

ANGIODYNAMICS INC  
Form 10-Q  
January 05, 2012  
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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, 2011

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)

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

(518) 795-1400

Registrant's telephone number, including area code

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common stock, par value \$.01	NASDAQ Global Select Market
Preferred Stock Purchase Rights	NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act:**

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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

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.

Class	Outstanding as of December 28, 2011
Common Stock, par value \$.01	25,117,707 shares

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**AngioDynamics, Inc. and Subsidiaries**

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

	Three Months Ended		Six Months Ended	
	Nov 30, 2011	Nov 30, 2010	Nov 30, 2011	Nov 30, 2010
Net sales	\$ 58,099	\$ 53,372	\$ 112,530	\$ 104,879
Cost of sales	24,868	21,836	47,154	43,323
Gross profit	33,231	31,536	65,376	61,556
Operating expenses				
Research and development	5,125	5,259	10,715	10,501
Sales and marketing	15,847	13,793	32,156	28,237
General and administrative	4,625	4,173	8,937	8,760
Amortization of intangibles	2,300	2,142	4,594	4,408
Restructuring and other costs, net	1,408	772	2,331	772
Total operating expenses	29,305	26,139	58,733	52,678
Operating income	3,926	5,397	6,643	8,878
Other income (expenses)				
Interest income	260	161	495	328
Interest expense	(111)	(116)	(227)	(240)
Other expense	(506)	(307)	(1,239)	(878)
Total other income (expenses)	(357)	(262)	(971)	(790)
Income before income tax provision	3,569	5,135	5,672	8,088
Income tax provision	1,240	1,856	1,970	2,921
Net income	\$ 2,329	\$ 3,279	\$ 3,702	\$ 5,167
Earnings per common share				
Basic	\$ 0.09	\$ 0.13	\$ 0.15	\$ 0.21
Diluted	\$ 0.09	\$ 0.13	\$ 0.15	\$ 0.21
Basic weighted average shares outstanding	25,190	24,845	25,107	24,799
Diluted weighted average shares outstanding	25,340	25,094	25,278	25,067

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

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

	Nov 30, 2011	May 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 42,955	\$ 45,984
Marketable securities, at fair value	93,364	85,558
Total cash, cash equivalents and marketable securities	136,319	131,542
Accounts receivable, net of allowances of \$690 and \$485, respectively	31,451	27,141
Inventories	29,427	28,126
Deferred income taxes	2,851	2,821
Prepaid expenses and other	5,788	4,675
Total current assets	205,836	194,305
PROPERTY, PLANT AND EQUIPMENT-AT COST, less accumulated depreciation	23,196	23,804
OTHER ASSETS	3,763	2,823
INTANGIBLE ASSETS, less accumulated amortization	43,691	48,037
GOODWILL	161,951	161,951
DEFERRED INCOME TAXES, long term	4,870	5,835
PREPAID ROYALTIES	283	666
<b>TOTAL ASSETS</b>	<b>\$ 443,590</b>	<b>\$ 437,421</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,808	\$ 11,391
Accrued liabilities	14,522	13,841
Current portion of long-term debt	290	275
Total current liabilities	26,620	25,507
LONG-TERM DEBT, net of current portion	6,125	6,275
Total liabilities	32,745	31,782
<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 25,103,357 and 24,985,657 shares at November 30, 2011 and May 31, 2011, respectively	251	250
Additional paid-in capital	373,219	371,393
Retained earnings	38,971	35,269
Accumulated other comprehensive loss	(1,596)	(1,273)
Total stockholders' equity	410,845	405,639

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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 443,590	\$ 437,421
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The accompanying notes are an integral part of these interim consolidated financial statements.

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

	Six Months Ended	
	Nov 30, 2011	Nov 30, 2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,702	\$ 5,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,273	5,984
Amortization of bond discounts and premiums	245	
Tax effect on exercise of stock options and issuance of performance shares	(198)	(29)
Deferred income taxes	1,058	2,285
Stock based compensation	1,877	2,254
Change in accounts receivable allowances	205	(81)
Other	(282)	153
Changes in operating assets and liabilities:		
Accounts receivable	(4,515)	4,157
Inventories	(1,546)	(3,515)
Prepaid expenses and other	(1,998)	1,195
Accounts payable and accrued liabilities	892	(5,944)
<b>Net cash provided by operating activities</b>	<b>5,713</b>	<b>11,626</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(1,058)	(1,489)
Purchases of marketable securities	(77,652)	(128,274)
Proceeds from sale or maturity of marketable securities	69,275	85,880
Acquisition of intangible and other assets	(300)	
Proceeds from disposal of intangible and other assets	1,000	
<b>Net cash used in investing activities</b>	<b>(8,735)</b>	<b>(43,883)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	(135)	(130)
Proceeds from exercise of stock options and employee stock purchase plan	2,250	718
Repurchase and retirement of shares	(2,104)	
<b>Net cash provided by financing activities</b>	<b>11</b>	<b>588</b>
Effect of exchange rate changes on cash and cash equivalents	(18)	38
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(3,029)</b>	<b>(31,631)</b>
Cash and cash equivalents at beginning of period	45,984	58,763
<b>Cash and cash equivalents at end of period</b>	<b>\$ 42,955</b>	<b>\$ 27,132</b>

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





**Table of Contents****AngioDynamics, Inc. and Subsidiaries****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND****COMPREHENSIVE INCOME****Six Months Ended November 30, 2011****(unaudited)****(in thousands, except share data)**

	Common Stock		Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	paid in	earnings	other		income
			capital		comprehensive		
					loss		
Balance at May 31, 2011	24,985,657	\$ 250	\$ 371,393	\$ 35,269	\$ (1,273)	\$ 405,639	
Net income				3,702		3,702	\$ 3,702
Exercise of stock options	148,260	1	1,650			1,651	
Purchase of common stock under ESPP	49,024		600			600	
Issuance of performance shares	62,721	1				1	
Tax effect of exercise of stock options			(198)			(198)	
Shares repurchased and retired	(142,305)	(1)	(2,103)			(2,104)	
Stock based compensation			1,877			1,877	
Unrealized loss on marketable securities, net of tax of \$ 9					(174)	(174)	(174)
Unrealized loss on interest rate swap, net of tax of \$ 1					(36)	(36)	(36)
Foreign currency translation					(113)	(113)	(113)
Comprehensive income							\$ 3,379
Balance at November 30, 2011	25,103,357	\$ 251	\$ 373,219	\$ 38,971	\$ (1,596)	\$ 410,845	

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, 2011 and November 30, 2010**

**(unaudited)**

**NOTE A CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated balance sheet as of November 30, 2011, the consolidated statement of stockholders' equity and comprehensive income for the six months ended November 30, 2011, the consolidated statement of cash flows for the six months ended November 30, 2011 and November 30, 2010 and the consolidated statements of income for the three and six months ended November 30, 2011 and November 30, 2010 have been prepared by us without audit. The consolidated balance sheet as of May 31, 2011 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. For comparative purposes to conform to current quarter and year to date presentation on the consolidated statement of income, we reclassified prior year severance and restructuring costs which resulted in an increase in restructuring and other costs, net and a corresponding decrease in general and administrative expenses for the three and six months ended November 30, 2010 of \$772 thousand. 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, 2011 (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, 2011, filed by us on August 12, 2011. Our most significant accounting policies are disclosed in Note A to the consolidated financial statements included in the aforementioned Form 10-K for the fiscal year ended May 31, 2011. The results of operations in the fiscal periods ended November 30, 2011 and November 30, 2010 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, 2011 and 2010 include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, RITA Medical Systems, LLC, AngioDynamics UK Limited and AngioDynamics Netherlands B.V. since February 2, 2011 (collectively, the Company). All intercompany balances and transactions have been eliminated.

Our business is organized into two reportable segments: Vascular and Oncology/Surgery. The Vascular segment, under the direction of a general manager, 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/Surgery segment is responsible for RF Ablation, embolization, Habib and NanoKnife product lines and has dedicated research and development and sales and marketing personnel assigned to it.

Our chief operating decision maker evaluates performance based on the reportable segments and utilizes net sales, gross profit and operating income as primary profitability measures. The expenses related to certain shared and corporate activities are allocated to these segments on a percentage of total sales basis or operating expenses basis as deemed appropriate.

***Recent Developments***

***Regulatory Matters***

On January 24, 2011 we received a Warning Letter from the U.S. Food and Drug Administration, or FDA, in connection with our marketing of the NanoKnife System. In the Warning Letter the FDA states that certain statements we made, including those on our company website, promote the use of the NanoKnife System beyond its currently cleared indications. Upon receipt of the Warning Letter we promptly responded to FDA and completed corrective and preventative actions to address the matters raised in the Warning Letter. We believe we have been fully responsive to the matters raised by the FDA in the Warning Letter.

We received a Warning Letter dated May 27, 2011 from the FDA in connection with the FDA's inspection of our Queensbury, NY manufacturing facility. In the Warning Letter, the FDA cited deficiencies in our response letter, which we provided to the FDA pertaining to the inspection that occurred from January 4 through January 13, 2011. These deficiencies related to our internal procedures for medical device

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reporting, corrections and removals and complaint handling.

We have responded to the Warning Letter and completed corrective and preventive actions to address the observations. In addition, we have developed a comprehensive Quality Plan to review and augment the Quality Management System at our Queensbury, NY facility. FDA is currently conducting a follow-up inspection to the Warning Letter for this facility and we are actively working in conjunction with them to ensure the changes we are implementing are appropriate and effective.

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**AngioDynamics, Inc. and Subsidiaries**

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

**November 30, 2011 and November 30, 2010**

**(unaudited)**

**NOTE A CONSOLIDATED FINANCIAL STATEMENTS (cont d)**

We intend to continue to work closely with the FDA to resolve any outstanding issues. Until the items raised in either of the warning letters or any additional items that may be raised during the recent inspections are corrected, we may be subject to additional regulatory action by the FDA, including the issuance of a warning letter, injunction, seizure or recall of product, imposition of fines or penalties or operating restrictions on the facility and any such actions could significantly disrupt our ongoing business and operations and have a material adverse impact on our financial position and operating results.

We have recently initiated voluntary Class II recalls of certain VenaCureEVL<sup>®</sup> NeverTouch procedure kits, Morpheus<sup>®</sup> Smart PICC CT PICCs and DuraMax<sup>®</sup> Chronic HemoDialysis Catheters. These three recalls stemmed from defective parts manufactured by suppliers. In addition, we have initiated a voluntary recall of labeling of our NanoKnife System in connection with the system's ablation zone estimator.

***Amendment of AngioDynamics 2004 Stock and Incentive Award Plan***

On October 5, 2011, we amended the 2004 Stock and Incentive Award Plan to increase the maximum number of shares of our common stock with respect to which stock options can be granted during any calendar year to any employee from 200,000 shares to 500,000 shares.

***Share Repurchase Program***

On October 5, 2011, our Board of Directors authorized the repurchase of up to \$20 million of our common stock, prior to May 31, 2012. During the second quarter of fiscal 2012, we purchased 142,305 shares at a cost of approximately \$2.1 million under this share repurchase program and subsequently retired those shares. See Note G for additional information.

***AngioDynamics v. biolitec Litigation***

We initiated legal action against biolitec in January 2008 seeking to enforce the indemnification provisions of our April 1, 2002, Supply and Distribution Agreement with biolitec and to recover costs incurred by us in defending and settling two patent infringement cases. Specifically, we are seeking to recover the costs of our \$7 million settlement with Diomed in April 2008, our \$6.8 million settlement with VNUS Medical Technologies in June 2008 and the legal fees associated with the two cases.

On September 27, 2011, the U.S. District Court for the Northern District of New York granted key portions of our motion for summary judgment in our legal case against biolitec. The Court's order was filed under seal. As of this date, the order has not yet been entered as a judgment and therefore does not contain specified amounts with respect to damages, and there can be no assurance that we will recover the full amount, or any amount, of the damages we have sought against biolitec and, accordingly, we have not recognized any contingent gains or receivables with respect to this matter. The Court also dismissed biolitec's counterclaims against us. The court denied one portion of our summary judgment motion, which sought to recover additional costs from biolitec, leaving this for adjudication at trial.

***Expiration of our Distribution Agreement Amendment for LC Bead***

We have sold the embolization product, LC Bead, pursuant to a Supply and Distribution Agreement with Biocompatibles UK Limited, now BTG PLC, which granted us exclusive distribution rights to the product in the United States. The agreement was entered into in 2006 and expired on December 31, 2011. LC Bead sales were \$9.1 million and \$6.5 million in the quarter ending November 30, 2011 and 2010, respectively and were \$17.1 million and \$13.3 million for the six month periods ending November 30, 2011 and 2010 respectively.

*Restructuring and other costs*

*CEO Transition and Executive team restructuring*

On June 13, 2011, we entered into a Separation Agreement with Johannes C. Keltjens, our then President and Chief Executive Officer that provided, among other things, for a lump sum payment in the amount of \$930,811 (subject to applicable withholdings and deductions) and continuation of health benefits for a period of up to 24 months. Total expenses of \$1.0 million associated with this Separation Agreement were included in Restructuring and other costs, net in our income statement for the six months ended November 30, 2011. Joseph M. Devivo commenced employment on September 7, 2011 as President and Chief Executive Officer.

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**AngioDynamics, Inc. and Subsidiaries**

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

**November 30, 2011 and November 30, 2010**

**(unaudited)**

**NOTE A CONSOLIDATED FINANCIAL STATEMENTS (cont d)**

During the transition period, Scott J. Solano, Senior Vice President and Chief Technology Officer, assumed the duties of Interim Chief Executive Officer. Mr. Solano resigned from AngioDynamics, effective October, 14, 2011. Expenses of \$286 thousand for the relocation of our new CEO and \$350 thousand of expenses for transitions in the executive management team are included in Restructuring and other costs, net in our income statement for the three and six months ended November 30, 2011. Comparably, in the prior year periods, expenses of \$772 thousand of expenses for transitions in the executive management team were included in our income statement for the three and six months ended November 30, 2010.

***Closure of UK facility***

During the first fiscal quarter of 2012, we made the decision to close our facility located in Cambridge, UK and transfer the production of lasers to our Queensbury, NY facility. We have extended the date for closing the UK facility and moving laser manufacturing from December 2011 to December 2012. We estimate the total cost of this project will be approximately \$3.4 million. The income statements for the three and six month periods ending November 30, 2011 include charges of \$576 thousand and \$872 thousand, respectively, for costs incurred associated with this closure. The charge is included in Restructuring and other costs, net in the income statement.

***Establishment of AngioDynamics Netherlands BV***

In February 2011, we entered into an agreement with our distributor in the Netherlands to terminate our international distribution agreement, to purchase relevant business assets and to secure their assistance in transferring customer relationships to AngioDynamics. As a result, we have established a direct sales operation and a business office in the Netherlands in accordance with our international growth strategy. The income statement for the three month period ending November 30, 2011 includes expense of \$185 thousand and the income statement for the six month period ending November 30, 2011 includes income of \$15 thousand shown in Restructuring and other costs, net, related to a fair market value adjustment of a contingent liability related to this acquisition.

***Centros***

On August 13, 2007, we entered into a Distribution, Manufacturing and Purchase Option Agreement (the Agreement) with a company to acquire the exclusive worldwide rights to manufacture and distribute a split tip catheter for the dialysis market we have named Centros which included the option to purchase certain intellectual property associated with these products in the future. Under this Agreement, we pay royalties on net sales of the products covered in the Agreement. In accordance with the Agreement, we prepaid \$3.0 million of royalties based upon the achievement of certain milestones. At May 31, 2011, based on lower than anticipated sales results, we reduced the prepaid royalties to net realizable value which resulted in an impairment loss of \$2.3 million recorded in Other non-recurring items in our fiscal fourth quarter 2011 income statement. The remaining balance of \$383,000 was included in the caption Prepaid Royalties on the balance sheet as of May 31, 2011, to be credited against future quarterly royalties due. In August 2011, we sold both the tangible and intangible assets associated with the Centros product, resulting in a gain of \$201 thousand that is included in Restructuring and other costs, net in the income statement for the six months ended November 30, 2011 and the elimination of all related Prepaid Royalties on the balance sheet as of November 30, 2011.

**NOTE B ACQUISITIONS**

***FlowMedica, Inc.***

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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. The contingent payment of \$792,000 was included in accrued liabilities and intangible assets on the balance sheet at May 31, 2011 and was paid in July 2011. Intangible assets acquired totaled approximately \$2.1 million and inventory acquired totaled approximately \$400,000. The transaction was accounted for as an asset acquisition.



**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****NOTE C INVENTORIES**

Inventories are stated at lower of cost (at standard cost which approximates the first-in, first-out method) or market. Inventories consist of the following:

	Nov 30, 2011	May 31, 2011
	(in thousands)	
Raw materials	\$ 9,613	\$ 10,870
Work in process	3,593	2,677
Finished goods	16,221	14,579
Inventories	\$ 29,427	\$ 28,126

**NOTE D GOODWILL AND INTANGIBLE ASSETS**

Intangible assets other than goodwill are amortized over their estimated useful lives, which range between three and nineteen years, on either a straight-line basis over the expected period of benefit or as revenues are earned from the sales of the related products. We periodically review the estimated useful lives of our intangible assets and review such assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Our determination of impairment is based on estimates of future cash flows. If an intangible asset is considered to be impaired, the amount of the impairment will equal the excess of the carrying value over the fair value of the asset.

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. 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. 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 impairment test 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.

Since November 2008, our stock market capitalization has at times 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 2012 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.

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As a result of the expiration of the LC Bead distribution agreement on December 31, 2011 and our revised expectations of the segment, we performed an interim goodwill impairment test of the Oncology/Surgery segment as of April 30, 2011. Significant assumptions included an EBITDA exit multiple of 7.0 to calculate the terminal value of the Oncology/Surgery reporting unit, which was consistent with previous valuations. In addition, we used a discount rate 22.5% to calculate the fair value compared with 20% in the December valuation. Our assessment of goodwill impairment indicated that the fair value of the reporting unit exceeded its carrying value by 14% and therefore goodwill was not impaired.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****NOTE D GOODWILL AND INTANGIBLE ASSETS (cont d)**

There was no change in goodwill by segment, shown below, between May 31, 2011 and November 30, 2011.

Vascular	\$ 107,966
Oncology/Surgery	53,985
	<b>\$ 161,951</b>

Even though we determined there was no goodwill impairment of the Vascular segment as of December 31, 2010, and the Oncology/Surgery segment as of December 31, 2010 and April 30, 2011, 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 one or both of the reporting units prior to the next required annual assessment as of December 31, 2011. 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 fourth quarter of our fiscal year ended May 31, 2011, we made the decision to not continue development of the Medron Lightport technology resulting in an impairment charge, included in other non-recurring items, of \$4.2 million which affected our Vascular intangible balance at May 31, 2011.

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

	November 30, 2011			Weighted avg useful life (years)
	Gross carrying value	Accumulated amortization (in thousands)	Net carrying value	
Product technologies	\$ 49,681	\$ (22,438)	\$ 27,243	13.2
Customer relationships	32,981	(19,784)	13,197	7.5
Licenses	6,252	(3,359)	2,893	9.1
Trademarks	675	(317)	358	9.2
	<b>\$ 89,589</b>	<b>\$ (45,898)</b>	<b>\$ 43,691</b>	

May 31, 2011

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	Gross carrying value	Accumulated amortization (in thousands)	Net carrying value	Weighted avg useful life (years)
Product technologies	\$ 49,453	\$ (20,542)	\$ 28,911	13.3
Customer relationships	32,981	(17,502)	15,479	7.5
Licenses	6,252	(3,005)	3,247	9.1
Trademarks	675	(275)	400	9.2
	\$ 89,361	\$ (41,324)	\$ 48,037	

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****NOTE E ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

	Nov 30, 2011	May 31, 2011
	(in thousands)	
Payroll and related expenses	\$ 7,430	\$ 6,427
Royalties	1,567	1,562
Sales and franchise taxes	1,225	930
Fair value of interest rate swaps	1,181	1,028
Other	3,119	3,894
Total	\$ 14,522	\$ 13,841

**NOTE F INCOME TAXES**

Our effective income tax rate for the three month periods ending November 30, 2011 and November 30, 2010 was 35% and 36%, respectively. Our effective income tax rate for the six month periods ending November 30, 2011 and November 30, 2010 was 35% and 36%, respectively. Both the three and six month periods ending November 30, 2011 reflect a benefit from the R&D tax credit that had temporarily expired for both prior year periods.

**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, 2011	Nov 30, 2010	Nov 30, 2011	Nov 30, 2010
Basic	25,190,246	24,845,305	25,106,911	24,799,247
Effect of dilutive securities	149,288	248,818	171,277	267,329
Diluted	25,339,534	25,094,123	25,278,188	25,066,576

Excluded from the calculation of diluted earnings per common share are options and restricted stock awards issued to employees and non-employees to purchase 2,435,199 and 2,087,086 shares of common stock for the three months and six months ended November 30, 2011, respectively, as their inclusion would be antidilutive. For the comparable three and six month periods ended November 30, 2010, options and

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restricted stock awards issued to employees and non-employees to purchase 2,463,014 and 2,196,891 shares of common stock were also excluded as their inclusion would be antidilutive.

In October 2011, our Board of Directors authorized the repurchase of up to \$20 million of our common stock, prior to May 31, 2012. During the three month period ended November 30, 2011, we repurchased 142,305 shares at an average price of \$14.79 and subsequently retired the shares. Accordingly, approximately \$17.9 million remains available under the repurchase program.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****NOTE H SEGMENT AND GEOGRAPHIC INFORMATION**

Our business is organized into two reportable segments: Vascular and Oncology/Surgery. The Vascular segment, under the direction of a general manager, 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 /Surgery segment is responsible for RF Ablation, embolization, Habib and NanoKnife product lines and has dedicated research and development and sales and marketing personnel assigned to it.

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, 2011	Nov 30, 2010	Nov 30, 2011	Nov 30, 2010
<b>Net sales</b>				
Vascular	\$ 38,282	\$ 37,520		
Oncology/Surgery	19,817	15,852		
Total	\$ 58,099	\$ 53,372		
<b>Gross profit</b>				
Vascular	\$ 20,850	\$ 21,111	54.5%	56.3%
Oncology/Surgery	12,381	10,425	62.5%	65.8%
Total	\$ 33,231	\$ 31,536	57.2%	59.1%
<b>Operating income</b>				
Vascular	\$ 2,028	\$ 4,768	5.3%	12.7%
Oncology/Surgery	1,898	629	9.6%	4.0%
Total	\$ 3,926	\$ 5,397	6.8%	10.1%

	Six Months Ended		As a Percentage of Net Sales Six Months Ended	
	Nov 30, 2011	Nov 30, 2010	Nov 30, 2011	Nov 30, 2010
<b>Net sales</b>				
Vascular	\$ 74,847	\$ 73,434		
Oncology/Surgery	37,683	31,445		

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Total	\$ 112,530	\$ 104,879		
<b>Gross profit</b>				
Vascular	\$ 41,514	\$ 41,256	55.5%	56.2%
Oncology/Surgery	23,862	20,300	63.3%	64.6%
Total	\$ 65,376	\$ 61,556	58.1%	58.7%
<b>Operating income</b>				
Vascular	\$ 3,893	\$ 7,845	5.2%	10.7%
Oncology/Surgery	2,750	1,033	7.3%	3.3%
Total	\$ 6,643	\$ 8,878	5.9%	8.5%



**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(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, 2011, filed by us on August 12, 2011. 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.

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

	Three Months Ended		Six Months Ended	
	Nov 30, 2011	Nov 30, 2010	Nov 30, 2011	Nov 30, 2010
Net Sales by Geography				
United States	\$ 49,653	\$ 46,703	\$ 96,958	\$ 92,176
International	8,446	6,669	15,572	12,703
Total	\$ 58,099	\$ 53,372	\$ 112,530	\$ 104,879

**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 or, with respect to our debt and related interest rate swaps, variable interest rates associated with these instruments. The interest rate swap agreements have been recorded at their fair value based on a valuation received from an independent third party. Marketable securities are carried at their fair value as determined by quoted market prices.

Per our accounting 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.

- 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

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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 2 assets include 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 evaluation for a security. Thus, certain securities may not be priced using quoted prices, but rather determined from market observable information. These investments are included in Level 2 and primarily comprise 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.

**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****NOTE I FAIR VALUE (cont d)**

Level 3 Unobservable inputs that are supported by little or no market activity and 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 for all periods presented. 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 significant transfers in and out of Level 1 and 2 measurements for the three and six months ended November 30, 2011. There were no changes in Level 3 fair value instruments for the three and six months ended November 30, 2011.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	Fair Value Measurements using inputs considered as:			Fair Value at Nov 30, 2011
	Level 1	Level 2	Level 3	
<b>Financial Assets</b>				
Cash equivalents				
Money market funds	\$ 30,504	\$	\$	\$ 30,504
Total	\$ 30,504	\$	\$	\$ 30,504
<b>Marketable securities</b>				
Corporate bond securities	\$	\$ 70,457	\$	70,457
U.S. government agency obligations		21,057	1,850	22,907
Total		91,514	1,850	93,364
<b>Total Financial Assets</b>	<b>\$ 30,504</b>	<b>\$ 91,514</b>	<b>\$ 1,850</b>	<b>\$ 123,868</b>
<b>Financial Liabilities</b>				
Interest rate swap agreements	\$	\$ 1,181	\$	\$ 1,181
Total Financial Liabilities	\$	\$ 1,181	\$	\$ 1,181



**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****NOTE I FAIR VALUE (cont d)**

	Fair Value Measurements using inputs considered as:			Fair Value at May 31, 2011
	Level 1	Level 2	Level 3	
<b>Financial Assets</b>				
Cash equivalents				
Money market funds	\$ 11,719	\$	\$	\$ 11,719
Corporate bond securities	\$	\$ 20,995	\$	\$ 20,995
<b>Total</b>	<b>\$ 11,719</b>	<b>\$ 20,995</b>	<b>\$</b>	<b>\$ 32,714</b>
Marketable securities				
Corporate bond securities	\$	\$ 46,155	\$	\$ 46,155
U.S. government agency obligations		37,553	1,850	39,403
<b>Total</b>		<b>83,708</b>	<b>1,850</b>	<b>85,558</b>
Total Financial Assets	\$ 11,719	\$ 104,703	\$ 1,850	\$ 118,272
<b>Financial Liabilities</b>				
Interest rate swap agreements	\$	\$ 1,028	\$	\$ 1,028
<b>Total Financial Liabilities</b>	<b>\$</b>	<b>\$ 1,028</b>	<b>\$</b>	<b>\$ 1,028</b>

We are exposed to market risk due to changes in interest rates. To reduce this risk, we periodically enter into certain derivative financial instruments to hedge the 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 \$28,000 and interest expense of \$96,000 for the three and six months ended November 30, 2011 and interest income of \$81,000 and interest expense of \$110,000 for the three and six months ended November 30, 2010 on the cash flow hedge.

In accordance with authoritative guidance on Accounting for Derivatives and Hedging Activities, as amended, our 2002 interest rate swap agreement qualifies for hedge accounting under GAAP and the 2006 interest rate swap agreement does not. Both are presented in the consolidated financial statements at their fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in stockholders' equity as a component of accumulated other comprehensive income (loss) depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value or cash flow hedge. Generally, the changes in the fair value of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair value of hedged items that relate to the hedged risks. Changes in the fair value of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive income (loss).



**Table of Contents****AngioDynamics, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2011 and November 30, 2010****(unaudited)****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 are 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, 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 our position in the securities in the near term. As of November 30, 2011 and May 31, 2011, we had \$1.85 million in investments in two auction rate securities issued by New York state and local government authorities that failed auctions. The authorities are current in their interest payments on the securities.

Marketable securities as of November 30, 2011 consisted of the following:

	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sales securities				
U.S. government agency obligations	\$ 22,920	\$ 13	\$ (26)	\$ 22,907
Corporate bond securities	70,804	64	(411)	70,457
	\$ 93,724	\$ 77	\$ (437)	\$ 93,364

Marketable securities as of May 31, 2011 consisted of the following:

	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sales securities				
U.S. government agency obligations	\$ 39,443	\$ 37	\$ (77)	\$ 39,403
Corporate bond securities	46,198	32	(75)	46,155
	\$ 85,641	\$ 69	\$ (152)	\$ 85,558

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**AngioDynamics, Inc. and Subsidiaries**

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

**November 30, 2011 and November 30, 2010**

**(unaudited)**

**NOTE K LITIGATION**

***AngioDynamics v. biolitec***

We initiated legal action against biolitec in January 2008 seeking to enforce the indemnification provisions of our April 1, 2002, Supply and Distribution Agreement with biolitec and to recover costs incurred by us in defending and settling two patent infringement cases. Specifically, we are seeking to recover the costs of our \$7 million settlement with Diomed in April 2008, our \$6.8 million settlement with VNUS Medical Technologies in June 2008 and the legal fees associated with the two cases.

On September 27, 2011, the U.S. District Court for the Northern District of New York granted key portions of our motion for summary judgment in our legal case against biolitec. The Court's order was filed under seal. As of this date, the order has not yet been entered as a judgment and therefore does not contain specified amounts with respect to damages, and there can be no assurance that we will recover the full amount, or any amount, of the damages we have sought against biolitec and, accordingly, we have not recognized any contingent gains or related receivables with respect to this matter. The Court also dismissed biolitec's counterclaims against us. The court denied one portion of our summary judgment motion, which sought to recover additional costs from biolitec, leaving this for adjudication at trial.

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.



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**AngioDynamics, Inc. and Subsidiaries**

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

**November 30, 2011 and November 30, 2010**

**(unaudited)**

**NOTE L RECENTLY ADOPTED ACCOUNTING POLICIES**

In December 2010, the FASB updated the accounting guidance relating to the annual goodwill impairment test. The updated guidance requires companies to perform the second step of the impairment test to measure the amount of impairment loss, if any, when it is more likely than not that a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. In considering whether it is more likely than not that goodwill impairment exists, an entity shall evaluate whether there are adverse qualitative factors. The updated guidance is effective beginning in our fiscal 2012 year. The adoption of this guidance had no material impact on our consolidated financial statements.

In December 2010, the FASB updated the accounting guidance relating to the disclosure of supplementary pro forma information for business combinations. The updated guidance requires companies to provide additional comparative pro forma financial information along with the nature and amount of any material nonrecurring pro forma adjustments related to the business combination. The updated guidance is effective for business combinations which have an acquisition date in fiscal years beginning on or after December 15, 2010 (our 2012 fiscal year). The adoption of this guidance had no material impact on our consolidated financial statements.

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 was effective for annual and interim reporting periods beginning after December 15, 2009 (our 2011 fiscal first quarter), 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 (our 2012 fiscal year). We have provided the additional disclosures herein.

In May 2011, the FASB updated the accounting guidance related to fair value measurements. The updated guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The updated guidance is effective for interim and annual periods beginning after December 15, 2011 (the fourth quarter of our fiscal year 2012). We are currently evaluating the impact of adoption of this accounting guidance on our consolidated financial statements.

In June 2011, the FASB updated the disclosure requirements for comprehensive income. The updated guidance requires companies to disclose the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also requires reclassification adjustments between net income and other comprehensive income to be shown on the face of the statements. The updated guidance does not affect how earnings per share is calculated or presented. The updated guidance is effective for interim and annual periods beginning after December 15, 2011 (the fourth quarter of our fiscal 2012). We are currently evaluating the impact of adoption of this accounting guidance on our consolidated financial statements.

In September 2011, the FASB updated the accounting guidance related to testing goodwill for impairment. This update permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011 (our fiscal year 2013) however, early adoption is permitted. We are currently evaluating the impact of adoption of this accounting guidance on our 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 our expectations. Factors that may affect our actual results achieved include, without limitation, our ability to develop existing and new products, future actions by the FDA or other regulatory agencies, results of pending or future clinical trials, the results of ongoing litigation, overall economic conditions, general market conditions, market acceptance, foreign currency exchange rate fluctuations, the effects on pricing from group purchasing organizations and competition, as well as our ability to integrate purchased businesses. Other risks and uncertainties include, but are not limited to, the factors described from time to time in our reports filed with the SEC, including our Form 10-K for the fiscal year ended May 31, 2011.

Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this quarterly report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. AngioDynamics disclaims any obligation to update the forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date stated, or if no date is stated, as of the date of this document.

***Overview***

We are 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, or RFA, systems, embolization products for treating benign and malignant tumors and surgical resection systems, including NanoKnife Ablation Systems. We design, develop, manufacture and market a broad line of therapeutic and diagnostic devices that enable interventional physicians (interventional radiologists, vascular surgeons, surgical oncologists and others) to treat PVD, tumors, and other non-coronary diseases. Unlike several of our competitors that focus on the treatment of coronary diseases, we believe that we are the only company whose primary focus is to offer a comprehensive product line for the interventional treatment of PVD, tumors and other non-coronary diseases.

Our business is organized into two reportable segments: Vascular and Oncology/Surgery. The Vascular segment, under the direction of a general manager, 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/Surgery segment is 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 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. For the three months and six months ended November 30, 2011 approximately 15% and 14% of our net sales were from markets outside the United States compared with 13% and 12% in the three and six months ended November 30, 2010.

Our growth depends in large part on the continuous introduction of new and innovative products, together with ongoing enhancements to our existing products, through internal product development, technology licensing and strategic alliances. We recognize the importance of, and intend to continue to make investments in, research and development. For the three and six months ended November 30, 2011, our research and development ( R&D ) expenditures were \$5.1 million and \$10.7 million, respectively, which represented 9% and 10%, respectively of net sales. This is compared to \$5.3 million and \$10.5 million in the comparable prior year periods which constituted 10 % of net sales in both prior year periods. We expect that our R&D expenditures will be between 9% and 11% of net sales in fiscal 2012 primarily due to increased process engineering costs for our vascular products and investment in our NanoKnife technology. However, downturns in our business could cause us to reduce our R&D spending.



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

In recent years, we expanded our manufacturing and warehousing facilities in Queensbury, New York, to provide us with significantly greater manufacturing and warehousing capacity and to accommodate additional research, development and administrative requirements. We are not currently operating our manufacturing facilities at full capacity. In July 2009, we entered into an agreement to lease, for a ten year period plus 2 five year renewal options, a 52,500 square foot office building in Latham, New York. We commenced occupancy of the facility in Latham in March 2010.

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

**Recent Developments**

See Note A to our consolidated financial statements in this Quarterly Report on Form 10-Q for recent developments.

**New Accounting Pronouncements**

Information regarding new accounting pronouncements is included in Note L to our consolidated financial statements in this Quarterly Report on Form 10-Q.

**Results of Operations****Three Months ended November 30, 2011 and November 30, 2010**

For the second quarter of fiscal 2012, we reported net income of \$2.3 million, or \$0.09 per diluted common share, on net sales of \$58.1 million, compared with net income of \$3.3 million, or \$0.13 per diluted common share, on net sales of \$53.4 million in the second quarter of the prior year.

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

	Three Months Ended	
	Nov 30, 2011	Nov 30, 2010
Net sales	100.0%	100.0%
Gross profit	57.2%	59.1%
Research and development	8.8%	9.9%
Sales and marketing	27.3%	25.8%
General and administrative	8.0%	7.8%
Amortization of intangibles	4.0%	4.0%
Restructuring and other costs	2.4%	1.4%
Operating income	6.8%	10.1%
Other income(expenses)	(0.6%)	(0.5%)
Income taxes	2.1%	3.5%
Net income	4.0%	6.1%

**Net sales.** Net sales are derived from the sale of our products and related freight charges, less discounts and returns. Net sales of \$58.1 million increased \$4.7 million from the \$53.4 million reported in the second quarter of fiscal 2011. This change in net sales was primarily attributable to increased unit sales of LC Beads, Nanoknife products, Venacure/EVLT procedure kits and lasers and Smart ports, partially offset by decreased sales of our conventional Vortex ports and Benephit renal infusion products.

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From a reportable segment perspective, Vascular sales increased 2% from the prior year period to \$38.3 million. This increase was driven primarily by increased unit sales of Venacure/EVLT procedure kits and lasers, and Smart ports, partially offset by 5% lower average selling prices and decreased unit sales of conventional Vortex ports and Benephit renal infusion products. Oncology/Surgery sales were \$19.8 million, an increase of 25% on prior year sales of \$15.9 million. The increase was primarily due to increased unit sales of LC Beads and Nanoknife products. Nanoknife sales totaled \$3.2 million in the second quarter of fiscal 2012 and \$1.6 million in the prior year quarter.

From a geographic perspective, U.S. sales increased \$3.0 million or 6% in the second quarter of fiscal 2012 to \$49.7 million from \$46.7 million a year ago. This increase is primarily attributable to increased unit sales of LC Beads, Nanoknife products, Venacure/EVLT procedure kits and lasers and Smart ports, partially offset by decreased sales of our conventional Vortex ports and Benephit renal infusion products. International sales were \$8.4 million in the fiscal second quarter of 2012, an increase of 27% from \$6.7 million in the comparable prior year period. Increased unit sales of our Oncology/Surgery products, led by Nanoknife products, was the primary source of this increase.

**Gross profit.** Gross profit consists of net sales less the cost of goods sold, which includes the costs of materials, products purchased from third parties and sold by us, manufacturing personnel, royalties, freight, business insurance, depreciation of property and equipment and other manufacturing overhead. Our gross profit as a percentage of sales decreased to 57.2% in the second quarter of 2012 from 59.1% in the same quarter a year ago. The decrease in gross profit margin was primarily attributable to \$1.5 million in expenses associated with the voluntary recall of Venacure EVLT NeverTouch procedure kits, Morpheus CT PICCs and DuraMax chronic Hemodialysis Catheters. The recalls stemmed from defective component parts manufactured by suppliers. Additionally, we experienced a 5% decline in the average selling price of Vascular products as compared with the prior year period. This decline in gross profit margin was partially offset by material cost reduction programs and improved factory utilization.

**Research and development expenses.** Research and development ( R&D ) expenses include costs to develop new products, enhance existing products, validate new and enhanced products, manage clinical, regulatory and medical affairs and our intellectual property. R&D expenses increased by \$134 thousand, or 3%, to \$5.1 million in the second quarter of fiscal 2012 compared to the same prior year period. As a percentage of net sales, R&D expenses were 8.8% for the fiscal second quarter of 2012, compared with 9.9% for the same period a year ago.

**Sales and marketing expenses.** Sales and marketing ( S&M ) expenses consist primarily of salaries, commissions, travel and related business expenses, attendance at medical society meetings, product promotions and samples. S&M expenses increased \$2.1 million or 15% to \$15.8 million in the second quarter of fiscal 2012 compared to the same prior year period. This increase is primarily due to increased sales commissions in the U.S. and increased International sales expenses as we expand our International sales activities, including our recent establishment of a direct sales office in the Netherlands. As a percentage of net sales, S&M expenses were 27.3% for the fiscal second quarter of 2012, compared with 25.8% for the prior year period.

**General and administrative expenses.** General and administrative ( G&A ) expenses include executive management, finance and accounting, information technology, human resources, business development and legal, and the administrative and professional costs associated with those activities. G&A expenses increased \$452 thousand, or 11%, to \$4.6 million in the second quarter of fiscal 2012 compared to the prior year period, primarily due to increased variable compensation expense and increased legal fees related to settlement of outstanding litigation. G&A expenses increased to 8.0% of net sales compared with 7.8% in the prior year period.

**Amortization of intangibles.** Amortization of intangibles was \$2.3 million in the second quarter of fiscal 2012, up \$158 thousand over the comparable second fiscal quarter of 2011 primarily due to amortization of intangibles related to the February 2011 acquisition of the assets and business of our former distributor in the Netherlands. The second quarter of fiscal 2012 also included amortization of the final payment related to the Flowmedica acquisition. The prior year results had included amortization for the Medron Lightport technology, which we wrote off in the fourth quarter of fiscal 2011.

**Restructuring and other costs, net.** The second quarter of fiscal 2012 included restructuring and other costs of \$1.4 million which primarily consisted of \$576 thousand of expenses related to the closure of our facility in the UK, \$286 thousand of expenses for relocation of our new chief executive officer, \$350 thousand of expenses for transitions in the executive management team and \$185 thousand related to a fair market value adjustment of a contingent liability related to the acquisition of the assets and business of our former distributor in the Netherlands. The prior year period included \$772 thousand of expenses related to transitions in the executive management team.

**Operating income.** Operating income was \$3.9 million and \$5.4 million for the second quarter of fiscal 2012 and 2011, respectively. As a percentage of sales, operating income decreased to 6.8% for the second quarter of 2012 from 10.1% in the same prior year period.

**Other income (expenses).** Other income and expenses for the second quarter of fiscal 2012 was \$357 thousand of net expense compared with \$262 thousand of net expense in the same period a year ago, representing (0.6)% and (0.5)% of net sales in their respective periods. Unrealized

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foreign exchange losses, increased loss on interest rate swap and increased credit card fees partially offset by increased interest income on investments primarily comprise the difference between the two periods.

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**Income taxes.** Our effective tax rate was 35% for the fiscal second quarter of 2012 compared with 36% for the prior year period. The current quarter reflects a benefit from the R&D tax credit which had temporarily expired in the comparable prior year period.

**Net income.** For the second quarter of 2012, we reported net income of \$2.3 million, a decrease of \$1.0 million from net income of \$3.3 million for the prior year quarter.

**Investment in Nanoknife Technology.** The financial results of our Nanoknife program are recorded in our Oncology/Surgery division. Taking into account the sales and the related cost of sales and operating expenses, the net impact of our investment in Nanoknife technology in the second fiscal quarter of 2012 was \$1.3 million on pretax income and \$0.8 million or (\$0.03) per share after tax compared with \$1.5 million on pretax income and \$1.0 million or (\$0.04) per share after tax in the second fiscal quarter of 2011.

**Six Months ended November 30, 2011 and November 30, 2010**

For the first six months of fiscal 2012, we reported net income of \$3.7 million, or \$0.15 per diluted common share, on net sales of \$112.5 million, compared with net income of \$5.2 million, or \$0.21 per diluted common share, on net sales of \$104.9 million in the first six months of the prior year.

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

	Six Months Ended	
	Nov 30, 2011	Nov 30, 2010
Net sales	100.0%	100.0%
Gross profit	58.1%	58.7%
Research and development	9.5%	10.0%
Sales and marketing	28.6%	26.9%
General and administrative	7.9%	8.4%
Amortization of intangibles	4.1%	4.2%
Restructuring and other costs	2.1%	0.7%
Operating income	5.9%	8.5%
Other income(expenses)	(0.9%)	(0.8%)
Income taxes	1.8%	2.8%
Net income	3.3%	4.9%

**Net sales.** Net sales of \$112.5 million increased \$7.7 million from the \$104.9 million reported in the first six months of fiscal 2011. The change in net sales was primarily attributable to increased unit sales of LC Beads, Nanoknife products, Venacure/EVLT procedure kits and lasers and Smart ports, partially offset by decreased sales of our conventional Vortex ports and Benephit renal infusion products.

From a reportable segment perspective, Vascular sales increased 2% from the prior year period to \$74.9 million. This increase was driven primarily by increased unit sales of Venacure/EVLT procedure kits and lasers and Smart ports, partially offset by 5% lower average selling prices. Oncology/Surgery sales were \$37.7 million, an increase of 20% on prior year sales of \$31.4 million. The increase was primarily due to increased unit sales of LC Beads and Nanoknife products and a 2% increase in average selling prices. Nanoknife sales totaled \$5.5 million in the first six months of fiscal 2012 and \$2.7 million in the prior year period.

From a geographic perspective, U.S. sales increased \$4.8 million or 5% in the first six months of fiscal 2012 to \$97.0 million from \$92.2 million a year ago. This increase is primarily attributable to increased unit sales of LC Beads, Nanoknife products, Venacure/EVLT procedure kits and lasers and Smart ports, partially offset by decreased sales of our RF and Habib devices, conventional Vortex ports, and a 5% decrease in the average selling price of our Vascular products. International sales were \$15.6 million in the first six months of fiscal 2012, an increase of 23% from \$12.7 million in the comparable prior year period. Increased unit sales of our Oncology/Surgery products, led by Nanoknife products, were the primary source of this increase.

**Gross profit.** Our gross profit as a percentage of sales decreased to 58.1% in the first six months of fiscal 2012 from 58.7% in the same period a year ago. The decrease in gross profit margin was primarily attributable to \$1.5 million in expenses associated with the voluntary recall of Venacure EVLT NeverTouch procedure kits, Morpheus CT PICCs and DuraMax chronic Hemodialysis Catheters. The recalls





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stemmed from defective component parts manufactured by suppliers. Additionally, we experienced a 5% average selling price decrease on our Vascular products compared with the prior year period. This decrease in gross profit margin was partially offset by material cost reduction programs and improved factory utilization.

**Research and development expenses.** R&D expenses increased by \$214 thousand, or 2%, to \$10.7 million in the first six months of fiscal 2012 compared to the same prior year period. The increase is primarily due to increased clinical and regulatory expenses for our Oncology/ Surgery products and increased process engineering costs for our Vascular products. As a percentage of net sales, R&D expenses were 9.5% for the first six months of fiscal 2012, compared with 10.0% for the same period a year ago.

**Sales and marketing expenses.** S&M expenses increased \$4.0 million or 14% to \$32.2 million in the first six months of fiscal 2012 compared to the same prior year period. This increase is primarily due to increased sales commissions in the U.S. and increased International sales expenses as we expand our International sales activities, including our recent establishment of a direct sales office in the Netherlands. As a percentage of net sales, S&M expenses were 28.6% for the first six months of fiscal 2012, compared with 26.9% for the prior year period.

**General and administrative expenses.** G&A expenses increased \$177 thousand, or 2%, to \$8.9 million in the six months of fiscal 2012 compared to prior year period, primarily due to increased compensation costs and increased legal fees related to the settlement of outstanding litigation, partially offset by lower stock based compensation expenses. G&A expenses decreased to 7.9% of net sales compared with 8.4% in the prior year period.

**Amortization of intangibles.** Amortization of intangibles was \$4.6 million in the first six months of fiscal 2012, up \$186 thousand over the comparable 2011 period primarily due to amortization of intangibles related to the February 2011 acquisition of the assets and business of our former distributor in the Netherlands. The first six months of fiscal 2012 also included amortization of the final payment related to the Flowmedica acquisition. The prior year results had included amortization for the Medron Lightport technology, which we wrote off in the fourth quarter of fiscal 2011.

**Restructuring and other costs, net.** The first six months of 2012 included restructuring and other costs of \$2.3 million which primarily consisted of \$1.0 million of expenses associated with the separation agreement with our former chief executive officer, \$872 thousand associated with the closure of our facility in the UK, \$286 thousand of expenses for the relocation of our new chief executive officer and \$350 thousand of expenses for transitions in the executive management team, partially offset by a gain of \$201 thousand on the sale of assets related to the Centros product line. The prior year period included \$772 thousand of expenses related to transitions in the executive management team.

**Operating income.** Operating income was \$6.6 million and \$8.9 million for the first six months of fiscal 2012 and 2011, respectively. As a percentage of sales, operating income decreased to 5.9% compared with 8.5% in the prior year period.

**Other income (expenses).** Other income and expenses for the six months ended November 30, 2011 was \$971 thousand of net expense compared with \$790 thousand of net expense in the same period a year ago, representing (0.9)% and (0.8)% of net sales in their respective periods. Unrealized foreign exchange losses, increased loss on interest rate swap and increased credit card fees partially offset by increased interest income on investments primarily comprise the difference between the two periods.

**Income taxes.** Our effective income tax rate for the six month periods ending November 30, 2011 and November 30, 2010 was 35% and 36%, respectively. The current year period reflects a benefit from the R&D tax credit that had temporarily expired in the prior year period.

**Net income.** For the first six months of fiscal 2012, we reported net income of \$3.7 million, a decrease of \$1.5 million from net income of \$5.2 million for the prior year period.

**Investment in Nanoknife Technology.** The financial results of our Nanoknife program are recorded in our Oncology/Surgery division. Taking into account the sales and the related cost of sales and operating expenses, the net impact of our investment in Nanoknife technology in the first half of fiscal 2012 was \$3.0 million on pretax income and \$2.0 million or (\$0.08) per share after tax comparable to the same prior year period.

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

Our cash, cash equivalents and marketable securities totaled \$136.3 million at November 30, 2011, compared with \$131.5 million at May 31, 2011. Marketable securities consists of U.S. government issued or guaranteed securities, corporate bonds and auction rate securities. At November 30, 2011, total debt was \$6.4 million comprised of short and long-term bank debt that financed our facility expansions in Queensbury, New York. This compared with \$6.6 million at May 31, 2011.

Summary of cash flows (in thousands):

	Six Months ended	
	Nov 30, 2011	Nov 30, 2010
<b>Cash provided by (used in):</b>		
Operating activities	\$ 5,713	\$ 11,626
Investing activities	(8,735)	(43,883)
Financing activities	11	588
Effect of exchange rate changes on cash and cash equivalents	(18)	38
<b>Net change in cash and cash equivalents</b>	<b>\$ (3,029)</b>	<b>\$ (31,631)</b>

Net cash provided by operating activities for the six months ended November 30, 2011 was \$5.7 million compared with \$11.6 million in the prior year period. Cash generated from operating activities during the first six months of fiscal year 2012 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 deferred income taxes and changes in working capital balances. The prior year period consisted of similar components with lower net income and the changes in working capital balances being the primary drivers of the difference between the two periods. Increased accounts receivable balances at November 30, 2011 due to increased sales combined with increased payables, primarily for inventory purchases, comprised the majority of the working capital balance changes.

Net cash used in investing activities was \$8.7 million for the six months ended November 30, 2011 compared with \$43.9 million for the same prior year period. The net cash used in investing activities in the first six months of 2012 consisted primarily of net purchases of marketable securities and available-for-sale short term investments. In the prior year period, the same net components consisted of larger net purchases resulting in the larger use of cash for that period.

Net cash provided by financing activities was \$11 thousand for the six months ended November 30, 2011 compared to \$588 thousand for the comparable prior year period. The current year period consisted of higher proceeds from the exercise of stock options and employee stock purchase plan than the previous period, offset by the purchase of shares under the newly approved stock repurchase program begun in October 2011.

In October 2011, our Board of Directors authorized the repurchase, prior to May 31, 2012, of up to \$20 million of our common stock. During the second quarter of fiscal 2012, we purchased 142,305 shares for approximately \$2.1 million under this share repurchase program and subsequently retired these shares.

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, 2011.

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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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 our 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.

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At November 30, 2011, we maintained variable interest rate financing of \$6.4 million in connection with our facility expansions. We have limited our exposure to interest rate risk by entering into interest rate swap agreements with KeyBank under which we agreed to pay the bank fixed annual interest rates of 4.45% and 5.06% and the bank assumed our variable interest payment obligations under the financing.

In fiscal 2007 we began to make sales in currencies other than US dollars, particularly the Euro, GB pound and Canadian dollar. Approximately 5% of our sales in the first six months of fiscal 2012 were denominated in currencies other than the US dollar, primarily the Euro and GB pound. We currently have no significant direct foreign currency exchange risk.

Our excess cash is invested in highly liquid, short-term, investment grade securities with maturities primarily of less than two years. These investments are not held for speculative or trading purposes. Changes in interest rates may affect the investment income we earn on cash, cash equivalents and marketable securities and therefore affect our cash flows and results of operations. We hold investments in auction rate securities ( ARS ) in order to generate higher than typical money market investment returns. ARS 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. Such instances are usually the result of a drastic deterioration of issuer credit quality. Should there be a failed auction, we may be unable to liquidate our position in the securities in the near term. We have \$1.85 million in investments in two auction rate securities issued by New York state and local government authorities that have failed auctions. The authorities are current in their interest payments on the securities.

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

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

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

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

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

There was no change in our internal control over financial reporting in the fiscal quarter ended November 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **AngioDynamics, Inc. and Subsidiaries**

### **Part II: Other Information**

#### **Item 1. Legal Proceedings.**

##### *AngioDynamics v. biolitec*

We initiated legal action against biolitec in January 2008 seeking to enforce the indemnification provisions of our April 1, 2002, Supply and Distribution Agreement with biolitec and to recover costs incurred by us in defending and settling two patent infringement cases. Specifically, we are seeking to recover the costs of our \$7 million settlement with Diomed in April 2008, our \$6.8 million settlement with VNUS Medical Technologies in June 2008 and the legal fees associated with the two cases.

On September 27, 2011, the U.S. District Court for the Northern District of New York granted key portions of our motion for summary judgment in our legal case against biolitec. The Court's order was filed under seal. As of this date, the order has not yet been entered as a judgment and therefore does not contain specified amounts with respect to damages, and there can be no assurance that we will recover the full amount, or any amount, of the damages we have sought against biolitec and, accordingly, we have not recognized any contingent gains or related receivables with respect to this matter. The Court also dismissed biolitec's counterclaims against us. The court denied one portion of our summary judgment motion, which sought to recover additional costs from biolitec, leaving this for adjudication at trial.

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.

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

**If we or some of our suppliers fail to comply with the FDA's Quality System Regulation, or QSR, and other applicable postmarket requirements, our manufacturing operations could be disrupted, our product sales and profitability could suffer, and we may be subject to a wide variety of FDA enforcement actions.**

After a device is placed on the market, numerous regulatory requirements apply. We are subject to inspection and marketing surveillance by the FDA to determine our compliance with all regulatory requirements. Our failure to comply with applicable regulatory requirements could result in the FDA or a court instituting a wide variety of enforcement actions against us, including a public Warning Letter; an order to shutdown some or all manufacturing operations; a recall of products; fines or civil penalties; seizure or detention of our products; refusing our requests for 510(k) clearance or a premarket approval, or PMA, of new or modified products; withdrawing 510(k) clearance or PMA approvals already

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granted to us; and criminal prosecution.

Our manufacturing processes and those of some of our suppliers must comply with the FDA's Quality System Regulation, or QSR, which governs the methods used in, and the facilities and controls used for, the design, testing, manufacture, control, quality assurance, installation, servicing, labeling, packaging, storage and shipping of medical devices. The FDA enforces the QSR through unannounced

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inspections. If we, or one of our suppliers, fail a QSR inspection, or if a corrective action plan adopted by us or one of our suppliers is not sufficient, the FDA may bring an enforcement action, and our operations could be disrupted and our manufacturing delayed. We are also subject to the FDA's general prohibition against promoting our products for unapproved or off-label uses, the FDA's adverse event reporting requirements and the FDA's reporting requirements for field correction or product removals. The FDA has recently placed increased emphasis on its scrutiny of compliance with the QSR and these other postmarket requirements.

We received a Warning Letter dated May 27, 2011 from the FDA in connection with the FDA's inspection of our Queensbury, NY manufacturing facility. In the Warning Letter, the FDA cited deficiencies in our response letter, which we provided to the FDA pertaining to the inspection that occurred from January 4 through January 13, 2011. These deficiencies related to our internal procedures for medical device reporting, corrections and removals and complaint handling.

We have responded to the Warning Letter and completed corrective and preventive actions to address the observations. In addition, we have developed a comprehensive Quality Plan to review and augment the Quality Management System at our Queensbury, NY facility. FDA is currently conducting a follow-up inspection to the Warning Letter for this facility and we are actively working in conjunction with them to ensure the changes we are implementing are appropriate and effective. We are focused on a quality centric culture of prevention and accountability and will continue to invest in ongoing improvements of people, processes and products.

We intend to continue to work closely with the FDA to resolve any outstanding issues. Until the items raised in the Warning Letter or any additional items that may be raised during the recent inspection are corrected, we may be subject to additional regulatory action by the FDA, including the issuance of a warning letter, injunction, seizure or recall of products, imposition of fines or penalties or operating restrictions on the facility and any such actions could significantly disrupt our ongoing business and operations and have a material adverse impact on our financial position and operating results. There can be no assurance that the FDA will be satisfied with our response.

If we, or one of our suppliers, violate the FDA's requirements or fail to take adequate corrective action in response to any significant compliance issue raised by the FDA, the FDA can take various enforcement actions which could cause our product sales and profitability to suffer.

In addition, most other countries require us and our suppliers to comply with manufacturing and quality assurance standards for medical devices that are similar to those in force in the United States before marketing and selling our products in those countries. If we, or our suppliers, should fail to do so, we would lose our ability to market and sell our products in those countries.

### **Even after receiving regulatory clearance or approval, our products may be subject to product recalls, which may harm our reputation and divert managerial and financial resources.**

The FDA and similar governmental authorities in other countries have the authority to order mandatory recall of our products or order their removal from the market if there are material deficiencies or defects in design, manufacture, installation, servicing or labeling of the device, or if the governmental entity finds that our products would cause serious adverse health consequences. A government mandated, voluntary recall or field action by us could occur as a result of component failures, manufacturing errors or design defects, including labeling defects. Any recall of our products may harm our reputation with customers and divert managerial and financial resources.

Recently, we initiated voluntary Class II recalls of VenaCureEVL<sup>®</sup> NeverTouch procedure kits, Morpheus<sup>®</sup> CT PICC's and DuraMa<sup>®</sup> Chronic HemoDialysis Catheters. These three recalls stemmed from defective parts manufactured by suppliers. In addition, we have initiated a voluntary recall of our NanoKnife System in connection with the system's ablation zone estimates.

### **We may be subject to fines, penalties or injunctions if we are determined to be promoting the use of our products for unapproved or off-label uses.**

If we are incorrect in our belief that our promotional materials and training methods regarding physicians are conducted in compliance with regulations of the FDA and other applicable regulations, and the FDA determines that our promotional materials or training constitutes promotion of an unapproved use, the FDA could request that we modify our training or promotional materials or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties.



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On January 24, 2011 we received a Warning Letter from the FDA in connection with our marketing of the NanoKnife System. In the Warning Letter, the FDA states that certain statements we made, including those on our company website, promote the use of the NanoKnife System beyond its currently cleared indications. We responded to the FDA as necessary and intend to work closely with them to resolve any outstanding issues. While we believe we have been fully responsive to the matters raised by the FDA in the Warning Letter, there can be no assurance that the FDA will be satisfied with our response. Therefore, we may be subject to additional regulatory action by the FDA, including the issuance of a warning letter, injunction, seizure or recall of products, imposition of fines or penalties and any such actions could significantly disrupt our business and operations and have a material adverse impact on our financial position and results of operations. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement.

### **Modifications to our current products may require new marketing clearances or approvals or require us to cease marketing or recall the modified products until such clearances or approvals are obtained.**

Any modification to an FDA-cleared medical device that could significantly affect its safety or effectiveness, or that would constitute a major change or modification in its intended use, requires a new FDA 510(k) clearance or, possibly, a premarket approval. The FDA requires every manufacturer to make its own determination as to whether a modification requires a new 510(k) clearance or premarket approval, but the FDA may review and disagree with any decision reached by the manufacturer. We have modified aspects of some of our devices since receiving regulatory clearance. We believed that some of these modifications did not require new 510(k) clearance or premarket approval and, therefore, we did not seek new 510(k) clearances or premarket approvals. In the future, we may make additional modifications to our products after they have received FDA clearance or approval and, in appropriate circumstances, determine that new clearance or approval is unnecessary. Regulations in other countries in which we market or sell, or propose to market or sell, our products may also require that we make judgments about changes to our products and whether or not those changes are such that regulatory approval or clearance should be obtained. In the United States and elsewhere, regulatory authorities may disagree with our past or future decisions not to seek new clearance or approval and may require us to obtain clearance or approval for modifications to our products. If that were to occur for a previously cleared or approved product, we may be required to cease marketing or recall the modified device until we obtain the necessary clearance or approval. Under these circumstances, we may also be subject to significant regulatory fines or other penalties. If any of the foregoing were to occur, our financial condition and results of operations could be negatively impacted.

In addition information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors of our annual report on Form 10-K for our fiscal year ended May 31, 2011 which sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. You should review and consider such Risk Factors in making any investment decision with respect to our securities. An investment in our securities continues to involve a high degree of risk.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Issuer Purchases of Equity Securities*

In October 2011, our Board of Directors authorized the repurchase of up to \$20 million of our common stock. The following table provides information about the shares repurchased by Angiodynamics during the second quarter of fiscal 2012:

Period	Total Number of shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under Publicly Announced Program
October 2011	\$	\$	\$	\$ 20,000,000
November 2011	142,305	14.79	142,305	17,895,309

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

None.

**Item 4. (Removed and Reserved)****Item 5. Other Information.**

None.

**Item 6. Exhibits.**

No.	Description
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
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Documents
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Documents
101.PRE	XBRL Presentation Linkbase Documents



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**SIGNATURES**

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

ANGIODYNAMICS, INC.

(Registrant)

Date: January 5, 2012

/s/ JOSEPH M. DEVIVO  
**Joseph M. Devivo, President,**

**Chief Executive Officer**

**(Principal Executive Officer)**

Date: January 5, 2012

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

**Chief Financial Officer**

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

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**EXHIBIT INDEX**

<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
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Documents
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Documents
101.PRE	XBRL Presentation Linkbase Documents