,670	11,469
Operating expenses		
Selling and administrative	9,465	8,696
Loss on sale of subsidiary and related assets		872
Research and development	1,481	1,272
Total operating expenses	10,946	10,840
Operating profit (loss)	(276)	629
Other income (expense)		
Interest income	152	226
Interest expense	(70)	(71)
Other, net	120	18
Earnings (loss) before income taxes	(74)	802
Income tax provision (benefit)	38	(1,040)
NET EARNINGS (LOSS)	\$ (112)	\$ 1,842
Earnings (loss) per common share		
Basic	\$ (.01)	\$.19
Diluted	\$ (.01)	\$.18
Weighted average common shares		
Basic	9,853	9,915
Diluted	9,853	10,245

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Thirteen weeks ended September 1, 2001
(unaudited)
(in thousands, except share data)

	Class A common stock		Class B common stock		Additional paid-in capital	Retained earnings	co in
	Shares	Amount	Shares	Amount			
Balance at June 2, 2001	4,011,396	\$ 401	5,843,426	\$ 584	\$ 20,066	\$63,138	
Compensation related to stock option plans					2		
Purchase of treasury stock	(2,998)		(2,096)		(27)		
Net loss							(112)
Unrealized holding loss on debt and equity securities							
Foreign currency translation adjustments							
Comprehensive loss							
Balance at September 1, 2001	4,008,398	\$ 401	5,841,330	\$ 584	\$ 20,041	\$63,026	

The accompanying notes are an integral part of this statement.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (in thousands)

	Thirteen weeks ended	
	September 1, 2001	September 2, 2000
Cash flows from operating activities:		
Net earnings (loss)	\$ (112)	\$ 1,842
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities		
Depreciation and amortization	707	704

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Impairment of long-lived assets		450
Provision for (reduction in) doubtful accounts	(28)	33
Loss on sale of subsidiary and related assets		872
Deferred income tax provision (benefit)	2	(1,731)
Other non-cash items	2	1
Changes in operating assets and liabilities, net of sale		
Accounts receivable	3,087	1,076
Inventories	(1,174)	210
Other current assets	1,516	(267)
Other assets	(152)	(81)
Accounts payable	569	(264)
Accrued liabilities	(676)	(979)
Accrued income taxes	25	256
Other noncurrent liabilities	50	48
	-----	-----
Net cash provided by operating activities	3,816	2,170
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(762)	(851)
Proceeds from sale of subsidiary and related assets		3,250
Investment at cost	(600)	
Available-for-sale securities		
Purchases	(26,240)	(24,273)
Proceeds from sale	26,127	17,960
	-----	-----
Net cash used in investing activities	(1,475)	(3,914)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of debt	147	
Repayments of debt	(75)	(61)
Proceeds from exercise of stock options, including related income tax benefits		16
Purchase of treasury stock	(27)	(147)
	-----	-----
Net cash provided by (used in) financing activities	45	(192)
	-----	-----

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(unaudited)
(in thousands)

Thirteen weeks ended

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	----- September 1, 2001 -----	September 2, 2000 -----
Effect of exchange rate changes on cash and cash equivalents	\$ (7)	\$ (27)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,379	(1,963)
Cash and cash equivalents		
Beginning of period	4,391	5,583
	-----	-----
End of period	\$ 6,770	\$ 3,620
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid (refunded) during the period for:		
Interest	\$ 22	\$ 21
	=====	=====
Income taxes paid (refunded) (net of \$815 in refunds in 2001)	\$ (591)	\$ 511
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 1, 2001 and September 2, 2000
(unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of September 1, 2001, the consolidated statement of stockholders' equity and comprehensive loss for the period ended September 1, 2001, and the consolidated statements of operations and cash flows for the periods ended September 1, 2001 and September 2, 2000, have been prepared by the Company without audit. The consolidated balance sheet as of June 2, 2001 was derived from audited consolidated financial statements. In the opinion of management, all adjustments (which include only normally recurring adjustments) necessary to present fairly the financial position, changes in stockholders' equity and comprehensive loss, results of operations and cash flows at September 1, 2001 (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

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accepted in the United States of America, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the fiscal 2001 Annual Report on Form 10-K filed by the Company on August 30, 2001. The results of operations for the periods ended September 1, 2001 and September 2, 2000 are not necessarily indicative of the operating results for the respective full years.

The consolidated financial statements include the accounts of E-Z-EM, Inc. and all 100%-owned subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated.

NOTE B - EARNINGS PER COMMON SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share are based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the period. Potential common shares were excluded from the diluted calculation for the thirteen weeks ended September 1, 2001, as their effects were anti-dilutive.

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

	Thirteen weeks ended	
	September 1, 2001	September 2, 2000
	-----	-----
	(in thousands)	
Basic	9,853	9,915
Effect of dilutive securities (stock options)		330
	-----	-----
Diluted	9,853	10,245
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 1, 2001 and September 2, 2000
(unaudited)

NOTE B - EARNINGS PER COMMON SHARE (continued)

Excluded from the calculation of earnings per common share, are options to purchase 1,071,777 and 462,915 shares of common stock at September 1, 2001 and September 2, 2000, respectively, as their inclusion would be anti-dilutive.

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NOTE C - RECLASSIFICATIONS

Pursuant to the Financial Accounting Standards Board Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs", which was adopted in the fourth quarter of fiscal 2001, the Company has reclassified freight billed to customers from selling and administrative expenses to net sales, and has reclassified related freight costs from selling and administrative expenses to cost of goods sold. Prior period amounts have been restated to conform to this presentation. This change had no effect on the dollar amount of the Company's operating profit or net earnings.

NOTE D - ACCOUNTING FOR BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

As of June 3, 2001, the Company adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". These standards require that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. In addition, all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are no longer subject to amortization, but are subject to at least an annual assessment for impairment by applying a fair value based test. The Company has performed a transitional fair value based impairment test on its goodwill and determined that the fair value exceeded the recorded value at June 3, 2001. Therefore, no impairment loss was recorded during the thirteen weeks ended September 1, 2001. Net earnings for the thirteen weeks ended September 2, 2000 would have changed by approximately \$3,000, net of tax, if the recorded goodwill amortization was added back. Basic and diluted earnings per share in such period would have been unchanged. Annual amortization of intangibles will approximate \$122,000 for each of the next five years.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 1, 2001 and September 2, 2000
(unaudited)

NOTE E - COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of related tax, are as follows:

	Thirteen weeks ended	
	September 1, 2001	September 2, 2000
	(in thousands)	
Net earnings (loss)	\$ (112)	\$ 1,842
Unrealized holding loss on debt and equity securities	(445)	(1,238)

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Foreign currency translation adjustments:		
Arising during the period	(65)	(80)
Reclassification adjustment for sale of investment in a foreign entity		994
	-----	-----
Comprehensive income (loss)	\$ (622)	\$ 1,518
	=====	=====

The components of accumulated other comprehensive income (loss), net of related tax, are as follows:

	September 1, 2001	June 2, 2001
	-----	-----
	(in thousands)	
Unrealized holding gain (loss) on debt and equity securities	\$ (247)	\$ 198
Cumulative translation adjustments	(3,448)	(3,383)
	-----	-----
Accumulated other comprehensive income (loss)	\$ (3,695)	\$ (3,185)
	=====	=====

NOTE F - INVESTMENT AT COST

In August 2001, the Company acquired 240,000 shares of the Series B Convertible Preferred Stock, or approximately 5%, of PointDx, Inc. ("PointDx") for \$600,000. PointDx, a Delaware corporation based in Winston-Salem, North Carolina, is an emerging medical technology company focused on the development of virtual colonoscopy software and structured reporting solutions for radiology. Virtual colonoscopy is an innovative technology which visualizes the colon using advanced CT imaging and 3-D computer reconstruction of that image data. The Company also acquired a three-year warrant to purchase an additional 120,000 shares of the Series B Convertible Preferred Stock at \$2.50 per share, and the right to designate one nominee for the PointDx board of directors. The Company's investment in PointDx is accounted for by the cost method.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 1, 2001 and September 2, 2000
(unaudited)

NOTE G - SALE OF SUBSIDIARY AND RELATED ASSETS

On July 27, 2000, AngioDynamics, Inc. sold all the capital stock of AngioDynamics Ltd., a wholly-owned subsidiary, and certain other assets to AngioDynamics Ltd.'s management. AngioDynamics Ltd., located in Ireland, manufactured cardiovascular and interventional radiology products. The aggregate consideration paid was \$3,250,000 in cash. The sale was the culmination of the Company's strategic decision to exit the cardiovascular

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market and to focus entirely on the interventional radiology marketplace. As a result of this sale, the Company recognized a pre-tax loss of approximately \$872,000 during the thirteen weeks ended September 2, 2000. The aforementioned pre-tax loss includes the effect of previously unrealized losses on foreign currency translation of approximately \$994,000 and the write-off of approximately \$673,000 in inventory and intangibles related to the cardiovascular product line, both of which were non-cash charges. Further, AngioDynamics entered into a manufacturing agreement, a distribution agreement and a royalty agreement with the buyer. Under the two-year manufacturing agreement, the buyer will be manufacturing certain interventional radiology products sold by AngioDynamics.

NOTE H - ASSET IMPAIRMENT CHARGE

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company's Diagnostic operating segment recorded an impairment charge during the thirteen weeks ended September 2, 2000 of \$450,000 relating to certain acquired patent rights to an oral magnetic resonance imaging contrast agent. The Company determined that the revenue potential of this technology was impaired, since it believed that the market for this technology was significantly less than previously projected. The impairment charge represented the difference between the carrying value of the intangible asset and the fair market value of this asset based on estimated future discounted cash flows. The charge had no impact on the Company's cash flow or its ability to generate cash flow in the future. For the thirteen weeks ended September 2, 2000, the impairment charge is included in the consolidated statement of operations under the caption "Selling and administrative".

NOTE I - INVENTORIES

Inventories consist of the following:

	September 1, 2001 -----	June 2, 2001 -----
	(in thousands)	
Finished goods	\$11,008	\$11,093
Work in process	1,986	1,826
Raw materials	10,201	9,102
	-----	-----
	\$23,195	\$22,021
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 1, 2001 and September 2, 2000
(unaudited)

NOTE J - INCOME TAXES

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During the thirteen weeks ended September 2, 2000, the Company reduced its valuation allowance primarily to recognize deferred tax assets of approximately \$1,344,000. Continued and projected future profitability of the Company's U.S. operations, including those of AngioDynamics, made it more likely than not that certain deferred tax assets would be realized through future taxable earnings.

NOTE K - COMMON STOCK

Under the 1983 and 1984 Stock Option Plans, options for 8,497 shares were forfeited at prices ranging from \$5.39 to \$8.58 per share, options for 1,194 shares expired at \$9.58 per share, and no options were granted or exercised during the thirteen weeks ended September 1, 2001. Under the 1997 AngioDynamics Stock Option Plan, options for 3.18 shares were granted at \$40,000 per share, options for .06 shares were forfeited at \$40,000 per share, and no options were exercised or expired during the thirteen weeks ended September 1, 2001.

In January 1999, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's Class B Common Stock at an aggregate purchase price of up to \$2,000,000. In October 1999, the Board modified the program to include the Company's Class A Common Stock. In February 2000, the Board further modified the program to increase the aggregate purchase price of Class A and Class B Common Stock by an additional \$2,000,000. As of September 1, 2001, the Company had repurchased 44,858 shares of Class A Common Stock and 397,347 shares of Class B Common Stock for approximately \$3,084,000.

NOTE L - OPERATING SEGMENTS

The Company is engaged in the manufacture and distribution of a wide variety of products which are classified into two operating segments: Diagnostic products and AngioDynamics products. Diagnostic products encompass both contrast systems, consisting of barium sulfate formulations and related medical devices used in X-ray, CT-scanning, ultrasound and MRI imaging examinations, and non-contrast systems, including the electromechanical injector line, radiological medical devices, custom contract pharmaceuticals, gastrointestinal cleansing laxatives, and immunoassay tests. AngioDynamics products include angiographic, image-guided vascular access, thrombolytic, angioplasty, stents, and drainage medical devices used in the interventional radiology marketplace.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 1, 2001 and September 2, 2000
(unaudited)

NOTE L - OPERATING SEGMENTS (continued)

The Company's chief operating decision maker utilizes operating segment net earnings (loss) information in assessing performance and making overall operating decisions and resource allocations. Information about the

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Company's segments is as follows:

	Thirteen weeks ended	
	September 1, 2001	September 2, 2000
	-----	-----
	(in thousands)	
Net sales to external customers		
Diagnostic products		
Contrast systems	\$ 14,847	\$ 15,804
Non-contrast systems	6,220	6,116
	-----	-----
Total Diagnostic products	21,067	21,920
AngioDynamics products	6,574	5,813
	-----	-----
Total net sales to external customers	\$ 27,641	\$ 27,733
	=====	=====
Intersegment net sales		
Diagnostic products	\$ --	\$ --
AngioDynamics products	169	190
	-----	-----
Total intersegment net sales	\$ 169	\$ 190
	=====	=====
Operating profit (loss)		
Diagnostic products	\$ (478)	\$ 1,227
AngioDynamics products	205	(550)
Eliminations	(3)	(48)
	-----	-----
Total operating profit (loss)	\$ (276)	\$ 629
	=====	=====
Net earnings (loss)		
Diagnostic products	\$ (82)	\$ 1,184
AngioDynamics products	(27)	706
Eliminations	(3)	(48)
	-----	-----
Total net earnings (loss)	\$ (112)	\$ 1,842
	=====	=====
	September 1, 2001	June 2, 2001
	-----	-----
	(in thousands)	
Assets		
Diagnostic products	\$107,488	\$108,463
AngioDynamics products	17,310	16,782
Eliminations	(27,949)	(27,790)
	-----	-----
Total assets	\$ 96,849	\$ 97,455
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Quarters ended September 1, 2001 and September 2, 2000

The Company's quarters ended September 1, 2001 and September 2, 2000 both represent thirteen weeks.

Results of Operations

Segment Overview

The Company operates in two industry segments: Diagnostic products and AngioDynamics products. The Diagnostic products operating segment includes both contrast systems and non-contrast systems. The AngioDynamics products operating segment includes angiographic, image-guided vascular access, thrombolytic, angioplasty, stents, and drainage medical devices used in the interventional radiology marketplace.

	Diagnostic	AngioDynamics	Eliminations	Total
	(in thousands)			
Quarter ended September 1, 2001 -----				
Unaffiliated customer sales	\$ 21,067	\$ 6,574	--	\$ 27,641
Intersegment sales	--	169	(\$169)	--
Gross profit (loss)	7,492	3,181	(3)	10,670
Operating profit (loss)	(478)	205	(3)	(276)
Quarter ended September 2, 2000 -----				
Unaffiliated customer sales	\$21,920	\$ 5,813	--	\$27,733
Intersegment sales	--	190	(\$190)	--
Gross profit (loss)	8,708	2,809	(48)	11,469
Operating profit (loss)	1,227	(550)	(48)	629

Diagnostic Products

Diagnostic segment operating results for the current quarter declined by \$1,705,000 due to decreased sales and gross profit and increased operating expenses. Net sales decreased 4%, or \$853,000, due to a decline in sales of contrast systems domestically of \$405,000 and internationally of \$552,000, partially offset by increased sales of non-contrast systems of \$104,000. The decline in domestic sales of contrast systems resulted from lower demand. The decline in international sales of contrast systems was due, in large part, to

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the strength of the U.S. dollar, which lessened the demand for export sales and adversely affected the translation of European, Japanese and Canadian sales to U.S. dollars for financial reporting purposes. Price increases had no effect on net sales for the current quarter. Gross profit expressed as a percentage of net sales declined to 36% for the current quarter, from 40% for the comparable quarter of the prior year due primarily to decreased production throughput at the Company's Westbury facility. Increased operating expenses of \$489,000 can be attributed, in large part, to the establishment of a dedicated domestic sales force for the Company's electromechanical injector line and increased administrative and research and development expenses. Last year's first quarter included an asset impairment charge of \$450,000 for acquired patent rights to an oral magnetic resonance imaging contrast agent.

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AngioDynamics Products

AngioDynamics segment operating results improved by \$755,000 in the current quarter as a result of the Company recognizing a loss on sale of AngioDynamics Ltd. and related assets of \$872,000 in the comparable period of last year. Excluding the effect of the loss on sale, AngioDynamics segment operating results declined by \$117,000 due to increased operating expenses, partially offset by increased sales and improved gross profit. Net sales increased 13%, or \$761,000, due primarily to increased sales of image-guided vascular access products, stents and angioplasty products in the domestic marketplace, partially offset by a decline in international sales resulting, in part, from the Company's exit from the cardiovascular market in the first quarter of the prior year. Gross profit expressed as a percentage of net sales improved slightly for the current quarter as compared to the comparable quarter of the prior year due primarily to reduced manufacturing overhead costs resulting from the sale of the Irish facility in the first quarter of the prior year. Excluding the aforementioned loss on sale, operating expenses increased \$489,000 due, in large part, to an expansion of the domestic sales force.

Consolidated Results of Operations

For the quarter ended September 1, 2001, the Company reported a net loss of \$112,000, or (\$.01) per common share on both a basic and diluted basis, as compared to net earnings of \$1,842,000, or \$.19 and \$.18 per common share on a basic and diluted basis, respectively, for the comparable period of last year. Results for the current quarter were adversely affected by decreased sales and gross profit and increased operating expenses in the Diagnostic segment. For the comparable quarter of the prior year, several factors combined to have a favorable effect on net earnings of \$418,000, or \$.04 per basic share. Last year's results included the Company's reversal of a portion of its valuation allowance against certain domestic income tax benefits totaling \$1,344,000. Continued and projected future profitability of the Company's U.S. operations, including those of AngioDynamics, made it more likely than not that certain deferred tax assets would be realized through future taxable earnings. Partially offsetting this was the loss on sale of AngioDynamics Ltd. and related assets of \$872,000 and the Diagnostic asset impairment charge of \$450,000.

Net sales for the quarter ended September 1, 2001 decreased \$92,000, as compared to the quarter ended September 2, 2000. Decreased sales of contrast systems of \$957,000 were virtually offset by increased sales of AngioDynamics products of \$761,000 and non-contrast systems of \$104,000. The decline in sales of contrast systems was experienced both domestically and internationally. The domestic sales decline resulted from lower demand. The international sales

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decline was due, in large part, to the strength of the U.S. dollar, which lessened the demand for export sales and adversely affected the translation of European, Japanese and Canadian sales to U.S. dollars for financial reporting purposes. The increase in sales of AngioDynamics products resulted from increased sales of image-guided vascular access products, stents and angioplasty products in the domestic marketplace. Price increases had no effect on net sales for the current quarter.

Net sales in international markets, including direct exports from the U.S., decreased 13%, or \$1,113,000, for the current quarter from the comparable period of last year due to decreased sales of contrast systems of \$552,000, AngioDynamics products of \$476,000 and non-contrast systems of \$85,000. The decline in sales of contrast systems was due, in large part, to the strength of the U.S. dollar, which lessened the demand for export sales and adversely affected the translation of European, Japanese and Canadian sales to U.S. dollars for financial reporting purposes. The lower sales of AngioDynamics products resulted, in part, from the Company's exit from the cardiovascular market in the first quarter of the prior year.

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Gross profit expressed as a percentage of net sales decreased to 39% for the current quarter from 41% for the comparable quarter of the prior year due to reduced gross profit in the Diagnostic segment, partially offset by improved gross profit in the AngioDynamics segment. The decline in Diagnostic gross profit expressed as a percentage of net sales resulted primarily from decreased production throughput at the Company's Westbury facility. The improved AngioDynamics gross profit expressed as a percentage of net sales was due primarily to reduced manufacturing overhead costs resulting from the sale of the Irish facility in the first quarter of the prior year.

Selling and administrative ("S&A") expenses were \$9,465,000 for the quarter ended September 1, 2001 compared to \$8,696,000 for the quarter ended September 2, 2000. This increase of \$769,000, or 9%, for the current quarter was due to increased AngioDynamics S&A expenses of \$513,000 and increased Diagnostic S&A expenses of \$256,000. Increased AngioDynamics S&A expenses resulted, in large part, from an expansion of its domestic sales force. Increased Diagnostic S&A expenses was due primarily to the establishment of a dedicated domestic sales force for the Company's electromechanical injector line and increased administrative expenses. Last year's first quarter included the aforementioned asset impairment charge of \$450,000.

Research and development ("R&D") expenditures increased 16% for the current quarter to \$1,481,000, or 5% of net sales, from \$1,272,000, or 5% of net sales, for the comparable quarter of the prior year due to increased spending relating to the Company's electromechanical injector line. Of the R&D expenditures for the current quarter, approximately 47% relate to non-contrast systems, which includes the Company's electromechanical injector line, 24% to AngioDynamics projects, 9% to contrast systems, 4% to other projects and 16% to general regulatory costs. R&D expenditures are expected to continue at approximately current levels.

Other income, net of other expenses, totaled \$202,000 of income for the current quarter compared to \$173,000 of income for the comparable period of last year. This increase was due primarily to an improvement in foreign currency exchange gains and losses of \$99,000, partially offset by decreased interest income of \$71,000 resulting, in part, from lower interest rates.

For the quarter ended September 1, 2001, the Company reported an income tax provision of \$38,000 against a loss before income taxes of \$74,000 due primarily

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to non-deductible expenses. For the quarter ended September 2, 2000, the Company reported an income tax benefit of \$1,040,000 against earnings before income taxes of \$802,000 due primarily to the fact that the Company reversed a portion of its valuation allowance against certain domestic tax benefits totaling \$1,344,000. Continued and projected future profitability of the Company's U.S. operations, including those of AngioDynamics, made it more likely than not that certain deferred tax assets would be realized through future taxable earnings.

Liquidity and Capital Resources

For the quarter ended September 1, 2001, capital expenditures were funded by cash provided by operations. The Company's policy has been to fund capital requirements without incurring significant debt. At September 1, 2001, debt (notes payable, current maturities of long-term debt and long-term debt) was \$1,493,000 as compared to \$1,418,000 at June 2, 2001. The Company has available \$1,290,000 under a bank line of credit of which no amounts were outstanding at September 1, 2001.

At September 1, 2001, approximately 66% of the Company's assets consisted of inventories, accounts receivable, short-term debt and equity securities, and cash and cash equivalents. The current ratio was 5.20 to 1, with net working capital of \$55,349,000, at September 1, 2001, as compared to a current ratio of 5.24 to 1, with net working capital of \$56,184,000, at June 2, 2001.

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In January 1999, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's Class B Common Stock at an aggregate purchase price of up to \$2,000,000. In October 1999, the Board modified the program to include the Company's Class A Common Stock. In February 2000, the Board further modified the program to increase the aggregate purchase price of Class A and Class B Common Stock by an additional \$2,000,000. As of September 1, 2001, the Company had repurchased 44,858 shares of Class A Common Stock and 397,347 shares of Class B Common Stock for approximately \$3,084,000.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are intended to be covered by the safe harbors created thereby. Words such as "expects", "intends", "anticipates", "plans", "believes", "seeks", "estimates", or variations of such words and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the ability of the Company to develop its products, future actions by the U.S. Food and Drug Administration or other regulatory agencies, results of pending or future clinical trials, overall economic conditions, general market conditions, foreign currency exchange rate fluctuations, the effects on pricing from group purchasing organizations, and competition, including alternative procedures which continue to replace traditional fluoroscopic procedures. Although the Company believes 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 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 the Company or any

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other person that the objectives and plans of the Company will be achieved.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign currency exchange rates and, to a much lesser extent, interest rates on investments and financing, which could impact results of operations and financial position. The Company does not currently engage in hedging or other market risk management tools. There have been no material changes with respect to market risk previously disclosed in the fiscal 2001 Annual Report on Form 10-K.

Foreign Currency Exchange Rate Risk

The Company's international subsidiaries are denominated in currencies other than the U.S. dollar. Since the functional currency of the Company's international subsidiaries is the local currency, foreign currency translation adjustments are accumulated as a component of accumulated other comprehensive income (loss) in stockholders' equity. Assuming a hypothetical aggregate change in the foreign currencies versus the U.S. dollar exchange rates of 10% at September 1, 2001, the Company's assets and liabilities would increase or decrease by \$2,129,000 and \$577,000, respectively, and the Company's net sales and net earnings would increase or decrease by \$1,876,000 and \$24,000, respectively, on an annual basis.

The Company also maintains intercompany balances and loans receivable with subsidiaries with different local currencies. These amounts are at risk of foreign exchange losses if exchange rates fluctuate. Assuming a hypothetical aggregate change in the foreign currencies versus the U.S. dollar exchange rates

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of 10% at September 1, 2001, results of operations would be favorably or unfavorably impacted by approximately \$611,000 on an annual basis.

Interest Rate Risk

The Company is exposed to interest rate change market risk with respect to its investments in tax-free municipal bonds in the amount of \$13,840,000. The bonds bear interest at a floating rate established weekly. For the quarter ended September 1, 2001, the after-tax interest rate on the bonds approximated 2.6%. Each 100 basis point (1%) fluctuation in interest rates will increase or decrease interest income on the bonds by approximately \$138,000 on an annual basis.

As the Company's principal amount of fixed interest rate financing approximated \$1,493,000 at September 1, 2001, a change in interest rates would not materially impact results of operations or financial position. At September 1, 2001, the Company did not maintain any variable interest rate financing.

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E-Z-EM, Inc. and Subsidiaries

Part II: Other Information

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 1, 2001.

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.

E-Z-EM, Inc.

(Registrant)

Date October 16, 2001

/s/ Anthony A. Lombardo

Anthony A. Lombardo, President,
Chief Executive Officer and Director

Date October 16, 2001

/s/ Dennis J. Curtin

Dennis J. Curtin, Senior Vice
President - Chief Financial Officer
(Principal Financial and Chief
Accounting Officer)