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EZ EM INC
Form 10-Q
April 17, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 3, 2001

OR

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

For the transition period from _____ to _____

Commission file number 1-11479

E-Z-EM, Inc.

(Exact name of registrant as specified in its charter)

Delaware

11-1999504

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

717 Main Street, Westbury, New York 11590

(Address of principal executive offices) (Zip Code)

(516) 333-8230

Registrant's telephone number, including area code

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

Yes No _____

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As of April 10, 2001, there were 4,011,827 shares of the issuer's Class A Common Stock outstanding and 5,845,183 shares of the issuer's Class B Common Stock outstanding.

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E-Z-EM, Inc. and Subsidiaries

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E-Z-EM, Inc. and Subsidiaries

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CONSOLIDATED BALANCE SHEETS (in thousands)

ASSETS	March 3, 2001 ----- (unaudited)	June 3, 2000 ----- (audited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,271	\$ 5,583
Debt and equity securities	13,714	8,051
Accounts receivable, principally trade, net	22,240	22,256
Inventories	24,777	26,856
Other current assets	6,134	4,530
	-----	-----
Total current assets	70,136	67,276
PROPERTY, PLANT AND EQUIPMENT - AT COST, less accumulated depreciation and amortization		
	19,792	21,721
COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED, less accumulated amortization		
	377	407
INTANGIBLE ASSETS, less accumulated amortization		
	1,359	2,151
DEBT AND EQUITY SECURITIES		
	1,356	4,067
OTHER ASSETS		
	5,586	3,463
	-----	-----
	\$98,606	\$99,085
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 3, 2001 ----- (unaudited)
CURRENT LIABILITIES	
Notes payable	\$ 1,069

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Current maturities of long-term debt	91
Accounts payable	7,008
Accrued liabilities	6,702
Accrued income taxes	140

Total current liabilities	15,010
LONG-TERM DEBT, less current maturities	345
OTHER NONCURRENT LIABILITIES	2,665

Total liabilities	18,020

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, par value \$.10 per share - authorized, 1,000,000 shares; issued, none	
Common stock	
Class A (voting), par value \$.10 per share - authorized, 6,000,000 shares; issued and outstanding 4,012,033 shares at March 3, 2001 and 4,015,111 shares at June 3, 2000 (excluding 41,223 and 38,145 shares held in treasury at March 3, 2001 and June 3, 2000, respectively)	401
Class B (non-voting), par value \$.10 per share - authorized, 10,000,000 shares; issued and outstanding 5,851,522 shares at March 3, 2001 and 5,909,277 shares at June 3, 2000 (excluding 387,155 and 313,748 shares held in treasury at March 3, 2001 and June 3, 2000, respectively)	585
Additional paid-in capital	20,107
Retained earnings	62,661
Accumulated other comprehensive income (loss)	(3,168)

Total stockholders' equity	80,586

	\$ 98,606
	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS
(unaudited)

(in thousands, except per share data)

Thirteen weeks ended

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	March 3, 2001	February 26, 2000
Net sales	\$ 27,386	\$ 25,752
Cost of goods sold	16,609	14,647
Gross profit	10,777	11,105
Operating expenses		
Selling and administrative	9,453	8,971
Loss on sale of subsidiary and related assets		
Research and development	1,349	1,190
Total operating expenses	10,802	10,161
Operating profit (loss)	(25)	944
Other income (expense)		
Interest income	215	243
Interest expense	(75)	(61)
Other, net	82	(26)
Earnings before income taxes	197	1,100
Income tax provision (benefit)	91	584
NET EARNINGS	\$ 106	\$ 516
Earnings per common share		
Basic	\$.01	\$.05
Diluted	\$.01	\$.05
Weighted average common shares		
Basic	9,875	9,988
Diluted	10,119	10,410

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Thirty-nine weeks ended March 3, 2001
(unaudited)
(in thousands, except share data)

	Class A common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accu o compr incom
	Shares	Amount	Shares	Amount			
Balance at June 3, 2000	4,015,111	\$401	5,909,277	\$591	\$20,521	\$59,852	\$(1)
Exercise of stock options			8,711	1	38		
Income tax benefits on stock options exercised					3		
Compensation related to stock option plans					4		
Issuance of stock			6,941	1	45		
Purchase of treasury stock	(3,078)		(73,407)	(8)	(504)		
Net earnings						2,809	
Unrealized holding loss on debt and equity securities							(2)
Foreign currency translation adjustments							
Comprehensive income							
Balance at March 3, 2001	4,012,033	\$401	5,851,522	\$585	\$20,107	\$62,661	\$(3)

The accompanying notes are an integral part of this statement.

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E-Z-EM, Inc. and Subsidiaries

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

Thirty-nine weeks ended

March 3, February 26,
2001 2000

Cash flows from operating activities:

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Net earnings	\$ 2,809	\$ 4,131
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	2,080	2,169
Impairment of long-lived assets	450	
Provision for doubtful accounts	88	91
Loss on sale of subsidiary and related assets	872	
Deferred income tax (benefit) provision	(1,712)	37
Other non-cash items	45	74
Changes in operating assets and liabilities, net of sale		
Accounts receivable	(297)	2,958
Inventories	799	(1,542)
Other current assets	(1,344)	(1,037)
Other assets	(420)	(440)
Accounts payable	983	(1,820)
Accrued liabilities	(1,048)	(57)
Accrued income taxes	(356)	(432)
Other noncurrent liabilities	147	114
	-----	-----
Net cash provided by operating activities	3,096	4,246
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(2,117)	(2,021)
Proceeds from sale of subsidiary and related assets	3,250	
Available-for-sale securities		
Purchases	(69,823)	(22,339)
Proceeds from sale	64,160	18,635
	-----	-----
Net cash used in investing activities	(4,530)	(5,725)
	-----	-----
Cash flows from financing activities:		
Repayments of debt	(196)	(1,044)
Proceeds from issuance of debt	216	26
Proceeds from exercise of stock options, including related income tax benefits	42	781
Purchase of treasury stock	(512)	(2,381)
Proceeds from issuance of stock in connection with the stock purchase plan	5	6
	-----	-----
Net cash used in financing activities	(445)	(2,612)
	-----	-----

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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(unaudited)
(in thousands)

	Thirty-nine weeks ended	
	March 3, 2001	February 26, 2000
Effect of exchange rate changes on cash and cash equivalents	\$ (433)	\$ 105
	(2,312)	(3,986)
DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents Beginning of period	5,583	8,073
	\$ 3,271	\$ 4,087
End of period	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 79	\$ 75
	=====	=====
Income taxes (net of refunds of \$7 and \$6 in 2001 and 2000, respectively)	\$ 2,395	\$ 3,044
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 3, 2001 and February 26, 2000
(unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of March 3, 2001 the consolidated statement of stockholders' equity and comprehensive income for the period ended March 3, 2001, and the consolidated statements of earnings and cash flows for the periods ended March 3, 2001 and February 26, 2000, have been prepared by the Company without audit. The consolidated balance sheet as of June 3, 2000 was derived from audited consolidated financial statements. In the opinion of management, all adjustments (which include only normally recurring adjustments) necessary to present fairly the financial position, changes in stockholders' equity and comprehensive income, results of operations and cash flows at March 3, 2001 (and for all periods presented) have been made.

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Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the fiscal 2000 Annual Report on Form 10-K filed by the Company on September 1, 2000. The results of operations for the periods ended March 3, 2001 and February 26, 2000 are not necessarily indicative of the operating results for the respective full years.

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

NOTE B - EARNINGS PER COMMON SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share are based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the period.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	March 3, 2001	February 26, 2000	March 3, 2001	February 26, 2000
	-----	-----	-----	-----
	(in thousands)			
Basic	9,875	9,988	9,889	10,045
Effect of dilutive securities (stock options)	244	422	296	240
	-----	-----	-----	-----
Diluted	10,119	10,410	10,185	10,285
	=====	=====	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 3, 2001 and February 26, 2000
(unaudited)

NOTE B - EARNINGS PER COMMON SHARE (continued)

Excluded from the calculation of earnings per common share, are options to

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purchase 462,915 and 206,707 shares of common stock at March 3, 2001 and February 26, 2000, respectively, as their inclusion would be anti-dilutive.

NOTE C - EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires entities to recognize all derivatives in their financial statements as either assets or liabilities measured at fair value. SFAS No. 133 also specifies new methods of accounting for hedging transactions, prescribes the items and transactions that may be hedged and specifies detailed criteria to be met to qualify for hedge accounting. SFAS No. 133, as amended by SFAS No. 138, is effective for fiscal years beginning after June 15, 2000. The Company currently does not use derivative instruments as defined by SFAS No. 133. If the Company continues not to use these derivative instruments by the effective date of SFAS No. 133, the adoption of this pronouncement will have no effect on the Company's results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition", which provides guidelines in applying generally accepted accounting principles to selected revenue recognition issues. The SAB is effective in the fourth quarter of fiscal years beginning after December 15, 1999. The Company continues to evaluate the impact of SAB 101, but believes it is in compliance with the provisions of the SAB, and, accordingly, does not expect this statement to have a material impact on the Company's results of operations or financial position.

In October 2000, the Emerging Issues Task Force ("EITF") issued guidance on how to classify certain revenues and costs in a company's financial statements. EITF No. 00-10 "Accounting for Shipping and Handling Revenues and Costs" requires that companies classify all amounts billed to customers related to shipping and handling cost as revenue. This statement will be effective in the fourth quarter of fiscal years beginning after December 15, 1999 and is not expected to have any effect on the Company's results of operations or financial position.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 3, 2001 and February 26, 2000
(unaudited)

NOTE D - COMPREHENSIVE INCOME

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

Thirty-nine weeks ended	

March 3,	February 26,
2001	2000
-----	-----

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	(in thousands)	
Net earnings	\$ 2,809	\$ 4,131
Unrealized holding gain (loss) on debt and equity securities	(2,207)	2,979
Foreign currency translation adjustments	370	(85)
	-----	-----
Comprehensive income	\$ 972	\$ 7,025
	=====	=====

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

	March 3, 2001	June 3, 2000
	-----	-----
	(in thousands)	
Unrealized holding gain (loss) on debt and equity securities	\$ (143)	\$ 2,064
Cumulative translation adjustments	(3,025)	(3,395)
	-----	-----
Accumulated other comprehensive income (loss)	\$ (3,168)	\$ (1,331)
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 3, 2001 and February 26, 2000
(unaudited)

NOTE E - SALE OF SUBSIDIARY AND RELATED ASSETS

On July 27, 2000, AngioDynamics, Inc. entered into two agreements to sell all the capital stock of AngioDynamics Ltd., a wholly-owned subsidiary, and certain other assets to AngioDynamics Ltd.'s management. AngioDynamics Ltd., located in Ireland, manufactured cardiovascular and interventional radiology products. The aggregate consideration paid was \$3,250,000 in cash. The sale was the culmination of AngioDynamics' strategic decision to exit the cardiovascular market and to focus entirely on the interventional radiology marketplace. As a result of this sale, the Company recognized a pre-tax loss of approximately \$872,000 during the quarter ended September 2, 2000. The aforementioned pre-tax loss includes the effect of previously unrealized losses on foreign currency translation of approximately \$994,000 and the write-off of approximately \$673,000 in inventory and intangibles related to the cardiovascular product line, both of which were non-cash charges. Further, AngioDynamics entered into a manufacturing agreement, a distribution agreement and a royalty agreement with the buyer. Under the two-year manufacturing agreement, the buyer will be manufacturing certain interventional radiology products sold by AngioDynamics.

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NOTE F - ASSET IMPAIRMENT CHARGE

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

NOTE G - INVENTORIES

Inventories consist of the following:

	March 3, 2001	June 3, 2000
	-----	-----
	(in thousands)	
Finished goods	\$12,414	\$13,246
Work in process	1,992	2,813
Raw materials	10,371	10,797
	-----	-----
	\$24,777	\$26,856
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 3, 2001 and February 26, 2000
(unaudited)

NOTE H - INCOME TAXES

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

NOTE I - COMMON STOCK

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Under the 1983 and 1984 Stock Option Plans, options for 8,711 shares were exercised at prices ranging from \$4.22 to \$5.63 per share, options for 25,215 shares were forfeited at prices ranging from \$4.22 to \$8.58 per share, and no options were granted or expired during the thirty-nine weeks ended March 3, 2001. Under the 1997 AngioDynamics Stock Option Plan, options for .06 shares were granted at \$40,000 per share, options for 5.06 shares were forfeited at \$40,000 per share, and no options were exercised or expired during the thirty- nine weeks ended March 3, 2001.

In January 1999, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's Class B Common Stock at an aggregate purchase price of up to \$2,000,000. In October 1999, the Board modified the program to include the Company's Class A Common Stock. In February 2000, the Board further modified the program to increase the aggregate purchase price of Class A and Class B Common Stock by an additional \$2,000,000. As of March 3, 2001, the Company had repurchased 41,223 shares of Class A Common Stock and 387,155 shares of Class B Common Stock for approximately \$3,014,000.

NOTE J - OPERATING SEGMENTS

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

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 3, 2001 and February 26, 2000
(unaudited)

NOTE J - OPERATING SEGMENTS (continued)

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

Thirteen weeks ended	
March 3, 2001	February 26, 2000
-----	-----

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(in thousand)

Net sales to external customers		
Diagnostic products		
Contrast systems	\$ 14,246	\$ 14,044
Non-contrast systems	7,892	6,806
	-----	-----
Total Diagnostic products	22,138	20,850
AngioDynamics products	5,248	4,902
	-----	-----
Total net sales to external customers	\$ 27,386	\$ 25,752
	=====	=====
Intersegment net sales		
Diagnostic products	\$ --	\$ --
AngioDynamics products	189	494
	-----	-----
Total intersegment net sales	\$ 189	\$ 494
	=====	=====
Operating profit (loss)		
Diagnostic products	\$ (57)	\$ 959
AngioDynamics products	17	(22)
Eliminations	15	7
	-----	-----
Total operating profit (loss)	\$ (25)	\$ 944
	=====	=====
Net earnings (loss)		
Diagnostic products	\$ 261	\$ 805
AngioDynamics products	(170)	(296)
Eliminations	15	7
	-----	-----
Total net earnings	\$ 106	\$ 516
	=====	=====

Assets
 Diagnostic products
 AngioDynamics products
 Eliminations

Total assets

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E-Z-EM, Inc. and Subsidiaries

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

Quarters ended March 3, 2001 and February 26, 2000

The Company's quarters ended March 3, 2001 and February 26, 2000 both represent thirteen weeks.

Results of Operations -----

Segment Overview -----

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

	Diagnostic	AngioDynamics	Eliminations	Total
	-----	-----	-----	-----
	(in thousands)			
Quarter ended March 3, 2001 -----				
Unaffiliated customer sales	\$22,138	\$5,248	-	\$27,386
Intersegment sales	-	189	(\$189)	-
Gross profit	8,137	2,625	15	10,777
Operating profit (loss)	(57)	17	15	(25)
Quarter ended February 26, 2000 -----				
Unaffiliated customer sales	\$20,850	\$4,902	-	\$25,752
Intersegment sales	-	494	(\$494)	-
Gross profit	8,513	2,585	7	11,105
Operating profit (loss)	959	(22)	7	944

Diagnostic Products -----

Diagnostic segment operating results for the current quarter declined by \$1,016,000 due primarily to decreased gross profit and increased operating expenses. Net sales increased 6%, or \$1,288,000, due to increased demand for sales of both non-contrast systems, primarily relating to custom contracts, and contrast systems. Price increases had little effect on net sales for the current quarter. Gross profit expressed as a percentage of net sales declined to 37% for the current quarter from 41% for the comparable period of the prior year due primarily to decreased production throughput and severance costs of \$315,000, resulting from operational reorganizations. Increased operating expenses of \$640,000 resulted from the expansion of the domestic sales force, increased distribution costs and increased administrative and research and development

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expenses.

AngioDynamics Products

AngioDynamics segment operating results for the current quarter improved by \$39,000 due to increased sales. Net sales increased 7%, or \$346,000, due, in large part, to increased sales of the Workhorse(TM) PTA balloon catheters, introduced in the second quarter of last fiscal year. Gross profit expressed as a percentage of net sales was 48% for both the current quarter and the comparable quarter of the prior year.

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Consolidated Results of Operations

For the quarter ended March 3, 2001, the Company reported net earnings of \$106,000, or \$.01 per common share on both a basic and diluted basis, compared to net earnings of \$516,000, or \$.05 per common share on both a basic and diluted basis, for the comparable period of last year. Results for the current quarter were adversely affected by decreased gross profit and increased operating expenses in the Diagnostic segment.

Net sales of \$27,386,000 for the quarter ended March 3, 2001 increased 6%, or \$1,634,000, compared to the quarter ended February 26, 2000 due to increased sales of non-contrast systems of \$1,086,000, including \$758,000 relating to custom contracts, AngioDynamics products of \$346,000 and contrast systems of \$202,000. Price increases had little effect on net sales for the current quarter. Net sales in international markets, including direct exports from the U.S., increased 9%, or \$766,000, for the current quarter from the comparable period of last year due, almost entirely, to increased custom contract sales of \$758,000.

Gross profit expressed as a percentage of net sales decreased to 39% for the current quarter from 43% for the comparable quarter of the prior year due to reduced gross profit in the Diagnostic segment. The decline in Diagnostic gross profit expressed as a percentage of net sales was due primarily to decreased production throughput and severance costs of \$315,000, resulting from operational reorganizations. The Company's third fiscal quarters traditionally have fewer production days than the other fiscal quarters, resulting in somewhat lower gross profit percentages in such quarters.

Selling and administrative ("S&A") expenses were \$9,453,000 for the quarter ended March 3, 2001 compared to \$8,971,000 for the quarter ended February 26, 2000. This increase of \$482,000, or 5%, for the current quarter was due primarily to increased Diagnostic S&A expenses of \$421,000, resulting from the expansion of the domestic sales force, increased distribution costs and increased administrative expenses.

Research and development ("R&D") expenditures increased 13% for the current quarter to \$1,349,000, or 5% of net sales, from \$1,190,000, or 5% of net sales, for the comparable quarter of the prior year. This increase was due primarily to a redeployment of staff from other departments within the Company, as well as severance costs of \$90,000, resulting from operational reorganizations. Of the R&D expenditures for the current quarter, approximately 44% relate to contrast systems, 26% to AngioDynamics projects, 2% to immunological projects, 7% to other projects and 21% to general regulatory costs. R&D expenditures are expected to continue at approximately current levels.

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Other income, net of other expenses, totaled \$222,000 of income for the current quarter compared to \$156,000 of income for the quarter ended February 26, 2000. This increased income was due to an improvement in foreign currency exchange gains and losses.

For the quarter ended March 3, 2001, the Company's effective tax rate of 46% differed from the Federal statutory tax rate of 34% due primarily to the fact that the Company did not provide for the tax benefit on losses incurred in a foreign jurisdiction, since it is more likely than not that such benefits will not be realized, and non-deductible expenses, partially offset by tax-exempt interest and earnings of the Company's Puerto Rican subsidiary, which are subject to favorable U.S. tax treatment. The Company's effective tax rate of 53% for the quarter ended February 26, 2000 differed from the Federal statutory tax rate of 34% due primarily to the fact that the Company did not provide for the tax benefit on losses in certain foreign jurisdictions, since, at that time, it was more likely than not that such benefits would not be realized. Losses incurred in a foreign jurisdiction subject to lower tax rates and non-deductible expenses

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also contributed to the unusually high effective tax rate, but were partially offset by earnings of the Company's Puerto Rican subsidiary, which are subject to favorable U.S. tax treatment.

Thirty-nine weeks ended March 3, 2001 and February 26, 2000

Results of Operations

Segment Overview

	Diagnostic	AngioDynamics	Eliminations	Total
	-----	-----	-----	-----
	(in thousands)			
Thirty-nine weeks ended March 3, 2001				

Unaffiliated customer sales	\$65,068	\$15,883	-	\$80,951
Intersegment sales	1	541	(\$542)	-
Gross profit (loss)	26,903	8,073	(54)	34,922
Operating profit (loss)	2,057	(217)	(54)	1,786
Thirty-nine weeks ended February 26, 2000				

Unaffiliated customer sales	\$67,153	\$13,769	-	\$80,922
Intersegment sales	2	819	(\$821)	-
Gross profit	29,681	6,700	41	36,422
Operating profit (loss)	7,015	(838)	43	6,220

Diagnostic Products

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Diagnostic segment operating results for the current period declined by \$4,958,000 due primarily to decreased sales and gross profit and increased operating expenses. Net sales decreased 3%, or \$2,085,000, due to lower demand for sales of contrast systems. Price increases accounted for approximately 2% of net sales for the current period. Gross profit expressed as a percentage of net sales declined to 41% for the current period from 44% for the comparable period of the prior year due primarily to decreased production throughput and severance costs of \$315,000, resulting from operational reorganizations, partially offset by the effects of sales price increases. Increased operating expenses of \$2,180,000 are attributable to: an impairment charge of \$450,000 relating to acquired patent rights to an oral magnetic resonance imaging contrast agent; the expansion of the domestic sales force; increased distribution costs; and increased administrative and R&D expenses.

AngioDynamics Products

AngioDynamics segment operating results for the current period, which improved by \$621,000, were adversely affected by the sale of AngioDynamics Ltd., a wholly-owned subsidiary, and certain other assets. AngioDynamics Ltd., located in Ireland, manufactured cardiovascular and interventional radiology products. The sale was the culmination of AngioDynamics' strategic decision to exit the cardiovascular market and to focus entirely on the interventional radiology marketplace. As a result of this sale, the Company recognized a pre-tax loss of approximately \$872,000 during the current period. The aforementioned pre-tax loss includes the effect of previously unrealized losses on foreign currency translation of approximately \$994,000 and the write-off of approximately \$673,000 in inventory and intangibles related to the cardiovascular product line, both of which were non-cash charges.

Excluding the loss on sale, AngioDynamics segment operating results improved by \$1,493,000 due to increased sales and improved gross profit. Net sales increased 15%, or \$2,114,000, due, in large part, to increased sales of several products, namely Abscession(TM) fluid drainage catheters, VistaFlex(TM) platinum biliary stents, and Workhorse(TM) PTA balloon catheters, introduced in the

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second quarter of last fiscal year. Gross profit expressed as a percentage of net sales improved to 49% for the current period from 46% for the comparable period of the prior year due primarily to increased production throughput at the Glens Falls facility and reduced unabsorbed overhead costs resulting from the sale of the Irish facility.

Consolidated Results of Operations

For the thirty-nine weeks ended March 3, 2001, the Company reported net earnings of \$2,809,000, or \$.28 per common share on both a basic and diluted basis, compared to net earnings of \$4,131,000, or \$.41 and \$.40 per common share on a basic and diluted basis, respectively, for the comparable period of last year. Results for the current period were adversely affected by decreased sales and gross profit in the Diagnostic segment and increased operating expenses in both industry segments. The increased operating expenses, totaling \$2,934,000, were due, in part, to the loss on sale of AngioDynamics Ltd. and related assets of \$872,000 and the Diagnostic asset impairment charge of \$450,000. Results for the current period were favorably affected by the Company's reversal of a portion of its income tax valuation allowance against certain domestic tax benefits totaling \$1,344,000, since it is now more likely than not that such

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benefits will be realized.

Net sales of \$80,951,000 for the thirty-nine weeks ended March 3, 2001 increased \$29,000 compared to the thirty-nine weeks ended February 26, 2000. Increased sales of AngioDynamics products of \$2,114,000 and non-contrast systems of \$6,000 were almost entirely offset by decreased sales of contrast systems of \$2,091,000. Price increases accounted for approximately 1% of net sales for the current period. Net sales in international markets, including direct exports from the U.S., decreased 9%, or \$2,427,000, for the current period from the comparable period of last year due, in part, to decreased custom contract sales of \$849,000 and the continued weakness of the Euro compared to the U.S. dollar, as the Company's domestic operations bill export sales in U.S. dollars.

Gross profit expressed as a percentage of net sales decreased to 43% for the current period from 45% for the comparable period of the prior year due to reduced gross profit in the Diagnostic segment, partially offset by improved gross profit in the AngioDynamics segment. The decline in Diagnostic gross profit expressed as a percentage of net sales was due primarily to decreased production throughput and severance costs of \$315,000, resulting from operational reorganizations, partially offset by the effects of sales price increases. The improved AngioDynamics gross profit expressed as a percentage of net sales was due primarily to increased production throughput at the Glens Falls facility and reduced unabsorbed overhead costs resulting from the sale of the Irish facility.

S&A expenses were \$28,254,000 for the thirty-nine weeks ended March 3, 2001 compared to \$26,640,000 for the thirty-nine weeks ended February 26, 2000. This increase of \$1,614,000, or 6%, for the current period was due to increased Diagnostic S&A expenses, resulting from the asset impairment charge of \$450,000, the expansion of the domestic sales force, increased distribution costs, and increased administrative expenses.

R&D expenditures increased 13% for the current period to \$4,010,000, or 5% of net sales, from \$3,562,000, or 4% of net sales, for the comparable prior year period. This increase was due primarily to a redeployment of staff from other departments within the Company, increased spending relating to contrast systems of \$128,000, and severance costs of \$90,000, resulting from operational reorganizations. Of the R&D expenditures for the current period, approximately 43% relate to contrast systems, 27% to AngioDynamics projects, 4% to immunological projects, 7% to other projects and 19% to general regulatory costs.

Other income, net of other expenses, totaled \$565,000 of income for the current period compared to \$390,000 of income for the comparable period of last

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year. This improvement was due primarily to increased interest income of \$137,000, resulting from the investment of AngioDynamics Ltd. sale proceeds, and decreased foreign currency exchange losses of 61,000.

For the thirty-nine weeks ended March 3, 2001, the Company reported an income tax benefit of \$458,000 against earnings before taxes of \$2,351,000 due primarily to the fact that the Company reversed a portion of its valuation allowance against certain domestic tax benefits totaling \$1,344,000. Continued and projected future profitability of the Company's U.S. operations, including those of AngioDynamics, made it more likely than not that certain deferred tax assets would be realized through future taxable earnings. The Company's effective tax rate of 38% for the thirty-nine weeks ended February 26, 2000

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differed from the Federal statutory tax rate of 34% due primarily to the fact that the Company did not provide for the tax benefit on losses in certain foreign jurisdictions, since, at that time, it was more likely than not that such benefits would not be realized. Earnings of the Company's Puerto Rican subsidiary, which are subject to favorable U.S. tax treatment, were offset by losses incurred in a foreign jurisdiction subject to lower tax rates and non-deductible expenses.

Liquidity and Capital Resources

For the thirty-nine weeks ended March 3, 2001, capital expenditures and the purchase of treasury stock were funded by cash provided by operations. The Company's policy has been to fund capital requirements without incurring significant debt. At March 3, 2001, debt (notes payable, current maturities of long-term debt and long-term debt) was \$1,505,000, compared to \$1,636,000 at June 3, 2000. The Company has available \$5,238,000 under two bank lines of credit of which no amounts were outstanding at March 3, 2001.

At March 3, 2001, approximately 65% of the Company's assets consisted of inventories, accounts receivable, short-term debt and equity securities, and cash and cash equivalents. The current ratio was 4.67 to 1, with net working capital of \$55,126,000, at March 3, 2001, compared to a current ratio of 4.25 to 1, with net working capital of \$51,434,000, at June 3, 2000.

In January 1999, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's Class B Common Stock at an aggregate purchase price of up to \$2,000,000. In October 1999, the Board modified the program to include the Company's Class A Common Stock. In February 2000, the Board further modified the program to increase the aggregate purchase price of Class A and Class B Common Stock by an additional \$2,000,000. As of March 3, 2001, the Company had repurchased 41,223 shares of Class A Common Stock and 387,155 shares of Class B Common Stock for approximately \$3,014,000.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are intended to be covered by the safe harbors created thereby. Words such as "expects", "intends", "anticipates", "plans", "believes", "seeks", "estimates", or variations of such words and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the ability of the Company to develop its products, future actions by the U.S. Food and Drug Administration or other regulatory agencies, results of pending or future clinical trials, as well as general market conditions, competition and pricing. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q

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will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any

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

Effects of Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires entities to recognize all derivatives in their financial statements as either assets or liabilities measured at fair value. SFAS No. 133 also specifies new methods of accounting for hedging transactions, prescribes the items and transactions that may be hedged and specifies detailed criteria to be met to qualify for hedge accounting. SFAS No. 133, as amended by SFAS No. 138, is effective for fiscal years beginning after June 15, 2000. The Company currently does not use derivative instruments as defined by SFAS No. 133. If the Company continues not to use these derivative instruments by the effective date of SFAS No. 133, the adoption of this pronouncement will have no effect on the Company's results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued SAB No. 101 "Revenue Recognition", which provides guidelines in applying generally accepted accounting principles to selected revenue recognition issues. The SAB is effective in the fourth quarter of fiscal years beginning after December 15, 1999. The Company continues to evaluate the impact of SAB 101, but believes it is in compliance with the provisions of the SAB, and, accordingly, does not expect this statement to have a material impact on the Company's results of operations or financial position.

In October 2000, the EITF issued guidance on how to classify certain revenues and costs in a company's financial statements. EITF No. 00-10 "Accounting for Shipping and Handling Revenues and Costs" requires that companies classify all amounts billed to customers related to shipping and handling cost as revenue. This statement will be effective in the fourth quarter of fiscal years beginning after December 15, 1999 and is not expected to have any effect on the Company's results of operations or financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign currency exchange rates and, to a much lesser extent, interest rates on investments and financing, which could impact results of operations and financial position. The Company does not currently engage in hedging or other market risk management tools. There have been no material changes with respect to market risk previously disclosed in the fiscal 2000 Annual Report on Form 10-K.

Foreign Currency Exchange Rate Risk

The Company's international subsidiaries are denominated in currencies other than the U.S. dollar. Since the functional currency of the Company's international subsidiaries is the local currency, foreign currency translation adjustments are accumulated as a component of accumulated other comprehensive income (loss) in stockholders' equity. Assuming a hypothetical aggregate change in the foreign currencies versus the U.S. dollar exchange rates of 10% at March 3, 2001, the Company's assets and liabilities would increase or decrease by \$2,191,000 and \$586,000, respectively, and the Company's net sales and net earnings would increase or decrease by \$1,997,000 and \$36,000, respectively, on an annual basis.

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The Company also maintains intercompany balances and loans receivable with subsidiaries with different local currencies. These amounts are at risk of foreign exchange losses if exchange rates fluctuate. Assuming a hypothetical aggregate change in the foreign currencies versus the U.S. dollar exchange rates of 10% at March 3, 2001, results of operations would be favorably or unfavorably impacted by approximately \$463,000 on an annual basis.

Interest Rate Risk

The Company is exposed to interest rate change market risk with respect to its investments in tax-free municipal bonds in the amount of \$13,625,000. The bonds bear interest at a floating rate established weekly. For the thirty-nine weeks ended March 3, 2001, the after-tax interest rate on the bonds approximated 4.3%. Each 100 basis point (1%) fluctuation in interest rates will increase or decrease interest income on the bonds by approximately \$136,000 on an annual basis.

As the Company's principal amount of fixed interest rate financing approximated \$1,505,000 at March 3, 2001, a change in interest rates would not materially impact results of operations or financial position. At March 3, 2001, the Company did not maintain any variable interest rate financing.

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E-Z-EM, Inc. and Subsidiaries

Part II: Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 3, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

E-Z-EM, Inc.

(Registrant)

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Date April 17, 2001

/s/ Anthony A. Lombardo

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

Date April 17, 2001

/s/ Dennis J. Curtin

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

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