

ANGIODYNAMICS INC  
Form 10-Q  
January 08, 2010  
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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 November 30, 2009

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)

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)         | <b>11-3146460</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>603 Queensbury Ave., Queensbury, New York</b><br>(Address of principal executive offices) | <b>12804</b><br>(Zip Code)                                   |
| <b>(518) 798-1215</b><br>Registrant's telephone number, including area code                  |  |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/>   | Smaller reporting company <input type="checkbox"/>    |

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.

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| <b>Class</b>                  | <b>Outstanding as of January 4, 2010</b> |
|-------------------------------|--|
| Common Stock, par value \$.01 | 24,556,713 shares                        |

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**AngioDynamics, Inc. and Subsidiaries**

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**AngioDynamics, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

|  | Nov 30,<br>2009<br>(unaudited) | May 31,<br>2009   |
|--|--------------------------------|-------------------|
| <b>ASSETS</b>  |                                |                   |
| <b>CURRENT ASSETS</b>  |                                |                   |
| Cash and cash equivalents  | \$ 36,256                      | \$ 27,909         |
| Marketable securities, at fair value   | 37,772                         | 40,278            |
| Total cash, cash equivalents and marketable securities   | 74,028                         | 68,187            |
| Accounts receivable, net of allowance for doubtful accounts of \$570 and \$602, respectively   | 25,397                         | 27,181            |
| Inventories  | 39,874                         | 36,928            |
| Deferred income taxes  | 7,283                          | 9,337             |
| Prepaid expenses and other   | 5,045                          | 6,965             |
| Total current assets   | 151,627                        | 148,598           |
| PROPERTY, PLANT AND EQUIPMENT-AT COST, less accumulated depreciation   | 22,600                         | 22,183            |
| OTHER ASSETS   | 2,191                          | 908               |
| INTANGIBLE ASSETS, less accumulated amortization   | 63,033                         | 67,770            |
| GOODWILL   | 161,974                        | 161,974           |
| DEFERRED INCOME TAXES, long term   | 3,212                          | 4,263             |
| PREPAID ROYALTIES  | 2,996                          | 3,007             |
| <b>TOTAL ASSETS</b>  | <b>\$ 407,633</b>              | <b>\$ 408,703</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                |                   |
| <b>CURRENT LIABILITIES</b>   |                                |                   |
| Accounts payable   | \$ 8,692                       | \$ 13,152         |
| Accrued liabilities  | 11,229                         | 11,055            |
| Current portion of long-term debt  | 250                            | 265               |
| Other current liabilities, net of discount   | 43                             | 5,227             |
| Total current liabilities  | 20,214                         | 29,699            |
| LONG-TERM DEBT, net of current portion   | 6,680                          | 6,810             |
| Total liabilities  | 26,894                         | 36,509            |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                                |                   |
| <b>STOCKHOLDERS' EQUITY</b>  |                                |                   |
| Preferred stock, par value \$.01 per share, 5,000,000 shares authorized; no shares issued and outstanding  |                                |                   |
| Common stock, par value \$.01 per share, 45,000,000 shares authorized; issued and outstanding 24,556,465 and 24,428,209 shares at November 30, 2009 and May 31, 2009, respectively | 246                            | 245               |
| Additional paid-in capital   | 361,428                        | 358,014           |
| Retained earnings  | 20,080                         | 14,840            |
| Accumulated other comprehensive loss   | (1,015)                        | (905)             |
| Total stockholders' equity   | 380,739                        | 372,194           |

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|  |            |            |
|--|------------|------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 407,633 | \$ 408,703 |
|--|------------|------------|

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

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME****(unaudited)****(in thousands, except per share data)**

|                                    | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b> |                         |
|------------------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
|                                    | <b>Nov 30,<br/>2009</b>   | <b>Nov 30,<br/>2008</b> | <b>Nov 30,<br/>2009</b> | <b>Nov 30,<br/>2008</b> |
| Net sales                          | \$ 53,459                 | \$ 48,464               | \$ 103,551              | \$ 92,787               |
| Cost of sales                      | 21,852                    | 18,771                  | 41,812                  | 35,637                  |
| Gross profit                       | 31,607                    | 29,693                  | 61,739                  | 57,150                  |
| Operating expenses                 |                           |                         |                         |                         |
| Research and development           | 4,763                     | 4,425                   | 9,612                   | 8,387                   |
| Sales and marketing                | 15,042                    | 14,315                  | 30,401                  | 27,610                  |
| General and administrative         | 4,031                     | 3,821                   | 8,108                   | 7,948                   |
| Amortization of intangibles        | 2,451                     | 2,242                   | 4,723                   | 4,493                   |
| Total operating expenses           | 26,287                    | 24,803                  | 52,844                  | 48,438                  |
| Operating income                   | 5,320                     | 4,890                   | 8,895                   | 8,712                   |
| Other income (expenses)            |                           |                         |                         |                         |
| Interest income                    | 162                       | 474                     | 350                     | 876                     |
| Interest expense                   | (237)                     | (134)                   | (408)                   | (359)                   |
| Other income (expense)             | (215)                     | (840)                   | (397)                   | (1,268)                 |
| Total other income (expenses)      | (290)                     | (500)                   | (455)                   | (751)                   |
| Income before income tax provision | 5,030                     | 4,390                   | 8,440                   | 7,961                   |
| Income tax provision               | 1,901                     | 1,483                   | 3,200                   | 2,843                   |
| Net income                         | \$ 3,129                  | \$ 2,907                | \$ 5,240                | \$ 5,118                |
| Earnings per common share          |                           |                         |                         |                         |
| Basic                              | \$ 0.13                   | \$ 0.12                 | \$ 0.21                 | \$ 0.21                 |
| Diluted                            | \$ 0.13                   | \$ 0.12                 | \$ 0.21                 | \$ 0.21                 |

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

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME****Six Months Ended November 30, 2009****(unaudited)****(in thousands, except share data)**

|   | Common Stock |        | Additional | Retained  | Accumulated   |            | Comprehensive |
|---|--------------|--------|------------|-----------|---------------|------------|---------------|
|   | Shares       | Amount | paid in    | earnings  | other         | Total      | income        |
|   |              |        | capital    |           | comprehensive |            |               |
|   |              |        |            |           | loss          |            |               |
| Balance at May 31, 2009                                     | 24,428,209   | \$ 245 | \$ 358,014 | \$ 14,840 | \$ (905)      | \$ 372,194 |               |
| Net income  |              |        |            | 5,240     |               | 5,240      | \$ 5,240      |
| Exercise of stock options                                   | 49,032       |        | 482        |           |               | 482        |               |
| Purchase of common stock under Employee Stock Purchase Plan | 61,495       | 1      | 574        |           |               | 575        |               |
| Stock-based compensation                                    |              |        | 2,411      |           |               | 2,411      |               |
| Issuance/Cancellation of performance shares                 | 17,729       |        | (55)       |           |               | (55)       |               |
| Tax benefit on exercise of stock options                    |              |        | 2          |           |               | 2          |               |
| Unrealized loss on marketable securities, net of tax of \$9 |              |        |            |           | (16)          | (16)       | (16)          |
| Unrealized loss on interest rate swap, net of tax of \$11   |              |        |            |           | (18)          | (18)       | (18)          |
| Foreign currency translation                                |              |        |            |           | (76)          | (76)       | (76)          |
| Comprehensive income  |              |        |            |           |               |            | \$ 5,130      |
| Balance at November 30, 2009                                | 24,556,465   | \$ 246 | \$ 361,428 | \$ 20,080 | \$ (1,015)    | \$ 380,739 |               |

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



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

|   | <b>Six Months Ended</b> |                         |
|---|-------------------------|-------------------------|
|   | <b>Nov 30,<br/>2009</b> | <b>Nov 30,<br/>2008</b> |
| Cash flows from operating activities:   |                         |                         |
| Net income  | \$ 5,240                | \$ 5,118                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                         |
| Depreciation and amortization   | 6,219                   | 5,782                   |
| Tax effect on exercise of stock options and issuance of performance shares        | 31                      | (74)                    |
| Deferred income taxes   | 3,126                   | 2,234                   |
| Change in allowance for excess and obsolete inventory                             | (462)                   | 481                     |
| Stock based compensation  | 2,413                   | 2,460                   |
| Imputed interest  | 153                     | 126                     |
| Change in allowance for doubtful accounts   | (32)                    | 36                      |
| Other   | 17                      | 71                      |
| Changes in operating assets and liabilities:                                      |                         |                         |
| Accounts receivable   | 1,816                   | 2,010                   |
| Inventories   | (2,767)                 | (3,176)                 |
| Prepaid expenses and other  | 931                     | 41                      |
| Accounts payable and accrued liabilities  | (4,304)                 | (1,322)                 |
| Litigation settlement   |                         | (6,757)                 |
| Income taxes payable  |                         | (933)                   |
| Net cash provided by operating activities   | 12,381                  | 6,097                   |
| Cash flows from investing activities:   |                         |                         |
| Additions to property, plant and equipment  | (1,951)                 | (2,459)                 |
| Acquisition of intangible assets and business                                     | (5,350)                 | (15,180)                |
| Change in restricted cash   |                         | 68                      |
| Purchases of marketable securities  | (17,823)                | (12,783)                |
| Proceeds from sale or maturity of marketable securities                           | 20,254                  | 20,806                  |
| Net cash used in investing activities   | (4,870)                 | (9,548)                 |
| Cash flows from financing activities:   |                         |                         |
| Repayment of long-term debt and convertible notes                                 | (145)                   | (9,870)                 |
| Proceeds from exercise of stock options and ESPP                                  | 971                     | 1,145                   |
| Net cash provided by (used in) financing activities                               | 826                     | (8,725)                 |
| Effect of exchange rate changes on cash and cash equivalents                      | 10                      | (130)                   |
| Increase (decrease) in cash and cash equivalents                                  | 8,347                   | (12,306)                |
| Cash and cash equivalents   |                         |                         |
| Beginning of period   | 27,909                  | 32,040                  |

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|               |           |           |
|---------------|-----------|-----------|
| End of period | \$ 36,256 | \$ 19,734 |
|---------------|-----------|-----------|

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

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE A CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated balance sheet as of November 30, 2009, the consolidated statement of stockholders' equity and comprehensive income for the six months ended November 30, 2009, the consolidated statement of cash flows for the six months ended November 30, 2009 and November 30, 2008 and the consolidated statements of income for the three and six months ended November 30, 2009 and November 30, 2008 have been prepared by the Company without audit. The consolidated balance sheet as of May 31, 2009 was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include only normally recurring adjustments) necessary to state fairly the financial position, changes in stockholders' equity and comprehensive income, results of operations and cash flows as of and for the period ended November 30, 2009 (and for all periods presented) have been made. Certain prior period amounts have been reclassified for comparative purposes to conform to current quarter and year to date presentation. The reclassifications, made for the purpose of including strategic business unit management costs in marketing costs, resulted in an increase to marketing costs of \$322,000 in the second quarter of the prior year and \$526,000 in the prior year to date with comparative decreases in general and administrative costs for the same periods. During the six-month period ended November 30, 2009, the Company identified a \$350,000 cash payment relating to the FlowMedica acquisition that had been reported in cash flows provided by operating activities in the cash flow statement for the three month period ended August 31, 2009. This transaction should have been reported in cash flows used in investing activities in the August 31, 2009 quarterly financial statements. Accordingly, the Company has appropriately included the amount in cash flows used in investing activities in the cash flow statement for the six-month period ended November 30, 2009 in the accompanying financial statements. The Company assessed the materiality of this item on the cash flow statement for the three month period ended August 31, 2009 and concluded that the error was not material.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these unaudited interim consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended May 31, 2009, filed by the Company on August 14, 2009. The results of operations in the fiscal periods ended November 30, 2009 and November 30, 2008 are not necessarily indicative of the operating results for the respective full fiscal years.

The unaudited interim consolidated financial statements for the three and six months ended November 30, 2009 include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, RITA Medical Systems, LLC, and AngioDynamics UK Limited (collectively, the Company). All intercompany balances and transactions have been eliminated.

The Company has organized its business into three reportable segments: Peripheral Vascular, Access and Oncology/Surgery. The Peripheral Vascular segment is comprised of the venous, angiographic, PTA, drainage and thrombolytic product lines. The Access segment is comprised of the dialysis, ports and PICC product lines. The Oncology/Surgery segment is comprised of the RFA, embolization, Habib and NanoKnife product lines. The Company's chief operating decision maker evaluates performance based on the reportable segments and utilizes net sales, gross profit and operating income as primary profitability measures. The expenses related to certain shared and corporate activities are allocated to these segments on a percentage of total sales basis or operating expenses basis, as deemed appropriate.

The Company has performed an evaluation of subsequent events through January 8, 2010, which is the date the financial statements were issued.

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE B ACQUISITIONS**

***FlowMedica, Inc.***

On January 12, 2009 the Company completed the acquisition of certain assets of FlowMedica, Inc. for approximately \$1.75 million in cash and a contingent payment based on fiscal 2011 sales of FlowMedica products. With this acquisition, the Company purchased the Benephit product line, a therapeutic approach to deliver drugs directly to the kidneys in order to prevent and treat acute kidney injury, in the emerging field of Targeted Renal Therapy. Intangible assets acquired totaled approximately \$1.3 million which have been identified as product technologies (10-year weighted average useful life.) Inventory acquired totaled approximately \$400,000. The acquisition has been accounted for as a purchase and accordingly, the Company has included the results of operations in the financial statements effective January 12, 2009. The pro-forma effects of the acquisition were not material to the Company's income statement and balance sheet. Ten employees of FlowMedica, Inc. became employees of the Company upon completion of the acquisition.

***Diomed, Inc. and Diomed UK Limited***

On June 17, 2008, the Company completed the acquisition of certain U.S. assets of Diomed, Inc. and UK assets of Diomed UK Limited, in separate transactions, for an aggregate purchase price of approximately \$11.1 million in cash including capitalized acquisition costs. With this acquisition, the Company substantially strengthened its position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with the Company's existing venous product line provides the Company with a comprehensive venous product offering. The total of the net tangible assets acquired was \$5.5 million.

Goodwill recorded as a result of these acquisitions was approximately \$1.9 million. Intangible assets acquired, other than goodwill, totaled approximately \$3.7 million of which \$3.6 million has been identified as customer relationships (8 -year estimated weighted average useful life) and \$100,000 has been identified as product technologies (10 -year estimated weighted average useful life).

The acquisition has been accounted for as a purchase and, accordingly, the Company has included the results of operations in the financial statements effective June 17, 2008. The pro-forma effects of the Diomed acquisition on the Company's income statement and balance sheet were not material. Thirty five employees of Diomed became employees of the Company upon completion of the acquisitions.

***Oncobionic, Inc.***

On May 9, 2008, the Company completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. pursuant to the terms of the Stock Purchase Agreement entered into on October 12, 2006. The closing of the acquisition came as a result of the successful use of irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue in April 2008.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE B ACQUISITIONS (continued)**

Under the October 2006 Stock Purchase Agreement, the Company agreed to pay a total purchase price of \$25.4 million, including \$400,000 of assumed liabilities. The Company made payments of \$5.0 million upon the execution of the stock purchase agreement in October 2006, \$10.0 million on May 9, 2008 upon closing the acquisition, \$5.0 million in November 2008 and \$5.0 million in November 2009.

The Stock Purchase Agreement also provides for future royalty payments due on net sales of any catheter-based products sold by the Company that incorporate irreversible electroporation technology ( IRE ). The Company holds a license to such technology under a license agreement with the Regents of the University of California (the UC License ).

The Company has accounted for the acquisition of Oncobionic as a purchase under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of Oncobionic were recorded as of the acquisition date, at their respective fair values, and consolidated with those of AngioDynamics. \$25.2 million of the purchase price was recorded as product technology and is being amortized over a 15 year useful life. The Company has recorded goodwill and a deferred tax liability of \$9.3 million. In future periods the deferred tax liability will be reduced to offset the tax impact of non-deductible amortization expense on the intangible assets acquired.

**NOTE C ASSET PURCHASE AGREEMENTS*****Medron, Inc.***

On May 1, 2006, the Company entered into an Asset Purchase Agreement with Medron, Inc. to acquire the rights, titles, and interests in, and to, Patent Pending Technology for purposes of manufacturing, marketing, and selling proprietary Vascular Access Ports, following administrative approval. As of November 30, 2009, the Company has paid \$5.5 million in accordance with this agreement. That amount, net of accumulated amortization, has been included on the balance sheet under the caption Intangible assets and is being amortized on a straight line basis over the expected useful life of the assets. A potential future payment of \$2.5 million is due upon issuance (within 10 years of the effective date of the agreement) of a U.S. patent claiming priority to the Patent Application, or any issuance of a patent to the Company within 10 years of the effective date of the agreement in which the original owners are the inventors.

**NOTE D INVENTORIES**

Inventories consist of the following:

|                   | <b>Nov 30,<br/>2009</b> | <b>May 31,<br/>2009</b> |
|-------------------|-------------------------|-------------------------|
|                   | <b>(in thousands)</b>   |                         |
| Raw materials     | \$ 14,245               | \$ 13,790               |
| Work in process   | 3,254                   | 4,188                   |
| Finished goods    | 24,987                  | 22,024                  |
| Gross Inventories | 42,486                  | 40,002                  |
| Less: Reserves    | (2,612)                 | (3,074)                 |
| Inventories       | \$ 39,874               | \$ 36,928               |



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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE E GOODWILL AND INTANGIBLE ASSETS**

Goodwill is not amortized but rather is tested for impairment during the third quarter of each fiscal year or more frequently if triggering events indicating potential impairment arise. Goodwill and intangible assets have been recorded at either incurred or allocated cost. Allocated costs were based on respective fair market values at the date of acquisition.

There were no changes in the carrying amount of goodwill for the six months ended November 30, 2009.

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. Beginning in fiscal 2009 the Company began reporting three operating segments as opposed to a single segment in prior periods. The Company's reporting units are consistent with the Company's operating segments, and include Peripheral Vascular, Access and Oncology/Surgery. As a result, the carrying value of goodwill was allocated to each of the Company's reporting units on a relative fair value basis. The Company completed its annual evaluation of goodwill by reporting unit as of December 31, 2008. The Company's assessment of goodwill impairment indicated that the fair value of each of the Company's reporting units exceeded its carrying value and therefore goodwill in each of the reporting units was not impaired. The fair value of Peripheral Vascular, Access and Oncology/Surgery exceeded its carrying value by 29%, 5% and 3%, respectively. The sum of the fair values of the reporting units was reconciled to the Company's current market capitalization (based upon the Company's stock price) plus an estimated control premium of approximately 19% as of December 31, 2008.

To determine fair value, the Company utilized two market-based approaches and an income approach. Under the market-based approaches, the Company utilized information regarding the Company as well as publicly available industry information to determine earnings multiples and sales multiples. Under the income approach, the Company determined fair value based on estimated future cash flows of each 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. The Company determined the discounted cash flow as the best indicator to determine fair value.

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. Solely for purposes of establishing inputs for the fair value calculations, the Company assumed that the current economic conditions would continue through fiscal year 2010, followed by a recovery period in fiscal years 2011 and 2012. In addition, the Company applied gross margin assumptions consistent with the Company's historical trends at various revenue levels and used a EBITDA exit multiple of 6.5, 7.0 and 8.0 to calculate the terminal value of the Peripheral Vascular, Access and Oncology/Surgery reporting units, respectively, compared to an EBITDA exit multiple of 8.0 used in the prior year. In addition, the Company used a discount rate of 19%, 16% and 19% to calculate the fair value of its Peripheral Vascular, Access and Oncology/Surgery reporting units, respectively. This discount rate is higher than the 14% discount rate used in the prior year, primarily due to the fact that additional risk premiums were added to take into account the economic downturn and specific inherent risks associated with each reporting unit.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE E GOODWILL AND INTANGIBLE ASSETS (continued)**

Since November 2008, the Company's stock market capitalization has generally been lower than its shareholders' equity or book value. However, the Company's reporting units have continued to generate significant cash flow from their operations, and the Company expects that they will continue to do so in fiscal 2010 and beyond. Furthermore, given the relatively small difference between its stock price and its book value per share, the Company believes that a reasonable potential buyer would offer a control premium for the business that would adequately cover the difference between the Company's trading prices and book value.

Even though the Company determined that there was no goodwill impairment as of December 31, 2008, 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 a reporting unit or a significant portion of a reporting unit will be sold or disposed of, would require an interim assessment for some or all of the reporting units prior to the next required annual assessment as of December 31, 2009. 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.

Intangible assets are amortized over their estimated useful lives. The balances of intangible assets are as follows:

|                           | <b>November 30, 2009</b>            |  |                                   | <b>Weighted<br/>avg useful<br/>life<br/>(years)</b> |
|---------------------------|-------------------------------------|--|-----------------------------------|---|
|                           | <b>Gross<br/>carrying<br/>value</b> | <b>Accumulated<br/>amortization<br/>(in thousands)</b> | <b>Net<br/>carrying<br/>value</b> |   |
| Product technologies      | \$ 48,662                           | \$ (10,321)  | \$ 38,341                         | 13.5  |
| Customer relationships    | 31,125                              | (11,143)   | 19,982                            | 7.5   |
| Licenses                  | 6,040                               | (1,810)  | 4,230                             | 9.2   |
| Distributor relationships | 900                                 | (850)  | 50                                | 3.0   |
| Trademarks                | 600                                 | (170)  | 430                               | 10.0  |
|                           | \$ 87,327                           | \$ (24,294)  | \$ 63,033                         |   |

|                           | <b>May 31, 2009</b>                 |  |                                   | <b>Weighted<br/>avg useful<br/>life<br/>(years)</b> |
|---------------------------|-------------------------------------|--|-----------------------------------|---|
|                           | <b>Gross<br/>carrying<br/>value</b> | <b>Accumulated<br/>amortization<br/>(in thousands)</b> | <b>Net<br/>carrying<br/>value</b> |   |
| Product technologies      | \$ 49,159                           | \$ (8,294)   | \$ 40,865                         | 13.5  |
| Customer relationships    | 31,126                              | (9,070)  | 22,056                            | 7.5   |
| Licenses                  | 5,540                               | (1,351)  | 4,189                             | 9.9   |
| Distributor relationships | 900                                 | (700)  | 200                               | 3.0   |
| Trademarks                | 600                                 | (140)  | 460                               | 10.0  |
|                           | \$ 87,325                           | \$ (19,555)  | \$ 67,770                         |   |





**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE F ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

|                                  | <b>Nov 30,<br/>2009</b> | <b>May 31,<br/>2009</b> |
|----------------------------------|-------------------------|-------------------------|
|                                  | <b>(in thousands)</b>   |                         |
| Payroll and related expenses     | \$ 5,898                | \$ 5,944                |
| Sales and franchise taxes        | 1,366                   | 1,125                   |
| Royalties                        | 1,145                   | 1,143                   |
| Fair value of interest rate swap | 1,050                   | 917                     |
| Other                            | 1,770                   | 1,926                   |
| <br>Total                        | <br>\$ 11,229           | <br>\$ 11,055           |

**NOTE G INCOME TAXES**

The Company's effective income tax rate for the three month periods ending November 30, 2009 and November 30, 2008 was 38% and 34%, respectively. The Company's effective income tax rate for the six month periods ending November 30, 2009 and November 30, 2008 was 38% and 36%, respectively. The prior year quarter and year to date benefited from utilization of R&D tax credits. The R&D tax credit expired from the tax law on December 31, 2007. On October 3, 2008, the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 became law. The law retroactively extended the R&D tax credits from January 1, 2008 to December 31, 2009. The retroactive one-time impact is reflected in the Company's prior year second quarter and year to date effective tax rates.

In September 2009, the Company received \$1.7 million in cash as a tax refund related to completion of an examination of the Company's federal income tax returns for fiscal years 2006 and 2007 by the Internal Revenue Service. This refund was primarily related to the tax deduction of costs incurred related to the acquisition of Rita Medical Systems, Inc. and was recorded as a reduction in goodwill during the third quarter of fiscal 2009 when notification from the Internal Revenue Service was received.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE H EARNINGS PER COMMON SHARE**

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

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

|                               | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b> |                         |
|-------------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
|                               | <b>Nov 30,<br/>2009</b>   | <b>Nov 30,<br/>2008</b> | <b>Nov 30,<br/>2009</b> | <b>Nov 30,<br/>2008</b> |
| Basic                         | 24,518,420                | 24,362,450              | 24,472,403              | 24,329,591              |
| Effect of dilutive securities | 210,613                   | 200,298                 | 189,931                 | 206,802                 |
| <b>Diluted</b>                | <b>24,729,033</b>         | <b>24,562,748</b>       | <b>24,662,334</b>       | <b>24,536,393</b>       |

Excluded from the calculation of diluted earnings per common share are options and warrants issued to employees and non-employees to purchase 2,431,567 and 2,387,409 shares of common stock for the three and six months ended November 30, 2009 and 1,377,204 and 1,403,552 for the three and six months ended November 30, 2008, as their inclusion would be antidilutive. The exercise prices of these options were between \$11.16 and \$53.92 at November 30, 2009.

**NOTE I SEGMENT AND GEOGRAPHIC INFORMATION**

The Company has organized its business into three reportable segments: Peripheral Vascular, Access and Oncology/Surgery. The Peripheral Vascular segment is comprised of the venous, angiographic, PTA, drainage and thrombolytic product lines. The Access segment is comprised of the dialysis, ports and PICC product lines. The Oncology/Surgery segment is comprised of the RFA, embolization, Habib and NanoKnife product lines.

Selected information by reportable segment is presented in the following tables (in thousands):

|                     | <b>Three Months Ended</b> |                         | <b>As a Percentage of Net Sales<br/>Three Months Ended</b> |                         |
|---------------------|---------------------------|-------------------------|--|-------------------------|
|                     | <b>Nov 30,<br/>2009</b>   | <b>Nov 30,<br/>2008</b> | <b>Nov<br/>30,<br/>2009</b>                                | <b>Nov 30,<br/>2008</b> |
| Net sales           |                           |                         |  |                         |
| Peripheral Vascular | \$ 23,167                 | \$ 21,770               |  |                         |
| Access              | 16,677                    | 16,069                  |  |                         |
| Oncology/Surgery    | 13,615                    | 10,625                  |  |                         |
| <b>Total</b>        | <b>\$ 53,459</b>          | <b>\$ 48,464</b>        |  |                         |

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|                        |           |           |       |         |
|------------------------|-----------|-----------|-------|---------|
| Gross profit           |           |           |       |         |
| Peripheral Vascular    | \$ 13,308 | \$ 12,628 | 57.4% | 58.0%   |
| Access                 | 9,503     | 9,647     | 57.0% | 60.0%   |
| Oncology/Surgery       | 8,796     | 7,418     | 64.6% | 69.8%   |
| Total                  | \$ 31,607 | \$ 29,693 | 59.1% | 61.3%   |
| Operating income(loss) |           |           |       |         |
| Peripheral Vascular    | \$ 3,012  | \$ 3,618  | 13.0% | 16.6%   |
| Access                 | 2,190     | 2,348     | 13.1% | 14.6%   |
| Oncology/Surgery       | 118       | (1,076)   | 0.9%  | (10.1)% |
| Total                  | \$ 5,320  | \$ 4,890  | 10.0% | 10.1%   |

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE I SEGMENT AND GEOGRAPHIC INFORMATION (cont d)**

|                        | Six Months Ended |                 | As a Percentage of Net Sales<br>Six Months Ended |                    |
|------------------------|------------------|-----------------|--|--------------------|
|                        | Nov 30,<br>2009  | Nov 30,<br>2008 | Nov<br>30,<br>2009                               | Nov<br>30,<br>2008 |
| Net sales              |                  |                 |  |                    |
| Peripheral Vascular    | \$ 44,226        | \$ 40,204       |  |                    |
| Access                 | 32,908           | 31,755          |  |                    |
| Oncology/Surgery       | 26,417           | 20,828          |  |                    |
| Total                  | \$ 103,551       | \$ 92,787       |  |                    |
| Gross profit           |                  |                 |  |                    |
| Peripheral Vascular    | \$ 25,863        | \$ 22,859       | 58.5%  | 56.9%              |
| Access                 | 18,947           | 19,423          | 57.6%  | 61.2%              |
| Oncology/Surgery       | 16,929           | 14,868          | 64.1%  | 71.4%              |
| Total                  | \$ 61,739        | \$ 57,150       | 59.6%  | 61.6%              |
| Operating income(loss) |                  |                 |  |                    |
| Peripheral Vascular    | \$ 5,502         | \$ 5,945        | 12.4%  | 14.8%              |
| Access                 | 3,775            | 4,847           | 11.5%  | 15.3%              |
| Oncology/Surgery       | (382)            | (2,080)         | (1.4)%   | (10.0)%            |
| Total                  | \$ 8,895         | \$ 8,712        | 8.6%   | 9.4%               |

In accordance with accounting policies on disclosure of segment reporting, the internal organization that is used by management for making operating decisions and assessing performance is used as the source of the Company's reportable segments. The accounting policies of the segments are the same as those described in Accounting Policies, Note 1, of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009, filed by the Company on August 14, 2009. The Company's chief operating decision maker evaluates performance based on the reportable segments and utilizes net sales, gross profit and operating income as primary profitability measures. The expenses related to certain shared and corporate activities are allocated to these segments on a percentage of total sales basis or a percentage of operating expense basis, as deemed appropriate.

Total sales for geographic areas are summarized below (in thousands):

|                        | Three Months Ended |                 | Six Months Ended |                 |
|------------------------|--------------------|-----------------|------------------|-----------------|
|                        | Nov 30,<br>2009    | Nov 30,<br>2008 | Nov 30,<br>2009  | Nov 30,<br>2008 |
| Net Sales by Geography |                    |                 |                  |                 |

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|               |           |           |            |           |
|---------------|-----------|-----------|------------|-----------|
| United States | \$ 47,624 | \$ 42,927 | \$ 92,652  | \$ 82,188 |
| International | 5,835     | 5,537     | 10,899     | 10,599    |
| Total         | \$ 53,459 | \$ 48,464 | \$ 103,551 | \$ 92,787 |

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE J FAIR VALUE**

Effective June 1, 2008, the Company adopted an accounting policy regarding fair value. Under this policy, 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. The adoption of this policy had no impact on the Company's financial statements other than the disclosures presented herein.

|         |   |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. Level 1 assets include bank time deposits, mutual funds and U.S. Treasury securities that are traded in an active exchange market. Includes money market funds.  |
| 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. Includes US government securities and corporate bonds. When quoted market prices are unobservable, the Company obtains 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 the Company's 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 that 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 only includes auction rate securities where independent pricing information was not able to be obtained. The Company's 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, the Company utilized a discounted cash flow (DCF) model to derive an estimate of fair value. 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.   |

There were no changes in the level 3 fair value instruments for the six months ended November 30, 2009.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE J FAIR VALUE (cont d)**

|                               | Fair Value Measurements at November 30, 2009 using<br>(in thousands) |           |          |                         |
|-------------------------------|--|-----------|----------|-------------------------|
|                               | Level 1  | Level 2   | Level 3  | Assets at<br>Fair Value |
| <u>Financial Assets</u>       |  |           |          |                         |
| Cash equivalents              | \$ 19,137  | \$        | \$       | \$ 19,137               |
| Marketable securities         |  | 35,922    | 1,850    | 37,772                  |
| Total Financial Assets        | \$ 19,137  | \$ 35,922 | \$ 1,850 | \$ 56,909               |
| <u>Financial Liabilities</u>  |  |           |          |                         |
| Interest rate swap agreements | \$   | \$ 1,050  | \$       | \$ 1,050                |
| Total Financial Liabilities   | \$   | \$ 1,050  | \$       | \$ 1,050                |

|                               | Fair Value Measurements at May 31, 2009 using<br>(in thousands) |           |          |                         |
|-------------------------------|---|-----------|----------|-------------------------|
|                               | Level 1   | Level 2   | Level 3  | Assets at<br>Fair Value |
| <u>Financial Assets</u>       |   |           |          |                         |
| Cash equivalents              | \$ 14,538   | \$ 999    | \$       | \$ 15,537               |
| Marketable securities         |   | 38,428    | 1,850    | 40,278                  |
| Total Financial Assets        | \$ 14,538   | \$ 39,427 | \$ 1,850 | \$ 55,815               |
| <u>Financial Liabilities</u>  |   |           |          |                         |
| Interest rate swap agreements | \$  | \$ 917    | \$       | \$ 917                  |
| Total Financial Liabilities   | \$  | \$ 917    | \$       | \$ 917                  |

In March 2008, FASB issued authoritative guidance which is intended to improve financial reporting about derivative instruments and hedging activities by requiring companies to enhance disclosure about how these instruments and activities affect their financial position, performance and cash flows. This guidance also improves the transparency about the location and amounts of derivative instruments in a company's financial statements and how they are accounted for. The guidance is effective for both interim and annual reporting periods beginning after November 15, 2008. The Company has provided the required disclosures in the November 30, 2009 consolidated financial statements.

The Company is exposed to market risk due to changes in interest rates. To reduce that risk, the Company periodically enters into certain derivative financial instruments to hedge its underlying economic exposure. The Company uses derivative instruments as part of its interest rate risk management strategy. The derivative instruments used are fixed-to-floating rate interest rate swaps, which are subject to fair-value and cash flow hedge accounting treatment. The company recognized interest expense of \$101,000 and \$103,000 for the three and six months ended November 30, 2009, respectively, and \$404,000 and \$484,000 for the three and six months ended November 30, 2008, respectively, on the fair



value hedge.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2009 and November 30, 2008****(unaudited)****NOTE K 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 reported at fair value, with unrealized gains and losses excluded from operations and reported as a component of accumulated other comprehensive income (loss), net of the related tax effects, in stockholders' equity. Cost is determined using the specific identification method. The Company holds 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 the Company may be unable to liquidate its position in the securities in the near term. At November 30, 2009 and May 31, 2009, the Company had \$1.85 million in investments in two auction rate securities issued by New York state and local government authorities that had failed auctions. The authorities are current in their interest payments on the securities.

Marketable securities as of November 30, 2009 consisted of the following:

|                                    | <b>Amortized<br/>cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|------------------------------------|---------------------------|---------------------------------------|--|-----------------------|
|                                    |                           | <b>(in thousands)</b>                 |  |                       |
| Available-for-sales securities     |                           |                                       |  |                       |
| U.S. government agency obligations | \$ 27,377                 | \$ 100                                | \$ (38)                                | \$ 27,439             |
| Corporate bond securities          | 10,240                    | 101                                   | (8)                                    | 10,333                |
|                                    | \$ 37,617                 | \$ 201                                | \$ (46)                                | \$ 37,772             |

Marketable securities as of May 31, 2009 consisted of the following:

|                                    | <b>Amortized<br/>cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|------------------------------------|---------------------------|---------------------------------------|--|-----------------------|
|                                    |                           | <b>(in thousands)</b>                 |  |                       |
| Available-for-sales securities     |                           |                                       |  |                       |
| U.S. government agency obligations | \$ 29,592                 | \$ 113                                | \$ (27)                                | \$ 29,678             |
| Corporate bond securities          | 10,546                    | 60                                    | (6)                                    | 10,600                |
|                                    | \$ 40,138                 | \$ 173                                | \$ (33)                                | \$ 40,278             |

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE L LITIGATION**

***AngioDynamics v. Vascular Solutions***

On July 29, 2009, the Company filed a complaint in the United States District Court for the District of Delaware against Vascular Solutions, Inc. The complaint alleges that Vascular Solutions' Vari-Lase Bright-Tip fiber product line infringes on claims of two of the Company's patents, US 7,273,478 and US 7,559,329 (the '478 and '329 patents'). These patents relate to methods of treating varicose veins using endovenous laser treatments. Vascular Solutions has filed with the U.S. Patent & Trademark Offices (PTO) requests for inter partes reexamination of the '478 and '329 patents. The PTO has initiated reexamination of the '478 patent, but has not yet acted on the request to reexamine the '329 patent. Vascular Solutions has filed a motion to transfer the case to the federal court in Minnesota, and the Company is opposing that motion.

***AngioDynamics v. biolitec AG and Wolfgang Neuberger***

On January 2, 2008, the Company 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, the Company is seeking judgment against biolitec for defense and indemnification in two lawsuits which have been settled by the Company. The Company's claims arise out of a Supply and Distribution Agreement entered into between the Company and biolitec on April 1, 2002. Biolitec has filed counter-claims against the Company in this action, seeking reimbursement of approximately \$1.6 million in alleged past defense costs paid by biolitec in one of the settled cases. In October 2009, the Company commenced an action in the United States District Court for the District of Massachusetts entitled AngioDynamics, Inc. v. biolitec AG and Wolfgang Neuberger. This action seeks to recover against biolitec, Inc.'s corporate parent and CEO for tortiously interfering with biolitec, Inc.'s contractual obligation to defend and indemnify the Company.

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

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE M RECENTLY ADOPTED ACCOUNTING POLICIES**

In November 2007, the FASB issued authoritative guidance which establishes disclosure requirements for arrangements entered into by companies to collaboratively develop, manufacture, or market products and which also establishes income statement classification of collaboration transactions between the parties. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

In December 2007, the FASB revised the authoritative guidance for business combinations, which establishes principles and requirements for how the acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired or gain from a bargain purchase; and determines what information to disclose to enable readers of the financial statements to evaluate the nature and financial effects of the business combination. This guidance is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year) and will be applied prospectively, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of this policy would also apply the provisions of this policy. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

In December 2007, the FASB issued authoritative guidance which establishes reporting standards that require companies to more clearly identify in the financial statements and disclose the impact of noncontrolling interest in a consolidated subsidiary on the consolidated financial statements. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

The FASB issued authoritative guidance for fair value measurements in September 2006, which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value in the financial statements. In February 2008, the FASB issued authoritative guidance which deferred the effective date of this guidance for fair value measurements for one year for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company has adopted this guidance for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis effective June 1, 2009. The adoption of this guidance had no impact on the Company's consolidated financial statements.

In June 2008, the FASB issued authoritative guidance to determine whether instruments granted in share-based payment transactions are participating securities. This guidance addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two class method. This guidance requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE M RECENTLY ADOPTED ACCOUNTING POLICIES (cont d)**

In June 2008, the FASB issued authoritative guidance which establishes a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. This guidance determines that warrants which a company issues that contain a strike price adjustment feature results in the instruments no longer being considered indexed to the company's own stock. Accordingly, adoption of this guidance will change the current classification (from equity to liability) and the related accounting for such warrants outstanding at that date. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

In April 2009, the FASB issued authoritative guidance which provides instruction for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability and for identifying circumstances that indicate a transaction is not orderly. Additionally, the guidance requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value. The guidance is effective for interim and annual periods ending after June 15, 2009 (the Company's 2010 fiscal year) and will be applied prospectively. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

In April 2009, the FASB issued authoritative guidance which amends and clarifies the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance was adopted by the Company effective June 1, 2009 and will be applied prospectively.

In April 2009, the FASB issued authoritative guidance which amends the other-than-temporary guidance for debt securities and requires additional interim and annual disclosures of other-than-temporary impairments on debt and equity securities. An other-than-temporary impairment of a debt security shall be considered to have occurred if an entity (1) intends to sell the debt security, (2) more likely than not will be required to sell the security before recovery of its amortized cost basis or (3) does not expect to recover the entire amortized cost basis of the security even if it does not intend to sell the security. Once it is determined that an other-than-temporary impairment has occurred, the policy provides guidance on when to recognize the other-than-temporary impairment in earnings or in other comprehensive income. Depending on which of the above factor(s) caused the impairment to be considered other than-temporary, (1) the entire shortfall of the security's fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. This guidance is effective for interim and annual periods ending after June 15, 2009 (the Company's 2010 fiscal year) and is required to be applied retrospectively to existing investments with a cumulative adjustment to retained earnings and prospectively to new investments purchased after the effective date. The Company has adopted this guidance effective June 1, 2009 and the adoption had no impact on the Company's consolidated financial statements.

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**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**November 30, 2009 and November 30, 2008**

**(unaudited)**

**NOTE M RECENTLY ADOPTED ACCOUNTING POLICIES (cont d)**

In May 2009, the FASB issued authoritative guidance which requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, this guidance requires an entity to disclose the date through which subsequent events have been evaluated. This guidance is effective for interim and annual periods ending after June 15, 2009 (the Company's 2010 fiscal year) and is required to be applied prospectively. The Company has provided the additional disclosures necessary to the consolidated financial statements in this report on the Company's second quarter of fiscal year 2010.

In June 2009, the FASB issued the FASB Accounting Standards Codification (Codification). The Codification will become the single source for all authoritative GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. As the Codification was not intended to change existing GAAP, it will not have any impact on the Company's consolidated financial statements.

In October 2009, the FASB updated the revenue recognition accounting guidance relating to the accounting treatment for revenue arrangements that involve more than one deliverable or unit of accounting. The updated guidance allows companies to allocate arrangement considerations in multiple deliverable arrangements in a manner that better reflects the economics of the transaction by revising certain thresholds for separation, and providing criteria for allocation of revenue among deliverables. The updated guidance is effective for arrangements entered into in fiscal years beginning on or after June 15, 2010 (the Company's 2012 fiscal year), but may be adopted early. The Company has chosen early adoption effective with the current quarter. The adoption had no material effect on the Company's consolidated financial statements.

In October 2009, the FASB updated the accounting guidance relating to certain revenue arrangements that include software elements. The updated guidance clarifies the accounting for products that include both tangible product and software elements. This amendment is effective for fiscal years beginning after June 15, 2010 (the Company's 2012 fiscal year), but companies are required to adopt these amendments in the same period as the amendments relating to revenue arrangements that involve more than one deliverable or unit of accounting. The Company has therefore adopted the amendment effective with the current quarter. The adoption had no material effect on the Company's consolidated financial statements.

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### **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," or variations of such 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 the 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 for the fiscal year ended May 31, 2009.

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.

#### **Overview**

AngioDynamics is a provider of innovative medical devices used in minimally invasive, image-guided procedures to treat peripheral vascular disease, or PVD, and local oncology therapy options for treating cancer, including radiofrequency ablation ("RF" or "RFA") systems, irreversible electroporation ("IRE") surgical resection systems and embolization products for treating benign and malignant tumors. We design, develop, manufacture and market a broad line of therapeutic and diagnostic devices that enable interventional physicians (interventional radiologists, vascular surgeons, interventional and surgical oncologists and others) to treat PVD, tumors, and other non-coronary diseases. For the past five fiscal years, over 95% of our net sales were from single-use, disposable products.

Our business is organized in three reportable segments: Peripheral Vascular, Access and Oncology/Surgery. The Peripheral Vascular segment is comprised of the venous, angiographic, PTA, drainage and thrombolytic product lines. The Access segment is comprised of the dialysis, ports and PICC product lines. The Oncology/Surgery segment is comprised of the RFA, embolization, Habib and NanoKnife product lines.

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We sell our broad line of quality devices in the United States through a direct sales force and outside the U.S. through a combination of direct sales and distributor relationships. As of November 30, 2009, our sales organization numbered 141 in the U.S. and 18 outside the U.S. For both the three and six months ended November 30, 2009 and November 30, 2008, approximately 11% of our net sales were from markets outside the United States.

Our growth depends in large part on the continuous introduction of new and innovative products, together with ongoing enhancements to our existing products, through internal product development, technology licensing and strategic alliances. We recognize the importance of, and intend to continue to make investments in, research and development. For the three and six months ended November 30, 2009, our research and development ( R&D ) expenditures were \$4.8 million and \$9.6 million, which represented 8.9% and 9.3%, respectively of net sales. This is compared to \$4.4 million and \$8.4 million in the prior year periods which constituted 9.1%, and 9.0%, respectively, of net sales. R&D activities include research, product development, clinical studies, intellectual property affairs and regulatory affairs. We expect that our R&D expenditures will be between 9% and 10% of net sales in fiscal 2010 and 2011 primarily due to investment in IRE technology. However, downturns in our business could cause us to reduce our R&D spending.

We are also seeking to grow through selective acquisitions of complementary businesses and technologies. In January 2007, we acquired RITA Medical Systems, Inc. This acquisition created a diversified medical technology company with a broad line of access, diagnostic and therapeutic products that enable interventional physicians and surgeons to treat peripheral vascular disease and cancerous tumors. In addition, in May 2008 we acquired irreversible electroporation (IRE) technology which will be complementary to RITA's diverse offering of local oncology therapies, including its market-leading RFA systems, Habib Sealer™ resection devices and LC Beads™ for tumor embolization. We are in the process of commercializing the IRE technology and recently introduced the NanoKnife generator. In June 2008, we completed the acquisition of certain U.S. and U.K. assets of Diomed, Inc. With this acquisition, we substantially strengthened our position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with our existing venous product line provides us with a comprehensive venous product offering. In January 2009, we completed the acquisition of certain assets of FlowMedica, Inc. providing us with the Benephit product line, a therapeutic approach to deliver drugs directly to the kidneys in order to prevent and treat acute kidney injury, in the emerging field of Targeted Renal Therapy.

Except to the extent we can further use our cash and short term investments or our equity securities as acquisition capital, we will require additional equity or debt financing to fund any future significant acquisitions.

In recent years, we expanded our manufacturing and warehousing facilities in Queensbury, New York, to provide us with significantly greater manufacturing and warehousing capacity and to accommodate additional research, development and administrative requirements. We are not currently operating our manufacturing facilities at full capacity. In July 2009, we entered into an agreement to lease, for a ten year period plus 2 five year renewal options, a 52,500 square foot office building in Latham, New York that will house our corporate headquarters and certain business operations. The building will be constructed by a commercial real estate developer with a targeted occupancy date of March 2010.

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



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### **Recent Developments**

#### *Distribution Agreement Extension*

We sell the embolization product, LC Bead, pursuant to a Supply and Distribution Agreement with Biocompatibles UK Limited that grants us exclusive distribution rights to the product in the United States. The Agreement was entered into in April 2006 and was amended in October 2007, June 2008 and March 2009. Under the Agreement, we are required to purchase certain minimum levels of product from Biocompatibles. The March 2009 Amendment specifies distribution rights until December 31, 2010. During our fiscal 2009, sales of LC Bead accounted for approximately 7% of our net sales, and during the first 2 quarters of our fiscal 2010, sales of LC Bead accounted for approximately 9% of our net sales. We are in discussions with Biocompatibles concerning an amendment to the Agreement that would extend distribution rights beyond December 31, 2010, however, there can be no assurance that we will be able to reach an agreement to extend distribution rights on terms acceptable to us or at all. Failure to reach an agreement to extend the distribution rights could have an adverse effect on our results of operations.

#### *CEO Transition*

On January 20, 2009, we entered into an Employment Agreement and Non-Statutory Stock Option Agreement with our then chief executive officer that provided, among other things, for a transition to a new chief executive officer. The transition to the new chief executive was completed in the third quarter of fiscal 2009. The former chief executive officer did not have an operating role after February 28, 2009. Accordingly, we recorded a provision in fiscal 2009 of approximately \$2.9 million in general and administrative expenses for all current and future costs associated with the aforementioned Employment Agreement and Non-Statutory Stock Option Agreement and certain costs associated with the recruitment of a new chief executive officer. The new CEO commenced employment with us on March 1, 2009.

#### *Acquisition of FlowMedica, Inc.*

On January 12, 2009, we completed the acquisition of certain assets of FlowMedica, Inc. for approximately \$1.75 million in cash and a contingent payment based on fiscal 2011 sales of FlowMedica products. With this acquisition, we purchased the Benephit product line, a therapeutic approach to deliver drugs directly to the kidneys in order to prevent and treat acute kidney injury, in the emerging field of Targeted Renal Therapy. Intangible assets acquired totaled approximately \$1.3 million which have been identified as product technologies (10-year weighted average useful life). Inventory acquired totaled approximately \$400,000. The acquisition has been accounted for as a purchase and accordingly, we have included the results of operations in the financial statements effective January 12, 2009. The pro-forma effects of the acquisition were not material to our income statement and balance sheet. Ten employees of FlowMedica, Inc. became employees upon completion of the acquisition.

#### *Acquisition of certain assets of Diomed*

On June 17, 2008, we completed the acquisition of certain U.S. assets of Diomed, Inc. and UK assets of Diomed UK Limited., in separate transactions, for an aggregate purchase price of approximately \$11.1 million in cash including capitalized acquisition costs. With this acquisition, we substantially strengthened our position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with our existing venous product line provides us with a comprehensive venous product offering. The total of the net tangible assets acquired was \$5.5 million.

Goodwill recorded as a result of these acquisitions was approximately \$1.9 million. Intangibles assets acquired, other than goodwill, totaled approximately \$3.7 million of which \$3.6 million has been identified as customer relationships (8 -year estimated weighted average useful life) and \$100,000 has been identified as product technologies (10 -year estimated weighted average useful life).

The acquisition has been accounted for as a purchase and, accordingly, we have included the results of operations in the financial statements effective June 17, 2008. The pro-forma effects of the Diomed acquisition on our income statement and balance sheet were not material. Thirty five employees of Diomed became employees of ours upon completion of the acquisition.

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### *Acquisition of Oncobionic, Inc.*

On May 9, 2008, we completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. pursuant to the terms of the Stock Purchase Agreement entered into on October 12, 2006. The closing of the acquisition came as a result of the successful use of irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue in April 2008.

Under the October 2006 Stock Purchase Agreement, we agreed to pay a total purchase price of \$25.4 million, including \$400,000 of assumed liabilities. We made payments of \$5.0 million upon the execution of the stock purchase agreement in October 2006, \$10.0 million on May 9, 2008 upon closing the acquisition, \$5.0 million in November 2008 and \$5.0 million in November 2009.

The Stock Purchase Agreement also provides for future royalty payments due on net sales of any catheter-based products sold by us that incorporate irreversible electroporation technology ( IRE ). We hold a license to such technology under a license agreement with the Regents of the University of California (the UC License ).

We have accounted for the acquisition of Oncobionic as a purchase under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of Oncobionic were recorded as of the acquisition date, at their respective fair values, and consolidated with those of AngioDynamics. Substantially all of the purchase price was recorded as product technology and is being amortized over a 15 year useful life. We have recorded goodwill and a deferred tax liability of \$9.3 million. In future periods the deferred tax liability will be reduced to offset the tax impact of non-deductible amortization expense on the intangible assets acquired.

**Table of Contents****Results of Operations*****Three Months ended November 30, 2009 and November 30, 2008***

For the second quarter of fiscal 2010, we reported net income of \$3.1 million, or \$0.13 per diluted common share, on net sales of \$53.5 million, compared with net income of \$2.9 million, or \$0.12 per diluted common share, on net sales of \$48.5 million in the second quarter of the prior year. Gross profit was 59.1% in the second quarter of fiscal 2010 compared with 61.3% in the second quarter of the prior year.

The following table sets forth certain operating data as a percentage of net sales:

|                                     | <b>Three Months Ended</b> |                         |
|-------------------------------------|---------------------------|-------------------------|
|                                     | <b>Nov 30,<br/>2009</b>   | <b>Nov 30,<br/>2008</b> |
| Net sales                           | 100.0%                    | 100.0%                  |
| Gross profit                        | 59.1%                     | 61.3%                   |
| Research and development expenses   | 8.9%                      | 9.1%                    |
| Sales and marketing expenses        | 28.1%                     | 29.5%                   |
| General and administrative expenses | 7.5%                      | 7.9%                    |
| Amortization of intangibles         | 4.6%                      | 4.6%                    |
| Operating income                    | 10.0%                     | 10.1%                   |
| Other income(expenses)              | (0.5)%                    | (1.0)%                  |
| Net income                          | 5.9%                      | 6.0%                    |

**Net sales.** Net sales are derived from the sale of our products and related freight charges, less discounts and returns. Net sales for the fiscal second quarter of 2010 increased by 10%, or \$5.0 million, to \$53.5 million from \$48.5 million in the fiscal second quarter of 2009. The growth in net sales was primarily attributable to increased unit sales of LC Bead, sales of Benephit renal infusion products acquired in the FlowMedica acquisition, sales of Nanoknife IRE generators and electrodes and increased sales of Habib resection devices.

From a business unit perspective, Peripheral Vascular sales increased 6% to \$23.2 million from \$21.8 million. This increase was driven primarily by \$832,000 in sales of Benephit renal infusion products acquired in the FlowMedica acquisition. Access sales were \$16.7 million, an increase of 4%, primarily attributable to increased sales of dialysis products. Oncology/Surgery sales were \$13.6 million, an increase of 28% over the prior year primarily as a result of strong sales of our embolization product, LC Bead, sales of Nanoknife IRE generators and electrodes and increased sales of Habib resection devices. Nanoknife IRE sales totaled \$700,000 in the second quarter of fiscal 2010.

From a geographical perspective, US sales increased \$4.7 million or 11% in the second quarter of fiscal 2010 to \$47.6 million from \$42.9 million a year ago. This increase is primarily attributable to increased unit sales of LC Bead, sales of Benephit renal infusion products and sales of Nanoknife IRE generators and electrodes. International sales were \$5.8 million in the fiscal second quarter of 2010, up 5% from \$5.5 million in the same period of fiscal 2009. Increased sales of RF electrodes and the Habib resection device comprised the majority of this increase.

**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. Our gross profit as a percentage of sales decreased to 59.1% for the second quarter of 2010 from 61.3% for the same period in the prior year. The decrease in gross profit percentage was primarily due to Access products sold at lower average selling prices due to the competitive pricing environment and product cost increases on purchased devices, and to Oncology/Surgery products, where the lower margin LC Bead product constituted an increased percentage of segment sales.

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**Research and development expenses.** Research and development ( R&D ) expenses include costs to develop new products, enhance existing products, validate new and enhanced products, manage clinical affairs and register and maintain our intellectual property. R&D expenses increased by \$338,000, or 8%, to \$4.8 million in the second quarter of 2010. The increase is primarily due to increased staffing to support the business unit structure. \$1.8 million was spent on IRE R&D activities in the second quarter of 2010. As a percentage of net sales, R&D expenses were 8.9% for the fiscal second quarter of 2010, compared with 9.1% for the same prior year period. At November 30, 2009, we employed 79 people in R&D activities compared with 70 people in the prior year quarter.

**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 samples. S&M expenses increased \$727,000 or 5% to \$15.0 million in the second quarter of fiscal 2010. Sales expenses accounted for \$516,000 of the increase, which represented a 5% increase over the prior year, primarily due to personnel expenses related to the increased number of sales territories under the program to expand our Peripheral Vascular and Access sales forces and to begin commercial sales of IRE products. 21 new sales representatives have been added since we began implementing the business unit strategy at the beginning of fiscal 2009.

Marketing expenses increased approximately \$211,000, or 6%, over the prior year period, primarily due to IRE marketing activities, increased headcount to support the business unit structure, increased headcount for customer service functions to support increasing business demands and the start up of an internal training function. As a percentage of net sales, S&M expenses were 28.1% for the fiscal second quarter of 2010, compared with 29.5% for the prior year period. \$420,000 was spent on IRE sales and marketing activities in the second quarter of fiscal 2010. At November 30, 2009, we employed 203 people in sales and marketing activities compared with 184 people a year ago.

**General and administrative expenses.** General and administrative ( G&A ) expenses include executive management, finance, accounting, legal, human resources and information technology and the administrative and professional costs associated with those activities. G&A expenses increased \$210,000, or 5%, to \$4.0 million in the second quarter of fiscal 2010 due to increased personnel and other infrastructure costs to support the expanded business. G&A expenses were 7.5% of net sales compared with 7.9 % for the prior year second fiscal quarter. As of November 30, 2009, we employed 56 people in general and administrative activities compared with 51 people a year ago.

**Amortization of intangibles.** Amortization of intangibles increased \$209,000 to \$2.4 million in the second fiscal quarter of 2010 from \$2.2 million in the prior year primarily due to amortization related to acquisition of the Flow Medica product line. Amortization of IRE intangibles was \$432,000 in the second quarter of fiscal 2010.

**Operating income.** Operating income was \$5.3 million and \$4.9 million for the second quarter of fiscal 2010 and 2009, respectively. As a percentage of sales, operating income for the second quarter of 2010 was 10.0% compared with 10.1% in the prior year same period.

**Other income (expenses).** Other income and expenses for the second quarter of fiscal 2010 improved \$210,000 to expense of \$290,000 compared with expense of \$500,000 in the same period a year ago. This improvement is primarily due to foreign exchange gains in the current period compared with foreign exchange losses a year ago, and improved performance on an interest rate swap in the fiscal second quarter of 2010 compared with a year ago, offset by decreased interest income in fiscal 2010.

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**Income taxes.** Our effective tax rate was 38% for the fiscal second quarter of 2010 compared with 34% for the same prior year period. The prior year's quarter benefited from the retroactive renewal of the research credit that expired on December 31, 2007. The retroactive one-time impact was reflected in our second quarter 2009 tax rate.

**Net income.** For the second quarter of 2010, we reported net income of \$3.1 million, an increase of \$200,000 from net income of \$2.9 million for the prior year first quarter.

### *Six Months ended November 30, 2009 and November 30, 2008*

For the first six months of fiscal 2010, we reported net income of \$5.2 million, or \$0.21 per diluted common share, on net sales of \$103.6 million, compared with net income of \$5.1 million, or \$0.21 per diluted common share, on net sales of \$92.8 million in the first six months of the prior year. Gross profit was 59.6% in the first six months of fiscal 2010 compared with 61.6% in the first six months of the prior year.

The following table sets forth certain operating data as a percentage of net sales:

|                                     | <b>Six Months Ended</b> |                         |
|-------------------------------------|-------------------------|-------------------------|
|                                     | <b>Nov 30,<br/>2009</b> | <b>Nov 30,<br/>2008</b> |
| Net sales                           | 100.0%                  | 100.0%                  |
| Gross profit                        | 59.6%                   | 61.6%                   |
| Research and development expenses   | 9.3%                    | 9.0%                    |
| Sales and marketing expenses        | 29.4%                   | 29.8%                   |
| General and administrative expenses | 7.8%                    | 8.6%                    |
| Amortization of intangibles         | 4.6%                    | 4.8%                    |
| Operating income                    | 8.6%                    | 9.4%                    |
| Other income (expenses)             | (0.4)%                  | (0.8)%                  |
| Net income                          | 5.1%                    | 5.5%                    |

**Net sales.** Net sales for the first six months of fiscal 2010 increased by 12%, or \$10.8 million, to \$103.6 million from \$92.8 million in the comparable 2009 period. The growth in net sales was primarily attributable to increased unit sales of LC Bead, sales of Benephit renal infusion products acquired in the FlowMedica acquisition, increased sales of laser ablation products and sales of Nanoknife IRE generators and electrodes.

From a business unit perspective, Peripheral Vascular sales increased 10% to \$44.2 million from \$40.2 million. This increase was driven primarily by \$1.5 million in sales of Benephit renal infusion products acquired in the FlowMedica acquisition and increased unit sales of laser ablation products. Access sales were \$32.9 million, an increase of 4%, primarily attributable to increased unit sales of SmartPort CT and sales of the recently introduced DuraMax catheter product. Oncology/Surgery sales were \$26.4 million, an increase of 27% over the prior year primarily as a result of strong sales of our embolization product, LC Bead, sales of Nanoknife IRE generators and electrodes and increased RF product sales. Nanoknife IRE sales totaled \$776,000 in the first six months of fiscal 2010.

From a geographical perspective, US sales increased \$10.5 million or 13% in the first six months of 2010 to \$92.7 million from \$82.2 million a year ago. This increase is primarily attributable to increased unit sales of LC Bead, sales of Benephit renal infusion products acquired in the FlowMedica acquisition, increased unit sales of the SmartPort CT, sales of the recently introduced DuraMax catheter product and increased unit sales of laser ablation products, including those acquired from Diomed. International sales were \$10.9 million in the first six months of 2010 compared with \$10.6 million in the comparable 2009 period. Increased unit sales of RF products and Habib resection devices were the primary growth drivers for this geographic segment.

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**Gross profit.** Our gross profit as a percentage of sales decreased to 59.6% for the first six months of 2010 from 61.6% for the same period in the prior year. The decrease in gross profit percentage was primarily due to Access products sold at lower average selling prices due to the competitive pricing environment and product cost increases on purchased devices, and to Oncology/Surgery products, where the lower margin LC Bead product constituted an increased percentage of segment sales and lower gross margin on RF products.

**Research and development expenses.** R&D expenses increased by \$1.2 million, or 15%, to \$9.6 million in the first six months of 2010. The increase is primarily due to increased staffing to support the business unit structure, including increased engineering personnel to support IRE development and commercialization activities. For the first six months of fiscal 2010, \$3.6 million was spent on IRE R&D activities. As a percentage of net sales, R&D expenses were 9.3% for the first six months of fiscal 2010, compared with 9.0% for the same prior year period.

**Sales and marketing expenses.** S&M expenses increased \$2.8 million or 10% to \$30.4 million in the first six months of fiscal 2010. Sales expenses accounted for \$1.8 million of the increase, which represented an 8% increase over the prior year, primarily due to personnel expenses related to the increased number of sales territories under the program to expand our Peripheral Vascular and Access sales forces and to begin commercial sales of IRE products.

Marketing expenses increased approximately \$1.0 million, or 15%, over the prior year period, primarily due to IRE marketing activities, increased headcount to support the business unit structure and the start up of an internal training function. \$777,000 was spent on IRE sales and marketing activities in the first six months of fiscal 2010. As a percentage of net sales, S&M expenses were 29.4% for the fiscal first six months of 2010, compared with 29.8% for the prior year period.

**General and administrative expenses.** G&A expenses increased \$160,000, or 2%, to \$8.1 million in the first six months of 2010 due to increased personnel and other infrastructure costs to support our growth. As a percentage of net sales, G&A expenses were 7.8% of net sales compared with 8.6 % for the prior year period, reflecting the completion of acquisition integration activities.

**Amortization of intangibles.** Amortization of intangibles increased \$230,000 for the first six months of fiscal 2010 as compared to the prior year period primarily due to amortization related to acquisition of the Flow Medica product line. Amortization of IRE intangibles was \$864,000 in the first six months of fiscal 2010.

**Operating income.** Operating income was \$8.9 million and \$8.7 million for the first six months of fiscal 2010 and 2009, respectively. As a percentage of sales, operating income for the first six months of 2010 was 8.6% compared with 9.4% in the prior year period.

**Other income (expenses).** Other income and expenses for the first six months of fiscal 2010 improved \$296,000 to expense of \$455,000 compared with expense of \$751,000 in the same period of the prior year. This improvement is primarily due to foreign exchange gains in the current period compared with losses a year ago and improved performance on an interest rate swap in the first six months of fiscal 2010 compared with a year ago, offset by decreased interest income in fiscal 2010.

**Income taxes.** Our effective tax rate was 38% for the first six months of 2010 compared with 36% for the first six months of fiscal 2009. The prior year period benefited from the retroactive renewal of the research credit which expired on December 31, 2007. The retroactive one-time impact was reflected in our 2009 year to date tax rate.

**Net income.** For the first six months of 2010, we reported net income of \$5.2 million, an increase of \$122,000 from net income of \$5.1 million for the prior year period.

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### **Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities totaled \$74.0 million at November 30, 2009, compared with \$68.2 million at May 31, 2009. Marketable securities are comprised of U.S. government issued or guaranteed securities, corporate bonds and auction rate securities. At November 30, 2009, total debt was \$6.9 million comprised of short and long-term bank debt that financed our facility expansions in Queensbury, New York. This compared with \$7.1 million at May 31, 2009.

Net cash provided by operating activities for the six months ended November 30, 2009 was \$12.4 million compared with \$6.1 million in the same prior year period. Cash generated from operating activities during the first six months of fiscal year 2010 was primarily the result of net income and the effect on net income of non cash items, such as depreciation and amortization, the provision for deferred income taxes and stock-based compensation, as well as a decrease in accounts receivable, offset by increases in inventories and decreases in accounts payable and accrued liabilities. The prior year included payment of \$6.7 million to settle litigation.

Net cash used in investing activities was \$4.9 million for the six months ended November 30, 2009 compared with \$9.5 million for the same prior year period. The net cash used in the first six months of 2010 consisted of the final purchase price payment of \$5.0 million to Oncobionic and net proceeds from the sale, maturity and purchase of available-for-sale short term investments. The prior year consisted of similar components, as well as the \$10.1 million purchase cost of Diomed assets and a \$5.0 million purchase price payment to Oncobionic.

Net cash provided by financing activities was \$826,000 for the six months ended November 30, 2009 compared with cash used in financing activities of \$8.7 million for the comparable prior year period. Cash provided by financing activities for the six months ended November 30, 2009 primarily consisted of proceeds from purchases under the employee stock purchase plan ( ESPP ). The prior year period s use of cash for financing activities primarily consisted of repayment of long term debt and convertible note obligations of \$9.8 million, offset by proceeds from the exercise of stock options and purchases under the ESPP of \$1.1 million.

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 for our fiscal year ended May 31, 2009.

During the six months ended November 30, 2008, the Convertible Notes assumed in the acquisition of RITA on January 29, 2007 with an aggregate principal amount of \$9.7 million matured and were paid in cash.

On May 9, 2008, we completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. pursuant to the terms of a stock purchase agreement entered into on October 12, 2006. The closing of the acquisition came as a result of the successful use of Oncobionic s irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue in April 2008. Under this stock purchase agreement, we agreed to pay a total purchase price of \$25.4 million, including \$400,000 of assumed liabilities. We made a payment of \$5.0 million upon the execution of the stock purchase agreement in October 2006. We paid \$10.0 million on May 9, 2008 upon the closing of the acquisition, \$5.0 million in November 2008 and \$5.0 million in November 2009.

In July 2009, we entered into an agreement to lease, for a ten year period plus 2 five year renewal options, a 52,500 square foot office building in Latham, New York that will house our corporate headquarters and certain business operations. The building will be constructed by a commercial real estate developer with a targeted occupancy date of March 2010. The agreement terms are for an annual rent of \$857,321 for the first five years and \$943,054 for the next five years, plus the payment of customary building operating expenses. The lease commencement date coincides with the date of occupancy.

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

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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, we do not currently engage in any other hedging or market risk management tools.

At November 30, 2009, we maintained variable interest rate financing of \$6.9 million in connection with our facility expansions. We have limited our exposure to interest rate risk by entering into interest rate swap agreements with a bank under which we agreed to pay the bank fixed annual interest rate of 4.45% and 5.06% and the bank assumed our variable interest payment obligations under the financing.

Nearly all of our sales have historically been denominated in United States dollars. In fiscal 2007 we began to make sales in other currencies, particularly the Euro, GB pound and Canadian dollar. Approximately 4% of our sales in the first six months of fiscal 2010 were denominated in currencies other than the US dollar, primarily the Euro and GB pound. We currently have no significant direct foreign currency exchange risk.

Our excess cash is invested in highly liquid, short-term, investment grade securities with maturities primarily of less than two years. These investments are not held for speculative or trading purposes. Changes in interest rates may affect the investment income we earn on cash, cash equivalents and marketable securities and therefore affect our cash flows and results of operations. We hold investments in auction rate securities ( ARS ) in order to generate higher than typical money market investments. ARS typically are high credit quality, generally achieved with municipal bond insurance. Credit risks are eased by the historical track record of bond insurers, which back a majority of this market. Sell orders for any security traded through an auction process could exceed bids. Such instances are usually the result of a drastic deterioration of issuer credit quality. Should there be a failed auction, we may be unable to liquidate our position in the securities in the near term. We have \$1.85 million in investments in two auction rate securities issued by New York state and local government authorities that have failed auctions. The authorities are current in their interest payments on the securities.

We are party to legal actions that arise in the ordinary course of business as described in Note L.

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

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

#### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting in the fiscal quarter ended November 30, 2009 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. Vascular Solutions***

On July 29, 2009, we filed a complaint in the United States District Court for the District of Delaware against Vascular Solutions, Inc. The complaint alleges that Vascular Solutions' Vari-Lase Bright-Tip fiber product line infringes on claims of two of our patents, US 7,273,478 and US 7,559,329 (the '478 and '329 patents). These patents relate to methods of treating varicose veins using endovenous laser treatments. Vascular Solutions has filed with the U.S. Patent & Trademark Offices (PTO) requests for inter partes reexamination of the '478 and '329 patents. The PTO has initiated reexamination of the '478 patent, but has not yet acted on the request to reexamine the '329 patent. Vascular Solutions has filed a motion to transfer the case to the federal court in Minnesota, and we are opposing that motion.

***AngioDynamics v. biolitec AG and Wolfgang Neuberger***

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 are seeking judgment against biolitec for defense and indemnification in two lawsuits which have previously settled. Our claims arise out of a Supply and Distribution Agreement entered into between us and biolitec on April 1, 2002. Biolitec has filed counter-claims against us in this action, seeking reimbursement of approximately \$1.6 million in alleged past defense costs paid by biolitec in one of the settled cases. 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. In this action we seek to recover against biolitec, Inc.'s corporate parent and CEO for tortiously interfering with biolitec, Inc.'s contractual obligation to defend and indemnify us.

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our annual report on Form 10-K for the fiscal year ended May 31, 2009. We are party to other legal actions that arise in the ordinary course of business. We believe that any liability resulting from any currently pending litigation will not, individually or in the aggregate, have a material adverse effect on our business, financial condition, results of operations, or cash flows. The liability resulting from any currently pending litigation, could individually, or in the aggregate, have a material adverse effect on our results of operations or cash flows in the period settled.

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### **Item 1A. Risk Factors.**

In addition to the risk factors set forth below and the other 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 for our fiscal year ended May 31, 2009 which sets 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.

#### ***Failure to reach an agreement to extend our distribution rights to LC Bead could have an adverse effect on our results of operations.***

We sell the embolization product, LC Bead, pursuant to a Supply and Distribution Agreement with Biocompatibles UK Limited that grants us exclusive distribution rights to the product in the United States. The Agreement was entered into in April 2006 and was amended in October 2007, June 2008 and March 2009. Under the Agreement, we are required to purchase certain minimum levels of product from Biocompatibles. The March 2009 Amendment specifies distribution rights until December 31, 2010. During our fiscal 2009, sales of LC Bead accounted for approximately 7% of our net sales, and during the first 2 quarters of our fiscal 2010, sales of LC Bead accounted for approximately 9% of our net sales. We are in discussions with Biocompatibles concerning an amendment to the Agreement that would extend distribution rights beyond December 31, 2010, however, there can be no assurance that we will be able to reach an agreement to extend distribution rights on terms acceptable to us or at all. Failure to reach an agreement to extend the distribution rights could have an adverse effect on our results of operations.

#### ***Legislation and policy changes reforming the U.S. healthcare system may have a material adverse effect on us.***

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by legislators, regulators and third-party payors to control these costs and, more generally, to reform the U.S. healthcare system. Certain proposals, if passed, would impose limitations on the prices we will be able to charge for our products, or the amounts of reimbursement available for our products from governmental agencies or third-party payors, and could limit the acceptance and availability of our products. Health reform legislation was passed by the House of Representatives on November 7, 2009 and the Senate on December 24, 2009. If implemented, these proposed reforms may require most individuals to have health insurance, establish new regulations on health plans, create insurance pooling mechanisms, reduce Medicare spending on services provided by hospitals and other providers and include other expanded public health care measures. The Senate bill includes a \$2 billion annual fee or excise tax on the medical device manufacturing sector and the House bill proposes a 2.5 percent tax on the first taxable sale of any medical device.

Various healthcare reform proposals have also emerged at the state level. We cannot predict what healthcare initiatives, if any, will be implemented at the federal or state level, or the effect any future legislation or regulation will have on us. However, legislation and regulation may be implemented that lowers reimbursements for our products, reduces medical procedure volumes and adversely affects our business, possibly materially. In addition, if the excise taxes contained in the Senate or House bills are enacted into law, our operating expenses resulting from such an excise tax and results of operations would be materially and adversely affected.

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

None.

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

None.

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

AngioDynamics stockholders voted on three matters at the Annual Meeting of Stockholders, held on October 19, 2009:

- 1) The election of three Class III directors, each for a term of three years;
- 2) To ratify the appointment of PricewaterhouseCoopers LLP as AngioDynamics independent registered public accounting firm for the year ending May 31, 2010; and
- 3) To amend AngioDynamics 2004 Stock and Incentive Award Plan to increase the total number of shares of common stock reserved for issuance under the plan from 3,000,000 to 3,750,000.

The nominees for director were elected based upon the following votes:

| Nominee                | Votes For  | Votes Withheld |
|------------------------|------------|----------------|
| Jan Keltjens           | 21,575,503 | 838,859        |
| Wesley E. Johnson, Jr. | 21,652,291 | 762,071        |
| Steven R. LaPorte      | 15,006,335 | 7,408,027      |

The proposal to ratify the appointment of PricewaterhouseCoopers LLP as AngioDynamics independent registered public accounting firm for the year ending May 31, 2010 received the following votes:

22,281,517 votes for ratification;

114,258 votes against ratification; and

18,587 abstentions.

There were no broker non-votes for this matter.

The proposal to amend AngioDynamics 2004 Stock and Incentive Award Plan to increase the total number of shares of common stock reserved for issuance under the plan from 3,000,000 to 3,750,000 received the following votes:

14,709,333 votes for approval;

3,885,439 votes against approval;

605,604 abstentions; and

3,213,986 broker non-votes.

**Item 5. Other Information.**  
None.

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**Item 6. Exhibits.**

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

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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: January 8, 2010

/s/ JOHANNES C. KELTJENS  
**Johannes C. Keltjens, President,  
Chief Executive Officer**

**(Principal Executive Officer)**

Date: January 8, 2010

/s/ D. JOSEPH GERSUK  
**D. Joseph Gersuk, Executive Vice President,  
Chief Financial Officer**

**(Principal Financial and Chief Accounting Officer)**

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**EXHIBIT INDEX**

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