ANGIODYNAMICS INC
Form 10-Q
October 05, 2016
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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 August 31, 2016
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 0-50761

AngioDynamics, Inc.
(Exact name of registrant as specified in its charter)

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

(518) 795-1400
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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)

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

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 x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

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

Class	Outstanding as of October 3, 2016
Common Stock, par value $.01	36,884,124

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AngioDynamics, Inc. and Subsidiaries
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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements.

AngioDynamics, Inc. and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)
(unaudited)
(in thousands of dollars, except per share data)

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Net sales	$88,098	$83,753
Cost of sales (exclusive of intangible amortization)	43,066	40,382
Gross profit	45,032	43,371
Operating expenses		
Research and development	6,709	6,129
Sales and marketing	19,488	21,200
General and administrative	8,168	7,914
Amortization of intangibles	4,235	4,415
Change in fair value of contingent consideration	443	355
Acquisition, restructuring and other items, net	2,417	2,143
Medical device excise tax	—	1,003
Total operating expenses	41,460	43,159
Operating income (loss)	3,572	212
Other (expenses) income		
Interest expense	(723)	(800)
Interest income	4	1
Other income (expense)	50	(118)
Total other expenses, net	(669)	(917)
Income (loss) before income tax expense (benefit)	2,903	(705)
Income tax expense	1,603	70
Net income (loss)	$1,300	$(775)
Income (loss) per share		
Basic	$0.04	$(0.02)
Diluted	$0.04	$(0.02)
Basic weighted average shares outstanding	36,319	35,960
Diluted weighted average shares outstanding	36,698	35,960

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

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AngioDynamics, Inc. and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in thousands of dollars)

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Net Income (loss)	$ 1,300	$ (775)
Other comprehensive income (loss), before tax:		
Unrealized gain on interest rate swap	—	66
Unrealized gain (loss) on marketable securities	(6)	3
Foreign currency translation (loss)	(294)	(90)
Other comprehensive (loss), before tax	(300)	(21)
Income tax (expense) benefit related to items of other comprehensive income	2	(26)
Other comprehensive (loss), net of tax	(298)	(47)
Total comprehensive income (loss), net of tax	$ 1,002	$ (822)

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited)
(in thousands of dollars, except share data)

	Aug 31, 2016	May 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$37,411	$32,333
Marketable securities	1,647	1,653
Accounts receivable, net of allowances of $4,094 and $4,372 respectively	50,124	52,867
Inventories	58,274	55,370
Prepaid income taxes	568	788
Prepaid expenses and other	4,258	3,243
Total current assets	152,282	146,254
Property, plant and equipment, net	47,230	48,284
Other assets	3,605	3,827
Intangible assets, net	162,342	166,577
Goodwill	361,252	361,252
TOTAL ASSETS	$726,711	$726,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$15,648	$15,616
Accrued liabilities	19,214	21,896
Income taxes payable	16	46
Current portion of long-term debt	17,500	16,250
Current portion of contingent consideration	13,053	12,919
Total current liabilities	65,431	66,727
Long-term debt, net of current portion	100,652	104,291
Deferred income taxes, long-term	23,246	21,684
Contingent consideration, net of current portion	23,565	25,356
Other long-term liabilities	1,100	908
Total liabilities	213,994	218,966
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $.01 per share, 75,000,000 shares authorized; 36,881,766 and 36,420,403 shares issued and 36,739,461 and 36,278,098 shares outstanding at August 31, 2016 and May 31, 2016, respectively	366	363
Additional paid-in capital	530,259	525,775
Accumulated deficit	(14,715)	(16,015)
Treasury stock, 142,305 shares, at cost	(2,104)	(2,104)
Accumulated other comprehensive loss	(1,089)	(791)
Total stockholders' equity	512,717	507,228
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$726,711	$726,194

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

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AngioDynamics, Inc. and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands of dollars)

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Cash flows from operating activities:		
Net income (loss)	$1,300	$(775)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,153	7,113
Stock based compensation	1,684	1,626
Change in fair value of contingent consideration	443	355
Deferred income taxes	1,565	(208)
Fixed and intangible asset impairments and disposals	45	220
Change in accounts receivable allowances	(197)	109
Other	18	(13)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	2,822	5,925
Inventories	(3,049)	(6,922)
Prepaid expenses and other assets	(869)	(2,605)
Accounts payable, accrued and other liabilities	(2,475)	(126)
Net cash provided by operating activities	7,440	4,699
Cash flows from investing activities:		
Additions to property, plant and equipment	(481)	(743)
Net cash used in investing activities	(481)	(743)
Cash flows from financing activities:		
Repayment of long-term debt	(2,500)	(1,250)
Payment of contingent consideration previously established in purchase accounting	(2,100)	(2,100)
Proceeds from exercise of stock options and employee stock purchase plan	2,803	1,279
Net cash (used in) financing activities	(1,797)	(2,071)
Effect of exchange rate changes on cash and cash equivalents	(84)	(8)
Increase in cash and cash equivalents	5,078	1,877
Cash and cash equivalents at beginning of period	32,333	18,391
Cash and cash equivalents at end of period	$37,411	$20,268
Supplemental disclosure of non-cash investing and financing activities:		
Contractual obligations for acquisition of intangibles and business	$—	$—
Contractual obligations for acquisition of fixed assets	$52	$111

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

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AngioDynamics, Inc. and Subsidiaries
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands of dollars, except share data)

	Common Stock		Additional paid in capital	Accumulated deficit	Accumulated other comprehensive loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at May 31, 2016	36,420,403	$ 363	$525,775	$ (16,015)	$ (791)	(142,305)	$(2,104)	$507,228
Net income (loss)				1,300				1,300
Exercise of stock options	221,528	1	2,530					2,531
Purchase of common stock under ESPP	78,647	1	728					729
Issuance of performance share units, net	23,405	—	—					—
Issuance of restricted stock units, net	137,783	1	(458)					(457)
Stock based compensation			1,684					1,684
Other comprehensive loss, net of tax					(298)			(298)
Balance at August 31, 2016	36,881,766	$ 366	$530,259	$ (14,715)	$ (1,089)	(142,305)	$(2,104)	$512,717

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

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AngioDynamics, Inc. and Subsidiaries
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

NOTE A – CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The consolidated condensed balance sheet as of August 31, 2016, the consolidated condensed statement of stockholders' equity and consolidated condensed statement of cash flows for the three months ended August 31, 2016 and the consolidated condensed statements of income (loss) and consolidated condensed statements of comprehensive income (loss) for the three months ended August 31, 2016 and August 31, 2015 have been prepared by us and are unaudited. The consolidated condensed balance sheet as of May 31, 2016 was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal 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 August 31, 2016 (and for all periods presented) have been made.

The unaudited interim consolidated condensed financial statements for the three months ended August 31, 2016 and August 31, 2015 include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, collectively, the "Company". All intercompany balances and transactions have been eliminated.

Recent Developments

On July 22, 2016, Michael C. Greiner was appointed Executive Vice President and Chief Financial Officer ("CFO") of the Company, effective August 16, 2016. On July 27, 2016, Peter J. Kish was designated as the principal financial officer and principal accounting officer of the Company by the Board of Directors of the Company. Mr. Kish served in this role until Mr. Greiner began his service as CFO on August 16, 2016.

NOTE B – INVENTORIES

Inventories are stated at lower of cost (using the first-in, first-out method) or market. As of August 31, 2016 and May 31, 2016, inventories consisted of the following:

	Aug 31, 2016	May 31, 2016
	(in thousands)	
Raw materials	$22,584	$21,669
Work in process	11,528	10,700
Finished goods	24,162	23,001
Inventories	$58,274	$55,370

NOTE C – OTHER ASSETS

On March 2, 2015, the Company filed an 8-K stating that it executed a non-binding letter of intent to enter into a strategic relationship with privately-held EmboMedics Inc., which develops injectable and resorbable embolic microspheres. On April 9, 2015, the Company entered into a License, Distribution, Manufacturing and Purchase Option Agreement with EmboMedics Inc, subject to certain approvals by EmboMedics shareholders. Under the terms of the agreement, AngioDynamics received an exclusive worldwide license to market and sell, upon regulatory clearances, EmboMedics' microsphere technology. AngioDynamics has the ability to determine the manufacturing of the products.

On December 7, 2015, AngioDynamics made an initial $2.0 million purchase of non-transferable warrants in a subsidiary of EmboMedics which become exercisable upon a change of control of EmboMedics. The Company does not have significant influence, or control of the subsidiary. This initial investment is recorded at cost and the Company

will review for impairment at each balance sheet date. The warrants are not exercisable at the original issue date or the balance sheet date as they only become exercisable upon a change of control, termination of the agreement or delivery of an offer notice. Based on the achievement of certain development activities, the Company will make an additional $5.0 million purchase of
non-transferable warrants and an additional $4.0 million in milestone payments based on regulatory approvals. In the future, AngioDynamics could execute an exclusive option to acquire this subsidiary of EmboMedics.

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NOTE D – GOODWILL AND INTANGIBLE ASSETS

Intangible assets other than goodwill and indefinite lived intangible assets are amortized over their estimated useful lives, which range between one and eighteen years, on either a straight-line basis or proportionately to the benefit being realized. We periodically review the estimated useful lives of our intangible assets and review such assets for impairment, based on estimated future cash flows, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. 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.

We consider our business to be a single operating segment entity, and a single reporting unit engaged in the development, manufacture and sale on a global basis of medical devices for vascular access, peripheral vascular disease, oncology and surgery.

Goodwill and other intangible assets that have indefinite useful lives are not amortized, but rather, are tested for impairment annually or more frequently if impairment indicators arise. 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 costs 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.

We completed our annual goodwill impairment test as of December 31, 2015. At December 31, 2015, our reporting unit is the same as our one reportable segment. Our assessment of goodwill impairment indicated that the fair value of our reporting unit exceeded its carrying value and therefore goodwill was not impaired.

Even though we determined that there was no goodwill impairment as of December 31, 2015, the future occurrence of a potential indicator of impairment, such as a significant adverse change in legal, regulatory, business or economic conditions or a more-likely-than-not expectation that the reporting unit or a significant portion of the reporting unit will be sold or disposed of, would require an interim assessment for the reporting unit prior to the next required annual assessment as of December 31, 2016. We continued to assess impairment through August 31, 2016 and noted no events that would be considered a triggering event.

There were no adjustments to goodwill for the three months ended August 31, 2016.

As of August 31, 2016 and May 31, 2016, intangible assets consisted of the following:

	August 31, 2016			
	Gross carrying value	Accumulated amortization	Net carrying value	Weighted avg useful life
(in thousands)				(years)
Product technologies	$148,378	$ (53,553)	$ 94,825	10.2
Customer relationships	88,389	(48,153)	40,236	11.9
Trademarks	28,470	(6,976)	21,494	10.7
In process R&D acquired	3,600	—	3,600	Indefinite
Licenses	5,037	(4,009)	1,028	9.1
Distributor relationships	2,150	(991)	1,159	5.2
	$276,024	$ (113,682)	$ 162,342	

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	May 31, 2016			
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value	Weighted avg useful life (years)
Product technologies	$148,387	$ (51,313)	$ 97,074	10.2
Customer relationships	88,389	(47,133)	41,256	11.9
Trademarks	28,470	(6,242)	22,228	10.7
In process R&D acquired	3,600	—	3,600	Indefinite
Licenses	7,931	(6,716)	1,215	7.6
Distributor relationships	2,150	(946)	1,204	5.2
	$278,927	$ (112,350)	$ 166,577	

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NOTE E – ACCRUED LIABILITIES

As of August 31, 2016 and May 31, 2016, accrued liabilities consisted of the following:

	Aug 31, 2016	May 31, 2016
	(in thousands)	
Payroll and related expenses (1)	$6,618	$9,414
Royalties	2,345	2,489
Accrued severance	1,388	1,524
Sales and franchise taxes (2)	2,106	565
Outside services (3)	1,172	2,063
Other	5,585	5,841
	$19,214	$21,896

(1) Includes accrued payroll, commissions and bonus. Decrease from year end due to bonus payment in the first quarter.
(2) Includes accrued federal and state withholdings on equity, accrued VAT and state tax liabilities. Increase from year end due to tax liabilities related to equity exercises.
(3) Includes accrued legal fees. Decrease from year end due to payments made in the first quarter.

NOTE F – LONG TERM DEBT

On September 19, 2013, we entered into a Credit Agreement (the “Credit Agreement”) with the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Keybank National Association as co-syndication agents, and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Keybank National Association as joint bookrunners and joint lead arrangers.

The Credit Agreement provides for a $100 million senior secured term loan facility (“Term Loan”) and a $100 million senior secured revolving credit facility, which includes up to a $20 million sublimit for letters of credit and a $5 million sublimit for swingline loans (the “Revolving Facility”, and together with the Term Loan, the “Facilities”). On September 19, 2013, we borrowed $100 million under the Term Facility and approximately $41.4 million under the Revolving Facility to repay the Former Credit Agreement. As of August 31, 2016, $82.5 million and $36.4 million were outstanding under the Term Facility and Revolving Facility, respectively. As of August 31, 2016 and May 31, 2016 the carrying value of long-term debt approximates its fair market value.

The proceeds of the Revolving Facility may be used for general corporate purposes of AngioDynamics and its subsidiaries. The Facilities have a five years maturity. The Term Loan has a quarterly repayment schedule equal to 5%, 5%, 10%, 15% and 65% of its principal amount in years one through five. Interest on both the Term Loan and Revolving Facility are based on a base rate or Eurodollar rate plus an applicable margin which increases as our total leverage ratio increases, with the base rate and Eurodollar rate having ranges of 0.50% to 1.25% and 1.5% to 2.25% respectively. After default, the interest rate may be increased by 2.0%. The Revolving Facility carries a commitment fee of 0.2% to 0.35% per annum on the unused portion.

Our obligations under the Facilities are unconditionally guaranteed, jointly and severally, by our material direct and indirect domestic subsidiaries (the “Guarantors”). All obligations of AngioDynamics and the Guarantors under the Facilities are secured by first priority security interests in substantially all of the assets of AngioDynamics and the Guarantors.

The Credit Agreement includes customary representations, warranties and covenants, and acceleration, indemnity and events of default provisions, including, among other things, two financial covenants. The first financial covenant requires us to maintain, as of the end of each of our fiscal quarters, a ratio of consolidated adjusted EBITDA minus consolidated capital expenditures to consolidated interest expense paid or payable in cash plus scheduled principal payments in respect of indebtedness under the Credit Agreement of not less than 1.35 to 1.00. The second financial covenant requires us to maintain, as of the end of each of our fiscal quarters, a ratio of consolidated total indebtedness

to consolidated adjusted EBITDA of not greater than 3.75 to 1.00. We were in compliance with both covenants as of August 31, 2016.

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NOTE G - INCOME TAXES

The following table presents the components of income tax expense for the three months ended August 31, 2016 and August 31, 2015 (in thousands of dollars):

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Income (loss) before Income Taxes	$2,903	$(705)
Less discrete book income (expense):		
Non-taxable portion of change in fair value of contingent consideration	—	170
Ordinary income (loss) before income taxes	2,903	(875)
Income tax expense (benefit) based on ordinary income (loss) at estimated tax rates	$1,603	$(376)
Discrete tax expense (benefit):		
Adjustment for elimination of the ASC 718 APIC pool	—	471
Adjustments to prior period tax liabilities	—	(25)
Total income tax expense	$1,603	$70

The estimated full year effective tax rate prior to discrete items was 55.2% in the first quarter of fiscal 2017, as compared to 43.0% for the same period in fiscal 2016. The change in the effective tax rate is primarily driven by the impact of the US valuation allowance and the deferred tax liability related to intangibles that have an indefinite reversal period and cannot be used to support the deferred tax assets.

A valuation allowance is established if it is more likely than not that all, or a portion of the deferred tax asset will not be realized. The Company has established that it is more likely than not that some, or all of their deferred tax assets will not be recognized in future years. Consequently, the Company continues to maintain a full U.S. valuation allowance on its net deferred tax assets. Management will continue to reevaluate the positive and negative evidence at each reporting period and if future results as projected in the U.S. and our tax planning strategies are favorable, the valuation allowance may be removed, which could have a favorable material impact on our results of operations in the period in which it is recorded.

NOTE H - SHARE-BASED COMPENSATION

We have two stock-based compensation plans that provide for the issuance of up to approximately 6.8 million shares of common stock. The 2004 Stock and Incentive Award Plan (the "2004 Plan") provides for the grant of incentive options to our employees and for the grant of non-statutory stock options, restricted stock, stock appreciation rights, performance units, performance shares and other incentive awards to our employees, directors and other service providers. We also have an employee stock purchase plan.

For the three months ended August 31, 2016 and August 31, 2015, share-based payment expense was $1.7 million and $1.6 million, respectively.

In the three months ended August 31, 2016 and August 31, 2015, the company granted stock options and restricted stock units under the 2004 Plan to certain employees and members of the Board of Directors. Stock option awards are valued using the Black-Scholes option-pricing model and then amortized on a straight-line basis over the requisite service period of the award. Restricted stock unit awards are valued based on the closing trading value of our shares on the date of grant and then amortized on a straight-line basis over the requisite service period of the award.

In the first quarter of fiscal year 2017 and 2016, the company granted performance share awards under the 2004 Plan to certain employees. The awards may be earned by achieving relative performance levels over the three years requisite service period. The performance criteria are based on the total shareholder return ("TSR") of the company's common stock relative to the TSR of the common stock of a pre-defined industry peer-group. The fair value of these awards are based on the closing trading value of our shares on the date of grant and use a Monte Carlo simulation model.

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As of August 31, 2016, there were $18.3 million of unrecognized compensation expenses related to share-based payment arrangements. These costs are expected to be recognized over a weighted-average period of approximately four years. The Company has sufficient shares to satisfy expected share-based payment arrangements.

NOTE I – EARNINGS PER 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 include the dilutive effect of potential common stock consisting of stock options, restricted stock units and performance stock units, provided that the inclusion of such securities is not antidilutive. In periods with a net loss, stock options and restricted stock units are not included in the computation of diluted loss per share as the impact would be anti-dilutive.

The following table reconciles basic to diluted weighted-average shares outstanding for the three months ended August 31, 2016 and August 31, 2015 (in thousands):

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Basic	36,319	35,960
Effect of dilutive securities	379	—
Diluted	36,698	35,960
Securities excluded as their inclusion would be anti-dilutive	1,503	3,241

NOTE J – SEGMENT AND GEOGRAPHIC INFORMATION

We consider our business to be a single operating segment entity engaged in the development, manufacture and sale of medical devices for vascular access, peripheral vascular disease, oncology and surgery on a global basis. Our chief operating decision maker (CEO) evaluates the various global product portfolios on a net sales basis. Executives reporting to the CEO include those responsible for commercial operations, manufacturing operations, regulatory and quality and certain corporate functions. The CEO evaluates profitability, investment and cash flow metrics on a consolidated worldwide basis due to shared infrastructure and resources.

The table below summarizes net sales by product category (in thousands of dollars):

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Net sales		
Peripheral Vascular	$51,409	$47,106
Vascular Access	25,005	24,645
Oncology/Surgery	11,064	11,334
Supply Agreement	620	668
Total	$88,098	$83,753

The table below presents net sales by geographic area based on external customer location (in thousands of dollars):

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Net sales		

United States	$71,753	$68,369
International	15,725	14,716
Supply Agreement	620	668
Total	$88,098	$83,753

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NOTE K – FAIR VALUE

Our financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable and contingent consideration. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value due to the immediate or short-term maturities. Marketable securities have been recorded at their fair value based on a valuation received from an independent third party. The contingent consideration has been recorded at fair value using the income approach.

Fair value is 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 money market funds that are traded in an active exchange market.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. 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. 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. Included in Level 2 assets is our interest rate swap agreement which is valued using a mid-market valuation model.
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 includes the auction rate securities where independent pricing information was not able to be obtained and the contingent consideration related to the acquisition of Vortex, Microsulis and Clinical Devices. 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 contingent considerations for all periods presented. The assumptions used in preparing the DCF model included estimates with respect to the discount rate, amount and timing of future interest and principal payments and forward projections. Assumptions associated with the auction rate securities include 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.

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The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis as of August 31, 2016 and May 31, 2016 (in thousands of dollars):

	Fair Value Measurements using inputs considered as:			Fair Value at August 31, 2016
	Level 1	Level 2	Level 3	
Financial Assets				
Marketable securities				
U.S. government agency obligations	$ —	$ —	$ 1,647	$ 1,647
Total	—	—	1,647	1,647
Total Financial Assets	$ —	$ —	$ 1,647	$ 1,647
Financial Liabilities				
Contingent liability for acquisition earn out	—	—	36,618	36,618
Total Financial Liabilities	$ —	$ —	$ 36,618	$ 36,618

	Fair Value Measurements using inputs considered as:			Fair Value at May 31, 2016
	Level 1	Level 2	Level 3	
Financial Assets				
Marketable securities				
U.S. government agency obligations	$ —	$ —	$ 1,653	$ 1,653
Total	—	—	1,653	1,653
Total Financial Assets	$ —	$ —	$ 1,653	$ 1,653
Financial Liabilities				
Contingent liability for acquisition earn out	—	—	38,275	38,275
Total Financial Liabilities	$ —	$ —	$ 38,275	$ 38,275

There were no transfers in and out of Level 1, 2 and 3 measurements for the three months ended August 31, 2016 and May 31, 2016.

The table below presents the changes in fair value components of Level 3 instruments in the three months ended August 31, 2016 (in thousands of dollars):

	Financial Assets Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Financial Liabilities Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance, May 31, 2016	$ 1,653	$ 38,275
Total gains or losses (realized/unrealized):		
Change in present value of contingent consideration (1)	—	443
Included in other comprehensive income (loss)	(6)	—
Contingent consideration payments	—	(2,100)
Balance, August 31, 2016	$ 1,647	$ 36,618

(1) Change in present value of contingent consideration is included in earnings and comprised of changes in estimated earn out payments based on projections of company performance and the amortization of the present value discount.

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Contingent Liabilities for Acquisition Earn Outs

Certain of our business combinations involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones or various other performance conditions. Payment of the additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels or product development targets. Contingent consideration is recorded at the estimated fair value of the contingent payments on the acquisition date. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within change in fair value of contingent consideration in the consolidated statements of income. We measure the initial liability and remeasure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements.

The fair value of our liability for contingent consideration is determined using a discounted cash flow model applied to projected net sales, using probabilities of achieving projected net sales and projected payment dates. Projected net sales are based on our internal projections and extensive analysis of the target market and the sales potential. Increases or decreases in any valuation inputs in isolation may result in a significantly lower or higher fair value measurement in the future. At August 31, 2016, the revenue based payments are being calculated based on our current sales forecast which is at the minimums for contingent payments.

The recurring Level 3 fair value measurements of the contingent consideration liabilities include the following significant unobservable inputs as of August 31, 2016 (in thousands of dollars):

	Fair value at Aug 31, 2016	Valuation Technique	Unobservable Input	Range
Revenue based payments	$33,555	Discounted cash flow	Discount rate	4%
			Probability of achieving sales	75-100%
			Projected fiscal year of payment	2017 - 2023
Milestone based payments	3,063	Discounted cash flow	Discount rate	16%
			Probability of achieving milestone	75-100%
			Projected fiscal year of payment	2017
Total	$36,618			

At August 31, 2016, the estimated potential amount of undiscounted future contingent consideration that we expect to pay as a result of all completed acquisitions is approximately $38.7 million. The milestones, including sales projections, associated with the contingent consideration must be reached in future periods ranging from fiscal years 2017 to 2023 in order for the associated consideration to be paid.

NOTE L – MARKETABLE SECURITIES

Marketable securities, which are principally government agency bonds, auction rate investments and corporate commercial paper, are classified as “available-for-sale securities” and are reported at fair value, with unrealized gains and losses excluded from operations and reported as 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 August 31, 2016 and May 31, 2016, we had $1.6 million and $1.7 million, respectively, 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. The auction rate securities mature in 2022 and 2029.

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As of August 31, 2016 and May 31, 2016, marketable securities consisted of the following (in thousands of dollars):

As of August 31, 2016	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. government agency obligations	$ 1,800	$ —	$ (153)	$ 1,647
	$ 1,800	$ —	$ (153)	$ 1,647

As of May 31, 2016	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. government agency obligations	$ 1,800	$ —	$ (147)	$ 1,653
	$ 1,800	$ —	$ (147)	$ 1,653

NOTE M – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved in various legal proceedings, including commercial, intellectual property, product liability, regulatory and environmental matters of a nature considered normal for its business. The Company accrues for amounts related to these matters if it is probable that a liability has been incurred, and an amount can be reasonably estimated. The Company discloses such matters when there is at least a reasonable possibility that a material loss may have been incurred. However, the Company cannot predict the outcome of any litigation or the potential for future litigation.

AngioDynamics v. biolitec

On January 2, 2008, we commenced an action in the United States District Court for the Northern District of New York entitled AngioDynamics, Inc. v. biolitec, Inc. In this action, we sought judgment against biolitec for defense and indemnification in two lawsuits which we previously settled. Our claims arise out of a Supply and Distribution Agreement (“SDA”) entered into with biolitec on April 1, 2002. On September 27, 2011, the U.S. District Court granted key portions of our motion for summary judgment in our legal case against biolitec. 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. On November 8, 2012, the Court granted partial judgment to us in the amount of $23.2 million. Biolitec appealed this judgment. On August 23, 2013, the U.S. Court of Appeals for the Second Circuit dismissed biolitec’s appeal.

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In October 2009, we commenced an action in the United States District Court for the District of Massachusetts entitled AngioDynamics, Inc. v. biolitec AG and Wolfgang Neuberger. The Complaint in this action was amended in March 2010. This action seeks to recover against biolitec, Inc.'s parent entities and CEO for tortiously interfering with biolitec, Inc.'s contractual obligation to defend and indemnify us, and also seeks to pierce the corporate veil of biolitec, Inc. and to invalidate certain alleged fraudulent transfers in order to hold biolitec, Inc.'s parent entities jointly and severally liable for the alleged breach of the SDA. On September 13, 2012, the Massachusetts Court granted our request for a preliminary injunction prohibiting the downstream merger of biolitec AG with its Austrian subsidiary. On April 1, 2013, the U.S. Court of Appeals for the First Circuit affirmed the preliminary injunction. On January 14, 2014, the District Court entered judgment in our favor as to liability. On March 18, 2014, the District Court entered judgment in our favor against Biolitec AG, Biomed Technology Holdings, Ltd., and Wolfgang Neuberger, jointly and severally, in the amount of $74.9 million. On March 11, 2015, the U.S. Court of Appeals for the First Circuit affirmed the judgment. The defendants petitioned to the U.S. Supreme Court for a writ of certiorari. The Supreme Court denied the petition on November 30, 2015. The defendants have also filed an appeal with the U.S. Court of Appeals for the First Circuit regarding civil contempt sanctions imposed by the Massachusetts District Court as a result of defendants' completion of the downstream merger in violation of the Court's injunction. On May 6, 2016, the First Circuit issued an opinion rejecting this latest appeal. On February 18, 2016, the Massachusetts District Court issued an order compelling the Massachusetts defendants to provide post-judgment discovery intended to aid us in potentially collecting our judgment. On March 21, 2016, the Massachusetts defendants noticed an appeal from this order. On August 31, 2016, the First Circuit dismissed that appeal. On June 27, 2016, we filed a motion asking the Massachusetts District Court to impose sanctions on the Massachusetts defendants for their failure to comply with the post-judgment discovery order.

On November 13, 2014, the U.S. District Court for the District of Massachusetts issued summonses to four Biolitec entities - Biolitec U.S., Inc., Biolitec Holding U.S., Inc., Biolitec Medical Devices, Inc., and CeramOptec Industries, Inc. - pursuant to Massachusetts trustee process. We sought to use this process to attach the assets of these entities in order to satisfy our judgment. The trustee process was automatically stayed when the four Biolitec entities filed Chapter 7 petitions in the U.S. Bankruptcy Court for the District of Delaware. However, on November 3, 2015, the Delaware Bankruptcy Court granted our request to modify the automatic stay to allow us to seek a default against the four Biolitec entities pursuant to trustee process. On January 21, 2016, the four Chapter 7 cases were transferred at our request to the U.S. Bankruptcy Court for the District of New Jersey.
On August 29, 2013, we became co-plaintiffs in an adversary proceeding in the United States Bankruptcy Court for the District of New Jersey entitled Cyganowski, Trustee, et al. v. Biolitec U.S., Inc., et al. In this action, we assert claims of conversion, unjust enrichment, tortious interference, and unfair competition against various biolitec entities for alleged violation of Bankruptcy Court settlement and sale orders under which we acquired certain assets of Biolitec, Inc. On September 3, 2013, we, along with our co-plaintiff, obtained a temporary restraining order against the defendants in this action. On January 22, 2015, the Bankruptcy Court entered a permanent injunction on our behalf for an additional two years.

C.R. Bard, Inc. v. AngioDynamics, Inc.

On January 11, 2012, C.R. Bard, Inc. ("Bard") filed a suit in the United States District Court of Utah claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the "Utah Action"). Bard is seeking unspecified damages and other relief. The Court denied Bard's motion for pre-trial consolidation with separate actions it filed on the same day against Medical Components, Inc. and Smiths Medical ASD, Inc., but had asked for supplemental briefing on the issue of whether to conduct a common Markman hearing. Meanwhile, we filed petitions for reexamination in the US Patent and Trademark Office ("PTO") which seek to invalidate all three patents asserted by Bard in the litigation. Our petitions were granted and 40 of Bard's 41 patent claims were rejected and, following further proceedings, the Patent Office issued a Final Rejection of all 40 claims subject to reexamination. Thereafter, Bard filed appeals to the PTO Board of Appeals and Interferences for all three reexams. The parties completed

briefing on the appeals and oral argument was held on June 18, 2015. The Patent Office has issued decisions in the three appeals. In one (issued on March 11, 2016 for US Patent No. 7,785,302), the rejections of six of the ten claims under reexamination were affirmed, but were reversed on four of the ten claims. In the second (issued on March 24, 2016 for U.S. Patent No. 7,959,615), the rejections of eight of the ten claims under reexamination were affirmed but the rejections of the other two of the ten claims were reversed. In the third (issued on March 29 for U.S. Patent No. 7,947.022) the rejections of all twenty claims under reexamination were affirmed. Bard has since filed Requests for Rehearing in all three reexamination appeals and the Company filed Requests for Rehearing in two of the reexamination appeals (the ‘302 and ‘615 patent reexaminations). Each party has filed comments in Opposition to the other party’s Rehearing Requests, and we are awaiting the PTO determinations in all three reexaminations. The Utah Action has been stayed pending final resolution of the PTO process. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

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On March 10, 2015, C.R. Bard, Inc. and Bard Peripheral Vascular, Inc. (“Bard”) filed suit in the United States District Court for the District of Delaware claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the “Delaware Action). Bard is seeking unspecified damages and other relief. The patents asserted in the Delaware Action are different than those asserted in the Utah Action. On June 1, 2015, we filed two motions in response to Bard’s Complaint - one sought transfer to the District of Utah where the Utah Action is currently pending, and the other sought dismissal of the entire complaint on grounds that none of the claims in the asserted patents is directed to patent eligible subject matter under Section 101 of the Patent Statute and in light of recent authority from the U. S. Supreme Court. On January 12, 2016, the court issued a decision denying both motions. We have since served an Answer and Counterclaim to which Bard has served a Reply. On March 10, 2016, the Court held a case management conference, and, on March 14, 2016, the court entered a Scheduling Order which set, inter alia, a Markman hearing for March 10, 2017, a summary judgment hearing for December 8, 2017 and trial for March 12, 2018. The parties have since served various discovery requests on each other; on May 27, 2016 Bard served its Infringement Contentions which identified all the port products accused of infringement; and, on June 24, 2016, we served Invalidity Contentions which detail various grounds for invalidating the three asserted patents. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

Governmental Investigations

LC Beads

In June 2014 we received a subpoena from the U.S. Department of Justice (the “DOJ”) requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding BTG International, Inc.’s LC Bead® product beginning in 2003. RITA Medical Systems and AngioDynamics, Inc., after its acquisition of RITA, was the exclusive distributor of LC Beads in the United States from 2006 through December 31, 2011. We are cooperating fully with this investigation and at this time are unable to predict its scope, duration or outcome. We are unable at this time to reasonably estimate the amount or range of any loss, although it is possible that the amount of such loss could be material. In accordance with ASC 450, "Contingencies," or "ASC 450," no amount in respect of any potential liability in this matter, including for penalties, fines or other sanctions, has been accrued in the consolidated financial statements.

EVLT

In April 2015 we received a subpoena from the DOJ requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding purported promotion of certain of AngioDynamics’ VenaCure EVLT products for un-cleared indications. We are cooperating fully with this investigation and at this time are unable to predict its scope, duration or outcome. We are unable at this time to reasonably estimate the amount or range of any loss, although it is possible that the amount of such loss could be material. In accordance with ASC 450, "Contingencies," or "ASC 450," no amount in respect of any potential liability in this matter, including for penalties, fines or other sanctions, has been accrued in the consolidated financial statements.

NOTE N – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows under Topic 230. ASU 2016-15 is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-15 should be applied retrospectively and early adoption is

permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that supersedes most of the existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance. ASU 2014-09 is effective for the Company beginning in its fiscal year 2018, and may be applied retrospectively to all prior periods presented or through a cumulative adjustment to the opening retained earnings balance in the year of adoption. The Company is currently in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

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In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of the Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, that clarified that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target is met. This ASU is effective for the Company in its first quarter beginning after January 1, 2016 and did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASC Update No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. Update No. 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Update No. 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those reporting periods. Early adoption is permitted for financial statements that have not been previously issued. This update was applied retrospectively as of August 31, 2016. The deferred financing fees included in other assets of $0.8 million and $0.9 million was classified as long-term debt for the periods August 31, 2016 and May 31, 2016, respectively, in the consolidated condensed balance sheet. This update did not impact the results of our operations.

In July 2015, the FASB issued ASC Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. Update No. 2015-11 more closely aligns the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards by requiring companies using the first-in, first-out and average costs methods to measure inventory using the lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Update No. 2015-11 is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years. Update No. 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of Update No. 2015-11 is not expected to have a material impact on our financial position or results of operations.

In November 2015, the FASB issued ASC Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes" as part of its simplification initiatives. This update requires deferred tax liabilities and assets to be classified as non-current on the consolidated condensed balance sheet for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. An entity can elect to adopt prospectively or retrospectively to all periods presented. This update was applied retrospectively as of November 30, 2015.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10). Update No. 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Update No. 2016-01 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those fiscal years and early application is permitted. The Company is currently in the process of evaluating the impact.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. For leases with a term or twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and early application is permitted. The Company is currently in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Based Compensation (Topic 718: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies and improves various aspects of ASC 718 for share-based payments, including income tax items and the classification of these items on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 31, 2016 and early application is permitted. The Company is currently in the process of evaluating the impact of ASU 2016-09 on its consolidated financial statements.

NOTE O – RESTRUCTURING

For the three months ended August 31, 2016 and August 31, 2015 we had a restructuring of finance, research and development, and sales and marketing organizations to improve our profitability. As part of the restructuring, we recorded $0.3 million and $1.1 million of severance and restructuring expense during the three month periods, respectively, which is included in “Acquisition, restructuring and other items, net” in the statements of income.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read together with the consolidated condensed 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,” “estima variations of such words 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 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. 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.

Executive Overview

We design, manufacture and sell a wide range of medical, surgical and diagnostic devices used by professional healthcare providers for vascular access, for the treatment of peripheral vascular disease and for use in oncology and surgical settings. Our devices are generally used in minimally invasive, image-guided procedures. Most of our products are intended to be used once and then discarded, or they may be temporarily implanted for short- or long-term use.

Our sales and profitability growth depends, in part, on the introduction of new and innovative products, together with ongoing enhancements to our existing products. Expansions to our product offerings are created through internal product development, technology licensing and strategic alliances. In recent years we have acquired or developed, and launched several new products, including the AngioVac cannula and circuit, the BioFlo family of products, NanoKnife and the Acculis microwave system, which are all expected to be growth drivers of our business. We recognize the importance of, and intend to continue to make investments in, research and development activities and business development opportunities.

We sell our products in the United States through a direct sales force and outside the U.S. through a combination of direct sales and distributor relationships. We expect our international business to grow in both sales and profit through geographic expansion, market penetration, and increasing our direct presence.

During the first quarter of fiscal 2017, Michael C. Greiner was appointed Executive Vice President and Chief Financial Officer of the Company.

In evaluating the operating performance of our business management focuses on revenue growth, constant currency revenue growth, operating income, earnings per share and cash flow from operations. A summary of these key financial metrics for the quarter ended August 31, 2016 compared to the quarter ended August 31, 2015 are as follows:

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First quarter 2017
• Reported revenue increased by 5% to $88.1 million.
• Constant currency revenue increased by 5%.
• Operating income increased by $3.4 million to $3.6 million.
• Earnings per share increased by $0.06 to $0.04.
• Cash flow from operations increased by $2.7 million to $7.4 million.

For our first quarter results, revenue growth was primarily driven by growth in the Peripheral Vascular franchise as a result of opportunities created by the Cook Medical recall. Other favorable trends and growth drivers include the solid performance of BioFlo in both Midline and Dialysis, as well as growth NanoKnife and Microwave in the Oncology/Surgery business. The increase in operating income was driven by volume growth and continued margin improvements.

Management's Use of Non-GAAP Measures

Net sales “on a constant currency basis” is a non-GAAP measure. The company analyzes net sales on a constant currency basis to better measure the comparability of results between periods. Because changes in foreign currency exchange rates have a non-operating impact on net sales, the company believes that evaluating growth in net sales on a constant currency basis provides an additional and meaningful assessment of net sales to both management and the company’s investors. Constant currency growth rates are calculated by translating the current period's local currency sales by the prior period’s exchange rate.

Constant currency growth rates are not indicative of changes in corresponding cash flows. The limitation of these non-GAAP measures is that they do not reflect results on a standardized reporting basis. Non-GAAP measures are intended to supplement the applicable GAAP disclosures and should not be viewed as replacements of GAAP results.

New Accounting Pronouncements

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

Results of Operations for the Three Months ended August 31, 2016 and August 31, 2015

For the three months ended August 31, 2016, we reported net income of $1.3 million, or $0.04 per diluted share, on net sales of $88.1 million, compared with a net loss of $(0.8) million, or $(0.02) per share, on net sales of $83.8 million during the same quarter of the prior year.

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Net Sales

Net sales - Net sales are derived from the sale of our products and related freight charges, less discounts and returns.

Net sales for the three months ended August 31, 2016 and August 31, 2015:

	Three months ended				
	Aug 31, 2016	Aug 31, 2015	% Growth	Currency Impact (Pos) Neg	Constant Currency
Net Sales by Product Category					
Peripheral Vascular	$51,409	$47,106	9%		
Vascular Access	25,005	24,645	1%		
Oncology/Surgery	11,064	11,334	-2%		
Total Excluding Supply Agreement	87,478	83,085	5%	0%	5%
Supply Agreement	620	668	-7%	0%	-7%
Total	$88,098	$83,753	5%	0%	5%
Net Sales by Geography					
United States	$71,753	$68,369	5%	0%	5%
International	15,725	14,716	7%	1%	8%
Supply Agreement	620	668	-7%	0%	-7%
Total	$88,098	$83,753	5%	0%	5%

For the three months ended August 31, 2016, net sales increased $4.3 million to $88.1 million compared to the same period in the prior year. As shown in the table above, consolidated net sales increased by 5%.
From a product line perspective, Peripheral Vascular sales increased $4.3 million primarily attributable to increased volume in our angiographic product line which is offsetting softness in the remaining Peripheral Vascular business. Vascular Access sales increased $0.4 million or 1% due in continued strength in our Bioflo Midline and Dialysis products offsetting softness in the remaining Vascular Access. Oncology Surgery sales decreased 2% driven by lower RF sales which are partially offset by increased Microwave and NanoKnife disposable sales.
From a geographic perspective, U.S. sales increased $3.4 million due primarily to increased volume in the angiographic product line, BioFlo Midlines and NanoKnife. International sales increased 8% on a constant-currency basis, primarily attributable to growth in the angiographic product line offset by decreases in our RF products and Nano disposable sales.

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Gross Profit, Operating expenses, and Other income (expense)

	Three months ended		
	Aug 31, 2016	Aug 31, 2015	% Change
Gross profit	$45.0	$43.4	4 %
Gross profit % of sales	51.1 %	51.8 %	
Research and development	$6.7	$6.1	10 %
% of sales	7.6 %	7.3 %	
Selling and marketing	$19.5	$21.2	-8 %
% of sales	22.1 %	25.3 %	
General and administrative	$8.2	$7.9	4 %
% of sales	9.3 %	9.4 %	
Medical device excise tax	$—	$1.0	-100 %
% of sales	— %	1.2 %	

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. The $1.6 million increase compared to 2016 is primarily attributable to sales volume and net plant productivity offset by pricing pressures and product mix.

Research and development expenses - Research and development (“R&D”) expenses include internal and external costs to develop new products, enhance existing products, validate new and enhanced products, manage clinical, regulatory and medical affairs. R&D expenses increased $0.6 million for the three months ending August 31, 2016 due to investments in a new product development process ($0.2 million) and Regulatory and registration costs ($0.4million).

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 marketing activities. S&M expenses decreased by $1.7 million for the three months ending August 31, 2016 due to open positions ($0.6 million), reduced travel costs ($0.3 million), meetings expenses ($0.4M), bad debt expense ($0.2 million) and other ($0.2 million).

General and administrative expenses - General and administrative (“G&A”) expenses include executive management, finance, information technology, human resources, business development, legal, and the administrative and professional costs associated with those activities. G&A expenses increased $0.3 million for the three months ended August 31, 2016 due to timing of professional fees ($0.3 million) and executive restructuring which led to higher recruiting costs, relocations and bonus ($0.3 million) offset by fully depreciated assets in the end of FY16 ($0.3 million).

Medical device excise tax - Medical devices excise tax is assessed on our US product sales subject to exclusions and adjustments. The expense decreased for the three months ending August 31, 2016 compared to the prior year due to the suspension of the medical device excise tax as of the end of December 2015.

	Three months ended		
	Aug 31, 2016	Aug 31, 2015	$ Change
Amortization of intangibles	$4.2	$ 4.4	$ (0.2)
Change in fair value of contingent consideration	$0.4	$ 0.4	$ —
Acquisition, restructuring and other items, net	$2.4	$ 2.1	$ 0.3
Other expense	$(0.7)	$ (0.9)	$ 0.2

Amortization of intangibles - Amortization of intangibles decreased from the three months ending August 31, 2016 to August 31, 2015 primarily due to an intangible becoming fully amortized.

Change in fair value of contingent consideration - Represents changes in the contingent consideration driven by changes to estimated future payments on earn-out liabilities created through acquisitions and amortization of present value discounts on

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long-term contingent consideration. The changes were consistent for the three months ended August 31, 2016 and August 31, 2015.

Acquisition, restructuring and other items, net - Expense for the three months ended August 31, 2016 consists primarily of $0.3 million in severance, $1.8 million in litigation expense and other miscellaneous items. The three months ended August 31, 2015 included $0.4 million in accelerated depreciation, $1.3 million in litigation expense and other miscellaneous items.

Other expenses - Other expenses include interest expense, foreign currency impacts, bank fees, and amortization of deferred financing costs. Expenses were consistent year over year in composition.

	Three months ended	
	Aug 31, 2016	Aug 31, 2015
Income tax expense (benefit)	$1.6	$0.1
Effective tax rate including discrete items	55.2 %	(9.9)%

Income taxes - Our effective tax rate including discrete items for the three month periods ended August 31, 2016 and August 31, 2015 was 55.2% and (9.9)%, respectively. The change in the effective tax rate, detailed in Note G, is primarily driven by the impact of the US valuation allowance and the deferred tax liability related to intangibles that have an indefinite reversal period and cannot be used to support the deferred tax assets.

Liquidity and Capital Resources

Our cash and cash equivalents totaled $37.4 million as of August 31, 2016, compared with $32.3 million as of May 31, 2015. Marketable securities totaled $1.6 million and $1.7 million as of August 31, 2016 and May 31, 2016, respectively, and consist of auction rate securities. As of August 31, 2016, total debt was $118.2 million and the fair value of contingent consideration payments was $36.6 million.

The table below summarizes our cash flows for the three months ended August 31, 2016 and August 31, 2015 (in thousands of dollars):

	Three Months Ended	
	Aug 31, 2016	Aug 31, 2015
Cash provided by (used in):		
Operating activities	$7,440	$4,699
Investing activities	(481)	(743)
Financing activities	(1,797)	(2,071)
Effect of exchange rate changes on cash and cash equivalents	(84)	(8)
Net change in cash and cash equivalents	$5,078	$1,877

Cash provided by operating activities during the three months ended August 31, 2016 and August 31, 2015, was primarily the result of net income (loss) excluding non-cash items offset by unfavorable shifts in working capital. In the current year period, favorable working capital change in accounts receivable were offset by negative movements in payables and accrued expenses and inventory due to inventory build to meet demands.

The net cash used in investing activities for the current year period consisted of $0.5 million in fixed asset additions. The prior year use of cash consisted primarily of $0.7 million of fixed asset additions.

The net cash provided by financing activities is the result of a $2.8 of proceeds from stock option and ESPP activity offset by $2.1 million in payments on earn-out liabilities and $2.5 million in repayments on long-term debt.

The Company will make payments to EmboMedics upon the achievement of certain milestones as prescribed by the agreement disclosed in Note C. This will affect cash flows, the amount of contractual obligations and the liquidity

calculation.

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We believe that our current cash and investment balances, together with cash generated from operations and our remaining revolving credit facility capacity of $64.0 million as of August 31, 2016, will provide sufficient liquidity to meet our anticipated needs for capital for at least the next 12 months. If we seek to make significant acquisitions of other businesses or technologies in the future for cash, we may require external financing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk from changes in currency exchange rates, as well as interest rate fluctuations on our credit facility and investments that could impact our results of operations and financial position.

We transact sales in currencies other than the U.S. Dollar, particularly the Euro, British pound and Canadian dollar. Approximately 7% of our sales in fiscal 2016 were denominated in foreign currencies. We do not have expenses denominated in foreign currencies at the level of our sales and as a result, our profitability is exposed to currency fluctuations. When the U.S. Dollar strengthens, our sales and gross profit will be negatively impacted. In addition, we have assets and liabilities denominated in non-functional currencies which are remeasured at each reporting period, with the offset to changes presented as a component of Other Income (Expenses). Significant non-functional balances include a Euro-denominated contingent liability and accounts receivable due from a sub-section of our international customers.

On September 19, 2013, we entered into a Credit Agreement (the "Credit Agreement") which provides for a $100 million senior secured term loan facility (“ Term Loan") and a $100 million senior secured revolving credit facility (the “Revolving Facility", and together with the Term Loan, the "Facilities"). Interest on both the Term Loan and Revolver is based on a base rate or Eurodollar rate plus an applicable margin which increases as our total leverage ratio increases, with the base rate and Eurodollar rate having ranges of 0.50% to 1.25% and 1.50% to 2.25% respectively. In the event of default, the interest rate may be increased by 2.0%. Changes in the interest rate would not be material.

Our excess cash is invested in highly liquid, short-term, investment grade securities with maturities primarily of less than two years. These investments are not held for speculative or trading purposes. Changes in interest rates may affect the investment income we earn on cash, cash equivalents and marketable securities and therefore affect our cash flows and results of operations. We hold investments in auction rate securities (“ARS”) in order to generate higher than typical money market investments. ARS typically are high credit quality, generally issued 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 $1.7 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.

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, as amended. 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 were effective to provide reasonable assurance that the information required to be disclosed by us 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

SEC 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 for the fiscal quarter ended August 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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AngioDynamics, Inc. and Subsidiaries
PART II: OTHER INFORMATION
Item 1. Legal Proceedings.

AngioDynamics v. biolitec

On January 2, 2008, we commenced an action in the United States District Court for the Northern District of New York entitled AngioDynamics, Inc. v. biolitec, Inc. In this action, we sought judgment against biolitec for defense and indemnification in two lawsuits which we previously settled. Our claims arise out of a Supply and Distribution Agreement ("SDA") entered into with biolitec on April 1, 2002. On September 27, 2011, the U.S. District Court granted key portions of our motion for summary judgment in our legal case against biolitec. 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. On November 8, 2012, the Court granted partial judgment to us in the amount of $23.2 million. Biolitec appealed this judgment. On August 23, 2013, the U.S. Court of Appeals for the Second Circuit dismissed biolitec's appeal.

In October 2009, we commenced an action in the United States District Court for the District of Massachusetts entitled AngioDynamics, Inc. v. biolitec AG and Wolfgang Neuberger. The Complaint in this action was amended in March 2010. This action seeks to recover against biolitec, Inc.'s parent entities and CEO for tortiously interfering with biolitec, Inc.'s contractual obligation to defend and indemnify us, and also seeks to pierce the corporate veil of biolitec, Inc. and to invalidate certain alleged fraudulent transfers in order to hold biolitec, Inc.'s parent entities jointly and severally liable for the alleged breach of the SDA. On September 13, 2012, the Massachusetts Court granted our request for a preliminary injunction prohibiting the downstream merger of biolitec AG with its Austrian subsidiary. On April 1, 2013, the U.S. Court of Appeals for the First Circuit affirmed the preliminary injunction. On January 14, 2014, the District Court entered judgment in our favor as to liability. On March 18, 2014, the District Court entered judgment in our favor against Biolitec AG, Biomed Technology Holdings, Ltd., and Wolfgang Neuberger, jointly and severally, in the amount of $74.9 million. On March 11, 2015, the U.S. Court of Appeals for the First Circuit affirmed the judgment. The defendants petitioned to the U.S. Supreme Court for a writ of certiorari. The Supreme Court denied the petition on November 30, 2015. The defendants have also filed an appeal with the U.S. Court of Appeals for the First Circuit regarding civil contempt sanctions imposed by the Massachusetts District Court as a result of defendants' completion of the downstream merger in violation of the Court's injunction. On May 6, 2016, the First Circuit issued an opinion rejecting this latest appeal. On February 18, 2016, the Massachusetts District Court issued an order compelling the Massachusetts defendants to provide post-judgment discovery intended to aid us in potentially collecting our judgment. On March 21, 2016, the Massachusetts defendants noticed an appeal from this order. On August 31, 2016, the First Circuit dismissed that appeal. On June 27, 2016, we filed a motion asking the Massachusetts District Court to impose sanctions on the Massachusetts defendants for their failure to comply with the post-judgment discovery order.

On November 13, 2014, the U.S. District Court for the District of Massachusetts issued summonses to four Biolitec entities - Biolitec U.S., Inc., Biolitec Holding U.S., Inc., Biolitec Medical Devices, Inc., and CeramOptec Industries, Inc. - pursuant to Massachusetts trustee process. We sought to use this process to attach the assets of these entities in order to satisfy our judgment. The trustee process was automatically stayed when the four Biolitec entities filed Chapter 7 petitions in the U.S. Bankruptcy Court for the District of Delaware. However, on November 3, 2015, the Delaware Bankruptcy Court granted our request to modify the automatic stay to allow us to seek a default against the four Biolitec entities pursuant to trustee process. On January 21, 2016, the four Chapter 7 cases were transferred at our request to the U.S. Bankruptcy Court for the District of New Jersey.

On August 29, 2013, we became co-plaintiffs in an adversary proceeding in the United States Bankruptcy Court for the District of New Jersey entitled Cyganowski, Trustee, et al. v. Biolitec U.S., Inc., et al. In this action, we assert

claims of conversion, unjust enrichment, tortious interference, and unfair competition against various biolitec entities for alleged violation of Bankruptcy Court settlement and sale orders under which we acquired certain assets of Biolitec, Inc. On September 3, 2013, we, along with our co-plaintiff, obtained a temporary restraining order against the defendants in this action. On January 22, 2015, the Bankruptcy Court entered a permanent injunction on our behalf for an additional two years.

C.R. Bard, Inc. v. AngioDynamics, Inc.

On January 11, 2012, C.R. Bard, Inc. (“Bard”) filed a suit in the United States District Court of Utah claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the "Utah Action"). Bard is seeking unspecified damages and other relief. The Court denied Bard’s motion for pre-trial consolidation with separate actions it filed

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on the same day against Medical Components, Inc. and Smiths Medical ASD, Inc., but had asked for supplemental briefing on the issue of whether to conduct a common Markman hearing. Meanwhile, we filed petitions for reexamination in the US Patent and Trademark Office ("PTO") which seek to invalidate all three patents asserted by Bard in the litigation. Our petitions were granted and 40 of Bard's 41 patent claims were rejected and, following further proceedings, the Patent Office issued a Final Rejection of all 40 claims subject to reexamination. Thereafter, Bard filed appeals to the PTO Board of Appeals and Interferences for all three reexams. The parties completed briefing on the appeals and oral argument was held on June 18, 2015. The Patent Office has issued decisions in the three appeals. In one (issued on March 11, 2016 for US Patent No. 7,785,302), the rejections of six of the ten claims under reexamination were affirmed, but were reversed on four of the ten claims. In the second (issued on March 24, 2016 for U.S. Patent No. 7,959,615), the rejections of eight of the ten claims under reexamination were affirmed but the rejections of the other two of the ten claims were reversed. In the third (issued on March 29 for U.S. Patent No. 7,947.022) the rejections of all twenty claims under reexamination were affirmed. Bard has since filed Requests for Rehearing in all three reexamination appeals and the Company filed Requests for Rehearing in two of the reexamination appeals (the ‘302 and ‘615 patent reexaminations). Each party has filed comments in Opposition to the other party’s Rehearing Requests, and we are awaiting the PTO determinations in all three reexaminations. The Utah Action has been stayed pending final resolution of the PTO process. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

On March 10, 2015, C.R. Bard, Inc. and Bard Peripheral Vascular, Inc. (“Bard”) filed suit in the United States District Court for the District of Delaware claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the “Delaware Action). Bard is seeking unspecified damages and other relief. The patents asserted in the Delaware Action are different than those asserted in the Utah Action. On June 1, 2015, we filed two motions in response to Bard’s Complaint - one sought transfer to the District of Utah where the Utah Action is currently pending, and the other sought dismissal of the entire complaint on grounds that none of the claims in the asserted patents is directed to patent eligible subject matter under Section 101 of the Patent Statute and in light of recent authority from the U. S. Supreme Court. On January 12, 2016, the court issued a decision denying both motions. We have since served an Answer and Counterclaim to which Bard has served a Reply. On March 10, 2016, the Court held a case management conference, and, on March 14, 2016, the court entered a Scheduling Order which set, inter alia, a Markman hearing for March 10, 2017, a summary judgment hearing for December 8, 2017 and trial for March 12, 2018. The parties have since served various discovery requests on each other; on May 27, 2016 Bard served its Infringement Contentions which identified all the port products accused of infringement; and, on June 24, 2016, we served Invalidity Contentions which detail various grounds for invalidating the three asserted patents. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

Governmental Investigations

LC Beads

In June 2014 we received a subpoena from the U.S. Department of Justice (the “DOJ”) requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding BTG International, Inc.’s LC Bead® product beginning in 2003. RITA Medical Systems and AngioDynamics, Inc., after its acquisition of RITA, was the exclusive distributor of LC Beads in the United States from 2006 through December 31, 2011. We are cooperating fully with this investigation and at this time are unable to predict its scope, duration or outcome. We are unable at this time to reasonably estimate the amount or range of any loss, although it is possible that the amount of such loss could be material. In accordance with ASC 450, "Contingencies," or "ASC 450," no amount in respect of any potential liability in this matter, including for penalties, fines or other sanctions, has been accrued in the consolidated financial

statements.

EVLT

In April 2015 we received a subpoena from the DOJ requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding purported promotion of certain of AngioDynamics' VenaCure EVLT products for un-cleared indications. We are cooperating fully with this investigation and at this time are unable to predict its scope, duration or outcome. We are unable at this time to reasonably estimate the amount or range of any loss, although it is possible that the amount of such loss could be material. In accordance with ASC 450, "Contingencies," or "ASC 450," no amount in respect of any potential liability in this matter, including for penalties, fines or other sanctions, has been accrued in the consolidated financial statements.

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Item 1A. Risk Factors.

In addition to 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, 2016 which set 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. There have been no material changes to the risk factors previously disclosed in our annual report on Form 10-K.

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

The following table provides information with respect to the shares of the Company's common stock repurchased during the three months ended August 31, 2016:

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
June 1 - June 30, 2016	—	$ —	—	—
July 1 - July 31, 2016	9,063	$ 15.73	—	—
August 1 - August 31, 2016	7,092	$ 16.02	—	—
Total	16,155	$ 15.85	—	—

(1) The Company repurchased 16,155 shares during the three months ended August 31, 2016 from employees to satisfy tax withholding requirements on the vesting of restricted shares from equity-based awards.

Item 3. Defaults on Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

EXHIBIT INDEX

No.	Description
10.1	AngioDynamics 2016 Total Shareholder Return Performance Unit Agreement Program.
10.2	Form of 2015 Performance Share Award Agreement pursuant to the AngioDyanmics, Inc. 2004 Stock and Incentive Award Plan.
10.3	Change in Control Agreement, effective August 18, 2016, between AngioDynamics, Inc. and Michael C. Greiner.
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: October 5, 2016 / S / JAMES C. CLEMMER
James C. Clemmer, President,
Chief Executive Officer
(Principal Executive Officer)

Date: October 5, 2016 / S / MICHAEL C. GREINER
Michael C. Greiner, Executive Vice President,
Chief Financial Officer
(Principal Financial and Principal Accounting Officer)