

ANGIODYNAMICS INC  
Form 10-Q  
October 10, 2008  
Table of Contents

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

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended August 31, 2008

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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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**603 Queensbury Ave., Queensbury, New York**  
(Address of principal executive offices)

**12804**  
(Zip Code)

**(518) 798-1215**

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

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

| <b>Class</b>                  | <b>Outstanding as of October 6, 2008</b> |
|-------------------------------|--|
| Common Stock, par value \$.01 | 24,362,076 shares                        |

**Table of Contents**

**AngioDynamics, Inc. and Subsidiaries**

**INDEX**

|   | <b>Page</b> |
|---|-------------|
| <b><u>Part I: Financial Information</u></b>   |             |
| Item 1. Financial Statements  |             |
| <u>Consolidated Balance Sheets August 31, 2008 (unaudited) and May 31, 2008</u>   | 3           |
| <u>Consolidated Statements of Income Quarter ended August 31, 2008 and August 31, 2007 (unaudited)</u>                  | 4           |
| <u>Consolidated Statement of Stockholders Equity and Comprehensive Income Quarter ended August 31, 2008 (unaudited)</u> | 5           |
| <u>Consolidated Statements of Cash Flows Quarter ended August 31, 2008 and August 31, 2007 (unaudited)</u>              | 6           |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>   | 7 15        |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                    | 16 19       |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 20          |
| Item 4. <u>Controls and Procedures</u>  | 21          |
| <b><u>Part II: Other Information</u></b>  |             |
| Item 1. <u>Legal Proceedings</u>  | 22          |
| Item 1A. <u>Risk Factors</u>  | 23          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 23          |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 23          |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>  | 23          |
| Item 5. <u>Other Information</u>  | 23          |
| Item 6. <u>Exhibits</u>   | 24          |

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

| ASSETS   | August 31, 2008<br>(unaudited) | May 31, 2008      |
|--|--------------------------------|-------------------|
| <b>CURRENT ASSETS</b>  |                                |                   |
| Cash and cash equivalents  | \$ 18,518                      | \$ 32,040         |
| Restricted cash  |                                | 68                |
| Marketable securities, at fair value   | 40,731                         | 46,182            |
| <b>Total cash, cash equivalents and marketable securities</b>                                | <b>59,249</b>                  | <b>78,290</b>     |
| Accounts receivable, net of allowance for doubtful accounts of \$654 and \$683, respectively | 24,375                         | 26,642            |
| Inventories, net   | 28,199                         | 22,901            |
| Deferred income taxes  | 8,450                          | 10,902            |
| Prepaid expenses and other   | 5,162                          | 3,147             |
| <b>Total current assets</b>  | <b>125,435</b>                 | <b>141,882</b>    |
| PROPERTY, PLANT AND EQUIPMENT-AT COST, less accumulated depreciation                         | 22,253                         | 21,163            |
| OTHER ASSETS   | 833                            | 1,865             |
| INTANGIBLE ASSETS, less accumulated amortization   | 72,759                         | 71,311            |
| GOODWILL   | 164,522                        | 162,707           |
| DEFERRED INCOME TAXES  | 7,199                          | 6,860             |
| PREPAID ROYALTIES  | 2,969                          | 2,959             |
| <b>TOTAL ASSETS</b>  | <b>\$ 395,970</b>              | <b>\$ 408,747</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|   |               |               |
|---|---------------|---------------|
| <b>CURRENT LIABILITIES</b>  |               |               |
| Accounts payable  | \$ 10,535     | \$ 9,081      |
| Accrued liabilities   | 8,470         | 9,523         |
| Income taxes payable  |               | 933           |
| Current portion of long-term debt and convertible note  | 340           | 10,040        |
| Litigation provision  |               | 6,757         |
| Other current liabilities   | 5,000         | 5,000         |
| <b>Total current liabilities</b>  | <b>24,345</b> | <b>41,334</b> |
| LONG-TERM DEBT, net of current portion  | 6,990         | 7,075         |
| OTHER LONG TERM LIABILITIES, net of discount  | 4,688         | 4,625         |
| <b>Total liabilities</b>  | <b>36,023</b> | <b>53,034</b> |
| <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<br>24,362,076 and 24,268,266 shares, respectively | 244           | 243           |
| Additional paid-in capital  | 352,863       | 350,598       |
| Retained Earnings   | 7,119         | 4,908         |
| Accumulated other comprehensive loss  | (279)         | (36)          |

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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 359,947    | 355,713    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 395,970 | \$ 408,747 |

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

-3-

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

|                                    | <b>Quarter Ended</b>   |                        |
|------------------------------------|------------------------|------------------------|
|                                    | <b>August 31, 2008</b> | <b>August 31, 2007</b> |
| Net sales                          | \$ 44,323              | \$ 37,526              |
| Cost of sales                      | 16,866                 | 15,025                 |
| Gross profit                       | 27,457                 | 22,501                 |
| Operating expenses                 |                        |                        |
| Research and development           | 3,962                  | 2,711                  |
| Sales and marketing                | 13,091                 | 10,549                 |
| General and administrative         | 4,331                  | 4,132                  |
| Amortization of intangibles        | 2,251                  | 1,588                  |
| Total operating expenses           | 23,635                 | 18,980                 |
| Operating income                   | 3,822                  | 3,521                  |
| Other income (expenses)            |                        |                        |
| Interest income                    | 402                    | 845                    |
| Interest expense                   | (225)                  | (374)                  |
| Other income (expense)             | (428)                  | (183)                  |
| Total other income (expenses)      | (251)                  | 288                    |
| Income before income tax provision | 3,571                  | 3,809                  |
| Income tax provision               | 1,360                  | 1,429                  |
| Net income                         | \$ 2,211               | \$ 2,380               |
| Earnings per common share          |                        |                        |
| Basic                              | \$ 0.09                | \$ 0.10                |
| Diluted                            | \$ 0.09                | \$ 0.10                |

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

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME****Quarter Ended August 31, 2008****(unaudited)****(in thousands, except share data)**

|  | Common Stock |        | Additional paid<br>in capital | Retained<br>Earnings | Accumulated other<br>comprehensive<br>loss | Total      | Comprehensive<br>income |
|--|--------------|--------|-------------------------------|----------------------|--|------------|-------------------------|
|  | Shares       | Amount |                               |                      |  |            |                         |
| Balance at May 31, 2008  | 24,268,266   | \$ 243 | \$ 350,598                    | \$ 4,908             | \$ (36)                                    | \$ 355,713 |                         |
| Net Income   |              |        |                               | 2,211                |  | 2,211      | \$ 2,211                |
| Exercise of stock options  | 50,539       | 1      | 584                           |                      |  | 585        |                         |
| Tax benefit on exercise of stock options<br>and issuance of performance shares | 3,501        |        | (74)                          |                      |  | (74)       |                         |
| Purchase of common stock under<br>Employee Stock Purchase Plan                 | 39,770       |        | 555                           |                      |  | 555        |                         |
| Stock-based compensation   |              |        | 1,200                         |                      |  | 1,200      |                         |
| Unrealized loss on marketable securities,<br>net of tax of \$28                |              |        |                               |                      | (49)                                       | (49)       | (49)                    |
| Unrealized loss on interest rate swap, net<br>of tax of \$10                   |              |        |                               |                      | (17)                                       | (17)       | (17)                    |
| Foreign currency translation   |              |        |                               |                      | (177)                                      | (177)      | (177)                   |
| Comprehensive income   |              |        |                               |                      |  |            | \$ 1,968                |
| Balance at August 31, 2008   | 24,362,076   | \$ 244 | \$ 352,863                    | \$ 7,119             | \$ (279)                                   | \$ 359,947 |                         |

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

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

|  | <b>Quarter Ended</b> |                   |
|--|----------------------|-------------------|
|  | <b>August 31,</b>    | <b>August 31,</b> |
|  | <b>2008</b>          | <b>2007</b>       |
| <b>Cash flows from operating activities:</b>   |                      |                   |
| Net income   | \$ 2,211             | \$ 2,380          |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                      |                   |
| Depreciation and amortization  | 2,905                | 2,092             |
| Amortization of bond discount  |                      | (180)             |
| Tax benefit on exercise of stock options and issuance of performance shares              | (74)                 | 76                |
| Deferred income taxes  | 2,278                | 981               |
| Write offs of excess and obsolete inventory  | 107                  | 377               |
| Stock based compensation   | 1,200                | 1,211             |
| Imputed interest   | 63                   |                   |
| Provision (benefit) for doubtful accounts  |                      | (178)             |
| Other  | 2                    | 50                |
| <b>Changes in operating assets and liabilities:</b>                                      |                      |                   |
| Accounts receivable  | 3,544                | 965               |
| Inventories  | (2,114)              | (2,693)           |
| Prepaid expenses and other   | (1,148)              | (968)             |
| Accounts payable and accrued liabilities   | 387                  | (2,829)           |
| Litigation provision   | (6,757)              | 120               |
| Income taxes payable   | (933)                | (900)             |
| <b>Net cash provided by operating activities</b>   | <b>1,671</b>         | <b>504</b>        |
| <b>Cash flows from investing activities:</b>   |                      |                   |
| Additions to property, plant and equipment   | (1,286)              | (2,604)           |
| Acquisition of intangible assets and business  | (10,597)             | (1,193)           |
| Change in restricted cash  | 68                   | 502               |
| Purchases of marketable securities   | (5,447)              | (17,733)          |
| Proceeds from sale or maturity of marketable securities                                  | 10,816               | 14,965            |
| <b>Net cash used in investing activities</b>   | <b>(6,446)</b>       | <b>(6,063)</b>    |
| <b>Cash flows from financing activities:</b>   |                      |                   |
| Repayment of long-term debt and convertible notes  | (9,785)              | (70)              |
| Proceeds from exercise of stock options and ESPP   | 1,140                | 738               |
| Tax benefit on the exercise of stock options and issuance of performance shares          |                      | 4                 |
| <b>Net cash (used in) provided by financing activities</b>                               | <b>(8,645)</b>       | <b>672</b>        |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                      | <b>(102)</b>         |                   |
| <b>Decrease in cash and cash equivalents</b>   | <b>(13,522)</b>      | <b>(4,887)</b>    |



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|                           |           |           |
|---------------------------|-----------|-----------|
| Cash and cash equivalents |           |           |
| Beginning of period       | 32,040    | 28,313    |
| End of period             | \$ 18,518 | \$ 23,426 |

|  | August<br>31,<br>2008 | August 31,<br>2007 |
|--|-----------------------|--------------------|
| Supplemental disclosure of non-cash operating, investing and financing activities: |                       |                    |
| Acquisition of other assets  | \$                    | \$ 1,000           |
| Issuance of performance shares   | \$ 4                  | \$                 |

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

**Table of Contents**

**AngioDynamics, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**August 31, 2008 and August 31, 2007**

**(unaudited)**

**NOTE A CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated balance sheet as of August 31, 2008, the consolidated statement of stockholders' equity and comprehensive income for the quarter ended August 31, 2008, and the consolidated statements of income and cash flows for the quarters ended August 31, 2008 and August 31, 2007, have been prepared by the Company without audit. The consolidated balance sheet as of May 31, 2008 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 quarter ended August 31, 2008 (and for all periods presented) have been made.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these unaudited interim consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended May 31, 2008, filed by the Company on August 14, 2008. The results of operations for the quarters ended August 31, 2008 and August 31, 2007 are not necessarily indicative of the operating results for the respective full fiscal years.

The unaudited interim consolidated financial statements for the quarter ended August 31, 2008 include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, Leocor, Inc. ( Leocor ), RITA Medical Systems, LLC, Oncobionic, Inc. since May 9, 2008 and AngioDynamics UK Limited since June 17, 2008 (collectively, the Company ). All significant intercompany balances and transactions have been eliminated.

Historically, the Company reported its results of operations as a single segment. Beginning with the quarter ended August 31, 2008, the Company has organized its business into three business 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. Note I, Segment and Geographic Information, of these consolidated financial statements reflects the Company's revenues, gross profit and operating income for these segments. The first quarter of the prior year has been conformed to reflect these new business segments for revenue and gross profit. The Company did not disclose operating income by segment for the prior period first quarter because it was impracticable to do so.

**Table of Contents**

**AngioDynamics, Inc. and Subsidiaries**

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

**August 31, 2008 and August 31, 2007**

**(unaudited)**

**NOTE B ACQUISITIONS**

***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 assets acquired was \$5.5 million.

On June 17, 2008, goodwill recorded as a result of the acquisition was approximately \$ 1.9 million. Intangibles assets acquired, other than goodwill, totaled approximately \$ 3.6 million with an 8 -year estimated weighted average useful life. Of the approximately \$ 3.6 million of acquired intangible assets, \$ 3.5 million has been identified as customer-related intangibles (8 -year estimated weighted average useful life) and \$ 100,000 has been identified as technology-related intangibles (10 -year estimated weighted average useful life).

The acquisition is being 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 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 comes as a result of the successful initial use of irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of April 2008.

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 and \$10.0 million on May 9, 2008 upon the closing of the acquisition. Of the balance, \$5.0 million is payable in November 2008 and the remaining \$5.0 million is payable 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 business combination 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. 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. The proforma impact on prior year first quarter results of operations would be approximately \$420,000 of additional amortization expense or \$260,000, net of tax.



**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2008 and August 31, 2007****(unaudited)****NOTE C ASSET PURCHASE AGREEMENTS*****Medron, Inc.***

On May 1, 2006, the Company entered into an Asset Purchase Agreement (the Agreement) with Medron, Inc. to acquire the rights, titles, and interests in, and to, Patent Pending Technology for purposes of manufacturing, marketing, and selling proprietary Vascular Access Ports, following administrative approval. As of August 31, 2008, the Company has paid \$5.5 million in accordance with the 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, net**

Inventories consist of the following:

|                   | <b>August 31,<br/>2008</b> | <b>May 31,<br/>2008</b> |
|-------------------|----------------------------|-------------------------|
|                   | <b>(in thousands)</b>      |                         |
| Raw materials     | \$ 10,267                  | \$ 10,383               |
| Work in process   | 2,389                      | 3,565                   |
| Finished goods    | 18,988                     | 12,647                  |
| Gross Inventories | 31,644                     | 26,595                  |
| Less: Reserves    | (3,445)                    | (3,694)                 |
| Inventories, net  | \$ 28,199                  | \$ 22,901               |

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2008 and August 31, 2007****(unaudited)****NOTE E GOODWILL AND INTANGIBLE ASSETS**

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

Changes in the carrying amount of goodwill for the quarter ended August 31, 2008 are as follows (in thousands):

|   |                |
|---|----------------|
| Balance, May 31, 2008                                     | \$ 162,707     |
| Goodwill recorded as part of the Diomed, Inc. acquisition | 1,852          |
| Adjustments to purchase price allocation                  | (37)           |
| <br>Balance, August 31, 2008                              | <br>\$ 164,522 |

The balances of intangible assets are as follows:

|                           | August 31, 2008         |   |                       | Weighted avg<br>useful life<br>(years) |
|---------------------------|-------------------------|---|-----------------------|--|
|                           | Gross carrying<br>value | Accumulated<br>amortization<br>(in thousands) | Net carrying<br>value |  |
| Licenses                  | \$ 5,540                | \$ (836)                                      | \$ 4,704              | 9.9                                    |
| Customer relationships    | 31,126                  | (5,960)                                       | 25,166                | 6.6                                    |
| Distributor relationships | 900                     | (475)   | 425                   | 3.0                                    |
| Trademarks                | 600                     | (95)  | 505                   | 10.0                                   |
| Product technologies      | 47,276                  | (5,317)                                       | 41,959                | 13.6                                   |
|                           | \$ 85,442               | \$ (12,683)                                   | \$ 72,759             |  |

|                           | May 31, 2008               |  |                          | Weighted avg<br>useful life<br>(years) |
|---------------------------|----------------------------|--|--------------------------|--|
|                           | Gross<br>carrying<br>value | Accumulated<br>amortization<br>(in<br>thousands) | Net<br>carrying<br>value |  |
| Licenses                  | \$ 5,540                   | \$ (698)   | \$ 4,842                 | 9.9                                    |
| Customer relationships    | 27,500                     | (4,924)  | 22,576                   | 7.5                                    |
| Distributor relationships | 900                        | (400)  | 500                      | 3.0                                    |
| Trademarks                | 600                        | (80)   | 520                      | 10.0                                   |
| Product technologies      | 47,203                     | (4,330)  | 42,873                   | 13.6                                   |

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\$ 81,743      \$ (10,432)      \$ 71,311

-10-

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2008 and August 31, 2007****(unaudited)****NOTE F ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

|                                  | August 31,<br>2008 | May 31,<br>2008 |
|----------------------------------|--------------------|-----------------|
|                                  | (in thousands)     |                 |
| Payroll and related expenses     | \$ 4,066           | \$ 5,051        |
| Sales and franchise taxes        | 1,067              | 1,112           |
| Royalties                        | 1,161              | 763             |
| Fair value of interest rate swap | 523                | 416             |
| Other                            | 1,653              | 2,181           |
| Total                            | \$ 8,470           | \$ 9,523        |

**NOTE G INCOME TAXES**

The Company's effective income tax rate for the quarters ending August 31, 2008 and August 31, 2007 was 38.0% and 37.5%, respectively.



**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2008 and August 31, 2007****(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>Quarter Ended</b>       |                            |
|-------------------------------|----------------------------|----------------------------|
|                               | <b>August 31,<br/>2008</b> | <b>August 31,<br/>2007</b> |
| Basic                         | 24,297,521                 | 23,969,344                 |
| Effect of dilutive securities | 176,378                    | 274,455                    |
| <b>Diluted</b>                | <b>24,473,899</b>          | <b>24,243,799</b>          |

Excluded from the calculation of diluted earnings per common share, are options and warrants issued to employees and non-employees to purchase 1,420,997 and 1,992,659 shares of common stock for the quarters ended August 31, 2008 and August 31, 2007, respectively as their inclusion would be antidilutive. The exercise prices of these options were between \$11.93 and \$93.52 at August 31, 2008. For the quarter ended August 31, 2007, shares issuable upon conversion of a convertible note into 414,476 shares of common stock, with a conversion price of \$20.41, were excluded from the calculation of diluted earnings per share, as their inclusion would not have been dilutive. At August 31, 2008 the convertible note had matured and was paid off in cash.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2008 and August 31, 2007****(unaudited)****NOTE I SEGMENT AND GEOGRAPHIC INFORMATION**

Historically, the Company reported its results of operations as a single segment. Beginning with the quarter ended August 31, 2008, 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>Quarter Ended</b>       |                            |
|---------------------------|----------------------------|----------------------------|
|                           | <b>August 31,<br/>2008</b> | <b>August 31,<br/>2007</b> |
| Net sales                 |                            |                            |
| Peripheral Vascular       | \$ 18,434                  | \$ 14,087                  |
| Access                    | 15,686                     | 14,782                     |
| Oncology/Surgery          | 10,203                     | 8,657                      |
|                           | <b>\$ 44,323</b>           | <b>\$ 37,526</b>           |
| Gross profit              |                            |                            |
| Peripheral Vascular       | \$ 10,231                  | \$ 7,612                   |
| Access                    | 9,776                      | 8,655                      |
| Oncology/Surgery          | 7,450                      | 6,234                      |
|                           | <b>\$ 27,457</b>           | <b>\$ 22,501</b>           |
| Operating income(expense) |                            |                            |
| Peripheral Vascular       | 2,327                      |                            |
| Access                    | 2,499                      |                            |
| Oncology/Surgery          | (1,004)                    |                            |
|                           | <b>\$ 3,822</b>            |                            |

The first quarter of fiscal 2008 has been presented to reflect these new reportable segments for net sales and gross profit. Operating income for the prior period first quarter has not been disclosed as it was impracticable to do so.

In accordance with FAS No. 131, Disclosures About Segments of an Enterprise and Related Information, 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 (see Note 1). Our chief operating decision maker evaluates performance based on the reportable segments and utilizes net sales, gross profit and operating income as primary profitability

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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 revenues for geographic areas are summarized below (in thousands):

|                        | Quarter Ended      |                    |
|------------------------|--------------------|--------------------|
|                        | August 31,<br>2008 | August 31,<br>2007 |
| Net Sales by Geography |                    |                    |
| United States          | \$ 39,261          | \$ 34,007          |
| International          | 5,062              | 3,519              |
| Net Sales              | \$ 44,323          | \$ 37,526          |

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2008 and August 31, 2007****(unaudited)****NOTE J FAIR VALUE**

Effective June 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 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. SFAS 157 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 standard describes three levels of inputs that may be used to measure fair value which are provided in the table below. The adoption of SFAS 157 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.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 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 includes auction rate securities where independent pricing information was not able to be obtained.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

|                               | Fair Value Measurements at<br>August 31, 2008 using<br>(in thousands)          |  |  |                         |
|-------------------------------|--|--|--|-------------------------|
|                               | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>Level 1 | Significant Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Assets at<br>Fair Value |
| <b>Financial Assets</b>       |  |  |  |                         |
| Cash equivalents              | \$ 3,033   | \$ 3,998   | \$   | \$ 7,031                |
| Marketable securities         |  | 40,731   |  | 40,731                  |
| Total Financial Assets        | \$ 3,033   | \$ 44,729  | \$   | \$ 47,762               |
| <b>Financial Liabilities</b>  |  |  |  |                         |
| Interest rate swap agreements | \$   | \$ 523   | \$   | \$ 523                  |

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|                             |    |    |     |    |    |     |
|-----------------------------|----|----|-----|----|----|-----|
| Total Financial Liabilities | \$ | \$ | 523 | \$ | \$ | 523 |
|-----------------------------|----|----|-----|----|----|-----|

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows an entity to elect to record financial assets and financial liabilities at fair value upon their initial recognition on a contract-by-contract basis. The Company did not adopt Statement No. 159.

**Table of Contents**

**AngioDynamics, Inc. and Subsidiaries**

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

**August 31, 2008 and August 31, 2007**

**(unaudited)**

**NOTE K LITIGATION**

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.

**NOTE L RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In November 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 07-01, Accounting for Collaborative Arrangements (EITF No. 07-01). EITF No. 07-01 establishes disclosure requirements for arrangements entered into by companies to collaboratively develop, manufacture, or market products. EITF No. 07-01 also establishes income statement classification of collaboration transactions between the parties. EITF No. 07-01 is effective for fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year). The Company is currently evaluating the impact this adoption will have on the Company's consolidated financial statements.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination recognized and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired or gain from a bargain purchase; and determines what information to disclose to enable readers of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year) and will be applied prospectively. The adoption of this pronouncement is not expected to have a material impact on the Company's financial statements.

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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 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. SFAS 161 also improves the transparency about the location and amounts of derivative instruments in a company's financial statements and how they are accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 (the Company's 2010 fiscal year), and interim periods within, beginning after that date. The Company is currently evaluating the impact this adoption will have on the Company's consolidated financial statements.

**Table of Contents****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 the Company's expectations. Factors that may affect the actual results achieved by the Company include, without limitation, the ability of the Company to develop its existing and new products, future actions by the FDA or other regulatory agencies, results of pending or future clinical trials, 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 the ability of the Company to integrate purchased businesses. Other risks and uncertainties include, but are not limited to, the factors described from time to time in the Company's reports filed with the SEC, including the Company's Form 10-K for the fiscal year ended May 31, 2008.

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. The Company disclaims any obligation to update the forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date stated, or if no date is stated, as of the date of this document.

**Overview**

AngioDynamics is a provider of innovative medical devices used in minimally invasive, image-guided procedures to treat peripheral vascular disease, or PVD, and local oncology therapy options for treating cancer, including radiofrequency ablation (RFA) and systems and embolization products for treating 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.

Historically, we reported our results of operations as a single segment. Beginning with the quarter ended August 31, 2008, we have organized our 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. Prior periods have been recast for this new reporting structure.

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 August 31, 2008, our sales organization numbered 120 in the U.S. and 17 outside the U.S. For the quarter ended August 31, 2008, approximately 11% of our net sales were from non US markets compared with 9% in the same period of the prior year.

Our growth depends in large part on the continuous introduction of new and innovative products, together with ongoing enhancements to our existing products, through internal product development, technology licensing and strategic alliances. For each of the past three fiscal years, we invested at least 7% of our net sales in research and development (R&D). R&D expenditures were approximately 8.9% of net sales for the quarter ended August 31, 2008. We expect that our R&D expenditures will be approximately 9% of net sales for fiscal 2009 primarily due to investment in IRE technology. We expect R&D expenditures thereafter to continue to be in the range of 8 to 9% of net sales due to continued investment in IRE technology. However, downturns in our business could cause us to reduce our R&D spending.

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We are also seeking to grow through selective acquisitions of complementary businesses and technologies. In January 2007, we completed the acquisition of 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. Interventional oncology is a large and growing area for our existing customer base and RITA's leadership position, premium products and excellent reputation fit our strategy. RITA had a very strong position in vascular access ports, which are an ideal sales fit with our Morpheus<sup>®</sup> CT PICC and the vascular access port technology we purchased from Medron in May 2006. 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<sup>™</sup> resection devices and LC Beads<sup>™</sup> 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.

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. However, we anticipate requiring additional office space for additional engineering, marketing and administrative personnel in the near future.

Our ability to further increase our profitability will depend in 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.



## **Table of Contents**

### **Recent Developments**

#### *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.

On June 17, 2008, goodwill recorded as a result of the acquisition was approximately \$1.9 million. Intangibles assets acquired, other than goodwill, totaled approximately \$ 3.6 million with an 8 -year estimated weighted average useful life. Of the approximately \$ 3.6 million of acquired intangible assets, \$ 3.5 million has been identified as customer-related intangibles (8 -year estimated weighted average useful life) and \$ 100,000 has been identified as technology-related intangibles (10 -year estimated weighted average useful life).

The acquisition is being 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.

#### *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 comes as a result of the successful initial use of irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of 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 and \$10.0 million on May 9, 2008 upon the closing of the acquisition. Of the balance, \$5.0 million is payable in November 2008 and the remaining \$5.0 million is payable 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 business combination 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. The proforma impact on prior year first quarter results of operations would be approximately \$420,000 of additional amortization expense or \$260,000, net of tax.

**Table of Contents****Results of Operations****Quarters ended August 31, 2008 and August 31, 2007**

**Financial Summary.** For the first quarter of fiscal 2009, we reported net income of \$2.2 million, or \$0.09 per diluted common share, on net sales of \$44.3 million, compared with net income of \$2.4 million, or \$0.10 per diluted common share, on net sales of \$37.2 million in the first quarter of the prior year. Gross profit percentage improved to 61.9% for the first quarter of 2009 from 60.0% one year ago.

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

|                                       | Quarter Ended      |                    |
|---------------------------------------|--------------------|--------------------|
|                                       | August 31,<br>2008 | August 31,<br>2007 |
| Net sales                             | 100.0%             | 100.0%             |
| Gross profit                          | 61.9%              | 60.0%              |
| Research and development expenses     | 8.9%               | 7.2%               |
| Sales and marketing expenses          | 29.5%              | 28.1%              |
| General and administrative expenses   | 9.8%               | 11.0%              |
| Amortization of purchased intangibles | 5.1%               | 4.2%               |
| Operating income                      | 8.6%               | 9.4%               |
| Other income (expenses)               | -0.6%              | 0.8%               |
| Net income                            | 5.0%               | 6.3%               |

**Net sales.** Net sales for the fiscal first quarter of 2009 increased by 18%, or \$6.8 million, to \$44.3 million, from \$37.5 million in the fiscal first quarter of 2008. Approximately \$3.3 million of the increase was attributable to the sale of products acquired from Diomed. The balance of the growth in net sales was primarily attributable to increased unit sales of LC Bead, Smart Port CT and Angiographic products.

From a business unit perspective, Peripheral Vascular sales increased 31% to \$18.4 million from \$14.1 million. The increase is primarily attributable to sales of products acquired from Diomed. The Access business segment sales were \$15.7 million, an increase of 6%, primarily attributable to increased unit sales of SmartPort CT chemotherapy port products. The Oncology/Surgery business segment sales were \$10.2 million, an increase of 18% over the prior year primarily as a result of strong sales of our chemoembolization product, LC Bead.

From a geographical perspective, US sales increased \$5.3 million or 15.6% in the first quarter of 2008 to \$39.3 million from \$34.0 million a year ago. Approximately \$2.3 million of this increase is attributable to the sales of products acquired from Diomed. The balance of this increase is primarily attributable to increased unit sales of LC Bead, SmartPort CT and Angiographic products. International sales increased \$1.5 million or 41.2% in the first quarter of 2008 to \$5.1 million from \$3.5 million a year ago. Approximately \$1.0 million of this increase is attributable to the sales of products acquired from Diomed. The balance of this increase is primarily attributable to increased unit sales of RF Ablation and Angiographic products.

**Gross Profit.** Our gross profit as a percentage of sales increased to 61.9% for the first fiscal quarter of 2009 from 60.0% in the prior year. The increase in gross profit percentage was primarily the result of a favorable product mix from increased sales of higher margin products, including the RITA products, newly developed products and manufacturing efficiencies in the first fiscal quarter of 2008. In the prior year quarter, we incurred the costs of transferring production of our Venacure product line to Queensbury.

**Research and development expenses.** Research and development ( R&D ) expenses increased by \$1.3 million, or 46%, to \$4.0 million in the first fiscal quarter of 2009. The increase is primarily due to increased engineering personnel to support IRE development and commercialization activities. At August 31, 2008, we employed 62 people in research, development and regulatory activities compared with 53 people in the prior year quarter.

**Sales and marketing expenses.** Sales and marketing ( S&M ) expenses increased \$2.5 million or 24% to \$13.1 million in the first quarter of fiscal 2009. Sales expenses accounted for \$1.5 million of the increase, which represented a 17% increase over prior year, due to personnel expenses related to the increased number of sales territories as a result of the Diomed acquisition, the expansion of the Peripheral Vascular and Access sales forces with the addition of 16 new sales representatives and IRE sales activities. Marketing expenses increased \$1.0 million, or 56%, over the prior year period, primarily due to IRE marketing activities and increased headcount and additional tradeshows attended. As a percentage of net sales, S&M expenses were 29.5% for the fiscal first quarter of 2009, compared with 28.1% for the prior year period. At August 31, 2008, we

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employed 175 people in sales and marketing activities, of whom 13 were employed as part of the Diomed business, compared with 151 people in the prior year quarter.

General and administrative expenses. General and administrative ( G&A ) expenses increased \$199,000, or 4.8%, to \$4.3 million primarily due to increased headcount for infrastructure growth across the administrative functions and business unit general management costs partially offset by reduced legal expenses from now resolved litigation. G&A expenses were 9.8% of net sales for the 2009 fiscal first quarter, compared with 11.0% for the prior year first fiscal quarter. As of August 31, 2008, we employed 52 people in general and administrative activities, of whom 5 were employed as part of the Diomed business, compared with 38 people in the prior year period.

Amortization of purchased intangibles. Amortization of purchased intangibles increased to \$2.3 million in the first quarter of fiscal 2009, from \$1.6 million in the same period of the prior year. The increase is primarily attributable to the amortization of intangibles acquired in the acquisitions of Oncobionic and Diomed.

Operating income. Operating income was \$3.8 million and \$3.5 million for the first quarter of fiscal 2009 and 2008, respectively. As a percentage of sales, operating income for the first quarter of 2009 was 8.6% compared to 9.4% in the prior year same period.

Other income (expenses). Other income and expenses for the first quarter of fiscal 2009 decreased \$539,000 compared to the same period of the prior year due primarily to decreased interest income on reduced cash balances and lower investment returns as a result of market conditions.

Income taxes. Our effective tax rate for the 2009 first fiscal quarter was 38% compared to 37.5% a year ago.

Net income. For the fiscal first quarter of 2009, we reported net income of \$2.2 million, a decrease of \$200,000, from net income of \$2.4 million for the prior year first quarter.

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**Table of Contents****Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities totaled \$59.2 million at August 31, 2008, compared to \$78.3 million at May 31, 2008. Marketable securities are comprised of U.S. government issued or guaranteed securities, corporate bonds and auction rate securities. At August 31, 2008, total debt was \$7.3 million comprised of short and long-term bank debt that financed our facility expansions in Queensbury, New York. This compared with \$17.1 million at May 31, 2008 which also included \$9.7 million of convertible debt assumed in the RITA acquisition which was paid at maturity in the first quarter of 2009.

Net cash provided by operating activities for the quarter ended August 31, 2008 was \$1.7 million compared with \$504,000 in the same prior year period. Cash generated from operating activities during the first three months of fiscal year 2009 was primarily the result of net income and the effect on net income of non cash items, such as depreciation and amortization, stock-based compensation and the provision for deferred income taxes, as well as a decrease in accounts receivable offset by increases in inventories and payment of the litigation provision.

Net cash used in investing activities was \$6.4 million for the quarter ended August 31, 2008 compared to net cash used of \$6.1 million for the same prior year period. This net cash use in fiscal 2009 consisted of \$5.4 million from the sale of available-for-sale short-term investments, offset by the purchase of available-for-sale short-term investments of \$10.8 million, \$10.6 million for the acquisition of Diomed assets and fixed asset additions of \$1.3 million.

Net cash used in financing activities was \$8.6 million for the quarter ended August 31, 2008 compared to cash provided by financing activities of \$672,000 for the comparable prior year period. Cash used in financing activities for the quarter ended August 31, 2008 primarily consisted of payment of convertible note obligations of \$9.8 million offset by proceeds from the exercise of stock options 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, 2008 with the exception of the convertible debt, including interest totaling \$10.1 million and the \$6.8 million litigation settlement which were both paid in the first quarter of fiscal 2009.

In fiscal 2003, we financed an expansion of our headquarters and manufacturing facility with industrial revenue bonds for \$3.5 million. To secure this financing, we entered into agreements with local municipalities, a bank, a trustee and a remarketing agent. These agreements are referred to as the IDA agreements. The proceeds of the bonds were advanced as construction occurred. The bonds reprice every seven days and are resold by a Remarketing Agent. The bonds bear interest based on the market rate on the date the bonds are repriced and require quarterly principal payments ranging from \$25,000 to \$65,000 plus accrued interest through May 2022. We entered into an interest rate swap with a bank to convert the initial variable rate payments to a fixed interest rate of 4.45% per annum. The IDA agreements contain financial covenants relating to fixed charge coverage and interest coverage. The outstanding debt is collateralized by a letter of credit (\$2.6 million at August 31, 2008) and a first mortgage on the land, building and equipment comprising our facility in Queensbury, and we are required to pay an annual fee ranging from 1.0% to 1.9% of the outstanding balance depending on our financial results. The current fee is 1.0% and is in effect until August 22, 2009.

In fiscal 2007, we financed the expansion of our warehouse and manufacturing facility in Queensbury, New York. The expansion was financed principally with taxable adjustable rate notes (the Notes) issued by us aggregating \$5,000,000. The Notes were issued under a trust agreement by and between us and a bank, as trustee (the Trustee). In connection with the issuance of the Notes, we entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with the Bank that requires the maintenance of a letter of credit to support principal and certain interest payments on the Notes and requires payment of an annual fee on the outstanding balance. The current fee is 0.75% and is in effect until December 2008. We also entered into a remarketing agreement, pursuant to which the remarketing agent is required to use its best efforts to arrange for sales of the Notes in the secondary market. In connection with this financing, we entered into an interest rate swap agreement (the 2006 Swap Agreement) with the Bank, effective December 2006, with an initial notional amount of \$5,000,000, to limit the effect of variability due to interest rates on the rollover of the Notes. The 2006 Swap Agreement is a contract to exchange floating interest rate payments for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional amounts. The 2006 Swap Agreement requires us to pay a fixed rate of 5.06% and receive payments based on 30-day LIBOR repriced every seven days through December 2016. The Reimbursement Agreement contains certain financial covenants relating to fixed charge coverage and interest coverage, as defined. Amounts borrowed under the Reimbursement Agreement are collateralized by the aforementioned letter of credit and all of our assets. The debt covenants and the collateralization of substantially all of our assets to secure these financings may restrict our ability to obtain debt financing in the future.

During the quarter ended August 31, 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.

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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 initial use of Oncobionic's irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of 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 is payable in November 2008 and the remaining \$5.0 million is payable in November 2009.

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 will, in all likelihood, require additional financing. We cannot assure you that such financing will be available on commercially reasonable terms, if at all.

**Table of Contents**

**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 August 31, 2008, we maintained variable interest rate financing of \$7.3 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. Although not significant, in 2007 we began to make sales in other currencies, particularly the Euro, GB pound and Canadian dollar. Approximately 8.8% of our sales in the first quarter of fiscal 2008 were denominated in currencies other than the US dollar.

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

**Table of Contents**

**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 August 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**AngioDynamics, Inc. and Subsidiaries**

**Part II: Other Information**

**Item 1. Legal Proceedings.**

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our annual report on Form 10-K for the fiscal year ended May 31, 2008. 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.



**Table of Contents**

**Item 1A. Risk Factors.**

Item 1A, ( Risk Factors ) of our annual report on Form 10-K for our fiscal year ended May 31, 2008 sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. There have been no material changes from the Risk Factors described in our annual report on Form 10-K; however, those Risk Factors continue to be relevant to an understanding of our business, financial condition and operating results and, accordingly, 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.

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

None.

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

None.

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

None.

**Item 5. Other Information.**

None.

**Table of Contents**

**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 |

**Table of Contents**

**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: October 10, 2008

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

Date: October 10, 2008

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

**Table of Contents**

**Table of Contents**

**EXHIBIT INDEX**

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