ANGIODYNAMICS INC
Form 10-Q
January 07, 2011
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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, 2010

OR

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

For the transition period from to

Commission file number 0-50761

AngioDynamics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-3146460**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14 Plaza Drive Latham, New York	**12110**
(Address of principal executive offices)	**(Zip Code)**

(518) 795-1400

Registrant s telephone number, including area code

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

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	¨	Accelerated filer	x
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 x

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

Class	Outstanding as of January 3, 2011
Common Stock, par value $.01	**24,943,110 shares**

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AngioDynamics, Inc. and Subsidiaries

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	Nov 30, 2010	**Nov 30, 2009**	**Nov 30, 2010**	**Nov 30, 2009**
Net sales	$ 53,372	$ 53,459	$ 104,879	$ 103,551
Cost of sales	21,836	21,852	43,323	41,812
Gross profit	31,536	31,607	61,556	61,739
Operating expenses				
Research and development	5,259	4,763	10,501	9,612
Sales and marketing	13,793	15,042	28,237	30,401
General and administrative	4,945	4,031	9,532	8,108
Amortization of intangibles	2,142	2,451	4,408	4,723
Total operating expenses	26,139	26,287	52,678	52,844
Operating income	5,397	5,320	8,878	8,895
Other income (expenses)				
Interest income	161	162	328	350
Interest expense	(116)	(237)	(240)	(408)
Other expense	(307)	(215)	(878)	(397)
Total other income (expenses)	(262)	(290)	(790)	(455)
Income before income tax provision	5,135	5,030	8,088	8,440
Income tax provision	1,856	1,901	2,921	3,200
Net income	$ 3,279	$ 3,129	$ 5,167	$ 5,240
Earnings per common share				
Basic	$ 0.13	$ 0.13	$ 0.21	$ 0.21
Diluted	$ 0.13	$ 0.13	$ 0.21	$ 0.21
Basic weighted average shares outstanding	24,845	24,518	24,799	24,472
Diluted weighted average shares outstanding	25,094	24,729	25,067	24,662

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except share data)

	Nov 30, 2010	May 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 27,132	$ 58,763
Marketable securities, at fair value	83,471	41,311
Total cash, cash equivalents and marketable securities	110,603	100,074
Accounts receivable, net of allowances of $477 and $558, respectively	25,762	29,838
Inventories	32,731	29,216
Deferred income taxes	2,997	5,281
Prepaid expenses and other	5,353	6,951
Total current assets	177,446	171,360
PROPERTY, PLANT AND EQUIPMENT-AT COST, less accumulated depreciation	24,102	24,193
OTHER ASSETS	2,766	2,557
INTANGIBLE ASSETS, less accumulated amortization	53,948	58,352
GOODWILL	161,964	161,974
DEFERRED INCOME TAXES, long term	2,598	2,527
PREPAID ROYALTIES	3,159	2,962
TOTAL ASSETS	$ 425,983	$ 423,925
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 8,056	$ 12,044
Accrued liabilities	11,795	13,722
Current portion of long-term debt	270	260
Total current liabilities	20,121	26,026
LONG-TERM DEBT, net of current portion	6,410	6,550
Total liabilities	26,531	32,576
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share, 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value $.01 per share, 45,000,000 shares authorized; issued and outstanding 24,851,862 and 24,747,145 shares at November 30, 2010 and May 31, 2010, respectively	248	247
Additional paid-in capital	368,287	365,344
Retained earnings	32,319	27,152
Accumulated other comprehensive loss	(1,402)	(1,394)
Total stockholders equity	399,452	391,349

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 425,983	$ 423,925

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended	
	Nov 30, 2010	**Nov 30, 2009**
Cash flows from operating activities:		
Net income	$ 5,167	$ 5,240
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,984	6,219
Tax effect on exercise of stock options and issuance of performance shares	(29)	31
Deferred income taxes	2,285	3,126
Change in allowance for excess and obsolete inventory	(38)	(462)
Stock based compensation	2,254	2,413
Imputed interest		153
Change in accounts receivable allowances	(81)	(32)
Other	153	17
Changes in operating assets and liabilities:		
Accounts receivable	4,157	1,816
Inventories	(3,477)	(2,767)
Prepaid expenses and other	1,195	931
Accounts payable and accrued liabilities	(5,944)	(4,304)
Net cash provided by operating activities	11,626	12,381
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,489)	(1,951)
Acquisition of intangible assets and business		(5,350)
Purchases of marketable securities	(128,274)	(17,823)
Proceeds from sale or maturity of marketable securities	85,880	20,254
Net cash used in investing activities	(43,883)	(4,870)
Cash flows from financing activities:		
Repayment of long-term debt	(130)	(145)
Proceeds from exercise of stock options and employee stock purchase plan	718	971
Net cash provided by financing activities	588	826
Effect of exchange rate changes on cash and cash equivalents	38	10
(Decrease) increase in cash and cash equivalents	(31,631)	8,347
Cash and cash equivalents at beginning of period	58,763	27,909
Cash and cash equivalents at end of period	$ 27,132	$ 36,256

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME

Six Months Ended November 30, 2010

(unaudited)

(in thousands, except share data)

	Common Stock						
	Shares	Amount	Additional paid in capital	Retained earnings	Accumulated other comprehensive loss	Total	Comprehensive income
Balance at May 31, 2010	24,747,145	$ 247	$ 365,344	$ 27,152	$ (1,394)	$ 391,349	
Net income				5,167		5,167	$ 5,167
Exercise of stock options	27,875		117			117	
Purchase of common stock under Employee Stock Purchase Plan	46,496	1	601			602	
Issuance/Cancellation of performance shares	30,346						
Tax effect of exercise of stock options			(29)			(29)	
Stock based compensation			2,254			2,254	
Unrealized loss on marketable securities, net of tax of $66					(112)	(112)	(112)
Unrealized loss on interest rate swap, net of tax of $12					(21)	(21)	(21)
Foreign currency translation					125	125	125
Comprehensive income							$ 5,159
Balance at November 30, 2010	24,851,862	$ 248	$ 368,287	$ 32,319	$ (1,402)	$ 399,452	

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, 2010 and November 30, 2009

(unaudited)

NOTE A CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of November 30, 2010, the consolidated statement of stockholders equity and comprehensive income for the six months ended November 30, 2010, the consolidated statement of cash flows for the six months ended November 30, 2010 and November 30, 2009 and the consolidated statements of income for the three and six months ended November 30, 2010 and November 30, 2009 have been prepared by us without audit. The consolidated balance sheet as of May 31, 2010 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, 2010 (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, 2010, filed by us on August 6, 2010. The results of operations in the fiscal periods ended November 30, 2010 and November 30, 2009 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, 2010 and 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.

Previously we organized our business into three reportable segments: Peripheral Vascular, Access and Oncology. Effective June 1, 2010, we combined our Peripheral Vascular and Access reportable segments into a single reportable segment that was named the Vascular division and placed under the leadership of a general manager. At the same time we combined what had been separate Peripheral Vascular and Access sales groups into the Vascular sales group under the leadership of a vice president of sales reporting to the general manager. The Vascular segment is responsible for products targeting the venous intervention, dialysis access, thrombus management and peripheral disease markets and has dedicated research and development and sales and marketing personnel assigned to it. The Oncology segment continues to be responsible for RF Ablation, embolization, Habib and NanoKnife product lines and has dedicated research and development and sales and marketing personnel assigned to it.

The measure of financial performance and profitability that management uses to evaluate the performance of our business segments are sales, gross profit, and operating income. Effective June 1, 2010, we reorganized our internal management reporting to reflect the two reportable segments described above. Segment information reported for the prior year has been recast to conform to the current year presentation.

NOTE B ACQUISITIONS

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.

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2010 and November 30, 2009

(unaudited)

NOTE C INVENTORIES

Inventories consist of the following:

	Nov 30, 2010	May 31, 2010
	(in thousands)	
Raw materials	$ 11,673	$ 11,817
Work in process	3,509	3,657
Finished goods	19,712	15,943
Gross Inventories	34,894	31,417
Less: Reserves	(2,163)	(2,201)
Inventories	$ 32,731	$ 29,216

NOTE D GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets that have indefinite useful lives are not amortized, but rather, are tested for impairment annually or more frequently if impairment indicators arise. None of our intangible assets have an indefinite life. Intangible assets with determinable useful lives are amortized over their useful lives on either a straight-line basis over the expected period of benefit or as revenues are earned from the sales of the related products. 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.

For goodwill, the evaluation requires a comparison of the estimated fair value of the reporting unit to which the goodwill is assigned to the sum of the carrying value of the assets and liabilities of that unit. If the sum of the carrying value of the assets and liabilities of a reporting unit exceeds the fair value of the reporting unit, the carrying value of the reporting unit s goodwill is reduced to its implied fair value through an adjustment to the goodwill balance, resulting in an impairment charge. Our determination of impairment is based on estimates of future cash flows. We test goodwill for impairment during the third quarter of every fiscal year, or more frequently if impairment indicators arise. Events that could, in the future, result in impairment include, but are not limited to, sharply declining sales for a significant product or in a significant geographic region.

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. Previously we organized our business into three reportable segments: Peripheral Vascular, Access and Oncology. Effective June 1, 2010, we combined our Peripheral Vascular and Access reportable segments into a single reportable segment that was named the Vascular division and placed under the leadership of a general manager. At the same time we combined what had been separate Peripheral Vascular and Access sales groups into the Vascular sales group under the leadership of a vice president of sales reporting to the general manager. The Vascular segment is responsible for products targeting the venous intervention, dialysis access, thrombus management and peripheral disease markets and has dedicated research and development and sales and marketing personnel assigned to it. The Oncology segment continues to be responsible for RF Ablation, embolization, Habib and NanoKnife product lines and has dedicated research and development and sales and marketing personnel assigned to it.

We completed our annual evaluation of goodwill by reporting unit as of December 31, 2009, using the three reportable segments in place at that time. Our assessment of goodwill impairment indicated that the fair value of each of our reporting units exceeded its carrying value and therefore goodwill in each of the reporting units was not impaired. The reorganization into two reportable segments would not have changed the outcome of the assessment since we effectively combined two segments which independently were not impaired. The fair value of Peripheral Vascular, Access and Oncology exceeded its carrying value by 26%, 6% and 16%, respectively. The sum of the fair values of the reporting units was reconciled to our current market capitalization (based upon our stock price) plus an estimated control premium of approximately 8% as of December 31, 2009.

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

AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2010 and November 30, 2009

(unaudited)

NOTE D GOODWILL AND INTANGIBLE ASSETS (cont d)

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, we assumed that the current economic conditions would continue through fiscal year 2011, followed by a recovery thereafter. In addition, we applied gross margin assumptions consistent with our historical trends at various revenue levels and used an EBITDA exit multiple of 6.0, 6.0 and 7.0 to calculate the terminal value of the Peripheral Vascular, Access and Oncology reporting units, respectively, compared to an EBITDA exit multiple of 6.5, 7.0 and 8.0, respectively, used in the prior year. In addition, we used a discount rate of 21%, 15% and 18% to calculate the fair value of our Peripheral Vascular, Access and Oncology reporting units, respectively. These discount rates vary from the rates of 19%, 16% and 19%, respectively, used in the prior year.

Since early November 2008, our stock market capitalization has generally been lower than our shareholders equity or book value. However, our reporting units have continued to generate significant cash flow from their operations, and we expect that they will continue to do so in fiscal 2011 and beyond. Furthermore, given the relatively small difference between our stock price and our book value per share, we believe that a reasonable potential buyer would offer a control premium for our business that would adequately cover the difference between our trading prices and our book value.

Goodwill by segment is as follows:

	Nov 30, 2010
Vascular	$ 107,972
Oncology	53,992
	$ 161,964

	May 31, 2010
Vascular	$ 107,982
Oncology	53,992
	$ 161,974

Even though we determined that there was no goodwill impairment as of December 31, 2009, 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, 2010. 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.

During the six months ended November 30, 2010, options assumed in connection with the acquisition of RITA Medical Systems, Inc. were exercised causing an adjustment to the purchase price allocation as noted below. The exercise will result in a tax benefit when the annual tax return is filed.

Changes in the carrying amount of goodwill for the six months ended November 30, 2010 are as follows (in thousands):

Balance, May 31, 2010	$ 161,974
Adjustments to purchase price allocation	(10)
Balance, November 30, 2010	$ 161,964

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2010 and November 30, 2009

(unaudited)

NOTE D GOODWILL AND INTANGIBLE ASSETS (cont d)

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

	November 30, 2010			
	Gross carrying value	Accumulated amortization (in thousands)	Net carrying value	Weighted avg useful life (years)
Product technologies	$ 48,648	$ (14,366)	$ 34,282	13.5
Customer relationships	31,125	(15,289)	15,836	7.5
Licenses	6,040	(2,655)	3,385	9.2
Distributor relationships	900	(900)		3.0
Trademarks	675	(230)	445	9.2
	$ 87,388	$ (33,440)	$ 53,948	

	May 31, 2010			
	Gross carrying value	Accumulated amortization (in thousands)	Net carrying value	Weighted avg useful life (years)
Product technologies	$ 48,648	$ (12,341)	$ 36,307	13.5
Customer relationships	31,125	(13,216)	17,909	7.5
Licenses	6,040	(2,379)	3,661	9.2
Distributor relationships	900	(900)		3.0
Trademarks	675	(200)	475	9.2
	$ 87,388	$ (29,036)	$ 58,352	

NOTE E ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	Nov 30, 2010	May 31, 2010
	(in thousands)	
Payroll and related expenses	$ 6,469	$ 8,444
Royalties	1,394	1,508
Sales and franchise taxes	1,162	1,017
Fair value of interest rate swap	1,139	995

Other	1,631	1,758
Total	$ 11,795	$ 13,722

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2010 and November 30, 2009

(unaudited)

NOTE F INCOME TAXES

Our effective income tax rate for the three month periods ending November 30, 2010 and November 30, 2009 was 36% and 38%, respectively. Our effective income tax rate for the six month periods ending November 30, 2010 and November 30, 2009 was 36% and 38%, respectively. Both the three and six months periods ending November 30, 2010 reflect an increased benefit from the Domestic Production Activities Deduction which was partially offset by the December 31, 2009 expiration of the R&D tax credit.

NOTE G 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:

	Three Months Ended		Six Months Ended	
	Nov 30, 2010	Nov 30, 2009	Nov 30, 2010	Nov 30, 2009
Basic	24,845,305	24,518,420	24,799,247	24,472,403
Effect of dilutive securities	248,818	210,613	267,329	189,931
Diluted	25,094,123	24,729,033	25,066,576	24,662,334

Excluded from the calculation of diluted earnings per common share are options and restricted stock awards issued to employees and non-employees to purchase 2,463,014 and 2,196,891 shares of common stock for the three and six months ended November 30, 2010 and options and restricted stock awards 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, as their inclusion would be antidilutive. The exercise prices of these options and restricted stock awards were between $0 and $53.92 at November 30, 2010.

NOTE H SEGMENT AND GEOGRAPHIC INFORMATION

Previously we organized our business into three reportable segments: Peripheral Vascular, Access and Oncology. Effective June 1, 2010, we combined our Peripheral Vascular and Access reportable segments into a single reportable segment that was named the Vascular division and placed under the leadership of a general manager. At the same time we combined what had been separate Peripheral Vascular and Access sales groups into the Vascular sales group under the leadership of a vice president of sales reporting to the general manager. The Vascular segment is responsible for products targeting the venous intervention, venous access, thrombus management and peripheral disease markets and has dedicated research and development and sales and marketing personnel assigned to it. The Oncology segment continues to be responsible for RF Ablation, embolization, Habib and NanoKnife product lines and has dedicated research and development and sales and marketing personnel assigned to it.

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2010 and November 30, 2009

(unaudited)

NOTE H SEGMENT AND GEOGRAPHIC INFORMATION (cont d)

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

	Three Months Ended		As a Percentage of Net Sales Three Months Ended	
	Nov 30, 2010	Nov 30, 2009	Nov 30, 2010	Nov 30, 2009
Net sales				
Vascular	$ 37,520	$ 39,844		
Oncology	15,852	13,615		
Total	$ 53,372	$ 53,459		
Gross profit				
Vascular	$ 21,111	$ 22,811	56.3%	57.3%
Oncology	10,425	8,796	65.8%	64.6%
Total	$ 31,536	$ 31,607	59.1%	59.1%
Operating income (loss)				
Vascular	$ 4,768	$ 5,202	12.7%	13.1%
Oncology	629	118	4.0%	0.9%
Total	$ 5,397	$ 5,320	10.1%	10.0%

	Six Months Ended		As a Percentage of Net Sales Six Months Ended	
	Nov 30, 2010	Nov 30, 2009	Nov 30, 2010	Nov 30, 2009
Net sales				
Vascular	$ 73,434	$ 77,134		
Oncology	31,445	26,417		
Total	$ 104,879	$ 103,551		
Gross profit				
Vascular	$ 41,256	$ 44,810	56.2%	58.1%

Oncology	20,300	16,929	64.6%	64.1%
Total	$ 61,556	$ 61,739	58.7%	59.6%
Operating income (loss)				
Vascular	$ 7,845	$ 9,277	10.7%	12.0%
Oncology	1,033	(382)	3.3%	(1.4%)
Total	$ 8,878	$ 8,895	8.5%	8.6%

AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2010 and November 30, 2009

(unaudited)

NOTE H SEGMENT AND GEOGRAPHIC INFORMATION (cont d)

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 our reportable segments. The accounting policies of the segments are the same as those described in Accounting Policies, Note 1, of our Annual Report on Form 10-K for the fiscal year ended May 31, 2010, filed by us on August 6, 2010. The measure of financial performance and profitability that management uses to evaluate the performance of our business segments are sales, gross profit, and operating income. Segment information reported for the prior year has been recast to conform to the current year presentation.

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

	Three Months Ended		Six Months Ended	
	Nov 30, 2010	Nov 30, 2009	Nov 30, 2010	Nov 30, 2009
Net Sales by Geography				
United States	$ 46,703	$ 47,488	$ 92,176	$ 92,401
International	6,669	5,971	12,703	11,150
Total	$ 53,372	$ 53,459	$ 104,879	$ 103,551

NOTE I FAIR VALUE

Our financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable, short-term and long-term debt and two interest rate swap agreements. The carrying amount of these instruments approximates fair value due to the immediate or short-term maturities and variable interest rates associated with these instruments. Marketable securities are carried at their fair value as determined by quoted market prices.

Effective June 1, 2008, we 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 our 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, money market funds, mutual funds and U.S. Treasury securities that are traded in an active exchange market.

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

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(unaudited)

NOTE I FAIR VALUE (cont d)

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. Our investments in auction-rate securities were classified as Level 3 as quoted prices were unavailable since these auction rate securities issued by New York state and local government authorities failed auction. Due to limited market information, we utilized a discounted cash flow (DCF) model to derive an estimate of fair value. 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, 2010. There were no significant transfers in and out of Level 1 and 2 measurements for the six months ended November 30, 2010.

	Fair Value Measurements using inputs considered as:			Fair Value at Nov 30, 2010
	Level 1	Level 2	Level 3	
Financial Assets				
Cash equivalents				
Money market funds	$ 5,326	$	$	$ 5,326
Corporate bond securities		6,498		6,498
U.S. government agency obligations				
Total	$ 5,326	$ 6,498	$	$ 11,824
Marketable securities				
Corporate bond securities	$	$ 31,740	$	31,740
U.S. government agency obligations		49,881	1,850	51,731
Total		81,621	1,850	83,471
Total Financial Assets	$ 5,326	$ 88,119	$ 1,850	$ 95,295
Financial Liabilities				
Interest rate swap agreements	$	$ 1,139	$	$ 1,139
Total Financial Liabilities	$	$ 1,139	$	$ 1,139

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(unaudited)

NOTE I FAIR VALUE (cont d)

	Fair Value Measurements using inputs considered as:			Fair Value at
	Level 1	Level 2	Level 3	May 31, 2010
Financial Assets				
Cash equivalents				
Money market funds	$ 9,315	$	$	$ 9,315
Corporate bond securities		17,996		17,996
U.S. government agency obligations		18,998		18,998
Total	$ 9,315	$ 36,994	$	$ 46,309
Marketable securities				
Corporate bond securities	$	$ 24,172	$	24,172
U.S. government agency obligations		15,289	1,850	17,139
Total		39,461	1,850	41,311
Total Financial Assets	$ 9,315	$ 76,455	$ 1,850	$ 87,620
Financial Liabilities				
Interest rate swap agreements	$	$ 995	$	$ 995
Total Financial Liabilities	$	$ 995	$	$ 995

In January 2010, the FASB updated the disclosure requirements for fair value measurements. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. The updated guidance is effective for the reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which are effective for fiscal years beginning after December 15, 2010. We have provided the additional disclosures necessary beginning with the first quarter of fiscal 2011.

We are exposed to market risk due to changes in interest rates. To reduce that risk, we periodically enter into certain derivative financial instruments to hedge its underlying economic exposure. We use derivative instruments as part of our interest rate risk management strategy. The derivative instruments used are floating-to-fixed rate interest rate swaps, which are subject to cash flow hedge accounting treatment. We recognized interest income of $45,000 and interest expense of $146,000 for the three months and six months ended November 30, 2010, respectively, and interest expense of $101,000 and $103,000 for the three and six months ended November 30, 2009, respectively.

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AngioDynamics, Inc. and Subsidiaries

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NOTE J 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. We hold investments in auction rate securities in order to generate higher than typical money market rate investment returns. Auction rate securities typically are high credit quality instruments, generally achieved with municipal bond insurance. Credit risks are eased by the historical track record of bond insurers, which back a majority of this market. Sell orders for any security traded through an auction process could exceed bids and, in such cases, the auction fails and we may be unable to liquidate its position in the securities in the near term. At November 30, 2010 and May 31, 2010, we 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, 2010 consisted of the following:

	Amortized cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
Available-for-sales securities				
U.S. government agency obligations	$ 51,915	$ 7	$ (191)	$ 51,731
Corporate bond securites	31,775	19	(54)	31,740
	$ 83,690	$ 26	$ (245)	$ 83,471

Marketable securities as of May 31, 2010 consisted of the following:

	Amortized cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
Available-for-sales securities				
U.S. government agency obligations	$ 17,174			