UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended May 31, 2008

OR

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

For the transition period from to

Commission file number 0-50761

AngioDynamics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-3146460**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
603 Queensbury Ave., Queensbury, New York	**12804**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code (518) 798-1215

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)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

As of November 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $461,443,000, computed by reference to the last sale price of the common stock on that date as reported by The Nasdaq Global Select Market.

As of July 31, 2008, there were 24,317,282 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required for Part III of this annual report on Form 10-K is incorporated by reference from the registrant's Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed within 120 days of registrant's fiscal year ended May 31, 2008.

AngioDynamics, Inc. and Subsidiaries

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Part I

Item 1. *Business*

(a) *General Development of Business*

Overview

We are a provider of innovative medical devices used in minimally invasive, image-guided procedures to treat peripheral vascular disease, or PVD, and local oncology therapy options for treating cancer, including radiofrequency ablation, or RFA, and systems and embolization products for treating benign and malignant cancerous tumors. We design, develop, manufacture and market a broad line of therapeutic and diagnostic devices that enable interventional physicians (interventional radiologists, vascular surgeons, surgical oncologists and others) to treat PVD, tumors, and other non-coronary diseases. Unlike several of our competitors that focus on the treatment of coronary diseases, we believe that we are the only company whose primary focus is to offer a comprehensive product line for the interventional treatment of these diseases.

We have been in business since 1988. Our corporate headquarters is located at 603 Queensbury Avenue, Queensbury, New York 12804. Our phone number is (518) 798-1215.

Available Information

Our internet website is *www.angiodynamics.com*. We make available free-of-charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission ("SEC"). In addition, our internet website includes, among other things, charters of various committees of the Board of Directors and our code of business conduct and ethics applicable to all employees, officers and directors. Copies of these documents may be obtained free of charge from our internet website. Any stockholder also may obtain copies of these documents, free of charge, by sending a request in writing to our investor relations firm: EVC Group, 60 East 42nd Street, Suite 936, New York, NY 10165. Information on our website or connected to our website is not incorporated by reference into this Annual Report on Form 10-K.

History

AngioDynamics was founded in 1988 as a division of E-Z-EM, Inc., a leading developer and manufacturer of gastrointestinal contrast agents and related imaging accessories. In 1992, AngioDynamics was organized in the State of Delaware as a wholly owned subsidiary of E-Z-EM under the name A.D., Inc. In 1996, E-Z-EM transferred the business of its A.D. division to this subsidiary and we changed our name to AngioDynamics, Inc. In June 2004, we completed the initial public offering of our shares of common stock. The offering consisted of 2,242,500 shares (including 292,500 shares issued pursuant to the underwriters' over-allotment option) at an initial public offering price of $11.00 per share. After the offering, E-Z-EM, Inc. held 80.4% of our shares. On October 30, 2004, E-Z-EM distributed all of its shares of AngioDynamics common stock to its stockholders. In May 2006, we completed a follow-on public offering of our shares of common stock. The offering consisted of 2,760,000 shares (including 360,000 shares issued pursuant to the underwriters' over-allotment option) at a public offering price of $24.07 per share.

Recent Developments

Acquisition of Certain Assets of Diomed

In June 2008, we completed the acquisition of certain U.S. and U.K. assets of Diomed, Inc and Diomed, Ltd. for $11 million subject to adjustment for changes in working capital to be determined subsequent to the closing date. With this acquisition, we substantially strengthened our position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with our existing venous product line provides us with a comprehensive venous product offering.

Acquisition of Oncobionic

On May 9, 2008, we completed the acquisition of Oncobionic, Inc. ("Oncobionic") pursuant to the terms of a stock purchase agreement entered into on October 12, 2006. The closing of the acquisition comes as a result of the successful initial use of Oncobionic's irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of April 2008.

Under the stock purchase agreement, we agreed to acquire all of the issued and outstanding shares of the capital stock of Oncobionic for a total purchase price of $25.4 million, including $400,000 of assumed liabilities. We made a non-refundable payment of $5.0 million upon the execution of the stock purchase agreement in October 2006. We paid $10.0 million on May 9, 2008 upon the closing of the acquisition. $5.0 million is payable in November 2008, and the remaining $5.0 million is payable in November 2009.

(b) ***Narrative Description of Business***

General

We classify our products into two product groups—Interventional Products, which consist primarily of angiographic products and accessories, dialysis products, vascular access products, venous products, thrombolytic products, PTA products, and drainage products and Oncology Products, which consist primarily of radio-frequency ablation products, tumor embolization products, and laparoscopic resection products.

Beginning with our first fiscal quarter of the fiscal year ending May 31, 2009, we will organize our business into three divisions: Peripheral Vascular; Access and Oncology/Surgery. Our Peripheral Vascular division comprises our venous, angiographic, PTA, drainage and thrombolytic product lines. Our Access division comprises our dialysis, ports and PICC lines. Our Oncology/Surgery division comprises our RFA, embolization, Habib and NanoKnife product lines. Beginning with our quarterly report on Form 10-Q for our fiscal quarter ended August 31, 2008, we will report our results of operations pursuant to these three divisions.

Our principal competitive advantages are our dedicated market focus, established brands and innovative products. Our acquisition of RITA in 2007 clarified our position, we believe, as the only company focused on minimally-invasive treatments for cancer patients with an emphasis on the growing segment of interventional oncology. We believe our dedicated focus enhances patient care and engenders loyalty among our customers. As a provider of interventional devices for over two decades, we believe we have established AngioDynamics' brands as premium performance products. We collaborate frequently with leading interventional physicians in developing our products and rely on these relationships to further support our brands. Our chief executive officer is the only business executive from the medical device industry to serve on the Strategic Planning Committee of the Society of Interventional Radiology. This appointment provides us with awareness of emerging clinical trends, high visibility among interventional physicians and opportunities to understand and influence the evolution of interventional therapies.

We sell our broad line of quality devices for minimally invasive therapies in the United States through a direct sales force and outside the U.S. through a combination of direct sales and distributor relationships. As of May 31, 2008, our sales organization numbered 109 in the U.S. and 12 outside the U.S. The 121 employees in the sales organization include direct sales representatives, clinical specialists, and management personnel. For fiscal years 2008, 2007 and 2006, net sales in non-U.S markets were 9.5%, 6.3%, and 4.2%, respectively. Sales to any one country outside the U.S. did not comprise a material portion of our net sales in any of the last three fiscal years. We support our customers and sales organization with a marketing staff that includes product managers, customer service representatives and other marketing specialists. Our dedicated sales force and growing portfolio of products have contributed to our strong sales growth.

Peripheral Vascular Disease

Peripheral vascular disease encompasses a number of conditions in which the arteries or veins that carry blood to or from the legs, arms or non-cardiac organs become narrowed, obstructed or stretched. Structural deterioration in the blood vessels due to aging and the accumulation of atherosclerotic plaque results in restricted or diminished blood flow. Common symptoms include numbness, tingling, persistent pain or cramps in the extremities and deterioration of organ function, such as renal failure or intestinal malabsorption. Common PVDs also include venous insufficiency, a malfunction of one or more valves in the leg veins, which often leads to painful varicose veins and/or potentially life-threatening blood clots, and abdominal aortic aneurysms, or AAA, a ballooning, or stretching, of the aorta, which can lead to a potentially fatal rupture. Individuals who are over age 50, smoke, are overweight, have lipid (i.e., cholesterol) disorders, are diabetic or have high blood pressure are at the greatest risk of developing PVD.

Peripheral Interventional Medicine

Peripheral interventional medicine involves the use of minimally invasive, image-guided procedures to treat peripheral vascular and other non-coronary diseases. In these procedures, x-rays, ultrasound, MRI and other diagnostic imaging equipment are used to guide tiny instruments, such as catheters, through blood vessels or the skin to treat diseases. Increasing use of these techniques has accompanied advances in device designs and imaging technologies that enable physicians to diagnose and treat peripheral disorders in a much less invasive manner than traditional open surgery. Interventional procedures are generally less traumatic and less expensive, as they involve fewer anesthesias, a smaller incision and a shorter recovery time.

Peripheral interventional procedures are performed primarily by physicians specially trained in minimally invasive, image-guided techniques. This group of interventional physicians includes interventional radiologists, vascular surgeons and others. Interventional radiologists are board certified radiologists who are fellowship trained in image-guided, percutaneous (through the skin) interventions. These physicians historically have developed many interventional procedures, including balloon angioplasty, vascular stenting and embolization, and perform the majority of peripheral interventional procedures. There are currently more than 5,000 interventional radiologists in the United States performing over four million procedures annually. Vascular surgeons have traditionally been trained for open surgical repair of arterial and venous disorders. A large number are now increasingly performing interventional procedures, and accredited vascular surgery training programs now generally require instruction in interventional, image-guided peripheral vascular procedures. Increasingly, interventional radiologists and vascular surgeons are forming joint practices to capture additional patient referrals by providing a broader range of interventional treatments. Other physicians who perform peripheral interventional procedures include interventional cardiologists and interventional nephrologists.

Interventional and Surgical Oncology

Interventional oncology is an emerging specialty in which minimally invasive techniques and technologies are used to diagnose and treat cancers throughout the body. Percutaneous biopsy, chemoembolization, tumor ablation, PICC and port implantation, and radiofrequency ablation are just a few of the numerous procedures performed by interventional oncologists. In collaboration with other medical specialties focused on the cancer patient, the interventional oncologist brings an expertise in advanced imaging, catheter-based techniques, and minimally invasive procedures not found in other medical specialties.

Products

Our current product offerings consist of the following product categories:

Products	2008 Net Sales $	2008 % of Net Sales
	(in thousands)	
Interventional Products	$128,102	76.9%
Oncology Products	38,398	23.1%
Total	$166,500	100.0%

All products discussed below have been cleared for sale in the United States by the U.S. Food and Drug Administration, or the FDA.

We have registered a number of marks with the U.S. Patent and Trademark Office, including Pulse*Spray; MORPHEUS CT; EVENMORE; ABSCESSION; TOTAL ABSCESSION; SPEEDLYSER; ANGIOFLOW; HYDROTIP; MEMORY TIP; SOS OMNI; HABIB 4X; LifeJet; Circle C; Vortex; LifeGuard; NeoStar; LifeValve; Centros; Sotradecol; NanoKnife and SOFT-VU. This annual report on Form 10-K also contains trademarks of companies other than AngioDynamics.

INTERVENTIONAL PRODUCTS

Interventional Products consist primarily of angiographic products and accessories, dialysis products, vascular access products, venous products, PTA products, thrombolytic products, and drainage products.

Angiographic Products and Accessories

Angiographic products and accessories are used during virtually every peripheral vascular interventional procedure. These products permit interventional physicians to reach targeted locations within the vascular system to deliver contrast media for visualization purposes and therapeutic agents and devices, such as stents or PTA balloons. Angiographic products consist primarily of angiographic catheters, but also include entry needles and guidewires specifically designed for peripheral interventions and fluid management products.

We manufacture angiographic catheters that are available in over 500 tip configurations and lengths, either as standard items or made to order, and an advanced guidewire.

- *SOFT-VU®*. Our proprietary SOFT-VU technology incorporates a soft, atraumatic tip, which is easily visualized under fluoroscopy.
- *ANGIOPTIC™*. The *ANGIOPTIC* line is distinguished from other catheters because the entire instrument is highly visible under fluoroscopy.
- *Accu-Vu™*. The Accu-Vu is a highly visible, accurate sizing catheter used to determine the length and diameter of a vessel for endovascular procedures. Accu-Vu provides a soft, highly radiopaque tip with a choice of platinum radiopaque marker patterns along the shaft for enhanced visibility and accuracy. Sizing catheters are used primarily in preparation for aortic aneurysm stent-grafts, percutaneous balloon angioplasty, peripherally placed vascular stents and vena cava filters.
- *Mariner™*. The Mariner is a hydrophilic-coated angiographic catheter. It uses our patented Soft-Vu catheter technology to deliver contrast media to anatomy that is difficult to reach. The advanced hydrophilic coating technology significantly reduces catheter surface friction, providing smoother navigation through challenging vasculature with optimal handling and control.

- *AQUALiner®*. The AQUALiner is a technologically advanced guidewire. This guidewire is used to provide access to difficult to reach locations in interventional procedures requiring a highly lubricious wire. The AQUALiner guidewire incorporates proprietary advanced coating technology that allows smooth frictionless navigation.

We offer uncoated, Teflon-coated and hydrophilic-coated guidewires to support our core angiographic catheter line.

Dialysis Products

We market a complete line of dialysis products that provide short and long-term vascular access for dialysis patients. Dialysis, or cleaning of the blood, is necessary in conditions such as acute renal failure, chronic renal failure and end-stage renal disease, or ESRD. The kidneys remove excess water and chemical wastes from blood, permitting clean blood to return to the circulatory system. When the kidneys malfunction, waste substances cannot be excreted, creating an abnormal buildup of wastes in the bloodstream. Dialysis machines are used to treat this condition. Dialysis catheters, which connect the patient to the dialysis machine, are used at various stages in the treatment of every dialysis patient.

We currently offer a wide variety of dialysis catheters, including:

- *SCHON™*. The SCHON chronic dialysis catheter is designed to be self-retaining, deliver high flow rates and provide patient comfort. The Schon is for long-term use.
- *EVENMORE®*. The EVENMORE is our first internally manufactured catheter. It is a low profile end-hole design catheter that provides very efficient dialysis. It was designed for long-term use with our proprietary Durathane™ shaft, which offers high resistance to chemicals used to clean the insertion site.
- *CENTROS™*. The Centros is a self centering, split tip, tunneled hemodialysis access catheter designed for long term use. Centros' distal end has a unique curved tip that keeps the ports of the catheter centered in the superior vena cava and away from the vein walls.
- *DURA-FLOW™*. The DURA-FLOW chronic dialysis catheter is designed to be durable, maximize flow rates and provide for easier care and site maintenance. The Dura-Flow chronic dialysis catheter is for long-term use.
- *SCHON XL®*. The SCHON XL acute dialysis catheter is designed to be kink resistant, deliver high flow rates, offer versatile positioning and provide patient comfort. SCHON XL is for short-term use.
- *DYNAMIC FLOW™*. Our DYNAMIC FLOW chronic dialysis catheter is designed for long-term use in dialysis patients. It features a Durathane shaft that offers higher chemical resistance than polyurethane, simplifying site care requirements. The Dynamic Flow also features a split tip design and a proximal shaft that reduces the chance of kinking after it reaches placement.
- *LIFEJET® F*-16. The LIFEJET F-16 chronic dialysis catheter features the largest lumens available. This facilitates high flow rates while keeping arterial and venous pressures low.
- *CIRCLE C®*. The *CIRCLE C* design provides the industry with smaller diameter catheters engineered to deliver efficient flow rate with minimal invasiveness for dialysis of apheresis.

We purchase from Medical Components, Inc., or Medcomp, and resell under our name our Schon, Schon XL, and Dura-Flow dialysis catheters under an exclusive worldwide license. We also purchase our Dynamic Flow catheters under a non-exclusive license from Medcomp. We purchase our Centros catheter from another outside manufacturer.

Vascular Access Products

Image-guided vascular access, or IGVA, involves the use of advanced imaging equipment to guide the placement of catheters that deliver primarily short-term drug therapies, such as chemotherapeutic agents and antibiotics, into the central venous system. Delivery to the circulatory system allows drugs to mix with a large volume of blood as compared to intravenous drug delivery into a superficial vessel. IGVA procedures include the placement of peripherally inserted central catheter, or PICC lines, implantable ports and central venous catheters, or CVCs.

Our vascular access products include:

- *MORPHEUS® CT PICC.* These PICC lines provide short- or long- term peripheral access to the central venous system for intravenous therapy and blood sampling. They are constructed of a biocompatible and durable material called Durathane, and have increased stiffness from the proximal end to the distal end, which provides ease of use and enhanced patient safety and comfort. These products are intended for use with CT injectors, allowing physicians to use the existing PICC for both medications and CT imaging, thus avoiding the need for an additional access site.
- *MORPHEUS® CT PICC Insertion Kit.* In May 2006, we introduced our insertion kit, which allows our Morpheus CT PICC to be inserted at a patient's bedside instead of in the hospital radiology suite. The kit was specifically designed for interventional radiologists, nurse practitioners, physician assistants and radiology technicians who perform placement of PICC lines.
- *Micro Access Sets*. Our micro access sets provide interventional physicians a smaller introducer system for minimally invasive procedures.
- *Transjugular Access Set.* Our transjugular liver access set is used to provide access in a transjugular intrahepatic portosystemic shunt (TIPS) procedure. A TIPS procedure involves placing a shunt in the liver between the hepatic and portal veins. This relieves the pressure on the portal system in an effort to resolve the bleeding complications often encountered in end-stage liver failure.
- *Specialty Access Ports.* Specialty access ports are implantable devices utilized for the central venous administration of a variety of medical therapies and for blood sampling and diagnostic purposes. Central venous access facilitates a more systemic delivery of treatment agents, while mitigating certain of the harsh side effects of certain treatment protocols and eliminating the need for repeated access to peripheral veins. Once implanted in the body, a port can be utilized for up to approximately 2,000 accesses depending upon needle gauge size and the port size. Our specialty access ports are used primarily in systemic or regional short and long-term cancer treatment protocols that require frequent infusions of highly concentrated or toxic medications (such as chemotherapy agents, antibiotics or analgesics) and frequent blood samplings. This product line consists of the following families of products: (i) the Vortex family of ports including Vortex VTX, LifePort VTX, Triumph ™ VTX and Genesis ™ VTX; (ii) LifePort; (iii) Triumph-1; (iv) Infuse-a-Port; (v) OmegaPort; (vi) TitanPort; and (vii) the Vortex MP Port system.
- Our Vortex® line of ports is a clear-flow port technology that, we believe, revolutionized port design. With its rounded chamber, the Vortex® is designed to have no sludge-harboring corners or dead spaces. This contrasts to conventional ports where a squared reservoir design promotes sludge accumulation setting the stage for occlusions and infections. A tangential stem adds to the flow dynamics, which is designed to result in a hyper-cleaning flow process to remove blood deposits and drug residuals.
- *The LifeGuard™ Safety Infusion Set* and *The LifeGuard Vision™* are used to infuse our ports and complement our port and vascular access catheters. The innovative design of these products was developed with the input of clinicians to provide safer needle placements, and the needles' low profile design is intended to allow clinicians to easily dress the site. We believe that the ease of use and visual confirmation of safety is ideal in the clinical setting.

- *Neostar®*. The Neostar® Tunneled Central Venous Catheters are among the most well known and trusted names in catheters. The central venous catheters are intended for long-term vascular access, suitable for chemotherapy, infusion of intravenous fluids or drugs parental nutrition, transfusion or sampling blood products. With single, double and triple lumen configurations, one-piece Y-hubs for mirror smooth transition points and complete tray availability, the Neostar® is an excellent choice for valued patients.
- *LifeValve® Platinum*. The LifeValve® central venous catheter incorporates the only technology that features two separate areas for aspiration and infusion for more reliable operation and fewer interventions. The patented "Duckbill" infusion valve is designed to reduce incidence of blood back flow resulting in improved performance. A stiffening stylet and a rounded atraumatic tip facilitate passage into the vessel while the over-the-guidewire feature is engineered to reduce procedure time and complexity.

Venous Products

Our venous products consist of our VenaCure® products and Sotradecol®.

Our VenaCure products are used in endovascular laser procedures to treat superficial venous disease (varicose veins). Superficial venous disease is a malfunction of one or more valves in the leg veins. These procedures are a less invasive alternative to vein stripping for the treatment of this condition. Vein stripping is a lengthy, painful and traumatic surgical procedure that involves significant patient recovery time. In contrast, venous laser treatment is an outpatient procedure that generally allows the patient to quickly return to normal activities with no scarring and minimal post-operative pain.

With our VenaCure NeverTouch® products, laser energy is used to stop the source of the pressure by ablating, or collapsing and destroying, the affected vein. The body subsequently routes the blood to other healthy veins. Our products are sold as a system that includes a diode laser with our NeverTouch disposable components, training and marketing materials. The diode laser is a self-contained reusable instrument. The disposable components in the system include a NeverTouch laser fiber system, an access sheath, access wires and needles. The training and marketing materials include a two-day physician training course, a comprehensive business development package and patient marketing kit.

An important part of our focus on the peripheral vascular disease market is the treatment of varicose veins. With an estimated one-half of all Americans over the age of 60 suffering from varicose veins, the market for this treatment is large and growing. We believe that Sotradecol®, a sclerosing drug approved by the FDA that we introduced in November 2005, combined with our currently available precision drug-delivery catheter technology, such as UNI*FUSE™, will become an important method of treating varicose veins. Sotradecol has been shown to be an effective treatment of small, uncomplicated varicose veins of the lower extremities, in addition to ablation of the great saphenous vein. Catheter-directed sclerotherapy has the advantages of requiring no investment in capital equipment and requires no local anesthesia because it is virtually pain free. We believe that laser-based treatment systems will continue to be an important part of the vein treatment market in the United States for some time, but that laser treatments may eventually be eclipsed by catheter-directed sclerotherapy, as has occurred in Europe. This approach to treating varicose veins has the potential for greater intellectual property protection than our laser-based VenaCure products and, most importantly, can be incorporated with some of our existing patented products. Bioniche Pharma Group Limited has appointed us the exclusive distributor to all "persons" in the United States, which may include hospital pharmacies, group purchasing organizations and wholesalers, as well as all physicians, for use in treating varicose veins or other approved vascular indications. Sotradecol is the only FDA-approved sodium tetradecyl sulfate injection currently available in the United States.

PTA Products

PTA (percutaneous transluminal angioplasty) procedures are used to open blocked blood vessels and dialysis access sites using a catheter that has a balloon at its tip. When the balloon is inflated, the pressure flattens

the blockage against the vessel wall to improve blood flow. PTA is now the most common method for opening a blocked vessel in the heart, legs, kidneys or arms.

Our PTA dilation balloon catheters include:

- *WORKHORSE®*. Our WORKHORSE product is a high-pressure balloon catheter offered in 54 configurations. While the WorkHorse can perform other peripheral PTA procedures, we believe the device is used primarily for treating obstructed dialysis access sites.
- *WORKHORSE® II*. The WORKHORSE II is a high-pressure, non-compliant PTA balloon catheter. This product is an extension to our WORKHORSE PTA catheter, with enhanced WORKHORSE features to improve product performance during declotting procedures for dialysis access sites.
- *PROFILER®*. The PROFILER is a low profile, high-visibility balloon catheter that features a soft, radiopaque, tapered tip and a flexible, non-kinking catheter shaft with exceptional pushability. The low profile of the PROFILER opens access to small vessels and tortuous anatomy and is available with multiple balloon sizes and catheter lengths.

Thrombolytic Products

Thrombolytic catheters are used to deliver thrombolytic agents, which are drugs that dissolve blood clots in hemodialysis access grafts, arteries, veins and surgical bypass grafts. Our thrombolytic catheters include:

- *PULSE*SPRAY® and UNI*FUSE catheters.* Our PULSE*SPRAY and UNI*FUSE catheters improve the delivery of thrombolytic agents by providing a controlled, forceful and uniform dispersion. Patented slits on the infusion catheter operate like tiny valves for an even distribution of thrombolytic agents. We believe that these slits reduce the amount of thrombolytic agents and the time necessary for these procedures, resulting in cost savings and improved patient safety.
- *SPEEDLYSER®*. Our SPEEDLYSER thrombolytic catheter is used to deliver thrombolytic agents into obstructed dialysis grafts. This catheter features *PULSE *SPRAY* slit technology that simplifies catheter insertion and drug delivery.

Drainage Products

Drainage products percutaneously drain abscesses and other fluid pockets. An abscess is a tender inflamed mass that typically must be drained by a physician.

Our line of drainage products consists of our TOTAL ABSCESSION® general drainage catheters, which we introduced in December 2005, and ABSCESSION® general and biliary drainage catheters. These products feature our proprietary soft catheter material, which is designed for patient comfort. These catheters also recover their shape even if bent or severely deformed when patients roll over and kink the catheters during sleep. Our TOTAL ABSCESSION general drainage catheter features a tamper-resistant locking mechanism known as the VAULT®. This locking mechanism eliminates the need to replace drainage catheters that become unlocked during routine use, thus reducing physician time and increasing patient comfort. The TOTAL ABSCESSION catheter permits aspiration while locked or unlocked thus allowing more accurate placement and greater versatility for draining complex situations.

ONCOLOGY PRODUCTS

Oncology products consist of Radiofrequency Ablation products, Embolization Products and the recently introduced NanoKnife product line.

Radiofrequency Ablation Products

Radiofrequency Ablation (RFA) products use radiofrequency energy to provide a minimally invasive approach to ablating solid cancerous or benign tumors. Our system delivers radiofrequency energy to raise the temperature of cells above 45 to 50 degrees Celsius, causing cellular death.

The physician inserts the disposable needle electrode device into the target body tissue, typically under ultrasound, computed tomography or magnetic resonance imaging guidance. Once the device is inserted, pushing on the handle of the device causes a group of curved wires to be deployed from the tip of the electrode. When the power is turned on, these wires deliver radiofrequency energy throughout the tumor. In addition, temperature sensors on the tips of the wires measure tissue temperature throughout the procedure. During the procedure, our system automatically adjusts the amount of energy delivered in order to maintain the temperature necessary to ablate the targeted tissue. For a typical five centimeter ablation using our Starburst XLie disposable device, the ablation process takes approximately ten minutes. When the ablation is complete, pulling back on the handle of the device causes the curved wire array to be retracted into the device so it can be removed from the body. Our disposable device cauterizes the tissue along the needle tract, which we believe kills any residual cancer cells that might be removed from the tumor.

Benefits of the RFA System

The benefits of our system include:

- *Effective Treatment Option*. We believe that our system provides an effective treatment option to liver cancer patients who previously had few options available to effectively address their unresectable liver tumors. Further, our system provides an effective treatment option for patients whose tumors have metastasized to the bone and cause pain that cannot be adequately relieved by other means. In the future, our system may offer patients with other types of tumors a similar treatment option.
- *Minimally Invasive Procedure.* The RFA system offers physicians an effective minimally invasive treatment option with few side effects or complications. Our products can be used in an outpatient procedure that requires only local anesthesia, and patients are typically sent home the same day with a small bandage over the entry site. Alternatively, patients can be treated with just an overnight hospital stay either through a small wound in the skin or laparoscopically through several small incisions. Compared to existing alternatives, we believe our minimally invasive procedure is cost effective and can result in reduced hospital stays.
- *Proprietary Array Design and Temperature Feedback Provide Procedural Control.* Our array design enables the physician to predictably ablate large volumes of targeted tissue. In addition, our temperature feedback feature allows physicians to ensure that the temperature is high enough at the electrode to achieve cell death.
- *Repeat Treatments Possible.* Cancer is most often a recurrent disease. However, due to the invasive nature of other treatment options, such as surgery, the majority of patients who undergo traditional therapies cannot be retreated in the event that new tumors appear or previously treated tumors reappear. Because of the minimally invasive nature of our procedure, patients treated with our RFA system can often be retreated.
- *Broadly Applicable Technology*. Our significant clinical experience with liver tumors and bone tumors as well as feasibility studies in other organs indicates that our technology may in the future be broadly applied to the ablative treatment of solid tumors in the lung, breast, uterus, prostate and kidney.

While there are numerous benefits of our system, there are some side effects of treatment as well. Published reports on the use of the RFA system indicate low overall complication rates. These include ground-pad burns, which are burns that can occur when there is a concentration of heat at the ground-pad site, bleeding, abscesses and, in cases involving the treatment of bone tumors, fractures and nerve damage. Studies have also shown some recurrence of tumors following treatment with our system. However, in many cases where tumors recur, our procedure can often be repeated. In rare cases, unintentional physician misuse of our system has resulted in patient deaths.

Radiofrequency Ablation Product Technology

Our radiofrequency ablation products are based on proprietary technology used to ablate tissue in a controlled manner. A radiofrequency generator supplies energy through our disposable device placed within the targeted tissue. Our devices contain curved, space-filling arrays of wires which are deployed from the tip to allow the radiofrequency energy to be dispersed throughout the tumor.

Radiofrequency energy supplied by the generator produces ionic agitation, or cellular friction, in the tissue closely surrounding the electrode. This friction produces heat that can be used to predictably ablate volumes of tissue. To effectively ablate tissue, it must be heated to an approximate temperature of 45° to 50°C, or 113° to 122°F.

Our system is designed to permit the physician to set the desired treatment time and temperature at the beginning of the procedure. Once that temperature is reached, our proprietary temperature control technology automatically adjusts the energy supplied from the generator to maintain the optimal temperature within the tissue during the course of the procedure. We believe our system has the potential to provide a more effective ablation than competing technologies by providing critical tissue temperature feedback during the procedure.

Some of our products make use of saline to enhance the ablation process. This saline is used to irrigate the ablation site and is delivered through the curved array of wires in our devices. The use of saline can significantly increase the speed of the ablation treatment and permits ablation of larger tumors.

The RFA system consists of a radiofrequency generator and a family of disposable devices. We also market the HABIB 4X® resection device under a distribution agreement with EMcision Limited.

	Product Name	Description
Disposable Electrodes:	StarBurst	Creates a scalable 2 to 3 centimeter ablation.
	StarBurst XL	Creates a scalable 3 to 5 centimeter ablation.
	StarBurst SDE	Creates a 2 centimeter ablation, via a side-deployed array.
	StarBurst Semi-Flex	Creates a scalable 3 to 5 centimeter ablation and has a partially flexible shaft.
	StarBurst XLie	Creates a scalable 4 to 7 centimeter ablation. Requires an accessory infusion pump for irrigation of saline. Attached tubing standard.
	StarBurst Talon: Straight	Creates a scalable 2 to 4 centimeter ablation. Requires an accessory infusion pump for irrigation of saline.
	StarBurst Talon: Semi-Flex	Creates a scalable 2 to 4 centimeter ablation. Requires an accessory infusion pump for irrigation of saline.
Resection Device:	HABIB® 4X	Surgical resection device.
Generators:	Model 1500X	250 Watt Capable Generator with Field-Software Upgradeability.

RFA Disposable Electrodes

Our RFA disposable electrodes all consist of needle shaped electrodes containing curved wire arrays that are deployed into the targeted body tissue. Each device contains several thermocouples, or temperature sensors, which provide feedback to the physician of the tissue temperature during the ablation and which allow the generator to automatically adjust the amount of radiofrequency energy so that the desired tissue temperature can be achieved.

Our RFA disposable electrodes are available in different array sizes to allow the physician to create a spherical ablation volume of anywhere from two to seven centimeters. In addition, depending on product line, the devices are available in 10, 12, 15 or 25 centimeter lengths to allow physicians to access tumors that are located

more or less deeply within the body. Each RFA disposable device is supplied with one or more ground pads to allow a return path for the flow of radiofrequency energy from the patient back to the generator.

RF Resection Device

We have an exclusive worldwide license with EMcision Limited to sell the HABIB® 4X bipolar radiofrequency resection device. This product is designed to coagulate a "surgical resection plane" to facilitate a fast dissection with limited blood loss. It is compatible with our Model 1500 and Model 1500X radiofrequency generators.

RFA Generators

All of our generators employ an internal computer to assist the physician in safely and effectively controlling the delivery of radiofrequency during ablation or surgical resection procedures. In addition, each generator has a display to convey information to the physician while using the system. Our Model 1500X generators have the ability, using a laptop computer, to display real-time, color-coded graphs of items such as power, and temperature and impedance to aid the user in controlling the system and to collect procedural information for the patient's record. These generators are designed to have their software changed in the field through the insertion of a small card containing electronic memory circuits.

Embolization Products

LC Beads are compressible, visibly-tinted N-fil Hydrogel microspheres supplied in convenient pre-prepared single vials. Embolic material is injected into selected vessels to block the blood flow feeding the tumor or malformation, causing it to shrink over time.

Features

Proven Material—A sulfonate modified N-fil Hydrogel microsphere.

Enhanced Visual Verification—Tinted beads for immediate enhanced visualization prior to delivery.

Optimal Sizes—Industry standard size ranges for ease in selectivity of bead sizes and a wide array of calibrated bead sizes designed to ensure precise match to targeted vessels.

Convenient Configuration—Provided in a pre-prepared vial of embolic/saline solution; designed to minimize preparation time. Sold in single vials to allow users the option of choosing an exact desired quantity.

NanoKnife Products

Our recently introduced NanoKnife™ product is AngioDynamics' first application of irreversible electroporation technology (IRE). IRE is a surgical resection technique in which electrical fields are used to create nano-scale defects in a cell's membrane, which causes cell death only in the targeted tissue, without destroying critical structures such as ducts, blood vessels and nerves. NanoKnife is a surgical resection system that uses electrode probes to transmit energy from its generator to a target area. NanoKnife works in two-pole operating mode and up to six electrodes can be placed at a fixed distance apart in soft tissue to create several two-pole electrode configurations. NanoKnife allows the user to choose between predefined target area configurations or customized settings and is designed to provide clinical practices with precision and speed.

Research & Development

Our future success will depend in part on our ability to continue to develop new products and enhance existing products. We recognize the importance of, and intend to continue to make investments in, research and development. For fiscal 2008, 2007 and 2006, our research and development ("R&D") expenditures were $14.4

million, $20.6 million and $5.9 million, respectively, and constituted 8.7%, 18.3% and 7.5%, respectively, of net sales. A significant portion of our R&D expenses in 2007 related to a charge of $12.1 million for in-process R&D required under purchase accounting rules from our acquisition of RITA. Without this charge, our R&D expenses were approximately 7.5% of net sales. R&D activities include research, product development and regulatory affairs. We expect that our R&D expenditures will be approximately 10% of net sales in fiscal 2009 and remain in the range of 8 to 10% of net sales thereafter. However, downturns in our business could cause us to reduce our R&D spending.

Our research and product development teams work closely with our sales force to incorporate customer feedback into our development and design process. We believe that we have a reputation among interventional physicians as a good partner for product development because of our tradition of close physician collaboration, dedicated market focus, responsiveness and execution capabilities for product development and commercialization.

Competition

We encounter significant competition across our product lines and in each market in which our products are sold. These markets are characterized by rapid change resulting from technological advances and scientific discoveries. We face competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of products. In addition, we compete with providers of other medical therapies, such as pharmaceutical companies, that may offer non-surgical therapies for conditions that currently, or in the future may be treated using our products. Our primary device competitors include: Boston Scientific Corporation; Cook Medical; Cordis Corporation, a subsidiary of Johnson & Johnson, Inc.; C.R. Bard; Medcomp; Radionics, a division of Integra LifeSciences Corporation; Arrow, International; Deltec, Inc., a subsidiary of Smiths Group plc; EV3, Inc.; Kendall Healthcare, a subsidiary of Covidien; Dornier MedTech GmbH; Vascular Solutions and VNUS Medical. Medcomp supplies us with most of our dialysis catheters, but also competes with us by selling Dynamic Flow catheters, which we buy from them on a non-exclusive basis, and other dialysis catheters that we do not license from them. Many of our competitors have substantially greater financial, technological, research and development, regulatory, marketing, sales and personnel resources than we do. Competitors may also have greater experience in developing products, obtaining regulatory approvals, and manufacturing and marketing such products. Additionally, competitors may obtain patent protection or regulatory approval or clearance, or achieve product commercialization, before us, any of which could materially adversely affect us.

We believe that our products compete primarily on the basis of their quality, ease of use, reliability, physician familiarity and cost-effectiveness. Generally, our products are sold at higher prices than those of our competitors. In the current environment of managed care, which is characterized by economically motivated buyers, consolidation among healthcare providers, increased competition and declining reimbursement rates, we have been increasingly required to compete on the basis of price. We believe that our continued competitive success will depend upon our ability to develop or acquire scientifically advanced technology, apply our technology cost-effectively across product lines and markets, develop or acquire proprietary products, attract and retain skilled development personnel, obtain patent or other protection for our products, obtain required regulatory and reimbursement approvals, manufacture and successfully market our products either directly or through outside parties and maintain sufficient inventory to meet customer demand.

Sales and Marketing

We focus our sales and marketing efforts on interventional radiologists, vascular surgeons, and interventional and surgical oncologists. There are over 5,000 interventional radiologists, 2,000 vascular surgeons, and 2,000 interventional and surgical oncologists in the United States. We seek to educate these physicians on the clinical efficacy, performance, ease of use, value and other advantages of our products.

We also involve ourselves in assisting interventional physicians with clinical practice building for outpatient interventional procedures. This can include outpatient practices in uterine fibroid embolization (UFE), vein, dialysis access management, tumor ablation, pain management and broad based interventional procedures.

We promote our products through medical society meetings that are attended by interventional radiologists, vascular surgeons, interventional cardiologists, interventional nephrologists, interventional oncologists and others. Our attendance at these meetings is one of our most important methods of communicating with our customers. At these meetings, we receive direct feedback from customers and present new ideas and products. Our attendance at these meetings also reflects our support and commitment to the medical societies, as these societies rely on industry participation and support in order to effectively hold these meetings.

Backlog

Historically, we ship 95% of products sold in the United States within 48 hours of receipt of the orders, and accordingly our backlog is not significant.

Manufacturing

We own a manufacturing, administrative, engineering and warehouse facility of approximately 104,000 square feet in Queensbury, New York. We also lease a manufacturing facility of approximately 60,000 square feet located in Manchester, Georgia. We believe these facilities have sufficient capacity to meet our anticipated manufacturing needs for the next five years.

We manufacture certain proprietary components and products and assemble, inspect, test and package our finished products. By designing and manufacturing many of our products from raw materials, and assembling and testing our subassemblies and products, we believe that we are able to maintain better quality control, ensure compliance with applicable regulatory standards and our internal specifications, and limit outside access to our proprietary technology. We have custom-designed proprietary manufacturing and processing equipment and have developed proprietary enhancements for existing production machinery.

Our management information system includes order entry, invoicing, on-line inventory management, lot traceability, purchasing, shop floor control and shipping and distribution analysis, as well as various accounting-oriented functions. This system enables us to track our products from the inception of an order through all parts of the manufacturing process until the product is delivered to the customer.

We purchase components from third parties. Most of our components are readily available from several supply sources. We also purchase finished products from third parties. One supplier, Medcomp, currently supplies most of our dialysis catheters. Medcomp products accounted for approximately 11% of our net sales for fiscal 2008. To date, we have been able to obtain adequate supplies of all product and components in a timely manner from existing sources.

In fiscal 2008, 73% of our net sales were derived from products we manufactured or assembled ourselves, with the balance being derived from products manufactured for us by third parties. Our Queensbury and Manchester facilities are registered with the FDA and have been certified to ISO 13485 standards, as well as the CMD/CAS Canadian Medical Device Regulations. ISO 13485 is a quality system standard that satisfies European Union regulatory requirements, thus allowing us to market and sell our products in European Union countries. If we were to lose this certification, we would no longer be able to sell our products in these countries until we made the necessary corrections to our operations or satisfactorily completed an alternate European Union approval route that did not rely on compliance with quality system standards. Our manufacturing facilities are subject to periodic inspections by regulatory authorities to ensure compliance with domestic and non-U.S. regulatory requirements. See “Government Regulation.”

Intellectual Property

As of June 30, 2008, we owned 160 U.S. patents, 85 pending US applications, and 244 foreign issued and pending patents. We also own 38 US registered trademarks and 47 common law trademarks, of which 17 are pending. There are currently 35 registered international trademarks.

We believe that our success is dependent, to a large extent, on patent protection and the proprietary nature of our technology. We intend to continue to file and prosecute patent applications for our technology in jurisdictions where we believe that patent protection is effective and advisable, generally in the United States and other appropriate jurisdictions.

Notwithstanding the foregoing, the patent positions of medical device companies, including our company, are uncertain and involve complex and evolving legal and factual questions. The coverage sought in a patent application can be denied or significantly reduced either before or after the patent is issued. Consequently, there can be no assurance that any of our pending patent applications will result in an issued patent. There is also no assurance that any existing or future patent will provide significant protection or commercial advantage, or whether any existing or future patent will be circumvented by a more basic patent, thus requiring us to obtain a license to produce and sell the product. Generally, patent applications can be maintained in secrecy for at least 18 months after their earliest priority date. In addition, publication of discoveries in the scientific or patent literature often lags behind actual discoveries. Therefore, we cannot be certain that we were the first to invent the subject matter covered by each of our pending U.S. patent applications or that we were the first to file non-U.S. patent applications for such subject matter.

If a third party files a patent application relating to an invention claimed in our patent application, we may be required to participate in an interference proceeding declared by the U.S. Patent and Trademark Office to determine who owns the patent. Such proceeding could involve substantial uncertainties and cost, even if the eventual outcome is favorable to us. There can be no assurance that our patents, if issued, would be upheld as valid in court.

Third parties may claim that our products infringe on their patents and other intellectual property rights. Some companies in the medical device industry have used intellectual property infringement litigation to gain a competitive advantage. If a competitor were to challenge our patents, licenses or other intellectual property rights, or assert that our products infringe its patent or other intellectual property rights, we could incur substantial litigation costs, be forced to make expensive changes to our product designs, license rights in order to continue manufacturing and selling our products, or pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume our financial resources but also divert our management’s time and effort. Such claims could also cause our customers or potential customers to defer or limit their purchase or use of the affected products until resolution of the claim.

In January 2004, Diomed filed an action against us alleging that our VenaCure products for the treatment of varicose veins infringed a patent held by Diomed for a laser system that competes with our VenaCure products. In March 2007, a jury ruled in Diomed’s favor and awarded compensatory damages totaling $9.71 million following an initial appeal. On July 2, 2007, the judge for the Federal District in Boston, Massachusetts, issued an injunction prohibiting us from selling our original bare fiber VenaCure product. We disputed the infringement verdict on multiple grounds and on June 20, 2007, filed an appeal in the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. On March 14, 2008, Diomed commenced Chapter 11 bankruptcy proceedings. On April 2, 2008, we entered into a settlement agreement with Diomed and we paid $7 million resolving the patent disputes. As a result of the settlement, in our fiscal third quarter we reduced our litigation provision and recorded a gain, net of costs, of approximately $3.2 million pre-tax, $2.0 million after tax, an impact of $0.08 in earnings per share.

In October 2005, VNUS Medical Technologies filed an action against us, Diomed and another defendant alleging, among other things, that the manufacture, use and sale of our VenaCure products infringed several patents held by VNUS and seeking injunctive relief and compensatory and treble damages, reasonable attorney’s fees, costs and pre-judgment interest. On June 3, 2008, we entered into an agreement with VNUS settling all patent litigation between us and VNUS. Under the terms of the settlement agreement, we paid VNUS approximately $6.8 million in June 2008 and agreed to pay a quarterly royalty on our U.S. sales of our

NeverTouch™ and VenaCure® and Diomed products from June 1, 2008 until the expiration date of VNUS' applicable patents. In exchange, VNUS granted us a non-exclusive and non-sublicensable license to VNUS' applicable patents for use in endovenous laser therapy.

See Item 3 of this report for additional details.

We rely on trade secret protection for certain unpatented aspects of our proprietary technology. There can be no assurance that others will not independently develop or otherwise acquire substantially equivalent proprietary information or techniques, that others will not gain access to our proprietary technology or disclose such technology, or that we can meaningfully protect our trade secrets. We have a policy of requiring key employees and consultants to execute confidentiality agreements upon the commencement of an employment or consulting relationship with us. Our confidentiality agreements also require our employees to assign to us all rights to any inventions made or conceived during their employment with us. We also generally require our consultants to assign to us any inventions made during the course of their engagement by us. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for us in the event of unauthorized use, transfer or disclosure of confidential information or inventions.

The laws of foreign countries generally do not protect our proprietary rights to the same extent, as do the laws of the United States. In addition, we may experience more difficulty enforcing our proprietary rights in certain foreign jurisdictions.

Government Regulation

The products we manufacture and market are subject to regulation by the FDA under the Federal Food, Drug, and Cosmetic Act, or FDCA, and, in some instances, state authorities and foreign governments.

United States FDA Regulation

Before a new medical device can be introduced into the market, a manufacturer generally must obtain marketing clearance or approval from the FDA through either a 510(k) submission (a premarket notification) or a premarket approval application, or PMA.

The 510(k) procedure is less rigorous than the PMA procedure, but is available only in particular circumstances. The 510(k) clearance procedure is available only if a manufacturer can establish that its device is "substantially equivalent" in intended use and in safety and effectiveness to a "predicate device," which is a legally marketed device with 510(k) clearance in class I or II or grandfather status based upon commercial distribution on or before May 28, 1976. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. The 510(k) clearance procedure generally takes from four to 12 months from the time of submission, but may take longer. In some cases, supporting clinical data may be required. The FDA may determine that a new or modified device is not substantially equivalent to a predicate device or may require that additional information, including clinical data, be submitted before a determination is made, either of which could significantly delay the introduction of new or modified device products. If a product does not satisfy the criteria of substantial equivalence, it is placed in class III and premarket approval is required prior to the introduction of that product into the market.

The PMA application procedure is more comprehensive than the 510(k) procedure and typically takes several years to complete. The PMA application must be supported by scientific evidence providing pre-clinical and clinical data relating to the safety and efficacy of the device and must include other information about the device and its components, design, manufacturing and labeling. The FDA will approve a PMA application only if a reasonable assurance that the device is safe and effective for its intended use can be provided. As part of the PMA application review, the FDA will inspect the manufacturer's facilities for compliance with its Quality System Regulation, or QSR. As part of the PMA approval the FDA may place restrictions on the device, such as

requiring additional patient follow-up for an indefinite period of time. If the FDA's evaluation of the PMA application or the manufacturing facility is not favorable, the FDA may deny approval of the PMA application or issue a "not approvable" letter. The FDA may also require additional clinical trials, which can delay the PMA approval process by several years. After the PMA is approved, if significant changes are made to a device, its manufacturing or labeling, a PMA supplement containing additional information must be filed for prior FDA approval.

Historically, our products have been introduced into the market using the 510(k) procedure and we have never had to use the more rigorous PMA procedure.

The FDA clearance and approval processes for a medical device are expensive, uncertain and lengthy. There can be no assurance that we will be able to obtain necessary regulatory clearances or approvals for any product on a timely basis or at all. Delays in receipt of or failure to receive such clearances or approvals, the loss of previously received clearances or approvals, or the failure to comply with existing or future regulatory requirements could have a material adverse effect on our business, financial condition and results of operations.

After a product is placed on the market, the product and its manufacturer are subject to pervasive and continuing regulation by the FDA. The FDA enforces these requirements by inspection and market surveillance. Our suppliers also may be subject to FDA inspection. We must therefore continue to spend time, money and effort to maintain compliance. Among other things, we must comply with the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur. We must also comply with the FDA's corrections and removal reporting regulation, which requires that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by a device or to remedy a violation of the FDCA that may present a risk to health. The labeling and promotion activities for devices are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. The FDA actively enforces regulations prohibiting the marketing of devices for unapproved new uses.

The devices manufactured by us also are subject to the QSR, which imposes elaborate testing, control, documentation and other quality assurance procedures. Every phase of production, including raw materials, components and subassemblies, manufacturing, testing, quality control, labeling, tracing of consignees after distribution and follow-up and reporting of complaint information is governed by the FDA's QSR. Device manufacturers are required to register their facilities and list their products with the FDA and certain state agencies. The FDA periodically inspects manufacturing facilities and, if there are alleged violations, the operator of a facility must correct them or satisfactorily demonstrate the absence of the violations or face regulatory action.

We are subject to inspection and marketing surveillance by the FDA to determine our compliance with all regulatory requirements. Recently, the FDA has placed an increased emphasis on enforcement of the QSR and other postmarket regulatory requirements. Non-compliance with applicable FDA requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the FDA to disallow us to enter into government contracts, and criminal prosecutions. The FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by us.

Other

We and our products are also subject to a variety of state and local laws in those jurisdictions where our products are or will be marketed, and Federal, state and local laws relating to matters such as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. For example, we are registered with the Office of the Professions of the

New York State Department of Education. We are also subject to various Federal and state laws governing our relationships with the physicians and others who purchase or make referrals for our products. For instance, Federal law prohibits payments of any form that are intended to induce a referral for any item payable under Medicare, Medicaid or any other Federal healthcare program. Many states have similar laws. There can be no assurance that we will not be required to incur significant costs to comply with such laws and regulations now or in the future or that such laws or regulations will not have a material adverse effect upon our ability to do business.

Non-U.S. Regulation

Internationally, all of our current products are considered medical devices under applicable regulatory regimes, and we anticipate that this will be true for all of our future products. Sales of medical devices are subject to regulatory requirements in many countries. The regulatory review process may vary greatly from country to country. For example, the European Union has adopted numerous directives and standards relating to medical devices regulating their design, manufacture, clinical trials, labeling and adverse event reporting. Devices that comply with those requirements are entitled to bear a Conformité Européenne, or CE Mark, indicating that the device conforms with the essential requirements of the applicable directives and can be commercially distributed in countries that are members of the European Union.

In some cases, we rely on our non-U.S. distributors to obtain regulatory approvals, complete product registrations, comply with clinical trial requirements and complete those steps that are customarily taken in the applicable jurisdictions.

Non-U.S. sales of medical devices manufactured in the United States that are not approved or cleared by the FDA for use in the United States, or are banned or deviate from lawful performance standards, are subject to FDA export requirements. Before exporting such products to a foreign country, we must first comply with the FDA's regulatory procedures for exporting unapproved devices.

There can be no assurance that new laws or regulations regarding the release or sale of medical devices will not delay or prevent sale of our current or future products.

Third-Party Reimbursement

United States

Our products are used in medical procedures generally covered by government or private health plans. Accordingly, our sales and the prices we charge for our products depend significantly on the extent to which those third-party payors, such as Medicare, Medicaid and other government programs and private insurance plans, cover our products and the procedures performed with them.

In general, a third-party payor only covers a medical product or procedure when the plan administrator is satisfied that the product or procedure improves health outcomes, including quality of life or functional ability, in a safe and cost-effective manner. Even if a device has received clearance or approval for marketing by the FDA, there is no assurance that third-party payors will cover the cost of the device and related procedures.

In many instances, third-party payors use price schedules that do not vary to reflect the cost of the products and equipment used in performing those procedures. In other instances, payment or reimbursement is separately available for the products and equipment used, in addition to payment or reimbursement for the procedure itself. Even if coverage is available, third-party payors may place restrictions on the circumstances where they provide coverage or may offer reimbursement that is not sufficient to cover the cost of our products. Many competing products are less expensive than ours. Therefore, although coverage may be available for our products and the related procedures, the levels of approved coverage may not be sufficient to justify using our products instead of those of competitors.

Third-party payors are increasingly challenging the prices charged for medical products and procedures and, where a reimbursement model is used, introducing maximum reimbursements for the procedures they cover. We believe that the minimally invasive procedures in which our products are used are generally less costly than open surgery. However, there is no guarantee that these procedures will be reimbursed. Third-party payors may not consider these minimally invasive procedures to be cost-effective and may therefore refuse to authorize coverage.

Third-party payors who cover the cost of medical products or equipment, in addition to allowing a general charge for the procedure, often maintain lists of exclusive suppliers or approved lists of products deemed to be cost-effective. Authorization from those third-party payors is required prior to using products that are not on these lists as a condition of reimbursement. If our products are not on the approved lists, healthcare providers must determine if the additional cost and effort required to obtain prior authorization, and the uncertainty of actually obtaining coverage, is justified by any perceived clinical benefits from using our products.

Finally, the advent of contracted fixed rates per procedure has made it difficult to receive reimbursement for disposable products, even if the use of these products improves clinical outcomes. In addition, many third-party payors are moving to managed care systems in which providers contract to provide comprehensive healthcare for a fixed cost per person. Managed care providers often attempt to control the cost of healthcare by authorizing fewer elective surgical procedures. Under current prospective payment systems, such as the diagnosis related group system and the hospital out-patient prospective payment system, both of which are used by Medicare and in many managed care systems used by private third-party payors, the cost of our products will be incorporated into the overall cost of a procedure and not be separately reimbursed. As a result, we cannot be certain that hospital administrators and physicians will purchase our products, despite the clinical benefits and opportunity for cost savings that we believe can be derived from their use.

If hospitals and physicians cannot obtain adequate reimbursement for our products or the procedures in which they are used, our business, financial condition, results of operations, and cash flows could suffer a material adverse impact.

Non-U.S.

Our success in non-U.S. markets will depend largely upon the availability of reimbursement from the third-party payors through which healthcare providers are paid in those markets. Reimbursement and healthcare payment systems in non-U.S. markets vary significantly by country. The main types of healthcare payment systems are government sponsored healthcare and private insurance. Reimbursement approval must be obtained individually in each country in which our products are marketed. Outside the United States, we generally rely on our distributors to obtain reimbursement approval in the countries in which they will sell our products. There can be no assurance that reimbursement approvals will be received.

Insurance

Our product liability insurance coverage is limited to a maximum of $10,000,000 per product liability claim and an aggregate policy limit of $10,000,000, subject to deductibles of $250,000 per occurrence and $500,000 in the aggregate. The policy covers, subject to policy conditions and exclusions, claims of bodily injury and property damage from any product sold or manufactured by us.

We cannot assure you that this level of coverage is adequate. We may not be able to sustain or maintain this level of coverage and cannot assure you that adequate insurance coverage will be available on commercially reasonable terms or at all. A successful product liability claim or other claim with respect to uninsured or underinsured liabilities could have a material adverse effect on our business.

Environmental

We are subject to Federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain hazardous and potentially hazardous substances used in connection with our operations. Although we believe that we have complied with these laws and regulations in all material respects and, to date, have not been required to take any action to correct any noncompliance, there can be no assurance that we will not be required to incur significant costs to comply with environmental regulations in the future.

Employees

As of May 31, 2008, we had 566 full-time employees, including 321 in manufacturing; 54 in research, product development and regulatory approval/quality assurance; 151 in sales and marketing; and 40 in administration. None of our employees is represented by a labor union, and we have never experienced a work stoppage.

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

Our financial and operating results are subject to a number of factors, many of which are not within our control. These factors include the following:

If we fail to develop or market new products and enhance existing products, we could lose market share to our competitors and our results of operations could suffer.

The market for interventional devices is characterized by rapid technological change, new product introductions, technological improvements, changes in physician requirements and evolving industry standards. To be successful, we must continue to develop and commercialize new products and to enhance versions of our existing products. Our products are technologically complex and require significant research, planning, design, development and testing before they may be marketed. This process generally takes at least 12 to 18 months from initial concept and may take up to several years. In addition, product life cycles are relatively short because medical device manufacturers continually develop smaller, more effective and less expensive versions of existing devices in response to physician demand.

Our success in developing and commercializing new and enhanced versions of our products is affected by our ability to:

- timely and accurately identify new market trends;
- accurately assess customer needs;
- minimize the time and costs required to obtain regulatory clearance or approval;
- adopt competitive pricing;
- timely manufacture and deliver products;
- accurately predict and control costs associated with the development, manufacturing and support of our products; and
- anticipate and compete effectively with our competitors' efforts.

Market acceptance of our products depends in part on our ability to demonstrate that our products are cost-effective and easier to use, as well as offer technological advantages. Additionally, we may experience design, manufacturing, marketing or other difficulties that could delay or prevent our development, introduction or marketing of new versions of our products. As a result of such difficulties and delays, our development expenses may increase and, as a consequence, our results of operations could suffer.

We face intense competition in the medical device industry. We may be unable to compete effectively with respect to technological innovation and price which may have an adverse effect on our revenues, financial condition or results of operations.

The markets for interventional devices are highly competitive, and we expect competition to continue to intensify. We may not be able to compete effectively, and we may lose market share to our competitors. The principal competitors in the markets for our products currently include: Boston Scientific Corporation; Cook Medical; Cordis Corporation, a subsidiary of Johnson & Johnson, Inc.; C.R. Bard Inc.; Radionics, a division of Integra LifeSciences Corporation; Medical Components, Inc., or Medcomp; and VNUS Medical Technologies, Inc. Many of our competitors have substantially greater:

- financial and other resources to devote to product acquisitions, research and development, marketing and manufacturing;
- variety of products;
- technical capabilities;

- history of developing and introducing new products;
- patent portfolios that may present an obstacle to our conduct of business;
- name recognition; and
- distribution networks and in-house sales forces.

Our competitors may succeed in developing technologies and products earlier, in obtaining patent protection or regulatory clearance earlier, or in commercializing new products or technologies more rapidly than us. Our competitors may also develop products and technologies that are superior to those we are developing or that otherwise could render our products obsolete or noncompetitive. In addition, we may face competition from providers of other medical therapies, such as pharmaceutical companies, that may offer non-surgical therapies for conditions that are currently or in the future may be treated using our products. Our products are generally sold at higher prices than those of our competitors. However, in the current environment of managed care, which is characterized by economically motivated buyers, consolidation among healthcare providers, increased competition and declining reimbursement rates, we are increasingly being required to compete on the basis of price. If we are not able to compete effectively, our market share and revenues may decline.

Development and sales of our IRE products are dependent on a number of factors beyond our control, and our inability to successfully complete our research and development, design and marketing strategy with respect to IRE may adversely affect our business, financial condition and results of operations.

A significant aspect of our growth strategy is the development of our IRE products, including NanoKnife. Our IRE products are currently in development and there can be no guarantee that we will be able to develop and manufacture IRE products on commercially favorable terms, or at all. IRE is a developing technology and the inability of IRE to achieve clinical acceptance could severely limit the sales of IRE products.

We currently have FDA 510(k) clearance to market IRE products for soft tissue ablation. If we are not able to secure FDA marketing approval for additional or more specific indications, through 510(k) clearance, pre-market approval or otherwise, our ability to market our IRE products will be restricted which may have an adverse effect on our business, financial condition and results of operations.

We may be exposed to risks associated with acquisitions, including integration risks and risks associated with methods of financing and the impact of accounting treatment. Accordingly, completed acquisitions may not enhance our financial position or results of operations.

Part of our growth strategy is to acquire businesses and technologies that are complementary to ours. We cannot assure you that acquisition opportunities will be available on acceptable terms or at all or that we will be able to obtain necessary financing or regulatory approvals. Any acquisitions that we do undertake would be accompanied by the risks commonly encountered in acquisitions, including the:

- potential disruption of our business while we evaluate opportunities, complete acquisitions and develop and implement new business strategies to take advantage of these opportunities;
- inability of our management to maximize our financial and strategic position by incorporating an acquired technology or business into our existing offerings;
- difficulty of maintaining uniform standards, controls, procedures and policies;
- difficulty of assimilating the operations and personnel of acquired businesses;
- potential loss of key employees of acquired businesses, and the impairment of relationships with employees and customers as a result of changes in management; and
- uncertainty as to the long-term success of any acquisitions we may make.

We cannot assure you that any completed acquisition will be accretive to our margins or profits in the short term or in the long term. If we proceed with one or more significant acquisitions in which the consideration consists of cash, a substantial portion of our available cash, could be used to consummate the acquisitions. If we consummate one or more acquisitions in which the consideration consists of capital stock, our stockholders could suffer significant dilution of their interest in us. In addition, we could incur or assume significant amounts of indebtedness in connection with acquisitions. Further, acquisitions could also result in significant goodwill and/or amortization charges for acquired businesses or technologies.

If we fail to adequately protect our intellectual property rights, we may not be able to generate revenues from new or existing products and our business may suffer.

Our success depends in part on obtaining, maintaining and enforcing our patents, trademarks and other proprietary rights, and our ability to avoid infringing the proprietary rights of others. We take precautionary steps to protect our technological advantages and intellectual property. We rely upon patent, trade secret, copyright, know-how and trademark laws, as well as license agreements and contractual provisions, to establish our intellectual property rights and protect our products. However, no assurances can be made that any pending or future patent applications will result in the issuance of patents, that any current or future patents issued to, or licensed by, us will not be challenged or circumvented by our competitors, or that our patents will not be found invalid.

Additionally, we may not be able to effectively protect our rights in unpatented technology, trade secrets and confidential information. Although we require our new employees, consultants and corporate partners to execute confidentiality agreements, these agreements may not provide effective protection of our information or, in the event of unauthorized use or disclosure, may not provide adequate remedies.

If we are not able to adequately protect our intellectual property, our market share, financial condition and results of operations may suffer.

If third parties claim that our products infringe their intellectual property rights, we may be forced to expend significant financial resources and management time defending against such actions and our financial condition and our results of operations could suffer.

Third parties may claim that our products infringe their patents and other intellectual property rights. Identifying third-party patent rights can be particularly difficult because, in general, patent applications can be maintained in secrecy for at least 18 months after their earliest priority date. Some companies in the medical device industry have used intellectual property infringement litigation to gain a competitive advantage. If a competitor were to challenge our patents, licenses or other intellectual property rights, or assert that our products infringe its patent or other intellectual property rights, we could incur substantial litigation costs, be forced to make expensive changes to our product design, pay royalties or other fees to license rights in order to continue manufacturing and selling our products, or pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume our financial resources but also divert our management’s time and effort. Such claims could also cause our customers or potential customers to purchase competitors’ products or defer or limit their purchase or use of our affected products until resolution of the claim.

In January 2004, Diomed filed an action against us alleging that our VenaCure products for the treatment of varicose veins infringed a patent held by Diomed for a laser system that competes with our VenaCure products. In March 2007, a jury ruled in Diomed’s favor and awarded compensatory damages of $9.71 million. On July 2, 2007, the judge for the Federal District in Boston, Massachusetts, issued an injunction prohibiting us from selling our original bare fiber VenaCure product. We disputed the infringement verdict on multiple grounds and on June 20, 2007, filed an appeal in the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. On March 14, 2008, Diomed commenced Chapter 11 bankruptcy proceedings. On April 2, 2008, we entered into a

settlement agreement with Diomed and paid $7 million to resolve the patent disputes. As a result of the settlement, in our fiscal third quarter we reduced our litigation provision and recorded a gain, net of costs, of approximately $3.2 million pre-tax, $2.0 million after tax, and $0.08 in earnings per share.

In October 2005, VNUS Medical Technologies filed an action against us, Diomed and another defendant alleging, among other things, that the manufacture, use and sale of our VenaCure products infringed several patents held by VNUS and seeking injunctive relief and compensatory and treble damages. On June 3, 2008, we entered into an agreement with VNUS settling all patent litigation between us and VNUS. Under the terms of the settlement agreement, we paid VNUS approximately $6.8 million and agreed to pay a quarterly royalty on our U.S. sales of our NeverTouch™ and VenaCure® products from June 1, 2008 until the expiration date of VNUS' applicable patents. In exchange, VNUS granted us a non-exclusive and non-sublicensable license to VNUS' applicable patents for use in endovenous laser therapy.

We are dependent on single and limited source suppliers which subjects our business and results of operations to risks of supplier business interruptions.

We currently purchase significant amounts of several key products and product components from single and limited source suppliers and anticipate that we will do so for future products as well. For fiscal 2008, approximately 27% of our net sales were derived from sales of products manufactured for us by third parties. Our principal single source supplier, Medcomp, supplies us with most of our dialysis catheters, which accounted for about 11% of our net sales in fiscal 2008. Medcomp also competes with us by selling Dynamic-Flow, a dialysis catheter for which it has not granted us exclusive rights, and other catheters that we do not purchase from them.

Any delays in delivery of or shortages in those or other products and components could interrupt and delay manufacturing of our products and result in the cancellation of orders for our products. Any or all of these suppliers could discontinue the manufacture or supply of these products and components at any time. Due to FDA and other business considerations, we may not be able to identify and integrate alternative sources of supply in a timely fashion or at all. Any transition to alternate suppliers may result in production delays and increased costs and may limit our ability to deliver products to our customers. Furthermore, if we are unable to identify alternative sources of supply, we would have to modify our products to use substitute components, which may cause delays in shipments, increased design and manufacturing costs and increased prices for our products.

If we do not maintain our reputation with interventional physicians, our growth will be limited and our business could be harmed.

Physicians typically influence the medical device purchasing decisions of the hospitals and other healthcare institutions in which they practice. Consequently, our reputation with interventional physicians is critical to our continued growth. We believe that we have built a positive reputation based on the quality of our products, our physician-driven product development efforts, our marketing and training efforts and our presence at medical society meetings. Any actual or perceived diminution in the quality of our products, or our failure or inability to maintain these other efforts, could damage our reputation with interventional physicians and cause our growth to be limited and our business to be harmed.

Our business could be harmed if we lose the services of our key personnel.

Our business depends upon our ability to attract and retain highly qualified personnel, including managerial, sales and technical personnel. We compete for key personnel with other companies, healthcare institutions, academic institutions, government entities and other organizations. We do not have written employment agreements with our executive officers. Our ability to maintain and expand our business may be impaired if we are unable to retain our current key personnel or hire or retain other qualified personnel in the future.

Undetected defects may increase our costs and impair the market acceptance of our products.

Our products have occasionally contained, and may in the future contain, undetected defects. When these problems occur, we must divert the attention of our engineering personnel to address them. We cannot assure you that we will not incur warranty or repair costs, be subject to liability claims for damages related to product defects, or experience manufacturing, shipping or other delays or interruptions as a result of these defects in the future. Our insurance policies may not provide sufficient protection should a claim be asserted. In addition, the occurrence of defects may result in significant customer relations problems and injury to our reputation, and may impair market acceptance of our products.

If a product liability claim is brought against us or our product liability insurance coverage is inadequate, our business could be harmed.

The design, manufacture and marketing of the types of medical devices we sell entail an inherent risk of product liability. Our products are used by physicians to treat seriously ill patients. We have been subject to product liability claims in the past, and patients or customers may in the future bring claims in a number of circumstances and for a number of reasons, including if our products were misused, if a component of our product fails, if their manufacture or design was flawed, if they produced unsatisfactory results or if the instructions for use and operating manuals and disclosure of product related risks for our products were found to be inadequate. In addition, individuals or groups seeking to represent a class may file suit against us. The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, including not only actual damages, but also punitive damages. The magnitude of the potential losses relating to these lawsuits may remain unknown for substantial periods of time.

We carry a product liability policy with limits of $10 million per occurrence and in the aggregate per year, with a $250,000 deductible per incident and an aggregate deductible limit of $500,000 per year. We believe, based on claims made against us in the past, our existing product liability insurance coverage is reasonably adequate to protect us from any liabilities we might incur. However, we cannot assure you that this coverage will be sufficient to satisfy any claim made against us. In addition, we may not be able to maintain adequate coverage at a reasonable cost and on reasonable terms, if at all. Any product liability claim brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing any coverage in the future. Additionally, if one or more product liability claims is brought against us for uninsured liabilities or is in excess of our insurance coverage, our financial condition and results of operations could be negatively impacted. Further, such claims may require us to recall some of our products, which could result in significant costs to us and could divert management’s attention from our business.

Changes in reimbursement levels by governmental or other third-party payors for procedures using our products may cause our revenues to decline.

Our products are purchased principally by hospitals or physicians which typically bill various third-party payors, such as governmental programs (e.g. Medicare, Medicaid and comparable foreign programs), private insurance plans and managed care plans, for the healthcare services provided to their patients. The ability of our customers to obtain appropriate reimbursement for products and services from third-party payors is critical to the success of medical device companies because it affects which products customers purchase and the prices they are willing to pay. Reimbursement varies by country and can significantly impact the acceptance of new technology. Implementation of healthcare reforms in the United States and in other countries may limit, reduce or eliminate reimbursement for our products and adversely affect both our pricing flexibility and the demand for our products. Even when we develop a promising new product, we may find limited demand for the product unless reimbursement approval is obtained from private and governmental third party payors.

Third-party payors have adopted, and are continuing to adopt, a number of healthcare policies intended to curb rising healthcare costs. These policies include:

- controls on government-funded reimbursement for healthcare services and price controls on medical products and services providers;
- challenges to the pricing of medical procedures or limits or prohibitions on reimbursement for specific devices and therapies through other means; and
- the introduction of managed care systems in which healthcare providers contract to provide comprehensive healthcare for a fixed cost per person.

We are unable to predict whether Federal, state or local healthcare reform legislation or regulation affecting our business may be proposed or enacted in the future, or what effect any such legislation or regulation would have on our business. Changes in healthcare systems in the United States or elsewhere in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for these procedures, or adverse decisions relating to our products by administrators of these systems in coverage or reimbursement issues, would have an adverse impact on the acceptance of our products and the prices which our customers are willing to pay for them.

If we cannot obtain and maintain marketing clearance or approval from governmental agencies, we will not be able to sell our products.

Our products are medical devices that are subject to extensive regulation in the United States and in the foreign countries in which they are sold. Unless an exemption applies, each medical device that we wish to market in the United States must receive either 510(k) clearance or premarket approval from the U.S. Food and Drug Administration, or the FDA, before the product can be sold. Either process can be lengthy and expensive. The FDA's 510(k) clearance procedure, also known as "premarket notification," is the process we have used for our current products. This process usually takes from four to 12 months from the date the premarket notification is submitted to the FDA, but may take significantly longer. Although we have obtained 510(k) clearances for our current products, our clearances may be revoked by the FDA if safety or effectiveness problems develop with the devices. The premarket approval process is much more costly, lengthy and uncertain. It generally takes from one to three years from the date the application is submitted to, and filed with, the FDA, and may take even longer. Regulatory regimes in other countries similarly require approval or clearance prior to our marketing or selling products in those countries. We rely on our distributors to obtain regulatory clearances or approvals of our products outside of the United States. If we are unable to obtain additional clearances or approvals needed to market existing or new products in the United States or elsewhere or obtain these clearances or approvals in a timely fashion or at all, or if our existing clearances are revoked, our revenues and profitability may decline.

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

Any modification to an FDA-cleared medical device that could significantly affect its safety or effectiveness, or that would constitute a major change or modification in its intended use, requires a new FDA 510(k) clearance or, possibly, a premarket approval. The FDA requires every manufacturer to make its own determination as to whether a modification requires a new 510(k) clearance or premarket approval, but the FDA may review and disagree with any decision reached by the manufacturer. We have modified aspects of some of our devices since receiving regulatory clearance. We believed that some of these modifications did not require new 510(k) clearance or premarket approval and, therefore, we did not seek new 510(k) clearances or premarket approvals. In the future, we may make additional modifications to our products after they have received FDA clearance or approval and, in appropriate circumstances, determine that new clearance or approval is unnecessary. Regulations in other countries in which we market or sell, or propose to market or sell, our products may also require that we make judgments about changes to our products and whether or not those changes are such that regulatory approval or clearance should be obtained. In the United States and elsewhere, regulatory

authorities may disagree with our past or future decisions not to seek new clearance or approval and may require us to obtain clearance or approval for modifications to our products. If that were to occur for a previously cleared or approved product, we may be required to cease marketing or recall the modified device until we obtain the necessary clearance or approval. Under these circumstances, we may also be subject to significant regulatory fines or other penalties. If any of the foregoing were to occur, our financial condition and results of operations could be negatively impacted.

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

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

Our manufacturing processes and those of some of our suppliers must comply with the FDA's Quality System Regulation, or QSR, which governs the methods used in, and the facilities and controls used for, the design, testing, manufacture, control, quality assurance, installation, servicing, labeling, packaging, storage and shipping of medical devices. The FDA enforces the QSR through unannounced inspections. If we or one of our suppliers fails a QSR inspection, or if a corrective action plan adopted by us or one of our suppliers is not sufficient, the FDA may bring an enforcement action, and our operations could be disrupted and our manufacturing delayed. We are also subject to the FDA's general prohibition against promoting our products for unapproved or "off-label" uses, the FDA's adverse event reporting requirements and the FDA's reporting requirements for field correction or product removals. The FDA has recently placed increased emphasis on its scrutiny of compliance with the QSR and these other postmarket requirements.

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

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

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

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

Failure to attract additional capital which we may require to expand our business could curtail our growth.

We may require additional capital to expand our business. If cash generated internally is insufficient to fund capital requirements, we will require additional debt or equity financing. In addition, we may require financing to fund any significant acquisitions we may seek to make. Needed financing may not be available or, if available, may not be available on terms satisfactory to us and may result in significant stockholder dilution. Covenants in our industrial bond financing may also restrict our ability to obtain additional debt financing. If we fail to obtain sufficient additional capital in the future, we could be forced to curtail our growth strategy by reducing or delaying capital expenditures and acquisitions, selling assets, restructuring our operations or refinancing our indebtedness.

Any disaster at our manufacturing facilities could disrupt our ability to manufacture our products for a substantial amount of time, which could cause our revenues to decrease.

We conduct our manufacturing and assembly at two facilities in Queensbury, New York, and Manchester, Georgia. It would be difficult, expensive and time-consuming to transfer resources from one facility to the other, replace, or repair these facilities and our manufacturing equipment if they were significantly affected by a disaster. Additionally, we might be forced to rely on third-party manufacturers or to delay production of our products. Insurance for damage to our properties and the disruption of our business from disasters may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all. In addition, if one of our principal suppliers were to experience a similar disaster, uninsured loss or under-insured loss, we might not be able to obtain adequate alternative sources of supplies or products or could face significant delays and incur substantial expense in doing so. Any significant uninsured loss, prolonged or repeated disruption, or inability to operate experienced by us or any of our principal suppliers could cause significant harm to our business, financial condition and results of operations.

Our inability to manage our growth or successfully implement our internal reorganization may have an adverse effect on our business, financial condition or results of operations.

Over the past several years we have experienced significant growth. Our inability to manage our growth could impact our ability to meet our customers' demands, which could cause future sales to suffer.

To better and more efficiently manage our business, we recently announced, and are currently implementing, a reorganization of our structure and management to align our operations with our key customer groups—Peripheral Vascular, Access, and Oncology/Surgery. Implementing the reorganization requires significant time and resource commitments from our senior management. In the event that we are unable to effectively implement the reorganization, we are unable to recruit or retain key employees as a result of the reorganization or the reorganization does not yield the anticipated benefits, our business may be adversely affected.

Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

We own a manufacturing, administrative, engineering and warehouse facility of approximately 104,000 square feet situated on 18 acres in Queensbury, New York. In fiscal 2003, we financed an expansion of this facility with the proceeds of industrial revenue bonds, and the land and buildings are subject to a first mortgage in favor of a bank. In 2006, we issued taxable adjustable rate notes to finance an expansion of 36,000 square feet to our warehouse and manufacturing facility. See Item 7 of this annual report, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," for a discussion

of these financings. We anticipate requiring additional administrative and engineering space within the next one to two years.

We also lease three additional properties. We lease a manufacturing facility of approximately 60,000 square feet located in Manchester, Georgia. This facility also includes office and research and development space and is leased through 2010. We lease 14,500 square feet of office and research and development space in Fremont, California. The lease is non-cancelable and expires in April 2010. Finally, we lease a manufacturing facility of approximately 20,000 square feet in the United Kingdom that we acquired in June 2008 in connection with our acquisition of certain assets of Diomed, Ltd.

Item 3. ***Legal Proceedings***

Diomed v. AngioDynamics and AngioDynamics v. biolitec

On January 6, 2004, Diomed filed an action against us entitled *Diomed, Inc. v. AngioDynamics, Inc., et al.*, civil action no. 04 10019 RGS in the U.S. District Court for the District of Massachusetts. Diomed's complaint alleged that we infringed on Diomed's U.S. patent no. 6,398,777 by selling a kit for the treatment of varicose veins (now called the "VenaCure Procedure Kit") and two diode laser systems (the Precision 980 Laser and the Precision 810 Laser), and by conducting a training program for physicians in the use of the VenaCure Procedure Kit. The complaint alleged that our actions have caused Diomed to suffer substantial damages.

On March 28, 2007, the jury in the proceeding returned a verdict in favor of Diomed and awarded compensatory monetary damages in the amount of $8.36 million. The jury concluded, however, that there was no willful infringement by us. On May 22, 2007, the judge for the Federal District Court in Boston denied our motion to overturn the verdict and increased the judgment for compensatory damages by $1.35 million, to $9.71 million, to cover pretrial interest and post-verdict sales of the infringing products. The judgment also required us to pay interest to Diomed at an annual rate of approximately 5% of the damage award for the period of time between the verdict and actual payment of the award. As a result we accrued approximately $10.2 million, including interest. On July 2, 2007, the judge for the Federal District in Boston, Massachusetts, issued an injunction prohibiting us from selling our original bare fiber VenaCure product. We disputed the infringement verdict on multiple grounds and on June 20, 2007, filed an appeal in the U.S. Court of Appeals for the Federal Circuit in Washington, D.C.

On March 14, 2008, Diomed commenced Chapter 11 bankruptcy proceedings. On April 2, 2008, we entered into a settlement with Diomed for the purpose of resolving the alleged patent infringement and paid $7.0 million in the fourth quarter of 2008. As a result of the settlement, in our third fiscal quarter we reduced our litigation provision and recorded a gain of approximately $3.2 million pretax, $2.0 after tax, an impact of $0.08 on earnings per share as reflected in the third quarter results.

Until April 2007, we purchased the lasers and laser fibers for our laser systems from biolitec under a supply agreement. In 2006, biolitec advised us that based on Diomed's refinement of its claims in the Diomed action, biolitec believed such claims were not within biolitec's indemnification obligations under the supply agreement. We advised biolitec that we disagreed with biolitec's position and that we expected biolitec to continue to honor its indemnification obligations.

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 which we are seeking, in part, judgment against biolitec for imdemnification of defense costs we incurred in the Diomed action and the VNUS action described below. On January 11, 2008, biolitec commenced an action in the United States District Court for the Western District of Massachusetts entitled *biolitec, Inc. v. AngioDynamics, Inc.* In this action, biolitec is seeking reimbursement of not less than $1.6 million in alleged past defense costs paid by biolitec in the Diomed action. We moved to dismiss this action or, in the alternative, to have this action transferred to the Northern District of New York for consolidation with *AngioDynamics, Inc. v. biolitec, Inc.* Biolitec has filed counter-claims against us in the New York action, seeking similar claims as in the Massachusetts action.

We will continue to vigorously enforce our rights under the supply agreement with biolitec. However, in the event it is ultimately determined that the claims asserted in the Diomed action and the VNUS action are not within biolitec's indemnification obligations under the biolitec supply agreement, we may be required to reimburse biolitec for the costs and expenses of defending the Diomed action.

VNUS Medical Technologies v. Diomed, Vascular Solutions, and AngioDynamics

On October 4, 2005, VNUS Medical Technologies, Inc. ("VNUS") filed an action against us and others (collectively, the "Defendants") entitled *VNUS Medical Technologies, Inc. v. Diomed Holdings, Inc., Diomed Inc., AngioDynamics, Inc., and Vascular Solutions, Inc.* , case no. C05-2972 MMC, filed in the U.S. District Court for the Northern District of California. The complaint alleged that the Defendants infringed on VNUS's U.S. patent nos. 6,258,084, 6,638,273, 6,752,803, and 6,769,433 by making, using, selling, offering to sell and/or instructing users how to use Diomed's "EVLT" products, AngioDynamics' "VenaCure" products, and Vascular Solutions' "Vari-Lase" products. The complaint alleged the Defendants' actions caused VNUS to suffer substantial damage. The complaint sought to prohibit the Defendants from continuing to market and sell these products and asks for compensatory and treble money damages, reasonable attorneys' fees, costs and pre-judgment and post-judgment interest.

On June 3, 2008, we entered into an agreement with VNUS settling all patent litigation between us and VNUS. Under the terms of the settlement agreement, we paid VNUS approximately $6.8 million pretax, $4.3 million after tax, an impact of $0.17 on earnings per share. Accordingly, we have recorded an accrual of $6.8 million as of May 31, 2008 which is included under the heading "Litigation provision" on the consolidated balance sheet. In addition, we agreed to pay a quarterly royalty on our U.S. sales of our NeverTouch(TM), VenaCure(R) and Diomed products from June 1, 2008 until the expiration date of VNUS'applicable patents. In exchange, VNUS granted us a non-exclusive and non-sublicenseable license to VNUS' applicable patents for use in endovenous laser therapy.

We are party to other legal actions that arise in the ordinary course of business. We believe that any liability resulting from any currently pending litigation will not, individually or in the aggregate, have a material adverse effect on our business or financial condition, results of operations or cash flows.

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

None.

The following table sets forth certain information with respect to the Company's executive officers.

Name	Age	Position
Eamonn P. Hobbs	50	President, Chief Executive Officer and Director
D. Joseph Gersuk	58	Executive Vice President, Chief Financial Officer and Treasurer
William M. Appling	45	Senior Vice President, Advanced Research
Harold C. Mapes	48	Senior Vice President, Operations
David McDonald	48	Senior Vice President, Business Development
Sean Morris	36	Senior Vice President, General Manager—Peripheral Vascular Division
Robert M. Rossell	52	Senior Vice President, General Manager—Access Division

Eamonn P. Hobbs is one of our co-founders. He has been our President and Chief Executive Officer since June 1996 and a director since our inception. From 1991 until September 2002, Mr. Hobbs was a Vice President, and from October 2002 to May 2004 was a Senior Vice-President, of E-Z-EM, with operational responsibility for our company. He was first employed by E-Z-EM from 1985 to 1986 and was continuously employed by E-Z-EM from 1988 to May 2004. From 1986 to 1988, Mr. Hobbs was Director of Marketing for the North American Instrument Corporation (NAMIC), a medical device company later acquired by Boston Scientific. Mr. Hobbs started his career at Cook, a leading manufacturer of interventional radiology, interventional cardiology and gastroenterology medical devices. Mr. Hobbs has over 26 years experience in the interventional radiology, interventional cardiology and gastroenterology medical device industries. He is a bio-medical engineer, having completed a Bachelor of Sciences in Plastics Engineering with a Biomaterials emphasis at University of Lowell in 1980. Mr. Hobbs is the only business executive from the medical device industry to serve on the strategic planning committee of the Society of Interventional Radiology, or SIR, and in April 2005, he was awarded an honorary fellowship by the SIR.

D. Joseph Gersuk became our Senior Vice President, Chief Financial Officer in April 2007 and was named Executive Vice President in July 2007. Since 2005 he has been a trustee for multiple educational and healthcare facilities as well as a director of Ascend Acquisition Corporation. From 2003 to 2005, he was CEO and director of Request Multimedia. From 1994 to April 2003, he was Executive Vice President, Chief Financial Officer and Treasurer of MapInfo Corporation, a publicly traded software, data and services company. Mr. Gersuk, a former officer in the United States Navy, holds a Bachelor of Science degree from the United States Naval Academy and his Master of Business Administration in Finance from American University.

William M. Appling was named Senior Vice President, Advanced Research in August 2008. Prior to that time he was our Senior Vice President of Research & Development from July 2007. Previously, he served as our Vice President, Research since 2002, Vice President, Research and Development since 1996, and in other product development capacities since 1988. Before that, Mr. Appling was a Product Development Engineer with NAMIC from 1986 to 1988 and a Product Development Engineer with the Edwards Division of American Hospital Supply Corporation from 1984 to 1986.

Harold C. Mapes was named Senior Vice President, Operations in August 2008. He served as our Vice President, Operations since 1996 and was our Director of Operations from 1995 to 1996 and Product Development Project Manager from 1992 to 1994. Before joining us, Mr. Mapes held product development and supervisory manufacturing and engineering positions from 1988 to 1992 with Mallinckrodt Medical, a medical device manufacturer. He holds a Bachelor of Science in Mechanical Engineering from Tri-State University and a Master of Business Administration from the State University of New York at Albany.

David McDonald started with AngioDynamics in July 2008 and was named Senior Vice President, Business Development in August 2008. Prior to joining AngioDynamics, Mr. McDonald was founder and President of Cornerstone Healthcare Advisors LLC, a Minnesota advisory and consulting firm to emerging medical technology companies and their financial sponsors, from April 2005 to August 2008. In addition, Mr. McDonald was Managing Director, Head of Medical Technology Investment Banking with Cain Brothers & Company, LLC, in New York, New York from October 2005 to May 2007. From May 2000 to March 2005, Mr. McDonald was Managing Director, Medical Technology Investment Banking with RBC Capital Markets (formerly Dain Rauscher Wessels). Mr. McDonald completed a Bachelor of Arts in Economics from St. Olaf College in Northfield, Minnesota.

Sean Morris was named Senior Vice President, General Manager—Peripheral Vascular Division in August 2008. Prior to that time, Mr. Morris was our Vice President, Marketing, from September 2007. From June 2003 to September 2007, Mr. Morris was our Regional Sales Manager. Mr. Morris completed a Bachelor of Science in Biochemistry from Missouri St. University in 1996.

Robert M. Rossell was named Senior Vice President, General Manager— Access Division in August 2008. Prior to that time, Mr. Rossell was our Vice President, Corporate Accounts, from July 2007. Previously, he served as our Vice President, Marketing from 1996 to July 2007, and from 1990 to 1996 he was a Product Manager and then our Director of Marketing. Before joining us, Mr. Rossell was Marketing Manager at NAMIC from 1986 to 1990, and held sales positions with various leading healthcare companies, including American Hospital Supply Corporation, from 1981 to 1985, and Johnson & Johnson, Inc., from 1977 to 1981. Mr. Rossell completed a Bachelor of Arts in Psychology from Southern Methodist University.

Part II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.***

Our common stock is traded on The Global Select Market tier of The NASDAQ Stock Market LLC (formerly the Nasdaq National Market), under the symbol "ANGO."

The following table sets forth, for the periods indicated, the high and low sale prices for our common stock as reported by The Nasdaq National Market.

	Sale Price	
	High	Low
Year ended May 31, 2008		
Fourth Quarter	$ 16.65	$ 9.95
Third Quarter	$ 20.27	$ 16.58
Second Quarter	$ 20.98	$ 18.45
First Quarter	$ 20.68	$ 15.89

	Sale Price	
	High	Low
Year ended June 2, 2007		
Fourth Quarter	$ 23.87	$ 15.68
Third Quarter	$ 26.93	$ 20.13
Second Quarter	$ 24.84	$ 15.20
First Quarter	$ 30.00	$ 16.04

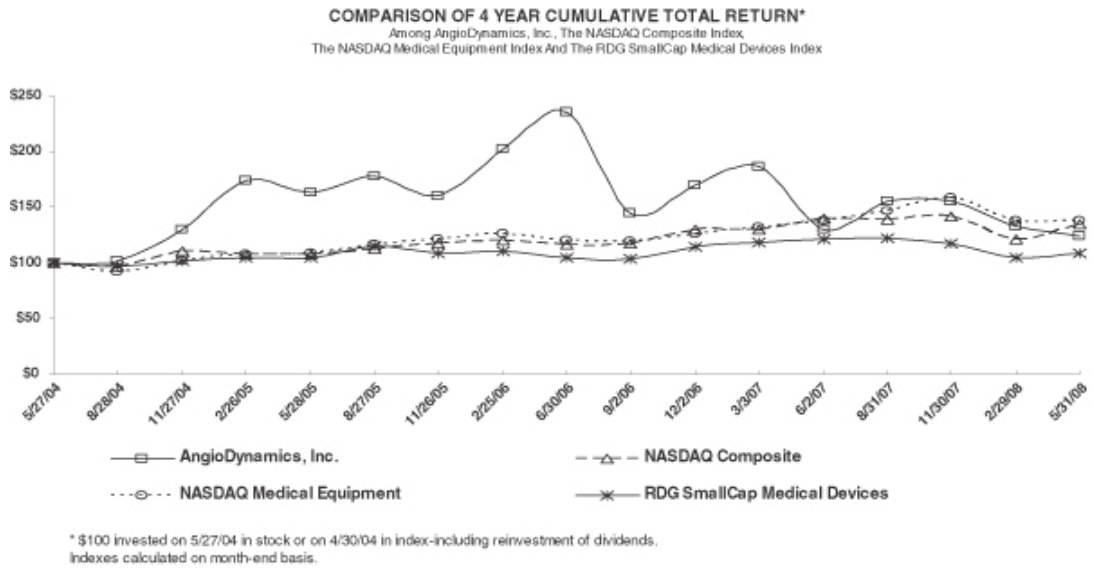
As of July 31, 2008, there were 326 record holders of our common stock.

Dividends

We did not declare any cash dividends on our common stock during our last two fiscal years. We do not anticipate paying any cash dividends on our common stock for the foreseeable future.

Performance Graph

The following graph compares the cumulative total return to shareholders on AngioDynamics, Inc.'s common stock relative to the cumulative total returns of the NASDAQ Composite index, the NASDAQ Medical Equipment index and the RDG SmallCap Medical Devices index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on 5/27/2004 and its relative performance is tracked through 5/31/08.



	ANGO	NASDAQ Composite	NASDAQ Medical Equipment	RDG SmallCap Medical Devices
5/27/2004	$ 100.00	$ 100.00	$ 100.00	$ 100.00
8/28/2004	101.84	96.29	92.26	96.40
11/27/2004	129.92	109.99	101.90	101.49
2/26/2005	173.83	107.47	107.44	104.70
5/28/2005	163.12	107.89	108.25	104.82
8/27/2005	177.36	112.54	116.34	115.50
11/26/2005	160.56	117.15	121.03	107.94
2/25/2006	202.48	120.59	125.60	110.51
6/3/2006	235.04	115.85	119.77	104.66
9/2/2006	144.72	116.75	118.77	103.29
12/2/2006	169.44	130.06	126.24	113.96
3/3/2007	186.40	129.58	131.87	118.64
6/2/2007	130.24	139.57	137.96	121.51
8/31/2007	155.68	138.58	146.85	122.47
11/30/2007	155.28	141.84	158.09	117.41
2/29/2008	132.64	121.47	138.16	104.38
5/31/2008	123.92	134.97	137.28	108.79

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6. ***Selected Consolidated Financial Data***

You should read the following selected financial data in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report on Form 10-K. The consolidated statements of operations data for the fiscal years ended May 31, 2008, June 2, 2007, and June 3, 2006, and the consolidated balance sheet data as of May 31, 2008 and June 2, 2007, are derived from the audited consolidated financial statements that are included elsewhere in this annual report on Form 10-K. The consolidated statements of operations data for the fiscal years ended May 28, 2005 and May 29, 2004, and the consolidated balance sheet data as of June 3, 2006, May 28, 2005, and May 29, 2004, are derived from our audited consolidated financial statements not included in this annual report on Form 10-K. Historical results are not necessarily indicative of the results of operations to be expected for future periods. See Note A of "Notes to Consolidated Financial Statements" for a description of the method that we used to compute our historical basic and diluted net income per share attributable to common stockholders.

	Years ended (Amounts in thousands, except per share information)				
	May 31, 2008 (c)	June 2, 2007 (c)(d)	June 3, 2006	May 28, 2005	May 29, 2004
Consolidated Statements of Operations Data:					
Net sales	$ 166,500	$ 112,227	$ 78,451	$ 60,289	$ 49,055
Cost of sales	63,913	46,060	32,930	26,912	23,254
Gross profit	102,587	66,167	45,521	33,377	25,801
Operating expenses					
Research and development	14,424	20,555	5,869	4,570	3,551
Sales and marketing	46,047	31,605	21,399	16,000	13,562
General and administrative	15,425	13,172	7,774	5,080	3,565
Amortization of intangibles	6,849	2,350	173	—	—
Litigation provisions, net(e)	3,606	9,710	—	—	—
Total operating expenses	86,351	77,392	35,215	25,650	20,678
Operating income (loss)	16,236	(11,225)	10,306	7,727	5,123
Other income (expenses)					
Interest income	3,157	4,047	792	304	16
Interest expense(a)	(1,328)	(308)	(138)	(150)	(758)
Other income (expenses)	(737)	314	162	36	—
Impairment loss on investment	—	—	—	(300)	—
Total other income (expenses), net	1,092	4,053	816	(110)	(742)
Income (loss) before income tax provision	17,328	(7,172)	11,122	7,617	4,381
Income tax provision	6,439	1,955	4,256	3,069	1,238
Net income (loss)	$ 10,889	$ (9,127)	$ 6,866	$ 4,548	$ 3,143
Earnings (loss) per share					
Basic	$ 0.45	$ (0.49)	$ 0.55	$ 0.39	$ 0.34
Diluted	$ 0.45	$ (0.49)	$ 0.53	$ 0.37	$ 0.32
Weighted average number of shares used in per share calculation:					
Basic	24,081,713	18,443,570	12,377,731	11,571,317	9,216,027
Diluted	24,348,960	18,443,570	12,964,574	12,328,783	9,838,168

	As of				
	May 31, 2008	June 2, 2007	June 3, 2006	May 28, 2005	May 29, 2004
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities(b)	$ 78,290	$ 73,290	$ 89,752	$27,099	$ 2,585
Working capital	100,548	106,881	111,349	42,080	30,981
Total assets	408,747	383,281	137,000	59,672	49,726
Non-current liabilities	11,700	26,905	2,755	2,935	3,100
Retained earnings (Accumulated deficit)	4,908	(5,981)	3,146	(3,720)	(8,268)
Total stockholders' equity	355,713	335,958	123,438	49,110	37,232

(a) Interest expense includes imputed interest on debt to E-Z-EM of $596 for the year ended May 29, 2004. The interest charges are treated as non-cash items for cash flow purposes and increases to additional paid-in capital. Of our indebtedness to E-Z-EM, $13,148 was capitalized prior to the completion of our initial public offering and the remaining $3,000 was repaid in June 2004 from the proceeds of the initial public offering.

(b) Cash, cash equivalents and marketable securities include auction-rate investments of $1,850, $4,475, and $10,000 as of May 31, 2008, June 2, 2007 and June 3, 2006 and restricted cash of $68, $1,786, and $101 as of May 31, 2008, June 2, 2007, and May 29, 2004, respectively.

(c) Fiscal years 2008 and 2007 include the impact of stock based compensation expense from our adoption of SFAS No. 123(R); the impact on operating income was approximately $4.9 million and $3.5 million, respectively. The impact on net income was approximately $3.1 million or $0.13 per basic and diluted share for fiscal 2008 and $2.4 million, or $0.13 per basic and diluted share for fiscal 2007. See Notes A and O to the Consolidated Financial Statements for additional information.

(d) During fiscal year 2007, we completed the acquisition of RITA Medical Systems, Inc. for approximately $244 million. In connection with the acquisition, we incurred an in-process R&D charge of $12.1 million, or approximately $0.66 per basic and diluted share. See Note C to the Consolidated Financial Statements for additional information.

(e) Fiscal year 2007, includes $9.7 million accrual for the Diomed patent infringement. Fiscal year 2008 included $6.8 million accrual for the VNUS patent infringement settlement offset by a $3.2 million gain as a result of the negotiated Diomed patent infringement settlement.

Item 7. *Management's Discussion and Analysis of Financial Conditions and Results of Operations*

The following information should be read together with the audited consolidated financial statements and the notes thereto and other information included elsewhere in this annual report on Form 10-K.

Forward-Looking Statements

This annual report on Form 10-K, including the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding AngioDynamics' expected future financial position, results of operations, cash flows, business strategy, budgets, projected costs, capital expenditures, products, competitive positions, growth opportunities, plans and objectives of management for future operations, as well as statements that include the words such as "expects," "reaffirms" "intends," "anticipates," "plans," "believes," "seeks," "estimates," or variations of such 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 the Company's expectations. Factors that may affect the actual results achieved by the Company include, without

limitation, the ability of the Company to develop its existing and new products, future actions by the FDA or other regulatory agencies, results of pending or future clinical trials, overall economic conditions, general market conditions, market acceptance, foreign currency exchange rate fluctuations, the effects on pricing from group purchasing organizations and competition, the ability of the Company to integrate the purchased Diomed businesses as well as the risk factors listed in Item 1A of this annual report on Form 10-K.

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 annual report on Form 10-K 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.

Overview

We are a provider of innovative medical devices used in minimally invasive, image-guided procedures to treat peripheral vascular disease, or PVD, and local oncology therapy options for treating cancer, including radiofrequency ablation ("RF" or "RFA") and systems and embolization products for treating benign and malignant tumors. We design, develop, manufacture and market a broad line of therapeutic and diagnostic devices that enable interventional physicians (interventional radiologists, vascular surgeons, interventional and surgical oncologists and others) to treat PVD, tumors, and other non-coronary diseases. We believe that we are the only company whose primary focus is to offer a comprehensive product line for the interventional treatment of these diseases. For the past five fiscal years, over 95% of our net sales were from single-use, disposable products. The following table sets forth our aggregate net sales from the following product categories for our last three fiscal years:

	2008		2007		2006	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
	(dollars in thousands)					
Interventional Products	$128,102	76.9%	$101,126	90.1%	$78,451	100.0%
Oncology Products	38,398	23.1%	11,101	9.9%	—	0.0%
Total	$166,500	100.0%	$112,227	100.0%	$78,451	100.0%

We sell our broad line of quality devices in the United States through a direct sales force and outside the U.S. through a combination of direct sales and distributor relationships. As of May 31, 2008, our sales organization numbered 109 in the U.S. and 12 outside the U.S. For fiscal years 2008, 2007, and 2006, net sales in non-U.S. markets were 9.5 %, 6.3% and 4.1%, respectively. The increase in our net sales attributable to non-U.S. sales is primarily as a result of the RITA acquisition, completed in January 2007.

Our growth depends in large part on the continuous introduction of new and innovative products, together with ongoing enhancements to our existing products, through internal product development, technology licensing and strategic alliances. For each of the past three fiscal years, we invested at least 7% of our net sales in research and development ("R&D"). R&D expenditures were 8.7% of net sales for fiscal 2008. In 2007, our R&D expenditures were 18.3% of net sales; however, a significant portion of those R&D expenses in 2007 related to a charge of $12.1 million for in-process R&D required under purchase accounting rules from our acquisition of RITA. Excluding this charge, our R&D expenses were approximately 7.5% of net sales for fiscal 2007. We expect that our R&D expenditures will reach approximately 10% of net sales for fiscal 2009. We expect R&D expenditures thereafter to continue to be in the range of 8 to 10% of net sales. However, downturns in our business could cause us to reduce our R&D spending.

We are also seeking to grow through selective acquisitions of complementary businesses and technologies. In January 2007, we completed the acquisition of RITA. This acquisition creates a diversified medical technology company with a broad line of access, diagnostic and therapeutic products that enable interventional physicians and surgeons to treat peripheral vascular disease and cancerous tumors. Interventional oncology is a large and growing area for our existing customer base and RITA's leadership position, premium products and excellent reputation fit our strategy. RITA had a very strong position in vascular access ports, which are an ideal sales fit with our Morpheus ® CT PICC and the vascular access port technology we purchased from Medron in May 2006. In addition, in May 2008 we acquired irreversible electroporation (IRE) cellular resection technology, which we expect to commercialize in the second half of fiscal 2009, which will be complementary to RITA's diverse offering of local oncology therapies, including its market-leading RFA systems, Habib Sealer ™ resection devices and LC Beads ™ for tumor embolization. In June 2008, we completed the acquisition of certain U.S. and U.K. assets of Diomed, Inc. With this acquisition, we substantially strengthened our position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with our existing venous product line provides us with a comprehensive venous product offering.

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

For fiscal 2008, approximately 27% of our net sales were derived from products manufactured for us by third parties, compared to 30% for fiscal 2007. We intend to continue to manufacture more of these products in-house to achieve lower product costs and increased profitability. In 2002 and 2006, we expanded our manufacturing facility in Queensbury, New York, to provide us with significantly greater manufacturing capacity and to accommodate additional research, development and administrative requirements. We are not currently operating our manufacturing facilities at full capacity. However, we anticipate requiring additional office space for additional engineering, marketing and administrative personnel in the near future.

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

Recent Developments

Acquisition of certain assets of Diomed

In June 2008, we completed the acquisition of certain U.S. and U.K. assets of Diomed, Inc for $11 million subject to adjustment for changes in working capital to be determined subsequent to the closing date. With this acquisition, we substantially strengthened our position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with our existing venous product line provides us with a comprehensive venous product offering.

Acquisition of Oncobionic, Inc.

On May 9, 2008, we completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. pursuant to the terms of a stock purchase agreement entered into on October 12, 2006. The closing of the acquisition comes as a result of the successful initial use of Oncobionic's irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of April 2008. Under the stock purchase agreement, we agreed to pay a total purchase price of $25.4 million, including $400,000 of assumed liabilities. We made a payment of $5.0 million upon the execution of the stock purchase agreement in October 2006. We paid $10.0 million on May 9, 2008 upon the closing of the acquisition. $5.0 million is payable in November 2008, and the remaining $5.0 million is payable in November 2009.

Acquisition of RITA Medical Systems, Inc.

On January 29, 2007, we completed the acquisition of RITA for a total purchase price of approximately $244 million, comprised of approximately $24 million in cash, 7.9 million shares of common stock, and assumption of outstanding RITA options and other convertible securities, which are exercisable for an additional 1.9 million shares of our common stock.

RITA's operating results were consolidated with those of AngioDynamics beginning on the date of the acquisition, January 29, 2007. Since our results are not restated retroactively to reflect the historical financial position or results of RITA, fluctuations in our operating results for 2007 as compared to the 2008 period are significantly impacted by the acquisition of RITA.

We acquired RITA for its market position, premium product offerings, developed and emerging technologies in the fields of interventional oncology and vascular access and its highly skilled workforce. The merger was pursued and completed because the management groups and stockholders of AngioDynamics and RITA believed the combined entity would achieve higher sales and profitability than either or both of the pre-merger companies on a standalone basis.

Company Reorganization

Beginning with our first fiscal quarter for the fiscal year ended May 31, 2009, we will organize our business into three divisions: Peripheral Vascular; Access and Oncology/Surgery. Our Peripheral Vascular division comprises our venous, angiographic, PTA, drainage and thrombolytic product lines. Our Access division comprises our dialysis, ports and PICC lines. Our Oncology/Surgery division comprises our RFA, embolization, Habib and NanoKnife product lines. Beginning with our quarterly report on Form 10-Q for our fiscal quarter ended August 31, 2008, we will report our results of operations for these three divisions.

Critical Accounting Policies and Use of Estimates

Our significant accounting policies are summarized in Note A to our consolidated financial statements included elsewhere in this annual report on Form 10-K. While all these significant accounting policies affect the reporting of our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require us to use a greater degree of judgment and/or estimates. Actual results may differ from those estimates. The accounting policies identified as critical are as follows:

Revenue Recognition

We recognize revenue in accordance with generally accepted accounting principles as outlined in the SEC's Staff Accounting Bulletin No. 104, "Revenue Recognition," which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) product delivery has occurred or services have been rendered. Decisions relative to criterion (iii) regarding collectibility are based upon our judgments, as discussed under "Accounts Receivable" below, and should conditions change in the future and cause us to determine this criterion is not met, our results of operations may be affected. We recognize revenue, net of sales taxes assessed by any governmental authority, as products are shipped, based on F.O.B. shipping point terms when title and risk of loss passes to customers. We negotiate shipping and credit terms on a customer-by-customer basis and products are shipped at an agreed upon price. All product returns must be pre-approved by us and customers may be subject to a 20% restocking charge. To be accepted, a returned product must be unadulterated, undamaged and have at least 12 months remaining prior to its expiration date.

Accounts Receivable

Accounts receivable, principally trade, are generally due within 30 to 90 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. We perform ongoing credit evaluations of our

customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. We continuously monitor aging reports, collections and payments from customers, and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we identify. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that the same credit loss rates will be experienced in the future. We write off accounts receivable when they become uncollectible. For fiscal years 2008, 2007, and 2006, our write offs of accounts receivable have been insignificant.

Income Taxes

In preparing our financial statements, we calculate income tax expense for each jurisdiction in which we operate. This involves estimating actual current taxes due plus assessing temporary differences arising from differing treatment for tax and accounting purposes that are recorded as deferred tax assets and liabilities. We periodically evaluate deferred tax assets, capital loss carryforwards and tax credit carryforwards to determine their recoverability based primarily on our ability to generate future taxable income and capital gains. Where their recovery is not likely, we estimate a valuation allowance and record a corresponding additional tax expense in our statement of operations. If actual results differ from our estimates due to changes in assumptions, the provision for income taxes could be materially affected. As of May 31, 2008, our valuation allowance and net deferred tax asset were approximately $1.2 million and $17.8 million, respectively. The deferred tax asset includes $99.2 million of Federal net operating loss carryforwards and $53.0 million of state net operating loss carryforwards remaining from the RITA acquisition. These losses could be significantly limited under Internal Revenue Code ("IRC") Section 382. Our analysis of RITA's ownership changes as defined in IRC Section 382 shows that approximately $15.0 million of remaining Federal net operating losses and $11.8 million of remaining state net operating losses will expire prior to utilization. The gross deferred tax asset related to the net operating losses reflects this limitation.

We need to generate approximately $5 million of taxable income in each year over the next eighteen years to ensure the realizability of our deferred tax assets. We have determined that we have sufficient existing levels of pre-tax earnings to generate sufficient taxable income to realize the net deferred tax assets recorded on our balance sheet.

In order to support the realizability of our net deferred tax asset, we projected our pre-tax income utilizing a combination of historical and projected results. Utilizing this projected pre-tax income, we have projected taxable income taking into consideration existing levels of permanent differences including stock option exercise deductions and non-deductible expenses and the reversal of significant temporary differences.

Our federal net operating loss carryforwards as of May 31, 2008 after considering IRC Section 382 limitations are $84.2 million. The expiration of the federal net operating loss carryforwards are as follows: $1.0 million between 2010 and 2011, $45.5million between 2017 and 2021 and $37.7 million between 2022 and 2026.

Our state net operating loss carryforwards as of May 31, 2008 after considering remaining IRC Section 382 limitations are $41.2 million which expire in various years from 2009 to 2026.

In November 2005, the FASB issued FASB Staff Position SFAS No. 123(R)-3, "Transition Election to Accounting for the Tax Effect of Share-Based Payment Awards." We have elected to adopt the modified prospective transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). Under the modified prospective transition method, no adjustment is made to the deferred tax balances associated with stock-based payments that continue to be classified as equity awards. Additionally, we elected to use the "long-form method," as provided in paragraph 81 of SFAS No. 123(R) to determine the pool of windfall tax benefits. The long-form method requires us to analyze the book and tax compensation for each award separately as if it had been issued following the recognition provisions of SFAS No. 123, subject to adjustments for net operating loss carryforwards.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This Interpretation requires the Company recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted this statement on June 3, 2007. There was no cumulative effect of adopting FIN 48. Upon adoption, the liability for unrecognized tax benefits was zero.

During the twelve months ended May 31, 2008, the Company did not recognize any tax liabilities related to uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax benefits within its global operations as a component of income tax expense. This accounting policy did not change as a result of the adoption of FIN 48. Accrued interest and penalties recognized in the consolidated balance sheet were $0 as of June 2, 2007 and May 31, 2008.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. Fiscal years 2005 through 2008 remain open to examination by the various tax authorities. The Company analyzed filing positions in all of the federal and state jurisdictions where it is required to file income taxes, as well as all open tax years in these jurisdictions and believes that its income tax filings positions and deductions will be sustained on audit and does not anticipate any adjustments will result in a material adverse effect on the Company's financial condition, results of operations or cash flows.

Management does not anticipate that the amount of unrecognized tax benefits will significantly change in the next twelve months.

Inventories

We value inventories at the lower of cost (on the first-in, first-out method) or market. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product expiration dating and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of May 31, 2008, June 2, 2007, and June 3, 2006, our reserve for excess and obsolete inventory was $3,694,000, $2,760,000, and $1,322,000, respectively.

Property, Plant and Equipment

We state property, plant and equipment at cost, less accumulated depreciation, and depreciate these assets using the straight-line method over their estimated useful lives. We determine this based on our estimates of the period over which the assets will generate revenue. We evaluate these assets for impairment annually or as changes in circumstances or the occurrence of events suggest the remaining value is not recoverable. Any change in condition that would cause us to change our estimate of the useful lives of a group or class of assets may significantly affect depreciation expense on a prospective basis.

Goodwill and Intangible Assets

Intangible assets other than goodwill are amortized over their estimated useful lives, which range between three and nineteen years, on either a straight-line basis over the expected period of benefit or as revenues are

earned from the sales of the related products. We periodically review the estimated useful lives of our intangible assets and review such assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Our determination of impairment is based on estimates of future cash flows. If an intangible asset is considered to be impaired, the amount of the impairment will equal the excess of the carrying value over the fair value of the asset.

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

Stock-based compensation

On June 4, 2006, (the "Effective Date") we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors including employee stock options and employee stock purchases related to our Stock Purchase Plan based on estimated fair values. We adopted SFAS 123(R) using the "modified-prospective method," which is a method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement No. 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. In accordance with this method of adoption, prior period results of operations and financial position have not been restated to reflect the impact of stock-based compensation. Prior to the adoption of SFAS 123(R), we accounted for options using the intrinsic value method under the guidance of APB No. 25, and provided pro forma disclosure as allowed by Statement No. 123.

For 2008, we recognized stock-based compensation expense of $4,899,000 before-tax ($3,421,000 net of income taxes, or $0.14 per diluted share) as compared with 2007 when we recognized stock-based compensation expense of $3,498,000 before tax ($2,372,000 net of income taxes, or $0.13 per diluted share).

Under the provisions of SFAS 123(R), we expect to recognize the following future expense for awards granted as of May 31, 2008:

	Unrecognized Compensation Cost	Weighted-Average Remaining Vesting Period (in years)
Stock options	$ 7,821,700	2.38
Non-vested stock awards	256,000	1.00
	$ 8,077,700	2.32

Unrecognized compensation cost for stock options is presented net of 4.7% assumed annual forfeitures.

We recognize compensation expense for our stock awards issued subsequent to the adoption of SFAS 123(R) on a straight-line basis over the substantive vesting period. Prior to the adoption of SFAS 123(R), we allocated the pro forma compensation expense for stock options over the vesting period using straight-line

attribution method. We will continue to amortize compensation expense related to stock options granted prior to the adoption of SFAS 123(R) using a straight-line attribution method.

The amount of stock-based compensation recognized is based on the value of the portion of awards that are ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered option. We currently expect, based on an analysis of our historical forfeitures, that approximately 95.3% of our options will vest annually, and we have therefore applied a 4.7% annual forfeiture rate in determining the stock-based compensation charge recorded. We will re-evaluate this estimate periodically and adjust the forfeiture rate on a prospective basis as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that actually vest.

For the fiscal years ended May 31, 2008 and June 2, 2007, we used the Black-Scholes option-pricing model (“Black-Scholes”) as our method of valuation under SFAS 123(R) and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Black-Scholes was also previously used for our pro forma information required by SFAS 123 for periods prior to June 4, 2006. The fair value of share based payment awards on the date of the grant as determined by the Black-Scholes model is affected by our stock price as well as other assumptions. These assumptions include, but are not limited to the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, and a risk-free interest rate. The risk-free interest rate is based on factual data derived from public sources. The expected stock-price volatility and option life assumptions require significant judgment which makes them critical accounting estimates.

We consider historical volatility and trends within our industry/peer group when estimating expected stock price volatility. We use yield rates on U.S. Treasury securities for a period approximating the expected term of the award to estimate the risk-free interest rate. The expected term is determined using the simplified method available under SAB 107 due to our limited public history. The dividend yield is based on the history and expectation of dividend payments. We have not paid dividends in the past nor do we expect to pay dividends in the foreseeable future. Our historical data includes information from May 26, 2004, the date of our initial public offering.

Results of Operations

Our fiscal years ended May 31, 2008, June 2, 2007, and June 3, 2006, represent fifty-two weeks, fifty-two weeks, and fifty-three weeks, respectively. Our operating results for fiscal 2008, 2007, and 2006 are expressed as a percentage of total net sales in the following table.

	Years ended		
	May 31, 2008	June 2, 2007	June 3, 2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	38.4%	41.0%	42.0%
Gross profit	61.6%	59.0%	58.0%
Operating expenses			
Research and development	8.7%	18.3%	7.5%
Sales and marketing	27.7%	28.2%	27.3%
General and administrative	9.3%	11.7%	10.1%
Amortization of intangibles	4.1%	2.1%	0.0%
Litigation provisions, net	2.2%	8.7%	0.0%
Total operating expenses	51.9%	69.0%	44.9%
Operating income (loss)	9.8%	(10.0%)	13.1%
Other income (expenses)			
Interest income	1.9%	3.6%	1.0%
Impairment loss on investment	0.0%	0.0%	0.0%
Interest expense	(0.8%)	(0.3%)	(0.1%)
Other income (expense)	(0.4%)	0.3%	0.2%
Total other income (expenses), net	0.7%	3.6%	1.1%
Income (loss) before income tax provision	10.4%	(6.4%)	14.2%
Income tax provision	3.9%	1.7%	5.4%
Net income (loss)	6.5%	(8.1%)	8.8%

The 2008 results include a $6.8 million provision for the settlement of the VNUS litigation ($4.3 million net of tax), a gain of $3.2 million ($2.0 million net of tax) on the settlement of the Diomed litigation, and post judgment interest expense on the Diomed judgment recorded in fiscal 2007. Our 2007 results include a litigation charge of $9.71 million ($6.1 million, net of tax), for the judgement awarded Diomed and pre-judgment interest, in general and administrative expenses, and $80,000 for post-verdict interest expense.

A significant amount of the expenses we incurred in 2007 related to the acquisition of RITA and were outside the normal course of our operations as a stand-alone company. As required under the rules of purchase accounting, these expenses included an in-process R&D charge of $12.1 million that carries with it no income tax benefit, amortization expense of $1,936,000 on the fair value of the acquired intangible assets and $1,192,000 of reduced gross margin as a result of the step up in basis and subsequent sale of finished goods inventory we acquired. Additionally, we incurred non-capitalizable integration and restructuring costs of $916,000. These costs aggregated $14,607,000, net of income taxes of $1,537,000.

For both 2008 and 2007, we were able to use net operating losses (“NOLs”) accumulated by RITA to offset the amount of cash we paid for Federal and state income taxes. The cash benefit amounted to approximately $7.3 and $1.6 million for the years ended May 31, 2008 and June 2, 2007, respectively. According to the rules of purchase accounting, we are unable to use acquired NOLs to offset our provision for income taxes in the statements of operations.

Fiscal years ended May 31, 2008 and June 2, 2007

Net sales. Net sales are derived from the sale of our products and related freight charges, less discounts and returns. For fiscal 2008, net sales increased 48.4%, or $54.3 million, to $166.5 million compared to fiscal 2007. The increase in net sales was primarily attributable to sales of products acquired in the RITA transaction for all of fiscal 2008 compared to fiscal 2007 which only included RITA product sales from the date of the acquisition, January 29, 2007 until the end of the fiscal year. RITA products accounted for $62.8 million or 37.7% of the fiscal 2008 sales as compared with $18.6 million or 16.6% of the fiscal 2007 sales. Our sales growth was driven by recently released products including the new Smart Port CT, Morpheus© CT PICC Insertion kit, Profiler balloon catheter, the TOTAL Abscession™ drainage catheter, and Sotradecol™. Net sales to non-U.S. markets for fiscal 2008 were $15.9 million, or 9.5% of net sales, compared to $7.1 million, or 6.3% of net sales for fiscal 2007. This increase was primarily due to increased unit sales of vascular access ports and oncology products. Substantially all of the increase in our sales was due to increased unit sales, with less than 1% of the increase attributable to price increases.

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. For fiscal 2008, our gross profit as a percentage of net sales increased to 61.6% from 59.0% for fiscal 2007. The increase in gross margin percentage was primarily due to a favorable product mix resulting from increased sales of higher margin products, including the RITA products and others such as the Morpheus CT PICC, the VenaCure procedure kit, and the TOTAL Abscession™ drainage catheter, partially offset by increased sales of Sotradecol, which carries a lower gross margin. Gross profit in 2008 also included product efficiencies from the successful integration of RITA which were partially offset by costs associated with the start up of new product production and increases to inventory reserves due to continued focus on product line optimization. Gross profit in 2007 was also reduced by 100 basis points for the amortization of the step up in basis and subsequent sale of finished goods inventory we acquired in the RITA acquisition.

Research and development expenses. Research and development (“R&D”) expenses include costs to develop new products, enhance existing products, validate new and enhanced products and register, maintain and defend our intellectual property. For fiscal 2008, R&D expenses decreased $6.1 million, or 29.8%, to $14.4 million compared to $20.6 million for fiscal 2007. This decrease is primarily due to the impact of the $12.1 million for in-process R&D related to the RITA acquisition in fiscal 2007. This decrease was offset by expenses associated with the addition of RITA engineering personnel in Fremont, California and Manchester, Georgia along with increased engineering personnel and activities in Queensbury, New York. R&D expenses were 8.7% of net sales for fiscal 2008, compared to 18.3% of net sales for fiscal 2007. Without the in-process R&D charge charge, 2007 R&D expenses were 7.5% of net sales. At May 31, 2008, we employed 54 people in research, development and regulatory activities compared with 50 people at June 3, 2007, of which 22 were added due to the RITA acquisition in the third quarter of fiscal 2007.

Sales and marketing expenses. Sales and marketing (“S&M”) expenses consist primarily of salaries, commissions, travel and entertainment, attendance at medical society meetings, product promotions and samples. S&M expenses increased $14.4 million or 45.7% to $46.0 million for fiscal 2008. Sales expenses, which accounted for the majority of the increased S&M expenses, increased 57.4%, or $13.1 million This increase is due primarily to the acquisition of RITA and its 44-person sales staff, as well as increased personnel expenses related to the expansion of the number of territories, commissions on higher sales and stock-based compensation. Marketing expenses increased 14.8%, or $1.3 million, also primarily due to the acquisition of RITA and tradeshow expenses. As a percentage of sales, S&M expenses were 27.7% for fiscal 2008, compared with 28.2% for fiscal 2007. At May 31, 2008, we employed 151 people in sales, marketing and customer service activities compared with 140 people at June 2, 2007, of which 62 were added due to the RITA acquisition in the third quarter of fiscal 2007.

General and administrative expenses. General and administrative (“G&A”) expenses include executive management, finance and accounting, human resources and information technology and the administrative and

professional costs associated with those activities. G&A expenses increased $2.2 million, or 17.1%, to $15.4 million for fiscal 2008 compared to $13.2 million for fiscal 2007. While the expense increased year over year, primarily due to increased stock-based compensation and travel and administrative costs associated with our recent acquisition and integration activities, G&A expenses decreased as a percentage of sales. This decrease, from 11.7% of net sales for fiscal 2007 to 9.3% of net sales for fiscal 2008, is primarily due to synergies achieved in the integration of RITA. We spent approximately $2.0 million in fiscal 2008 in litigation costs associated with the VNUS Medical and Diomed lawsuits. At May 31, 2008, we employed 40 people in general and administrative activities compared with 37 people at June 2, 2007, of which 16 were added due to the RITA acquisition in the third quarter of fiscal 2007.

Litigation provision. The 2008 results include a $6.8 million provision for the settlement of the VNUS litigation and a gain of $3.2 million related to settlement of the Diomed litigation, compared with the prior year period when the Diomed judgment expense of $9.7 million was recorded.

Other income (expenses). Other income (expenses) includes interest income, realized gains and losses from the sales of marketable securities, changes in fair value of an interest rate swap and interest expense. For fiscal 2008, other income (expenses) decreased $3.0 million to $1.1 million, due primarily to increased interest expense incurred on the debt assumed in the RITA acquisition, Diomed provision and the December 2006 bond offering, unrealized losses on the Company's interest rate swap agreement and decreased interest income on lower invested cash balances combined with decreased market rates. As a percentage of net sales, other income (expenses), net, was 0.7% and 3.6% for fiscal 2008 and 2007, respectively.

Income taxes. Our provision for income taxes increased $4.4 million in fiscal 2008, to $6.4 million from $2.0 million in fiscal 2007. Our effective tax rate for fiscal 2008 is 37.2%. The in-process R&D charge of $12.1 million, which is non-deductible for income tax purposes, had a significant impact on our effective tax rate for fiscal 2007. Without this charge, our effective tax rate for fiscal 2007 was 39.7%. During fiscal year 2008, non deductible items had a smaller impact on our effective tax rate than in the previous year. We also generated more state tax credits during 2008 than in the previous year.

Fiscal years ended June 2, 2007 and June 3, 2006

Net sales. Net sales consist of revenue derived from the sale of our products and related freight charges, less discounts and returns. For fiscal 2007, net sales were $112.2 million, an increase of $33.8 million, or 43.1%, compared to fiscal 2006. The increase in net sales was primarily due to the continued growth from new products released in or subsequent to fiscal 2006, continuing market share gains of our existing product lines, and sales of products acquired in the RITA transaction from January 29, 2007 to the end of the 2007 fiscal year. Sales of interventional products increased by 29.5%, or $22.5 million, to $98.8 million, due to increased sales of the Morpheus® CT PICC, the TOTAL Abscession ™ drainage catheter, the DuraFlow dialysis catheter, Sotradecol® , and the Vortex® family of vascular access ports. Sales of oncology products were $10.8 million, consisting primarily of sales of radiofrequency ablation (RFA) products and sales of the HABIB 4X ™ resection device. There were no sales of port or oncology products in fiscal 2006, as they were previously sold by RITA. Net sales to non-U.S. markets for fiscal 2007 were $7.1 million, or 6.3% of net sales, compared to $3.2 million, or 4.1% of net sales, for fiscal 2006. This increase was primarily due to increased unit sales of vascular access ports and oncology products. Substantially all of the increase in our sales was due to increased unit sales, with less than 1% of the increase attributable to price increases.

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, freight, business insurance, depreciation of property and equipment and other manufacturing overhead. For fiscal 2007, gross profit as a percentage of net sales increased to 59.0% from 58.0% for fiscal 2006. The increase in gross margin percentage was due to a favorable product mix resulting from increased sales of higher margin products, such as the Morpheus CT PICC, the VenaCure procedure kit, the TOTAL Abscession™ drainage catheter, RFA

electrodes and vascular access ports, offset by increased sales of Sotradecol, which carries a lower gross margin. Gross profit was also reduced by 100 basis points for the amortization of the step up in basis and subsequent sale of finished goods inventory we acquired in the RITA acquisition.

Research and development expenses. Research and development expenses include costs to develop new products, enhance existing products, validate new and enhanced products and register, maintain and defend our intellectual property. Research and development expenses were 18.3% of net sales for fiscal 2007, compared to 7.5% for fiscal 2006. R&D expenses increased 250%, or $14.7 million, due primarily to an in-process R&D charge of $12.1 million in connection with the acquisition of RITA. Other increases are expenses associated with ongoing projects.

Sales and marketing expenses. Sales and marketing expenses consist primarily of the costs of salaries, commissions, travel and entertainment, attendance at medical society meetings, and advertising and product promotions and samples. Selling and marketing expenses were 28.2% of net sales for fiscal 2007, compared to 27.3% for fiscal 2006. For fiscal 2007, selling and marketing expenses increased 44.4%, or $10.2 million, compared to fiscal 2006. Selling expenses increased 43.1%, or $7.0 million, due primarily to the acquisition of RITA and its 44-person sales staff, as well as stock-based compensation. Marketing expenses increased 57.1%, or $3.2 million, also primarily due to the acquisition of RITA and tradeshow expenses.

General and administrative expenses. General and administrative expenses include corporate, finance, human resources, administrative and professional fees, as well as information technology expenses. To conform to current year presentation, amortization of intangibles and litigation provisions, net have been presented separately. For fiscal 2007, general and administrative expenses were 11.7% of net sales compared to 10.1% for fiscal 2006. This increase of $5.4 million, or 69%, is primarily a result of personnel and administrative expenses from the acquisition of RITA, stock based compensation, legal expenses related to ongoing litigation and travel and administrative costs associated with the acquisition and integration activities.

Amortization of intangibles. Amortization of intangibles increased to $2.4 million for fiscal 2007, up $2.2 million from fiscal 2006. This increase is due to the stepped-up basis of intangible assets acquired in the RITA transaction in the third quarter of fiscal 2007. Amortization of intangibles represents 2.1% of net sales in fiscal 2007.

Litigation provisions, net. Fiscal 2007 results included a charge of $9.7 million due to a compensatory damage award and related charges incurred as a result of an unfavorable verdict in a legal action. Litigation provisions, net represents 8.7% of net sales in fiscal 2007.

Other income (expenses). Other income (expenses) includes interest income, realized gains and losses from the sales of marketable securities, changes in fair value of an interest rate swap and interest expense. For fiscal 2007, other income (expenses) increased $3.2 million to $4.0 million, due primarily to increases in interest income. Both an increase in our investment portfolio and higher yields contributed to the increase in interest income. As a percentage of net sales, other income (expenses), net, was 0.3% and 0.2% for fiscal 2007 and fiscal 2006, respectively.

Income taxes. Our provision for income taxes decreased $2.3 million in fiscal 2007, from $4.3 million in fiscal 2006. The in-process R&D charge of $12.1 million, which is non-deductible for income tax purposes, had a significant impact on our effective tax rate for fiscal 2007. Without this charge, our effective tax rate for fiscal 2007 was 39.7% compared to 38.3% for fiscal 2006, and the Federal statutory rate of 34.0%. In both fiscal years, we recorded other expenses that were non-deductible for Federal income tax purposes.

Liquidity and Capital Resources

During the past three years, we have financed our operations primarily through cash flow from operations, the proceeds of our public offerings in 2004 and 2006 and long-term debt. At May 31, 2008, $78.3 million or

19.2% of our assets consisted of cash, cash equivalents, restricted cash and marketable securities. Marketable securities comprise of U.S. government issued or guaranteed securities, corporate bonds and auction-rate investments. Our current ratio was 3.4 to 1, with net working capital of $100.5 million, at May 31, 2008, compared to a current ratio of 6.3 to 1, with net working capital of $106.9 million, at June 2, 2007. At May 31, 2008, total debt was $17.1 million, comprising of short and long-term bank debt for financing our facility expansions in Queensbury, New York, and $9.7 million of convertible debt acquired in the RITA acquisition. Total debt was $17.4 million at June 2, 2007. Other long-term liabilities at May 31, 2008 consisted of $4.6 million of contractual obligations related to the Oncobionic purchase, net of discount. At June 2, 2007 we had recorded a long term liability under “litigation provision” for the judgment of damages assessed in a patent infringement action of $9.8 million, which has been settled and paid for $7.0 million during fiscal 2008.

We generated cash flow from operations of $26.0 million on net income of $11.0 million for fiscal 2008. Significant non-cash expenses affecting net income included depreciation and amortization of $9.2 million, deferred income tax provision of $5.5 million, stock-based compensation of $4.9 million and the net litigation provision of $4.0 million. Significant cash generated from operating activities included a reduction in inventories of $4.2 million due to continued focus on product line optimization offset by $7.0 million for payment in the Diomed judgment and increases to accounts receivable of $6.1 million to support the growth in net sales.

For fiscal 2008, our investing activities used net cash of $26.2 million. We used cash for the acquisition of intangible assets and businesses of $18.7, including $10.0 million upon completion of the Oncobionic acquisition. Additionally, we made equipment purchases and building improvements totaling $6.7 million, including the completion of an addition to the Queensbury, NY facility and improvements to the Manchester, GA facility.

Financing activities provided net cash of $4.0 million for fiscal 2008. This primarily consists of proceeds from the exercise of stock options and from the issuance of common stock under our employee stock purchase plan of $4.2 million offset by repayment of long term debt principal of $0.3 million.

In fiscal 2003, we financed an expansion of our headquarters and manufacturing facility with industrial revenue bonds for $3.5 million. To secure this financing, we entered into agreements with local municipalities, a bank, a trustee and a remarketing agent. These agreements are referred to as the IDA agreements. The proceeds of the bonds were advanced as construction occurred. The bonds reprice every seven days and are resold by a Remarketing Agent. The bonds bear interest based on the market rate on the date the bonds are repriced and require quarterly principal payments ranging from $25,000 to $65,000 plus accrued interest through May 2022. We entered into an interest rate swap with a bank to convert the initial variable rate payments to a fixed interest rate of 4.45% per annum. The IDA agreements contain financial covenants relating to fixed charge coverage and interest coverage. The outstanding debt is collateralized by a letter of credit ($2.8 million at May 31, 2008) and a first mortgage on the land, building and equipment comprising our facility in Queensbury, and we are required to pay an annual fee ranging from 1.0% to 1.9% of the outstanding balance depending on our financial results. The current fee is 1.0% and is in effect until August 22, 2008.

In fiscal 2007, we financed the expansion of our warehouse and manufacturing facility in Queensbury, New York. The expansion was financed principally with taxable adjustable rate notes (the “Notes”) issued by us aggregating $5,000,000. The Notes were issued under a trust agreement by and between us and a bank, as trustee (the “Trustee”). In connection with the issuance of the Notes, we entered into a letter of credit and reimbursement agreement (the “Reimbursement Agreement”) with the Bank that requires the maintenance of a letter of credit to support principal and certain interest payments on the Notes and requires payment of an annual fee on the outstanding balance. The current fee is 0.75% and is in effect until December 2008. We also entered into a remarketing agreement, pursuant to which the remarketing agent is required to use its best efforts to arrange for sales of the Notes in the secondary market. In connection with this financing, we entered into an interest rate

swap agreement (the "2006 Swap Agreement") with the Bank, effective December 2006, with an initial notional amount of $5,000,000, to limit the effect of variability due to interest rates on the rollover of the Notes. The 2006 Swap Agreement is a contract to exchange floating interest rate payments for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional amounts. The 2006 Swap Agreement requires us to pay a fixed rate of 5.06% and receive payments based on 30-day LIBOR repriced every seven days through December 2016. The Reimbursement Agreement contains certain financial covenants relating to fixed charge coverage and interest coverage, as defined. Amounts borrowed under the Reimbursement Agreement are collateralized by the aforementioned letter of credit and all of our assets. The debt covenants and the collateralization of substantially all of our assets to secure these financings may restrict our ability to obtain debt financing in the future.

In connection with the acquisition of RITA on January 29, 2007, we assumed subordinated Senior Convertible Notes (the "Convertible Notes") with an aggregate principal amount of $9.7 million. The Convertible Notes are convertible into shares of our common stock at a conversion price of $20.41 per share of common stock, net of a cash component, subject to adjustment in certain circumstances including common stock splits or other standard anti-dilution provisions. Until conversion or maturity, the Convertible Notes bear interest at 6.5% per year, payable semi-annually. Absent conversion, the Convertible Notes mature on August 5, 2008 (the "Maturity Date"). If on the Maturity Date, the closing price of our common stock has been at or above 102% of the then conversion price for at least 10 consecutive business days immediately preceding the Maturity Date, then any remaining principal outstanding under the Convertible Notes shall automatically be converted into our common stock, subject to certain conditions. If the closing price does not meet this condition, then the debt will be paid in cash. The entire principal amount has been classified as "Current portion of long-term debt and convertible note" in our consolidated balance sheet as of May 31, 2008.

On May 9, 2008, we completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. pursuant to the terms of a stock purchase agreement entered into on October 12, 2006. The closing of the acquisition comes as a result of the successful initial use of Oncobionic's irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of April 2008.

Under the stock purchase agreement, we agreed to pay a total purchase price of $25.4 million, including $400,000 of assumed liabilities. We made a payment of $5.0 million upon the execution of the stock purchase agreement in October 2006. We paid $10.0 million on May 9, 2008 upon the closing of the acquisition. $5.0 million is payable in November 2008, and the remaining $5.0 million is payable in November 2009.

Our contractual obligations as of May 31, 2008 are set forth in the table below. We have no variable interest entities or other off-balance sheet obligations.

	Cash Payments Due By Period as of May 31, 2008				
	Total	Less than One Year	1-3 Years	3-5 Years	After 5 Years
Contractual Obligations:					
Notes Payable to Bank	$ 12,082	$ 657	$ 1,237	$ 1,033	$ 9,155
Convertible Debt	10,140	10,140	0	0	0
Operating Leases(1)	927	485	438	4	0
Purchase Obligations(1)	12,318	1,362	5,142	5,814	0
Other Liabilities(2)	16,757	11,757	5,000	0	0
	$ 52,224	$ 24,401	$ 11,817	$ 6,851	$ 9,155

(1) The non-cancelable leases and inventory purchase obligations are not reflected on our consolidated balance sheet under accounting principles generally accepted in the United States of America.

(2) Includes Oncobionic payments and VNUS settlement.

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

Recent Accounting Pronouncements

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement focuses on creating consistency and comparability in fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (our 2009 fiscal year), and interim periods within those fiscal years. We are currently evaluating the impact this adoption will have on our consolidated financial statements.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities —Including an Amendment of FASB Statement No. 115 ("SFAS 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for fiscal years beginning after November 15, 2007 (our 2009 fiscal year). We are currently evaluating the impact this adoption will have on our consolidated financial statements.

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

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination recognized and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired or gain from a bargain purchase; and determines what information to disclose to enable readers of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008 (our 2010 fiscal year) and will be applied prospectively.

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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring companies to enhance disclosure about how these instruments and activities affect their financial position, performance and cash flows. SFAS 161 also improves the transparency about the location and amounts of derivative instruments in a company's financial

statements and how they are accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 (our 2010 fiscal year), and interim periods within beginning after that date. We are currently evaluating the impact this adoption will have on our consolidated financial statements.

In April 2008, FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB statement No. 141. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 (our 2010 fiscal year) and early adoption is prohibited. For intangible assets acquired after the effective date, this FSP shall be applied as guidance in determining the useful life. The disclosure requirements which enable users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement shall be applied to all recognized intangible assets. We will comply with the guidance and disclosure requirements prospectively from the date of adoption.

In May 2008, the FASB issued SFAS No. 162, *"The Hierarchy of Generally Accepted Accounting Principles"* ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *"The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles"*. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk.***

We are exposed to market risk from changes in interest rates on investments and financing that could impact our results of operations and financial position. Although we have entered into interest rate swaps with a bank to limit our exposure to interest rate change market risk on our variable interest rate financings, we do not currently engage in any other hedging or market risk management tools.

At May 31, 2008, we maintained variable interest rate financings of $7.4 million in connection with our facility expansions. We have limited our exposure to interest rate risk by entering into interest rate swap agreements with a bank under which we agreed to pay the bank a fixed annual interest rate and the bank assumed our variable interest payment obligations under the financings.

Nearly all of our sales have historically been denominated in United States dollars. Although not significant, in late fiscal 2007 we began to make sales in other currencies, particularly the Euro, GB pound and Canadian dollar. We currently have no significant direct foreign currency exchange risk and such risk in the future is expected to be modest.

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. As of May 31, 2008, we were exposed to interest rate change market risk with respect to our investments in auction rate securities, U.S. government corporation and agency obligations in the amount of $13.2 million. The bonds bear interest at a floating rate established weekly. Each 100 basis point (or 1%) fluctuation in interest rates will increase or decrease interest income on the bonds by approximately $132,000 on an annual basis. We hold investments in auction rate securities in order to generate higher than typical money market investments. The amount held in these securities was $1.8 million as of May 31, 2008. 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. Although rare, sell orders for any security traded through an auction process could exceed bids. Such instances are usually the result of a drastic deterioration of issue credit quality. Should there be a failed auction, we may be unable to liquidate our position in the securities in the near term.

We are party to legal actions that arise in the ordinary course of business as described in Note Q to the consolidated financial statements.

Item 8. ***Financial Statements and Supplementary Data***

Financial statements and supplementary data required by Part II, Item 8 are included in Part IV of this report as indexed at Item 15 (a) 1 and 2, and are incorporated by reference into this Item 8 ..

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***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 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us (including our consolidated subsidiaries) in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting in the fiscal quarter ended May 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States,

and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of May 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on its assessment and this criteria, subject to the foregoing, management believes that we maintained effective internal control over financial reporting as of May 31, 2008.

Item 9B. ***Other Information***

None

Part III

Certain information required by Part III is omitted from this annual report on Form 10-K because the Company will file a definitive proxy statement within 120 days after the end of its fiscal year pursuant to Regulation 14A (the "Proxy Statement") for its annual meeting of Stockholders, currently scheduled for October 21, 2008. The information included in the Proxy Statement under the respective headings noted below is incorporated herein by reference.

Item 10. ***Directors, Executive Officers and Corporate Governance***

Information required in this annual report on Form 10-K with respect Executive Officers is contained in the discussion titled "Executive Officers of the Company" in Part I of this annual report on Form 10-K. The balance of the information required by Item 10 is incorporated herein by reference to our Proxy Statement under the heading "Election of Directors".

Item 11. ***Executive Compensation***

The information required by Item 11 is incorporated herein by reference to our Proxy Statement under the heading "Executive Compensation"

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this caption is incorporated herein by reference to our Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters"

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this caption is incorporated herein by reference to our Proxy Statement under the heading "Certain Relationships and Related Transactions."

Item 14. ***Principal Accounting Fees and Services***

The information required by this caption is incorporated herein by reference to our Proxy Statement under the headings "Audit Matters—Principal Accounting Fees and Services and—Policy on Audit Committee Pre-approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm."

Part IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a)(1) ***Financial Statements***

The following consolidated financial statements and supplementary data of Registrant and its subsidiaries required by Part II, Item 8, are included in Part IV of this report:

Report of Independent Registered Public Accounting Firm 59
Consolidated balance sheets—May 31, 2008 and June 2, 2007 60
Consolidated statements of operations—Years ended May 31, 2008, June 2, 2007, and June 3, 2006 62
Consolidated statements of stockholders' equity and comprehensive income (loss)—Years ended May 31, 2008, June 2, 2007, and June 3, 2006 63
Consolidated statements of cash flows—Years ended May 31, 2008, June 2, 2007, and June 3, 2006 64
Notes to consolidated financial statements 66

(2) ***Financial Statement Schedules***

The following consolidated financial statement schedule is included in Part IV of this report:

Schedule II—Valuation and qualifying accounts 97

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or notes thereto.

(b) ***Exhibits***

2.1	Master Separation and Distribution Agreement, effective as of May 2004, between E-Z-EM, Inc. and AngioDynamics, Inc. (incorporated by reference to Exhibit 10.3 of the Company's registration statement on Form S-1/A , filed with the Commission on May 12, 2004).
2.2	Stock Purchase Agreement, dated October 12, 2006, by and between AngioDynamics, Inc., Oncobionic, Inc. and the shareholders of Oncobionic, Inc. (incorporated by reference to Exhibit 2.1 of the Company's quarterly report on Form 10-Q, filed with the Commission on January 11, 2007).
2.3	Agreement and Plan of Merger, dated as of November 27, 2006, by and among AngioDynamics, Inc., Royal I, LLC and RITA Medical Systems, Inc. (incorporated by reference to Annex A of the Company's Registration Statement on Form S-4, filed with the Commission on December 8, 2006).
2.4	Amendment No. 1, dated December 7, 2006, to the Agreement and Plan of Merger, dated as of November 27, 2006, by and among AngioDynamics, Inc., Royal I, LLC and RITA Medical Systems, Inc. (incorporated by reference to Annex E of the Company's Registration Statement on Form S-4, filed with the Commission on December 8, 2006).
2.5	Amendment No. 2, dated January 16, 2007, to the Agreement and Plan of Merger, dated as of November 27, 2006, by and among AngioDynamics, Inc., Royal I, LLC and RITA Medical Systems, Inc. (incorporated by reference to Exhibit 2.1 of the Company's current report on Form 8-K, filed with the Commission on January 16, 2007).
2.6	Asset Purchase Agreement, dated as of April 9, 2008, by and between Diomed Holdings, Inc. and Diomed, Inc., as sellers and AngioDynamics, Inc., as Buyer (We agree to furnish to the Commission, upon request, a copy of each exhibit to this Asset Purchase Agreement).
2.7	Sale of the Business and Assets of Diomed Limited (in administration), dated April 10, 2008, by and between AngioDynamics, Inc., Diomed Limited (in administration) and Steve Law (as administrator) **(**We agree to furnish to the Commission, upon request, a copy of each exhibit to this Stock Purchase Agreement).

3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's quarterly report on Form 10-Q, filed with the Commission on October 7, 2005).
3.2	Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 of the Company's quarterly report on Form 10-Q, filed with the Commission on October 7, 2005).
4.1	Rights Agreement, dated as of May 26, 2004, between AngioDynamics, Inc. and Registrar & Transfer Company, as Rights Agent (incorporated by reference to Exhibit 99.1 of the Company's registration statement on Form 8-A, filed with the Commission on October 27, 2004).
4.2	Certificate of Designation, Preferences and Rights of Series A Preferred Stock of AngioDynamics, Inc. (incorporated by reference to Exhibit 3.3 of the Company's current report on Form 8-K, filed with the Commission on November 28, 2006).
4.3	Trust Indenture, dated as of August 1, 2002, Relating to the Multi-Mode Variable Rate Industrial Development Revenue Bonds, Series 2002 issued by the Counties of Warren and Washington Industrial Development Agency in the aggregate principal amount of $3,500,00 (incorporated by reference to Exhibit 10.12 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
4.4	Counties of Warren and Washington Industrial Development Agency Multi-Mode Variable Rate Industrial Development Revenue Bond—AngioDynamics, Inc. Project—Letter of Credit Secured, Series 2002, having a maturity Date of August 1, 2022 (incorporated by reference to Exhibit 10.14 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
4.5	Except as set forth in Exhibits 4.3 and 4.4 above, the instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries have been omitted. We agree to furnish to the Commission, upon request, a copy of each instrument with respect to issuances of long term debt of the Company and its subsidiaries.
10.1	AngioDynamics, Inc. 1997 Stock Option Plan, as amended by the Board and Shareholders on February 27, 2004 (incorporated by reference to Exhibit 10.2 of the Company's registration statement on Form S-1, filed on March 5, 2004).
10.2	AngioDynamics, Inc. 2004 Stock and Incentive Award Plan, as amended by the Board of Directors on August 15, 2006 (incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K, filed with the Commission on October 27, 2006).
10.3	Form of Non-Statutory Stock Option Agreement pursuant to the AngioDynamics, Inc. Stock and Incentive Award Plan (incorporated by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q, filed with the Commission on October 12, 2004).
10.4	Form of Performance Share Award Agreement pursuant to the AngioDynamics, Inc. 2004 Stock and Incentive Award Plan (incorporated by reference to Exhibit 10.2 of the Company's current report on Form 8-K, filed with the Commission on May 12, 2005).
10.5	Form of Restricted Stock Award Agreement pursuant to the AngioDynamics, Inc. 2004 Stock and Incentive Award Plan (incorporated by reference to the Company's current report on Form 8-K, filed with the Commission on May 12, 2005).
10.6	Rita Medical Systems, Inc. 1994 Incentive Stock Plan (incorporated by reference to Exhibit 10.2 of Rita Medical Systems registration statement on Form S-1, filed with the Commission on May 3, 2000)
10.7	Horizon Medical Products, Inc. 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.11 of Horizon Medical Products' registration statement on From S-1, filed with the Commission on February 13, 1998.
10.8	Rita Medical Systems, Inc. 2000 Stock Plan (incorporated by reference to Exhibit 10.3 of Rita Medical Systems registration statement on Form S-1/A, filed with the Commission on June 14, 2000).

10.9	Rita Medical Systems, Inc. 2000 Directors' Stock Plan, as amended on June 8, 2005 (incorporated by reference to Exhibit 99.2 of Rita Medical System's registration statement on Form S-8, filed with the Commission on July 8, 2005).
10.10	Rita Medical Systems, Inc. 2005 Stock and Incentive Plan (incorporated by reference to Exhibit 99.1 of Rita Medical System's registration statement on Form S-8, filed with the Commission on July 8, 2005).
10.11	Form of Indemnification Agreement of AngioDynamics, Inc. (incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K, filed with the Commission on May 12, 2006).
10.12	Form of Severance Agreement of AngioDynamics, Inc. (incorporated by reference to Exhibit 10.1 of the Company's current report on form 8-K, filed with the Commission on October 31, 2007).
10.13	Building Loan Agreement, dated as of August 1, 2002, by and between AngioDynamics, Inc. and Keybank National Association (incorporated by reference to Exhibit 10.10 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
10.14	Mortgage and Security Agreement, dated as of August 1, 2002, from Counties of Warren and Washington Industrial Development Agency, as Issuer, and AngioDynamics, Inc. to Keybank National Association for the holders of the Issuer's Multimode Variable Rate Industrial Development Revenue Bonds (incorporated by reference to Exhibit 10.11 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
10.15	Installment Sale Agreement, dated as of August 1, 2002, by and between Counties of Warren and Washington Industrial Development Agency and AngioDynamics, Inc. (incorporated by reference to Exhibit 10.15 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
10.16	Reimbursement Agreement, dated as of August 1, 2002, by and between AngioDynamics, Inc. and Keybank National Association (incorporated by reference to Exhibit 10.16 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
10.17	First Amendment to the Reimbursement Agreement, dated as of December 29, 2003, by and between AngioDynamics, Inc. and Keybank National Association (incorporated by reference to Exhibit 10.17 of the Company's registration statement on Form S-1, filed with the Commission on March 5, 2004).
10.18	Note Purchase Agreement, dated as of December 5, 2006, by and between AngioDynamics, Inc. and Keybanc Capital Markets.
10.19	Reimbursement Agreement, dated as of December 1, 2006, by and between AngioDynamics, Inc. and Keybank National Association.
10.20	AngioDynamics, Inc. Management Profitability Bonus Program (incorporated by reference to Exhibit 10.3 of the Company's current report on Form 8-K, filed with the Commission on August 21, 2006).
14	Code of Ethics (incorporated by reference to Exhibit 14 of the Company's current report on Form 8-K, filed with the Commission on May 12, 2006).
21	Subsidiaries .
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
AngioDynamics, Inc. and Subsidiaries:

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of AngioDynamics, Inc. and its subsidiaries at May 31, 2008 and June 2, 2007, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Item 9A under Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note H to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions effective June 3, 2007.

As discussed in Note O to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation effective June 4, 2006.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Albany, New York
July 24, 2008

AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(in thousands)

	May 31, 2008	June 2, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 32,040	$ 28,313
Restricted cash	68	1,786
Marketable securities, at fair value	46,182	43,191
Total cash, cash equivalents and marketable securities	78,290	73,290
Accounts receivable, net of allowance for doubtful accounts of $683 and $1,207, respectively	26,642	20,798
Inventories, net	22,901	28,007
Deferred income taxes	10,902	2,247
Prepaid expenses and other	3,147	2,957
Total current assets	141,882	127,299
PROPERTY, PLANT AND EQUIPMENT-AT COST, less accumulated depreciation and amortization	21,163	16,832
OTHER ASSETS	1,865	6,926
INTANGIBLE ASSETS, less accumulated amortization	71,311	49,148
GOODWILL	162,707	153,787
DEFERRED INCOME TAXES	6,860	29,289
PREPAID ROYALTIES	2,959	—
TOTAL ASSETS	$ 408,747	$ 383,281

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

AngioDynamics, Inc. and Subsidiaries

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

	May 31, 2008	June 2, 2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 9,081	$ 7,567
Accrued liabilities	9,523	8,136
Income taxes payable	933	900
Current portion of long-term debt and convertible note	10,040	315
Litigation provision	6,757	—
Other current liabilities	5,000	3,500
Total current liabilities	41,334	20,418
LONG-TERM DEBT, net of current portion	7,075	17,115
LITIGATION PROVISION	—	9,790
OTHER LONG TERM LIABILITIES, net of discount	4,625	—
Total liabilities	53,034	47,323
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $.01 per share, 45,000,000 shares authorized; issued and outstanding 24,268,266 and 23,961,750 shares, respectively	243	240
Additional paid-in capital	350,598	341,760
Retained earnings (Accumulated deficit)	4,908	(5,981)
Accumulated other comprehensive loss	(36)	(61)
Total stockholders' equity	355,713	335,958
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 408,747	$ 383,281

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

AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years ended		
	May 31, 2008	June 2, 2007	June 3, 2006
Net sales	$166,500	$112,227	$78,451
Cost of sales	63,913	46,060	32,930
Gross profit	102,587	66,167	45,521
Operating expenses			
Research and development	14,424	20,555	5,869
Sales and marketing	46,047	31,605	21,399
General and administrative	15,425	13,172	7,774
Amortization of intangibles	6,849	2,350	173
Litigation provisions, net	3,606	9,710	—
Total operating expenses	86,351	77,392	35,215
Operating income (loss)	16,236	(11,225)	10,306
Other income (expenses)			
Interest income	3,157	4,047	792
Interest expense	(1,328)	(308)	(138)
Other income (expense)	(737)	314	162
Total other income (expenses), net	1,092	4,053	816
Income (loss) before income tax provision	17,328	(7,172)	11,122
Income tax provision	6,439	1,955	4,256
Net income (loss)	$ 10,889	$ (9,127)	$ 6,866
Earnings (loss) per share			
Basic	$ 0.45	$ (0.49)	$ 0.55
Diluted	$ 0.45	$ (0.49)	$ 0.53

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

AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years ended May 31, 2008, June 2, 2007, and June 3, 2006,
(in thousands, except share data)

	Common Stock		Additional paid in capital	(Accumulated deficit) Retained earnings	Accumulated other comprehensive (loss) income	Total	Comprehensive income (loss)
	Shares	Amount					
Balance at May 28, 2005	12,051,632	$ 121	$ 52,878	$ (3,720)	$ (169)	$ 49,110	
Net proceeds from issuance of common stock	2,760,000	28	61,884			61,912	
Exercise of stock options	634,364	6	2,974			2,980	
Tax benefit on exercise of stock options			2,036			2,036	
Purchase of common stock under Employee Stock Purchase Plan	23,435		366			366	
Stock-based compensation			81			81	
Net Income				6,866		6,866	$ 6,866
Unrealized loss on marketable securities, net of tax of $ 30					(44)	(44)	(44)
Unrealized gain on interest rate swap, net of tax of $ 74					131	131	131
Comprehensive income							$ 6,953
Balance at June 3, 2006	15,469,431	$ 155	$ 120,219	$ 3,146	$ (82)	$123,438	
Issuance of common stock in acquisition	7,891,658	79	209,018			209,097	
Exercise of stock options	559,459	6	4,087			4,093	
Tax benefit on exercise of stock options			2,271			2,271	
Purchase of common stock under Employee Stock Purchase Plan	32,765		486			486	
Issuance of performance shares	8,437		214			214	
Stock-based compensation			3,498			3,498	
Implementation of SFAS 123R			158			158	
Fair value of conversion feature on convertible debt			1,809			1,809	
Net Loss				(9,127)		(9,127)	$ (9,127)
Unrealized gain on marketable securities, net of tax of $ 19					33	33	33
Unrealized loss on interest rate swap, net of tax of $ 8					(12)	(12)	(12)
Comprehensive loss							$ (9,106)
Balance at June 2, 2007	23,961,750	$ 240	$ 341,760	$ (5,981)	$ (61)	$335,958	
Net Income				10,889		10,889	$ 10,889
Exercise of stock options	245,120	3	3,418			3,421	
Tax effect of exercise of stock options			(329)			(329)	
Issuance of performance shares	4,385		30			30	
Purchase of common stock under Employee Stock Purchase Plan	57,011		817			817	
Stock-based compensation			4,902			4,902	
Unrealized gain on marketable securities, net of tax of $ 51					87	87	87
Unrealized loss on interest rate swap, net of tax of $ 36					(62)	(62)	(62)
Comprehensive income							$ 10,914
Balance at May 31, 2008	24,268,266	$ 243	$ 350,598	$ 4,908	$ (36)	$355,713	

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

AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years ended		
	May 31, 2008	June 2, 2007	June 3, 2006
Cash flows from operating activities:			
Net income (loss)	$ 10,889	$ (9,127)	$ 6,866
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	9,205	3,764	1,082
Amortization of bond discount	(336)	(355)	—
Purchased research and development expense	—	12,100	—
Tax effect of exercise of stock options and issuance of performance shares	(390)	597	2,036
Deferred income tax provision (benefit)	5,483	(2,818)	(18)
Write offs of excess and obsolete inventory	803	638	183
Stock based compensation	4,902	3,498	452
Provision for doubtful accounts	229	326	270
Litigation provisions, net	3,967	9,790	—
Other	41	(8)	(162)
Changes in operating assets and liabilities, net of impact from acquisitions:			—
Accounts receivable	(6,134)	(1,474)	(3,827)
Inventories	4,172	(6,522)	(5,887)
Prepaid expenses and other	(2,297)	365	(534)
Accounts payable and accrued liabilities	2,340	(2,890)	2,673
Other long term liabilities	(7,000)	—	85
Income taxes payable	33	900	—
Net cash provided by operating activities	25,907	8,784	3,219
Cash flows from investing activities:			
Additions to property, plant and equipment	(6,711)	(5,806)	(3,183)
Acquisition of intangible assets and business, net of cash acquired	(18,694)	(25,245)	(2,893)
Payment of non-refundable deposit	—	(5,139)	—
Change in restricted cash	1,718	(1,786)	—
Purchases of marketable securities	(58,699)	(72,254)	(31,337)
Proceeds from sale or maturity of marketable securities	56,192	55,188	18,316
Net cash used in investing activities	(26,194)	(55,042)	(19,097)
Cash flows from financing activities:			
Repayment of long-term debt	(315)	(205)	(165)
Issuance of long term debt	—	5,000	—
Payment of deferred financing costs	—	(190)	—
Payments of costs related to issuance of common stock	—	(329)	(218)
Proceeds from exercise of stock options and ESPP	4,238	4,579	3,346
Proceeds from the issuance of common stock	—	—	62,459
Tax effect of the exercise of stock options and issuance of performance shares	91	1,674	—
Net cash provided by financing activities	4,014	10,529	65,422
Increase (decrease) in cash and cash equivalents	3,727	(35,729)	49,544
Cash and cash equivalents			
Beginning of period	28,313	64,042	14,498
End of period	$ 32,040	$ 28,313	$ 64,042

AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(in thousands)

	Years ended		
	May 31, 2008	June 2, 2007	June 3, 2006
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 661	$ 183	$ 136
Income taxes	1,782	1,364	2,484
Supplemental disclosure of non-cash operating, investing and financing activities:			
Contractual obligations in acquisition of intangibles and business	$9,625	$ 3,500	—
Issuance of common stock in acquisition	—	209,097	—
Assumption of debt in acquisition	—	11,509	—
Issuance of performance shares	—	214	
Costs related to issuance of common stock included in accounts payable	—	—	$ 329

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

NOTE A—BASIS OF PRESENTATION, BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation, Business Description and Recent Events

The consolidated financial statements include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, Leocor, Inc. ("Leocor"), RITA Medical Systems, LLC since January 29, 2007 and Oncobionic, Inc. since May 9, 2008 (collectively, the "Company"). The Company is primarily engaged in the design, development, manufacture and marketing of medical products used by interventional radiologists and other physicians for the minimally invasive diagnosis and treatment of peripheral vascular disease and local oncology therapy options for cancer patients, including radiofrequency ablation, or RFA, irreversible electroporation, or IRE, and systems and embolization products for treating cancerous tumors. As of May 31, 2008, the Company's operations are classified in one segment, the manufacture and sale of medical devices. Beginning in the first quarter of the Company's fiscal year 2009, the Company will classify its operations into three segments, Peripheral Vascular, Access and Oncology Surgery. The chief operating decision maker makes decisions based upon Company-wide sales and costs. The assets and expenses are not allocated by product line. As such, the chief operating decision maker is basing decisions upon a single segment. Certain prior period amounts have been reclassified for comparative purposes to conform to current year presentation. The reclassifications, including separate presentation of amortization expense on the consolidated statements of operations and excluding hardware units used for demonstrations and temporary replacement for customers' units under repair from saleable inventory, resulted in a decrease in "Inventories, net" and an increase in "Other assets" in the amount of $560,000 as of June 2, 2007. These units are expensed on a straight line basis over their expected useful life.

On May 24, 2006, the Company completed a follow-on public offering of its common stock, selling 2,760,000 shares of its common stock (including 360,000 shares subject to the underwriters' over-allotment option) at $24.07 per share, less underwriting discounts and commissions. Proceeds from the offering, net of underwriting costs totaling $3,974,400, amounted to $62,458,800 and were received by the Company on May 30, 2006. Net proceeds of the offering credited to common stock and additional paid-in capital aggregated $61,911,830, net of financing costs of $546,970.

RITA Medical Systems, Inc.

On January 29, 2007, the Company completed the acquisition of RITA Medical Systems, Inc. ("RITA") for a total purchase price of approximately $244 million, comprising approximately 7.9 million shares of the Company's common stock, assumption of outstanding RITA options and other convertible securities, which are exercisable for an additional 1.9 million shares of the Company's common stock and approximately $24 million in cash (See Note C).

Oncobionic, Inc.

On May 9, 2008, the Company completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. ("Oncobionic") for approximately $25.4 million including $400,000 of assumed liabilties (see Note C).

All significant intercompany balances and transactions have been eliminated.

2. Fiscal Year

Beginning with fiscal 2008, the Company reports on a fiscal year ending May 31. Prior to fiscal 2008, the Company reported on a fiscal year that concluded on the Saturday nearest to May 31. Fiscal year 2007 ended on June 2, 2007, for a reporting period of fifty-two weeks. Fiscal year 2006 ended on June 3, 2006 for a reporting period of fifty-three weeks.

3. Cash and Cash Equivalents

The Company considers all unrestricted highly liquid investments purchased with an initial maturity of less than three months to be cash equivalents. The Company maintains cash and cash equivalent balances with financial institutions in the United States in excess of amounts insured by the Federal Deposit Insurance Corporation.

4. Marketable Securities

Marketable securities, which are principally government agency bonds, auction rate investments and corporate commercial paper, are classified as "available-for-sale securities" in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" and reported at fair value, with unrealized gains and losses excluded from operations and reported as a component of accumulated other comprehensive income (loss), net of the related tax effects, in stockholders' equity. Cost is determined using the specific identification method. The Company holds investments in auction rate securities in order to generate higher than typical money market rate investments. 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 the Company may be unable to liquidate its position in the securities in the near term.

5. Accounts Receivable

Accounts receivable, principally trade, are generally due within 30 to 90 days and are stated at amounts due from customers, net of an allowance for sales returns and doubtful accounts. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information. The Company continuously monitors aging reports, collections and payments from customers, and a provision for estimated credit losses is maintained based upon the Company's historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the Company's expectations and the provisions established, the Company cannot guarantee that the same credit loss rates will be experienced in the future. The Company writes off accounts receivable when they become uncollectible.

Changes in the Company's allowance for doubtful accounts are as follows:

	May 31, 2008	June 2, 2007
	(in thousands)	
Beginning balance	$ 1,207	$ 430
Provision for sales returns and doubtful accounts	229	326
Allowance for acquired receivables	(61)	498
Write-offs	(692)	(47)
Ending Balance	$ 683	$ 1,207

6. Inventories

Inventories are stated at the lower of cost (at standard cost, which approximates the first-in, first-out method) or market. Appropriate consideration is given to deterioration, obsolescence and other factors in evaluating net realizable value.

7. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Company evaluates these assets for impairment annually or as changes in circumstances or the occurrence of events suggest the remaining value is not recoverable. Expenditures for repairs and maintenance are charged to expense as incurred. Renewals and betterments are capitalized.

8. Accounting for Business Combinations, Goodwill and Intangible Assets

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

For goodwill, the evaluation requires a comparison of the estimated fair value of the reporting unit to which the goodwill is assigned to the sum of the carrying value of the assets and liabilities of that unit, including goodwill. 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. The Company's determination of impairment is based on estimates of future cash flows. The Company tests goodwill for impairment during the third quarter of every fiscal year, or more frequently if impairment indicators arise. Events that could, in the future, result in impairment include, but are not limited to, sharply declining sales for a significant product or in a significant geographic region. As a result of the test performed in the third quarter of 2008, no impairment charge was required.

9. Revenue Recognition

Revenue is recognized in accordance with generally accepted accounting principles as outlined in the SEC's Staff Accounting Bulletin No. 104 "Revenue Recognition," which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) product delivery has occurred or services have been rendered. The Company recognizes revenue, net of sales taxes assessed by any governmental authority, as products are shipped based on F.O.B. shipping terms when title and risk of loss passes to customers. The Company negotiates credit terms on a customer-by-customer basis and products are shipped at an agreed upon price. All product returns must be pre-approved and, if approved, customers may be subject to a 20% restocking charge. To be accepted, a returned product must be unadulterated, undamaged and must have at least 12 months remaining prior to its expiration date.

10. Research and Development

Research and development costs, including salaries, consulting fees, building costs, utilities, administrative expenses, patent application costs, and an allocation of corporate costs are related to developing new products and making technological improvements to existing products and are expensed as incurred.

11. Shipping and Handling Costs

Shipping and handling costs, associated with the distribution of finished products to customers, are recorded in costs of goods sold and are recognized when the related finished product is shipped to the customer. Amounts charged to customers for shipping are recorded in net sales.

12. Advertising

All costs associated with advertisement are expensed as incurred. Advertising expense, included in sales and marketing was $555,000, $491,000, and $260,000 for 2008, 2007, and 2006, respectively.

13. Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carryforwards and tax credit carryforwards for which income tax benefits are expected to be realized in future years. A valuation allowance has been established to reduce deferred tax assets, as it is more likely than not that all, or some portion, of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The deferred tax asset includes net operating losses acquired as part of the RITA acquisition. These losses could be significantly limited under Internal Revenue Code (“IRC”) Section 382. An analysis of RITA’s ownership changes as defined in IRC Section 382 shows that approximately $15.8 million (of which $0.8 million had expired as of May 31, 2008) of net operating losses will not be utilized due to limitations. In addition, it is estimated that $11.8 million of state net operating losses will expire prior to utilization. The gross deferred tax asset related to the net operating losses reflects these limitations.

The Company intends to reinvest indefinitely any of its unrepatriated foreign earnings as of May 31, 2008. The Company has not provided for U.S. income taxes on these undistributed earnings of its foreign subsidiaries because Management considers such earnings to be reinvested indefintely outside the United States. If these earnings were distributed, the Company may be subject to both foreign withholding taxes and U.S. income taxes. Determination of the amount of this unrecognized deferred income tax liability is not practical.

In November 2005, the FASB issued FASB Staff Position SFAS No. 123(R)-3, “Transition Election to Accounting for the Tax Effect of Share-Based Payment Awards.” The Company elected to adopt the modified prospective transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). Under the modified prospective transition method, no adjustment is made to the deferred tax balances associated with stock-based payments that continue to be classified as equity awards. Additionally, the Company elected to use the “long-form method,” as provided in paragraph 81 of SFAS No. 123(R) to determine the pool of windfall tax benefits. The long-form method requires the Company to analyze the book and tax compensation for each award separately as if it had been issued following the recognition provisions of SFAS No. 123, subject to adjustments for net operating loss carryforwards.

14. Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable, short-term and long-term debt and two interest rate swap agreements. The carrying amount of these instruments approximates fair value due to the immediate or short-term maturities and variable interest rates associated with these instruments. The interest rate swap agreements have been recorded at their fair value based on a valuation received from an independent third party (see Note K). Marketable securities are carried at their fair value as determined by quoted market prices.

15. Derivative Financial Instruments

In accordance with SFAS No. 133, "Accounting for Derivatives and Hedging Activities," as amended, the Company's 2002 interest rate swap agreement (see Note K) qualifies for hedge accounting under GAAP and the 2006 interest rate swap agreement does not. Both are presented in the consolidated financial statements at their fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in stockholders' equity as a component of accumulated other comprehensive income (loss) depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value or cash flow hedge. Generally, the changes in the fair value of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair value of hedged items that relate to the hedged risks. Changes in the fair value of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive income (loss).

16. Stock-Based Compensation

On June 4, 2006, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payments" ("SFAS 123(R)"), which requires the measurement and recognition of all share-based payment awards made to employees and directors, including stock options, restricted stock units, performance share awards and employee stock purchases related to the Company's Employee Stock Purchase Plan (the "Stock Purchase Plan") based on estimated fair values. SFAS 123(R) supercedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), "Accounting for Stock-based Compensation" ("SFAS No. 123") for non-employees, and related interpretations, beginning fiscal year 2007. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized on a straight-line basis over the requisite service period in the Company's consolidated statements of operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's consolidated statements of operations, because the exercise price of the Company's stock options granted to employees and directors was equal to or exceeded the fair market value of the underlying stock on the date of grant.

Stock-based compensation expense recognized in the Company's consolidated statements of operations for periods after adoption of SFAS 123(R) includes compensation expense for share-based payment awards granted prior to, but not yet vested as of June 3, 2006, based on the grant date fair value estimated in accordance with the

pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to June 3, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R), and has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for fiscal 2006, forfeitures have been accounted for as they occurred.

For the fiscal years ended May 31, 2008 and June 2, 2007, the Company used the Black-Scholes option-pricing model ("Black-Scholes") as its method of valuation under SFAS 123(R) and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Black-Scholes was also previously used for the Company's pro forma information required by SFAS 123 for fiscal 2006. The fair value of share based payment awards on the date of the grant as determined by the Black-Scholes model is affected by the Company's stock price as well as other assumptions. These assumptions include, but are not limited to the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, and a risk-free interest rate. The risk-free interest rate is based on factual data derived from public sources. The expected stock-price volatility and option life assumptions require significant judgment and are considered critical accounting estimates.

The Company considers historical volatility and trends within the Company's industry/peer group when estimating expected stock price volatility. The Company uses yield rates on U.S. Treasury securities for a period approximating the expected term of the award to estimate the risk-free interest rate. The expected term is determined using the simplified method available under SAB 107 due to our limited public history. The dividend yield is based on the history and expectation of dividend payments. The Company has not paid dividends in the past nor does it expect to pay dividends in the foreseeable future. Company historical data includes information from May 27, 2004, the date of the Company's initial public offering.

17. Earnings Per Common Share

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share further includes the dilutive effect of potential common stock consisting of stock options, warrants, restricted stock units and shares issuable upon conversion of convertible debt into shares of common stock, provided that the inclusion of such securities is not antidilutive.

The Company accounts for convertible debt (see Note K) under EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08"). EITF 04-08 indicates that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. For fiscal 2008 and 2007, shares issuable upon conversion of convertible debt into 414,476 shares of common stock, with a conversion price of $20.41 per share, have been excluded from the calculation of diluted earnings per share, as their inclusion would not be dilutive.

Also excluded from the calculation of diluted earnings per common share, are options, warrants, and restricted stock units issued to employees and non-employees to purchase 2,481,787, 1,111,342, and 18,489 shares of common stock at May 31, 2008, June 2, 2007, and June 3, 2006, respectively, as their inclusion would not be dilutive. The exercise prices of the excluded securities were between $0 and $196.95 at May 31, 2008 and June 2, 2007, and between $20.70 and $28.45 at June 3, 2006.

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

	2008	2007(1)	2006
Basic	24,081,713	18,443,570	12,377,731
Effect of dilutive securities	267,247	—	586,843
Diluted	24,348,960	18,443,570	12,964,574

(1) As a result of the net loss for the year ending June 2, 2007, all outstanding options and warrants were excluded from the calculation of diluted earnings per common share as their inclusion would be antidilutive.

18. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

19. Supplier Concentrations

The Company is dependent on a third-party manufacturer for a substantial portion of its dialysis catheters. In 2008, products purchased from this supplier accounted for approximately 19% of total product purchases and sales of these products accounted for approximately 11% of the Company's sales. The Company is dependent upon the ability of its suppliers to provide products on a timely basis and on favorable pricing terms. The loss of its principal suppliers or a significant reduction in product availability from these suppliers could have a material adverse effect on the Company. The Company believes that its relationships with these suppliers are satisfactory and did not experience any instances of inadequate supply during 2008 or 2007.

20. Recently Issued Accounting Pronouncements

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement focuses on creating consistency and comparability in fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (our 2009 fiscal year), and interim periods within those fiscal years. The Company is currently evaluating the impact this adoption will have on the company's consolidated financial statements.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities —Including an Amendment of FASB Statement No. 115 ("SFAS 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for fiscal years beginning after November 15, 2007 (our 2009 fiscal year). The Company is currently evaluating the impact this adoption will have on the company's consolidated financial statements.

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

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination recognized and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired or gain from a bargain purchase; and determines what information to disclose to enable readers of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year) and will be applied prospectively.

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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring companies to enhance disclosure about how these instruments and activities affect their financial position, performance and cash flows. SFAS 161 also improves the transparency about the location and amounts of derivative instruments in a company's financial statements and how they are accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 (the Company's 2010 fiscal year), and interim periods within beginning after that date. The Company is currently evaluating the impact this adoption will have on the Company's consolidated financial statements.

In April 2008, FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB statement No. 141. This FSP is effective for financial statement issued for fiscal years beginning after December 15, 2008 (the Company's 2010 fiscal year) and early adoption is prohibited. For intangible assets acquired after the effective date, this FSP shall be applied as guidance in determining the useful life. The disclosure requirements which enable users of financial statement to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement shall be applied to all recognized intangible assets. The Company will comply with the guidance and disclosure requirement prospectively from the date of adoption.

In May 2008, the FASB issued SFAS No. 162, *"The Hierarchy of Generally Accepted Accounting Principles"* ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *"The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles"*. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

NOTE B—COMPREHENSIVE INCOME

The Company records comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires unrealized holding gains or losses on available-for-sale securities and certain derivative instruments, net of tax, to be included in accumulated other comprehensive income, as a separate component of stockholders' equity. The components of comprehensive income, which include unrealized gains and losses on available for sale securities and changes in the fair value of the 2002 interest rate swap (see Note K), are detailed in the Company's accompanying consolidated statements of stockholders' equity and comprehensive income. At May 31, 2008 and June 2, 2007, the components of accumulated other comprehensive loss, net of related tax, are as follows:

	May 31, 2008	June 2, 2007
	(in thousands)	
Cumulative loss on interest rate swap	$ (123)	$ (61)
Unrealized holding gain on marketable securities	87	—
Accumulated other comprehensive loss	$ (36)	$ (61)

NOTE C—ACQUISITIONS

RITA Medical Systems, Inc.

On January 29, 2007, the Company completed the acquisition of RITA Medical Systems, Inc. ("RITA") for a total purchase price of approximately $244 million, comprising approximately $24 million in cash, 7.9 million shares of the Company's common stock and assumption of outstanding RITA options and other convertible securities, which are exercisable for an additional 1.9 million shares of the Company's common stock.

In connection with the acquisition, the Company assumed warrants to acquire 2,727,270 RITA shares, which became exercisable for approximately 469,636 shares of the Company's common stock at an average price of $20.24 per share, net of the cash component. These warrants expire in November 2009. The aggregate fair value with respect to the warrants of approximately $4.5 million was recorded as part of the purchase price using fair values determined under the Black-Scholes valuation model, with the following assumptions: expected stock price volatility of 54.6%; risk-free interest rate of 4.98%; and an expected term of 1.7 years.

The Company acquired RITA for its market position, premium product offerings, developed and emerging technologies in the fields of interventional oncology and vascular access, and its highly skilled workforce. The merger was pursued and completed because the management groups and stockholders of the Company and RITA believe the combined entity will achieve higher sales and profitability than either or both of the pre-acquisition companies on a stand-alone basis.

The Company has accounted for the acquisition of RITA as a business combination under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of RITA were recorded as of the acquisition date, at their respective fair values, and consolidated with those of AngioDynamics. The valuation of the assets and liabilities of RITA required the use of significant assumptions and estimates, including expected future cash flows and the applicable discount rates for the acquired intangibles, Black-Scholes assumptions for the valuation of the exchanged options and warrants and estimates for IRC section 382 limitations for the deferred tax assets. These estimates were based on assumptions that the Company believed to be reasonable as of the date of the acquisition. However, the Company's actual results may differ from these estimates. Goodwill related to the RITA acquisition decreased by approximately $395,000 during the year ended May 31, 2008. The decrease related to adjustments for income taxes, the impact of SFAS 123(R), the finalization of contract termination costs and minimal additional adjustments to the preliminary purchase price allocation. The Company does not anticipate further material changes in the purchase price allocation.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed and reflects any adjustments made during the 2008 fiscal year:

Current assets	$ 18,164
Property, plant and equipment	1,638
Deferred tax asset	28,560
Goodwill	153,392
Customer relationships	27,500
Distributor relationships	900
Product technologies	13,900
Trademarks	600
Purchased R&D	12,100
Other assets	1,040
Total assets acquired	257,794
Current liabilities	4,588
Long-term convertible debt	9,700
Total liabilities assumed	14,288
Net assets acquired	$ 243,506

The fair values of the Company's common stock issued, the options and warrants assumed, and the fair value of the convertible debt assumed in the acquisition of RITA were calculated using a valuation price of $24.776 per share of the Company's common stock, which was calculated using the average of the closing market value for two days prior to and two days after the measurement date of January 24, 2007. The purchase price of $243.5 million includes $4.6 million of direct acquisition costs. The product technologies are expected to be amortized over a weighted-average useful life of 11 years. The remaining intangible assets are being amortized over a weighted-average useful life of 7 years. In addition, originally the Company recorded $153.8 million in non-tax deductible goodwill, which was adjusted during 2008 for the impact of SFAS 123(R). The Company also recorded approximately $12.1 million of purchased research and development ("purchased R&D") costs which were recorded in research and development expense in its consolidated statements of operations for the fiscal year ended June 2, 2007. The value assigned to purchased R&D was determined by identifying specific R&D projects that would be continued and for which (a) technological feasibility had not been established at the acquisition date,

(b) there was no alternative future use and (c) the fair market value was estimable with reasonable reliability. The Company considered a number of factors including comparable transactions, relief from royalty analysis and other discounted cash flow approaches in determining preliminary purchase price allocations.

Oncobionic, Inc.

On May 9, 2008, the Company completed the acquisition of all the issued and outstanding shares of capital stock of Oncobionic, Inc. pursuant to the terms of the Stock Purchase Agreement entered into on October 12, 2006. The closing of the acquisition comes as a result of the successful initial use of irreversible electroporation (IRE) technology in the first human clinical trial for the treatment of soft tissue, conducted during the first week of April 2008.

The Company has recorded goodwill and a deferred tax liability of $9.3 million. The deferred tax liability will be reduced to offset the tax impact of non-deductible amortization expense on the intangible assets acquired.

Under the October 2006 Stock Purchase Agreement, the Company agreed to pay a total purchase price of $25.4 million, including $400,000 of assumed liabilities. The Company made payments of $5.0 million upon the execution of the stock purchase agreement in October 2006 and $10.0 million on May 9, 2008 upon the closing of the acquisition. Of the balance, $5.0 million is payable in November 2008 and the remaining $5.0 million is payable in November 2009.

The Stock Purchase Agreement includes future payments due on net sales of any catheter-based products sold by the Company that incorporate irreversible electroporation technology (“IRE”) for use in reducing the incidence of restenosis (the recurrence of narrowing or constriction of the arteries) associated with angioplasty procedures. The Company holds a license to such technology under a license agreement with the Regents of the University of California (the “UC License”).

The Company has accounted for the acquisition of Oncobionic as a business combination under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of Oncobionic were recorded as of the acquisition date, at their respective fair values, and consolidated with those of AngioDynamics. Substantially all of the purchase price was recorded as product technology and is being amortized over a 15 year useful life. The proforma impact on prior years results of operations would be approximately $1.8 million of additional amortization expense or $1.1 million, net of tax.

The Stock Purchase Agreement also permits former shareholders of Oncobionic to license its irreversible electroporation technology for Cardiac Arrhythmia Application (as defined in the Stock Purchase Agreement) to a single licensee and to appoint an affiliate of certain of the former shareholders of Oncobionic as its agent (the “Agent”) for a period of four years, commencing on the execution of the Purchase Agreement, to identify a potential licensee for such license. Under the Purchase Agreement the Company has a right of first refusal on any third-party offers for a license to the Cardiac Arrhythmia Application. At this time, there has been no agreement entered into.

Under a commission agreement between the Company and the Agent entered into concurrently with the Purchase Agreement, the Company has agreed to pay the Agent fifty (50%) percent of all license fees and royalties received from any licensee identified by the Agent after payment of all license fees dues under the UC License. Additionally, the Company has agreed to pay the Agent a termination fee equal to fifty (50%) percent of (i) the unconditional, non-refundable, up-front fees and (ii) the guaranteed minimum royalty payments that would have been paid to the Company under a proposed license in excess of the fees due under the UC License, if the Company rejects a bona fide offer by a potential licensee or is otherwise unable in good faith to reach an agreement with a potential licensee.

NOTE D—MARKETABLE SECURITIES AND INVESTMENTS

Marketable securities as of May 31, 2008 consisted of the following:

	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Available-for-sales securities				
U.S. government agency obligations(1)	$ 36,183	$ 128	$ (25)	$ 36,286
Corporate bond securities	9,861	41	(6)	9,896
	$ 46,044	$ 169	$ (31)	$ 46,182

Marketable securities as of June 2, 2007 consisted of the following:

	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Available-for-sales securities				
U.S. government agency obligations(1)	$ 37,138	$ 28	$ (32)	$ 37,134
Corporate bond securities	6,056	4	(3)	6,057
	$ 43,194	$ 32	$ (35)	$ 43,191

(1) Includes auction-rate securities

The amortized cost and fair value of marketable securities at May 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Fair Value
	(in thousands)	
As of May 31, 2008:		
Due in one year or less	$ 24,975	$ 25,038
Due after one through five years	9,357	9,436
Due after five through twenty years	11,712	11,708
	$ 46,044	$ 46,182

NOTE E—INVENTORIES

Inventories consist of the following:

	May 31, 2008	June 2, 2007
	(in thousands)	
Raw materials	$10,383	$10,924
Work in process	3,565	2,915
Finished goods	12,647	16,928
Gross Inventories	26,595	30,767
Less: Reserves	(3,694)	(2,760)
Net Inventories	$22,901	$28,007

NOTE F—PROPERTY, PLANT AND EQUIPMENT, AT COST

Property, plant and equipment are summarized as follows:

	Estimated useful lives	May 31, 2008	June 2, 2007
		(in thousands)	
Building and building improvements	39 years	$ 11,717	$ 5,608
Machinery and equipment	3 to 8 years	9,803	9,512
Computer software and equipment	3 to 5 years	6,958	5,095
Construction in progress		4,072	5,918
		32,550	26,133
Less accumulated depreciation and amortization		(11,746)	(9,524)
		20,804	16,609
Land and land improvements		359	223
		$ 21,163	$16,832

Depreciation expense for 2008, 2007, and 2006, was $2,328,000, $1,414,000, and $909,000, respectively.

NOTE G—GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets that have indefinite useful lives are not amortized but rather are tested for impairment annually or more frequently if impairment indicators arise. None of the Company's intangible assets have an indefinite life. Intangible assets with determinable useful lives are amortized over their useful lives on either a straight-line basis over the expected period of benefit or as revenues are earned from the sales of the related products. Goodwill and intangible assets have been recorded at either incurred or allocated cost. Allocated costs were based on respective fair market values at the date of acquisition.

Changes in the carry amount of goodwill for the fiscal year ended May 31, 2008 are as follows (in thousands):

Balance, June 3, 2007	$153,787
Adjustments to purchase price allocation	(395)
Arising from completed business combinations (Note C)	9,315
Balance, May 31, 2008	$162,707

Changes in the carrying amount of goodwill for the fiscal year ended June 2, 2007, are as follows (in thousands):

Balance, June 4, 2006	$ —
Arising from completed business combinations	153,787
Balance, June 2, 2007	$ 153,787

The balances of intangible assets are as follows:

	May 31, 2008			
	Gross carrying value	Accumulated amortization	Net carrying value	Weighted avg useful life
		(in thousands)		(years)
Licenses	$ 5,540	$ (698)	$ 4,842	9.9
Customer relationships	27,500	(4,924)	22,576	7.5
Distributor relationships	900	(400)	500	3.0
Trademarks	600	(80)	520	10.0
Product technologies	47,203	(4,330)	42,873	13.6
	$81,743	$ (10,432)	$ 71,311	

	June 2, 2007			
	Gross carrying value	Accumulated amortization	Net carrying value	Weighted avg useful life
		(in thousands)		(years)
Licenses	$ 2,518	$ (183)	$ 2,335	7.4
Customer relationships	27,500	(1,231)	26,269	7.5
Distributor relationships	900	(100)	800	3.0
Trademarks	600	(20)	580	10.0
Product technologies	21,183	(2,019)	19,164	11.9
	$52,701	$ (3,553)	$ 49,148	

Amortization expense was $6,880,000, $2,350,000, and $167,000 for 2008, 2007, and 2006, respectively.

Annual amortization of these intangible assets is expected to approximate the following amounts for each of the next five fiscal years:

	(in thousands)
2009	$ 8,718
2010	8,651
2011	8,317
2012	8,119
2013	7,697

NOTE H—INCOME TAXES

Income tax provision analyzed by category and by statement of income classification is summarized as follows:

	2008	2007 (in thousands)	2006
Current			
Federal	$1,348	$ 4,485	$3,923
State and local	224	288	351
Non U.S.	148	—	—
	1,720	4,773	4,274
Deferred	4,719	(2,818)	(18)
	$6,439	$ 1,955	$4,256

The significant components of deferred income tax (benefit) expense from operations for the years ended May 31, 2008, June 2, 2007, and June 3, 2006 consist of the following:

	2008	2007 (in thousands)	2006
Deferred tax (benefit) expense	$(2,628)	$(5,338)	$ (18)
Net operating loss carryforward	7,347	2,520	—
	$ 4,719	$(2,818)	$ (18)

Temporary differences that give rise to deferred tax assets and liabilities are summarized as follows:

	May 31, 2008	June 2, 2007
	(in thousands)	
Deferred tax assets		
Capital loss carryforwards	$ 94	$ 102
Net operating loss carryforward	29,653	36,599
R&D and state tax credit carryforward	1,294	1,285
Expenses incurred not currently deductible	347	1,089
Unrealized loss on interest rate swap	72	36
Impairment of long-lived assets	417	533
Inventories	1,930	1,058
Litigation damage award	2,590	3,593
Stock-based compensation	2,414	1,688
State tax credits	270	—
Other	82	—
Gross deferred tax asset	39,163	45,983
Deferred tax liabilities		
Excess tax over book depreciation and amortization	20,196	12,197
Other	51	33
Gross deferred tax liability	20,247	12,230
Valuation allowance	(1,154)	(2,217)
Net deferred tax asset	$17,762	$31,536

In conjunction with the acquisition of RITA, at May 31, 2008, the Company had approximately $99.2 million of remaining federal net operating loss carryforwards and $53.0 million of state net operating loss carryforwards (“NOL”). As a result of ownership changes caused by the acquisition of RITA, these net operating losses are subject to Internal Revenue Code (“IRC”) Section 382 limitations, which is expected to significantly limit the Company’s ability to utilize these net operating losses on an annual basis. As a result of the Company’s IRC Section 382 analysis, it is estimated that approximately $15.0 million of remaining Federal net operating losses and $11.8 million of state net operating losses will expire prior to utilization. The gross deferred income tax asset (“DTA”) related to the NOL reflects these limitations.

The Company needs to generate approximately $5 million of taxable income in each year over the next eighteen years to ensure the realizability of the Company’s deferred tax assets. The Company has determined that it has sufficient existing levels of pre-tax earnings to generate sufficient taxable income to realize the net deferred tax assets recorded on the Company’s balance sheets.

In order to support the realizability of the Company’s net deferred tax asset, management projected its pre-tax income utilizing a combination of historical and projected results. Utilizing this projected pre-tax income, management has projected taxable income taking into consideration existing levels of permanent differences including stock option exercise deductions and non-deductible expenses and the reversal of significant temporary differences.

The Company's federal net operating loss carryforwards as of May 31, 2008 after considering IRC Section 382 limitations are $84.2 million. The expiration of the federal net operating loss carryforwards are as follows: $1.0 million between 2010 and 2011, $45.5 million between 2017 and 2021 and $37.7 million between 2022 and 2026.

The Company's state net operating loss carryforwards as of May 31, 2008 after considering remaining IRC Section 382 limitations are $41.2 million which expire in various years from 2009 to 2026.

At May 31, 2008, the Company had approximately $429,000 of Federal research and development tax credit carryforwards which are subject to IRC Section 382 limitations and begin to expire in 2023. Additionally, at May 31, 2008, the Company had $1.3 million of state credits, of which $315,000 expire at various dates through 2013 and $996,000 which have an unlimited carryforward period.

At May 31, 2008, the Company had a net deferred income tax asset of $17.8 million, after recording a valuation allowance of $1.2 million (of which $1.1 million relates to deferred tax assets acquired in connection with the RITA acquisition). When the portion of the valuation allowance associated with the acquisition of RITA is reversed in the future, the benefit of any reversal would (a) first be applied to reduce to zero and goodwill related to the acquisition (b) second to reduce to zero other non-current intangible assets related to the acquisition, and (c) third to reduce income tax expense. The net change in the valuation allowance was a decrease of $1.0 million in 2008 and an increase of $2.1 million in 2007. The 2008 decrease in the valuation allowance was based upon a change in management's estimate of the realizability of certain Federal tax credits and state net operating losses obtained in connection with the RITA acquisition. Consequently this change was reflected as a reduction to goodwill related to the acquisition. The valuation allowance recorded against the deferred tax assets acquired in connection with the RITA acquisition relates to state tax credits and state NOLs that management has estimated will more likely than not expire before they are expected to be utilized.

The Company's consolidated income tax provision has differed from the amount that would be provided by applying the U.S. Federal statutory income tax rate to the Company's income before income taxes for the following reasons:

	2008	2007 (in thousands)	2006
Income tax provision	$6,439	$ 1,955	$4,256
Effect of Graduated tax rates	173	(71)	112
State income taxes, net of Federal tax benefit	(52)	(33)	(195)
Impact of Non US operations	(17)	—	—
Tax-exempt interest	151	79	—
Research and development tax credit	114	32	88
Domestic Production Activities deduction	74	72	27
Extraterritorial income exclusion	—	—	7
Nondeductible write-off of acquired in-process R&D	—	(4,114)	—
Nondeductible stock-based compensation	(311)	(161)	—
Other nondeductible expenses	(480)	(414)	(375)
Overaccrual (underaccrual) of prior year Federal and state taxes	(26)	89	(27)
Other	—	56	—
Income tax provision at statutory tax rate of 35%	$6,065	$(2,510)	$3,893

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" (FIN 48), which

clarifies the accounting for uncertainty in tax positions. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This Interpretation requires the Company recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted this statement on June 3, 2007. There was no cumulative effect of adopting FIN 48. Upon adoption, the liability for unrecognized tax benefits was zero.

During the twelve months ended May 31, 2008, the Company did not recognize any tax liabilities related to uncertain tax positions. Due to the unrecognized tax benefit of the Company being zero upon adoption, with no change since adoption, no “tabular reconciliation” of the total amount of unrecognized tax benefits at the beginning and end of the period is being presented.

The Company recognizes interest and penalties related to unrecognized tax benefits within its global operations as a component of income tax expense. This accounting policy did not change as a result of the adoption of FIN 48. Accrued interest and penalties recognized in the consolidated balance sheet were $0 as of June 2, 2007 and May 31, 2008.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. Fiscal years 2005 through 2008 remain open to examination by the various tax authorities. The Company analyzed filing positions in all of the federal and state jurisdictions where it is required to file income taxes, as well as all open tax years in these jurisdictions and believes that its income tax filings positions and deductions will be sustained on audit and does not anticipate any adjustments will result in a material adverse effect on the Company’s financial condition, results of operations or cash flows.

Management does not anticipate that the amount of unrecognized tax benefits will significantly change in the next twelve months.

NOTE I—PREPAID ROYALTIES

On August 13, 2007, the Company entered into a Distribution, Manufacturing and Purchase Option Agreement (“the Agreement”) with a company to acquire the exclusive worldwide rights to manufacture and distribute a split tip catheter for the dialysis market that the Company has named Centros™. The Company also has the option to purchase certain intellectual property associated with these products in the future. The Company will pay royalties on net sales of the products covered in the Agreement. In accordance with the Agreement, the Company has prepaid $3.0 million of royalties based upon the achievement of certain milestones. These payments have been included in the caption “Prepaid Royalties” on the balance sheet as of May 31, 2008 and will be credited against quarterly royalties due subject to certain contractual limitations in the first two years following the initial sale of product. In years 4 through 10 of the contract, certain minimum annual royalties are due.

NOTE J—ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	May 31, 2008	June 2, 2007
	(in thousands)	
Payroll and related expenses	$5,051	$4,267
Sales and franchise taxes	1,112	1,352
Royalties	763	768
Fair value of interest rate swap	416	98
Other	2,181	1,651
Total	$9,523	$8,136

NOTE K—LONG-TERM DEBT

Industrial Revenue Bonds

In September 2002, the Company closed on the financing for the expansion of its headquarters and manufacturing facility in Queensbury, New York. The expansion was financed principally with Industrial Revenue Bonds (the "Bonds") issued by the Warren and Washington Counties Industrial Development Agency (the "Agency") aggregating $3,500,000. The Bonds are issued under a Trust Agreement by and between the Agency and a bank, as trustee (the "Trustee"). The proceeds of the Bonds were advanced, as construction occurred, pursuant to a Building Loan Agreement by and among the Agency, the Trustee, a second bank (the "Bank") and the Company. The Bonds reprice every seven days and are resold by a Remarketing Agent. The Bonds bear interest based on the market rate on the date the Bonds are repriced and require quarterly interest payments and quarterly principal payments ranging from $25,000 to $65,000 through May 2022. In connection with the issuance of the Bonds, the Company entered into a Letter of Credit and Reimbursement Agreement with the Bank which requires the maintenance of a letter of credit for an initial amount of $3,575,000 to support principal and certain interest payments of the Bonds and requires payment of an annual fee on the outstanding balance ranging from 1% to 1.9%, depending on financial results achieved. The Company also entered into a Remarketing Agreement, pursuant to which the Remarketing Agent is required to use its best efforts to arrange for sales of such bonds in the secondary market. The Remarketing Agreement provides for the payment of an annual fee of 0.1% of the remaining balance.

The Reimbursement Agreement contains certain financial covenants relating to fixed charge coverage and interest coverage, as defined. Amounts borrowed under the Agreement are collateralized by the aforementioned letter of credit and a first mortgage on the land, building and equipment relating to the facility.

The Company entered into an interest rate swap agreement (the "2002 Swap Agreement") with the Bank, effective September 2002, with an initial notional amount of $3,500,000 to limit the effect of variability due to interest rates on its rollover of the Bonds. The Swap Agreement, which qualifies for hedge accounting under SFAS No. 133, is a contract to exchange floating interest rate payments for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional amounts. The Swap Agreement requires the Company to pay a fixed rate of 4.45% and receive payments based on 30-day LIBOR repriced every seven days through May 2022. As of May 31, 2008 and June 2, 2007, since the Swap Agreement is classified as a cash flow hedge, the fair value of $196,000 and $98,000, respectively, has been recorded as a component of accrued liabilities, and accumulated other comprehensive loss related to the swap agreement is $123,000 and $61,000, respectively, net of tax.

The Company capitalized certain legal and administrative costs incurred in connection with the issuance of the Bonds and is amortizing these costs using the effective interest method over the term of the Bonds. As of May 31, 2008 and June 2, 2007, net capitalized bond issuance costs amounted to $80,000 and $85,000, respectively, and are recorded as a component of other assets.

Amounts to be paid or received under the Swap Agreement are accrued as interest rates change and are recognized over the life of the Swap Agreement as an adjustment to interest expense.

Taxable Adjustable Rate Notes

In December 2006, the Company closed on the financing for the expansion of its warehouse and manufacturing facility in Queensbury, New York. The expansion is being financed principally with Taxable Adjustable Rate Notes (the "Notes") issued by the Company aggregating $5,000,000, maturing in December 2026. The Notes were issued under a Trust Agreement by and between the Company and a bank, as trustee (the "Trustee"). The Notes reprice every seven days and are resold by a Remarketing Agent. The Notes bear interest based on the market rate on the date the Notes are repriced and require quarterly interest payments and quarterly principal payments ranging from $25,000 to $55,000. In connection with the issuance of the Notes, the Company entered into a Letter of Credit and Reimbursement Agreement with the Bank that requires the maintenance of a letter of credit for an initial amount of $5,134,000 to support principal and certain interest payments on the Notes and requires payment of an annual fee on the outstanding balance ranging from 0.75% to 1.35%. The Company also entered into a Remarketing Agreement, pursuant to which the Remarketing Agent is required to use its best efforts to arrange for sales of the Notes in the secondary market. The Remarketing Agreement provides for the payment of an annual fee of 0.1% of the remaining balance.

The Reimbursement Agreement contains certain financial covenants relating to fixed charge coverage, interest coverage, and a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined. Amounts borrowed under the Reimbursement Agreement are collateralized by the aforementioned letter of credit and all Company assets.

The Company entered into an interest rate swap agreement (the "2006 Swap Agreement") with the Bank, effective December 2006, with an initial notional amount of $5,000,000, to limit the effect of variability due to interest rates on its rollover of the Notes. The 2006 Swap Agreement is a contract to exchange floating interest rate payments for fixed interest payments of 5.06% of the outstanding balance of the Notes over the life of the agreement without the exchange of the underlying notional amounts. Changes to the fair value of the 2006 Swap Agreement are recorded as increases or decreases to interest expense as the Company did not elect to apply hedge accounting. As of May 31, 2008 and June 2, 2007, the fair value of $221,000 and $88,000, respectively has been recorded as a component of accrued liabilities with a corresponding credit to other income in the consolidated statement of operations.

The Company capitalized certain legal and bank fees incurred in connection with the issuance of the Notes and is amortizing these costs on a straight-line basis over the term of the Notes. As of May 31, 2008 and June 2, 2007, net capitalized issuance costs related to these Notes amounted to $178,000 and $187,000, respectively, and are recorded as a component of other assets.

Convertible Notes

In connection with the acquisition of RITA on January 29, 2007, the Company assumed subordinated Senior Convertible Notes of RITA (the "Convertible Notes") with an aggregate principal amount of $9.7 million. The

Convertible Notes are convertible, at any time prior to the Maturity Date at such holder's option, into shares of the Company's common stock applicable at a conversion price of $20.41 per share of common stock, net of a cash component, subject to adjustment in certain circumstances including common stock splits or other standard anti-dilution provisions. Until conversion or maturity, the Convertible Notes bear interest at 6.5% per year, payable semi-annually. Absent conversion, the Convertible Notes mature on August 5, 2008 (the "Maturity Date"). If on the Maturity Date, the closing price of the Company's common stock has been at or above 102% of the then conversion price for at least 10 consecutive business days immediately preceding the Maturity Date, then any remaining principal outstanding under the Convertible Notes shall automatically be converted into the Company's common stock, subject to certain conditions. The fair value of the conversion feature of the Convertible Notes of $1.8 million was calculated using the intrinsic value method and recorded in goodwill and stockholders' equity as part of the purchase price described in Note C.

Following is a summary of long-term debt at May 31, 2008 (in thousands):

Industrial Revenue Bonds	$ 2,560
Taxable Adjustable Rate Notes	4,855
Convertible Notes	9,700
	17,115
Less: current maturities	(10,040)
Long-term debt	$ 7,075

At May 31, 2008, future minimum principal payments on long-term debt were as follows:

	(in thousands)
2009	$ 10,040
2010	265
2011	260
2012	275
Thereafter	6,275
	$ 17,115

NOTE L—RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Related Party Consulting Services

During 2008 and 2007, the Company received professional sales training services from an organization in which the principal owner is the spouse of the Company's President and CEO. Fees and expenses paid for these services totaled $108,000 and $204,000, respectively.

NOTE M—RETIREMENT PLANS

The Company has a profit-sharing plan under which it makes discretionary contributions to eligible employees, and a companion 401(k) plan under which eligible employees can defer a portion of their compensation, part of which is matched by the Company. Profit-sharing contributions were $948,700, $411,000, and $431,000, in 2008, 2007, and 2006, respectively. Matching contributions were $499,500, $234,000, and $249,000, in 2008, 2007, and 2006, respectively.

NOTE N—STOCKHOLDERS' EQUITY

1. Capitalization

On February 27, 2004, the Company's Board of Directors and the Former Parent, as sole stockholder, approved the Company's Amended and Restated Certificate of Incorporation (the "Amended Certificate"). Under the Amended Certificate, the authorized capital stock of the Company is 50,000,000 shares, consisting of 45,000,000 shares of common stock, par value $.01 per share and 5,000,000 shares of preferred stock, par value $.01 per share. Pursuant to the Amended Certificate, (i) each share of voting common stock, $1 par value and (ii) each share of non-voting common stock, $1 par value was reclassified and exchanged into 9,200 shares of issued, fully paid, non-assessable common stock for a total of 9,200,000 shares to be then outstanding.

The holders of common stock are entitled to one vote for each share held. Subject to preferences applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably dividends, if any, as may be declared by the Board of Directors out of funds legally available for dividend payments. If the Company liquidates, dissolves, or winds up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no pre-emptive rights or rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that the Company may designate in the future.

The Company's board of directors has the authority to (i) issue the undesignated preferred stock in one or more series, (ii) determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly un-issued series of undesignated preferred stock and (iii) fix the number of shares constituting any series and the designation of the series, without any further vote or action by the Company's stockholders.

2. Stock Options

The Company has two stock-based compensation plans, exclusive of the stock option plans assumed in connection with the acquisition of RITA. These plans provide for the issuance of up to approximately 3.5 million shares of common stock.

1997 Stock Option Plan

In 1997, the Company adopted a Stock Option Plan (the "1997 Plan"). The 1997 Plan provides for the grant to key employees of both nonqualified stock options and incentive stock options and to members of the Board of Directors and consultants of nonqualified stock options. A total of 1,497,674 shares of the Company's common stock may be issued under the 1997 Plan pursuant to the exercise of options. All stock options must have an exercise price of not less than the fair market value of the shares on the date of grant. Options will be exercisable over a period of time to be designated by the administrators of the 1997 Plan (but not more than 10 years from the date of grant) and will be subject to such other terms and conditions as the administrators may determine. The 1997 Plan terminated in March 2007 and as such, no further options will be granted under this plan. The vesting schedule is subject to the discretion of the Company's Board of Directors. Options are exercisable immediately upon vesting. In addition, all options, whether vested or not, become exercisable in full immediately upon a change of control, as defined under the 1997 Plan.

2004 Stock and Incentive Award Plan

The 2004 Stock and Incentive Award Plan (the "2004 Plan") provides for the grant of incentive options to the Company's employees and for the grant of non-statutory stock options, restricted stock, stock appreciation rights, performance units, performance shares and other incentive awards to the Company's employees, directors and other service providers. A total of 2,000,000 shares of the Company's common stock have been reserved for issuance under the 2004 Plan, of which up to 800,000 shares may be issued upon the exercise of incentive stock options. The compensation committee of the Board of Directors administers the 2004 Plan. The committee determines vesting terms and the exercise price of options granted under the 2004 Plan, but for all incentive stock options the exercise price must at least be equal to the fair market value of the Company's common stock on the date of grant. The term of an incentive stock option may not exceed ten years.

RITA Stock Option Plans

In connection with the acquisition of RITA, the Company assumed all outstanding options to acquire RITA common stock (the "RITA Options"). Upon exercise, the RITA Options will result in the Company issuing approximately 988,815 shares of the Company's common stock with a weighted average exercise price of $17.30, net of a Cash Component as defined in the Purchase Agreement. Except for RITA Options that were fully vested due to employee terminations and change-of-control provisions in connection with the completion of the acquisition of RITA, options under these plans maintain their original vesting provisions and generally expire ten years from the original date of grant. The Company does not anticipate future grants will be made under these plans. As of May 31, 2008, RITA Options to acquire 400,683 shares of Company common stock were outstanding, of which RITA Options to acquire 350,143 shares of Company common stock were exercisable.

In accordance with the Merger Agreement, the options held by RITA employees became exercisable for shares of the Company's common stock and a fixed cash component payable to the holder at option exercise (see Note C). Under SFAS 123(R), an exchange of stock-based compensation awards in a combination is treated as a modification. Based upon the fact that the receipt of cash is contingent upon the exercise of the option, and not the vesting of such option, the RITA Options were classified as equity. The Company calculated the fair value of the RITA options immediately prior to the modification, utilizing fair value assumptions at the time the merger was being contemplated and the fair value of the replacement awards. It was determined there was no incremental compensation cost required to be recognized for either the vested or unvested options.

The fair value of the RITA options assumed in connection with the acquisition of RITA was calculated using the Black-Scholes model with the following weighted-average assumptions:

Stock options assumed in acquisition	988,815
Weighted-average fair value	$ 12.63
Black-Scholes Assumptions:	
Expected stock price volatility	50.60%
Risk-free interest rate	4.98%
Expected term (in years)	2.6
Expected dividend yield	0

Stock Option Activity:

The following schedule summarizes stock option activity as of and for the years ended May 31, 2008, June 2, 2007, and June 3, 2006:

	2008				2007		2006	
	Shares	Weighted-average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value (in thousands)	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	2,133,662	$ 17.88			1,251,145	$ 13.23	1,552,392	$ 6.93
Granted	477,510	$ 18.14			552,368	$ 19.25	381,600	$ 24.71
Assumed in acquisition	—	$ —			988,815	$ 17.30		—
Exercised	(245,120)	$ 16.60			(559,459)	$ 7.32	(634,364)	$ 4.70
Forfeited	(320,732)	$ 22.54			(99,207)	$ 20.74	(48,483)	$ 13.27
Expired	(6,137)	$ 63.17				—		—
Outstanding at end of year	2,039,183	$ 17.82	6.47 years	$ 20,622	2,133,662	$ 17.88	1,251,145	$ 13.23
Options exercisable at year-end	996,282	$ 16.62	6.23 years	$ 10,188	1,044,564	$ 16.40	590,257	$ 6.67
Options expected to vest as of end of 2008	966,112	$ 19.43	6.96 years	$ 9,638				
Weighted-average fair value of options granted during the year		$ 8.84				$ 10.70		$ 12.52

On May 31, 2008, there remained 498,460 shares available for granting of options under the 2004 Plan. Options are exercisable into common stock.

All Company options were granted at exercise prices equal to the quoted market price of the Company's common stock at the date of the grants. Options under these grants vest 25% per year over four years for employees and 100% after one year for consultants. Initial grants to directors vest 25% per year over four years and subsequent grants to directors vest 33 1/3% per year over three years. Options granted prior to May 1, 2007 expire on the tenth anniversary of the grant date. Options granted on or after May 1, 2007, expire on the seventh anniversary of the grant date. The total intrinsic value of options exercised was $2,787,000, $2,883,000, and $1,158,000 for the years ended May 31, 2008, June 2, 2007, and June 3, 2006, respectively. The Company generally issues authorized but unissued shares upon stock option exercises and the settlement of performance share awards and restricted stock units.

The fair value of the options granted under the 1997 and 2004 Plans was estimated at the date of grant using the Black-Scholes option-pricing model assuming no expected dividends and the following weighted-average assumptions:

	2008	2007	2006
Expected stock price volatility	53.37%	55.63%	56.21%
Risk-free interest rate	4.20%	4.76%	4.17%
Expected life of options	4.6 years	5.9 years	5.4 years

The following information applies to options outstanding at May 31, 2008:

Range of exercise prices	Number outstanding	Weighted-average remaining life in years	Weighted-average exercise price	Number Exercisable	Weighted-average exercise price
$2.81 - $3.22	12,175	1.90	$ 2.96	12,175	$ 2.96
$4.35 - $6.52	57,314	3.77	5.73	53,659	5.68
$6.68 - $9.61	20,837	3.75	8.00	20,837	8.00
$10.59 - $15.36	466,352	5.51	12.66	394,619	12.52
$15.76 - $23.03	1,113,539	7.10	18.31	311,470	18.50
$23.95 - $35.11	361,943	6.38	25.30	196,486	25.35
$43.58 - $53.92	6,892	2.97	52.07	6,892	52.07
$93.52 - $93.52	144	0.63	93.52	144	93.52
	2,039,196	6.47	$ 17.82	996,282	$ 16.62

3. Performance Share and Restricted Stock Unit Awards

The Company may grant restricted stock units or performance share awards to certain employees under the 2004 Plan. The performance criteria established by the compensation committee for vesting the performance share awards is the achievement of certain earnings per share (“EPS”) goals and revenue goals by the Company for each of the 2006 through 2009 fiscal years. Shares not earned in a fiscal year may be earned in the following fiscal year if the EPS or revenue goals in such following year are exceeded by an amount at least equal to the shortfall for the applicable goal for the preceding year. The performance share awards are subject to additional conditions, including the recipient’s continued employment with the Company. The restricted stock unit awards vest in full upon the recipient’s continued employment with the Company through the end of the Company’s fiscal year ending on or about May 30, 2009. The restricted stock unit awards will be forfeited if the recipient ceases to be employed by the Company, competes with the business of the Company, or otherwise engages in activities detrimental to the Company’s business before such date. The performance share awards and restricted stock units settle in shares of the Company’s common stock on a one-for-one basis.

The Company values performance share and restricted stock unit awards based on the closing trading value of the Company’s shares on the date of grant. The Company recognizes the compensation cost related to its non-vested stock awards ratably over the requisite service period, which is consistent with the treatment prior to the adoption of SFAS 123(R). Under APB 25, the performance share and restricted stock unit awards were accrued as vested and recorded in accrued liabilities. During the year ended June 2, 2007, the vested performance shares were issued and the liability for the restricted stock unit awards was reclassified to additional paid-in capital as required by SFAS 123(R).

Information related to non-vested stock awards as of and for the year ended May 31, 2008, is as follows:

	Non-Vested Stock Award Units	Weighted Average Grant-Date Fair Value
Balance as of June 2, 2007	62,315	$ 19.38
Granted	—	—
Cancelled	(13,833)	21.81
Vested	(4,384)	19.59
Balance as of May 31, 2008	44,098	$ 18.59

The total fair value of restricted stock awards vesting was $85,900, $157,800 and $0 for the years ended May 31, 2008, June 2, 2007 and June 3, 2006, respectively.

4. Unrecognized Compensation Cost:

Under the provisions of SFAS 123(R), the Company expects to recognize the following future expense for awards outstanding as of May 31, 2008:

	Unrecognized Compensation Cost	Weighted Average Remaining Vesting Period (in years)
Stock Options	$ 7,821,700	2.38
Non-vested stock awards	256,000	1.00
	$ 8,077,700	2.32

Of the $8.1 million of unrecognized stock option compensation cost at May 31, 2008, approximately $0.8 million relates to RITA options. Unrecognized compensation cost for stock options is presented net of 4.69% assumed annual forfeitures.

5. Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the “Stock Purchase Plan”) provides a means by which employees of the Company (the “participants”) are given an opportunity to purchase common stock of the Company through payroll deductions. The maximum number of shares to be offered under the Stock Purchase Plan is 200,000 shares of the Company’s common stock, subject to any increase authorized by the Board of Directors. Shares are offered through two purchase periods, each with duration of approximately 6 months, commencing on the first business day of the first and third fiscal quarters. An employee is eligible to participate in an offering period if, on the first day of an offering period, he or she has been employed in a full-time capacity for at least six months, with a customary working schedule of 20 or more hours per week and more than five months in a calendar year. Employees who own stock possessing 5% or more of the total combined voting power or value of all classes of the Company’s stock are not eligible to participate in the Stock Purchase Plan. The purchase price of the shares of common stock acquired on each purchase date will be the lower of (i) 85% of the fair market value of a share of common stock on the first day of the offering period or (ii) 85% of the fair market value of a share of common stock on the last day of the purchase period, subject to adjustments made by the Board of Directors. The Stock Purchase Plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code.

The Company uses the Black-Scholes option-pricing model to calculate the purchase date fair value of the shares issued under the Stock Purchase Plan and recognizes expense related to shares purchased ratably over the offering period.

For the years ended May 31, 2008, June 2, 2007 and June 3, 2006, 57,011, 32,765 and 23,435 shares, respectively, were issued at an average price of $14.33, $14.84 and $15.62, respectively, under the Stock Purchase Plan. As of May 31, 2008, 77,421 shares remained available for future purchases under the Stock Purchase Plan.

NOTE O—STOCK-BASED COMPENSATION

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of June 4, 2006, the first day of the Company's 2007 fiscal year. The Company's consolidated financial statements as of and for the years ended May 31, 2008 and June 2, 2007, reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's consolidated financial statements have not been restated to include the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the years ended May 31, 2008 and June 2, 2007, was $3,421,000, net of income taxes of $1,478,000 and $2,372,000, net of income taxes of $1,126,000, respectively. During the year ended June 3, 2006, compensation expense of $81,000 was recognized for options granted to consultants and $371,000 was recognized for restricted stock unit and performance share awards granted to employees.

The following table summarizes stock-based compensation in accordance with SFAS 123(R) for the years ended May 31, 2008 and June 2, 2007, which was allocated as follows (in thousands):

	May 31, 2008	June 2, 2007
	(In thousands)	
Cost of sales	$ 645	$ 476
Research and development	737	615
Sales and marketing	1,540	966
General and administrative	1,977	1,441
Stock based compensation expense included in operating expenses	4,254	3,022
Total stock based compensation	4,899	3,498
Tax benefit	1,478	1,126
Stock based compensation expense, net of tax	$3,421	$2,372

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for options and awards granted under these plans to key employees and to members of the Board of Directors, consistent with the methodology prescribed by SFAS No. 123, the Company's pro forma net income and earnings per common share would be as follows:

	2006
Net Income	
As reported	$ 6,866
Add total stock based compensation recorded under intrinsic value based method for all awards, net of tax of $180	293
Deduct total stock-based compensation under fair value based method for all awards, net of tax of $848	(1,383)
Pro forma net income	$ 5,776
Basic earnings per common share	
As reported	$ 0.55
Pro forma	0.47
Diluted earnings per common share	
As reported	$ 0.53
Pro forma	0.45

NOTE P—ASSET PURCHASE AGREEMENTS

Medron, Inc.

On May 1, 2006, the Company entered into an Asset Purchase Agreement (the "Agreement") with Medron, Inc. to acquire the rights, titles, and interests in, and to, Patent Pending Technology for purposes of manufacturing, marketing, and selling proprietary Vascular Access Ports, following administrative approval. As of May 31, 2008, the Company has paid $5.5 million in accordance with the Agreement. That amount, net of accumulated amortization, has been included on the balance sheet under the caption "Intangible assets" and is being amortized on a straight line basis over the expected useful life of the assets. A potential future payment of $2.5 million is due upon issuance (within 10 years of the effective date of the Agreement) of a U.S. patent claiming priority to the Patent Application, or any issuance of a patent to the Company within 10 years of the effective date of the Agreement in which the original owners are the inventors.

Nevertouch™

On August 20, 2007, the Company entered into an agreement to acquire all technology rights, including patent rights to the NeverTouch technology (the "Agreement"). As of May 31, 2008, the Company has made payments of approximately $3.0 million which have been recorded on the balance sheet, net of accumulated amortization, under "Intangible assets" and are being amortized on a straight line basis over the expected useful life of the asset.

NOTE Q—COMMITMENTS AND CONTINGENCIES

Leases

The Company is committed under non-cancelable operating leases for facilities and equipment. During 2008, 2007 and 2006, aggregate rental costs under all operating leases were approximately $1,553,000, $883,000, and $570,000, respectively. Future annual payments under non-cancelable operating leases in the aggregate (in thousands), of which one includes an escalation clause, with initial remaining terms of more than one year at May 31, 2008, are summarized as follows:

2009	$485
2010	428
2011	10
2012	4
	$927

Litigation Matters

Diomed v. AngioDynamics

In January 2004, Diomed filed an action against the Company alleging that the Company's VenaCure products for the treatment of varicose veins infringed a patent held by Diomed for a laser system that competes with the Company's VenaCure products. In March 2007, a jury ruled in Diomed's favor and awarded compensatory damages of $9.71 million. On July 2, 2007, the judge for the Federal District in Boston, Massachusetts, issued an injunction prohibiting the Company from selling its original bare fiber VenaCure product. The Company disputed the infringement verdict on multiple grounds and on June 20, 2007, filed an appeal in the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. On March 14, 2008, Diomed commenced Chapter 11 bankruptcy proceedings. On April 2, 2008, the Company entered into a settlement agreement with Diomed resolving the patent disputes. As a result of the settlement, in the fiscal third quarter of 2008, the Company reduced its litigation provision and recorded a gain, net of costs, of approximately $2.0 million, net of tax.

VNUS Medical Technologies v. Diomed, Vascular Solutions, and AngioDynamics

In October 2005, VNUS Medical Technologies filed an action against the Company, and others (collectively, the "Defendants") alleging, among other things, that the manufacture, use and sale of the Company's VenaCure products infringed several patents held by VNUS and seeking injunctive relief and compensatory and treble damages. On June 3, 2008, the Company entered into an agreement with VNUS settling all patent litigation between the Company and VNUS. Under the terms of the settlement agreement, the Company paid VNUS approximately $6.8 million and agreed to pay a quarterly royalty on its U.S. sales of the Company's NeverTouch™ and VenaCure® products from June 1, 2008 until the expiration date of VNUS' applicable patents. In exchange, VNUS granted the Company a non-exclusive and non-sublicensable license to VNUS' applicable patents for use in endovenous laser therapy.

The Company is party to other legal actions that arise in the ordinary course of business. The Company believes that any liability resulting from any currently pending litigation will not, individually or in the aggregate, have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

Future Purchase Obligations

On October 17, 2005, the Company entered into a Supply and Distribution Rights Agreement (the "Agreement") with Bioniche Pharma Group Limited ("Bioniche"). The Company was appointed the exclusive distributor in the Field, as defined in the Agreement, in the United States of Bioniche's sodium tetradecyl sulfate product in concentrations of 1% and 3%, brand name "Sotradecol™" ("Product"). Sotradecol is used in sclerotherapy, a non-surgical procedure to remove varicose veins. The Agreement was amended during fiscal 2008 and expires on June 30, 2012. Future obligations under the agreement are as follows:

- three non-refundable milestone payments are due 30 days after achieving certain cumulative sales of Product. Payments of $500,000, $1,000,000 and $1,000,000 are due upon achieving cumulative sales of $10,000,000, $25,000,000 and $50,000,000, respectively. If the Company should lose any of its exclusive distribution rights under the Agreement, as amended, any milestone payments not yet made would not be required to be made. None of these sales milestones were achieved during the year ended May 31, 2008.
- the Company shall use reasonable efforts to purchase a minimum of $3,200,000 of Product for the year ended June 30, 2009 and $4,200,000 of Product for each of the remaining years of the contract though the expiration date. (*June 30, 2012*). The Company met its purchase commitment for the year ended June 30, 2008. Failure to make future minimum annual purchases in any such contract year, unless cured as provided in the Agreement, may result in a loss of exclusive rights under the Agreement.

NOTE R–SALES

Net sales (in thousands) by product category and geography were as follows:

	Three months ended			Twelve months ended		
	May 31, 2008	June 2, 2007	June 3, 2006	May 31, 2008	June 2, 2007	June 3, 2006
	(unaudited)			(unaudited)		
Net Sales by Product Category						
Interventional Products	$ 35,864	$ 31,920	$ 23,592	$ 128,102	$ 101,126	$ 78,451
Oncology Products	10,888	8,935	—	38,398	11,101	—
Total	$ 46,752	$ 40,855	$ 23,592	$ 166,500	$ 112,227	$ 78,451
Net Sales by Geography						
United States	$ 41,988	$ 37,071	$ 22,678	$ 150,643	$ 105,154	$ 75,160
International	4,764	3,784	914	15,857	7,073	3,291
Total	$ 46,752	$ 40,855	$ 23,592	$ 166,500	$ 112,227	$ 78,451

The Company markets its products internationally through a direct sales force and independent distributors. The international distributors may also distribute competitive products under certain circumstances. The international distributors also play an important role in the Company's clinical testing outside of the United States. The loss of any international distributor would not have a material adverse effect on the Company's business if a new distributor, sales representative or other suitable sales organization could not be found on a timely basis.

NOTE S—QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarterly results of operations during 2008 and 2007 were as follows:

	2008			
	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except per share data)			
Net sales	$37,526	$41,497	$ 40,725	$ 46,752
Gross profit	22,501	25,455	25,318	29,313
Net income	2,380	3,100	4,890	519
Earnings per common share				
Basic	0.10	0.13	0.20	0.02
Diluted	0.10	0.13	0.20	0.02

	2007			
	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except per share data)			
Net sales	$20,265	$24,369	$ 26,738	$ 40,855
Gross profit	11,926	14,244	15,949	24,048
Net income (loss)	1,898	2,454	(16,405)	2,926
Earnings (loss) per common share(1)				
Basic	0.12	0.16	(0.88)	0.12
Diluted	0.12	0.15	(0.88)	0.12

(1) The sum of quarters does not equal the fiscal year due to rounding.

NOTE T—SUBSEQUENT EVENT

In June 2008, the Company completed the acquisition of certain U.S. and U.K. assets of Diomed, Inc. for $11 million subject to adjustment for changes in working capital to be determined subsequent to the closing date. With this acquisition, the Company substantially strengthened its position in the market for the treatment of varicose veins. The combination of Diomed endovenous laser products with the Company's existing venous product line provides the Company with a comprehensive venous product offering. As of May 31, 2008 approximately $926,000, including a deposit and direct acquisition costs, have been paid and are included under the balance sheet heading "Other assets".

ANGIODYNAMICS, Inc. and Subsidiaries

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Period	Charged to costs and expenses	Charged to Other Accounts-describe	Deductions-describe	Balance at End of Period
Year Ended June 3, 2006					
Allowance for inventory obsolescence	$ 597	$ 426		$ (183) (b)	$ 840
Allowance for deferred tax asset	628			(526)(d)	102
Allowance for doubtful accounts	203	270		(43)(a)	430
Totals	$ 1,428	$ 696	$ —	$ (752)	$ 1,372
Year Ended June 2, 2007					
Allowance for inventory obsolescence	$ 840	$ 94	$ 2,464(c)	$ (638) (b)	$ 2,760
Allowance for deferred tax asset	102		2,115(c)		2,217
Allowance for doubtful accounts	430	326	498(c)	(47)(a)	1,207
Totals	$ 1,372	$ 420	$ 5,077	$ (685)	$ 6,184
Year Ended May 31, 2008					
Allowance for inventory obsolescence	$ 2,760	$ 984	$ 131(c)	$ (181) (b)	$ 3,694
Allowance for deferred tax asset	2,217	—	—	(1,063)(e)	1,154
Allowance for doubtful accounts	1,207	229	(61)(c)	(692)(a)	683
Totals	$ 6,184	$ 1,213	$ 70	$ (1,936)	$ 5,531

(a) Previously reserved sales returns and accounts written off as uncollectible.
(b) Writeoffs of obsolete or expired inventory.
(c) Assumed in acquisition.
(d) Expiration of fully-reserved capital loss carryforwards.
(e) Purchase accounting adjustments and use of fully reserved capital loss carryforwards.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: August 14, 2008

By: /s/ VINCENT BUCCI

Vincent Bucci,
Chairman of the Board, Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: August 14, 2008

/s/ VINCENT BUCCI

Vincent Bucci,
Chairman of the Board, Director

Date: August 14, 2008

/s/ EAMONN P. HOBBS

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

Date: August 14, 2008

/s/ D. JOSEPH GERSUK

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

Date: August 14, 2008

/s/ WESLEY E. JOHNSON, JR.

Wesley Johnson,
Director

Date: August 14, 2008

/s/ HOWARD W. DONNELLY

Howard W. Donnelly,
Director

Date: August 14, 2008

/s/ JEFFREY G. GOLD

Jeffrey G. Gold,
Director

Date: August 14, 2008

/s/ DENNIS S. METENY

Dennis S. Meteny,
Director

Date: August 14, 2008

/s/ PAUL S. ECHENBERG

Paul S. Echenberg,
Director

Date: August 14, 2008

/s/ STEVE LAPORTE

Steve LaPorte,
Director

Date: August 14, 2008

/s/ ROBERT E. FLAHERTY

Robert E. Flaherty,
Director

Exhibit 2.6

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "**Agreement**"), dated as of April 9, 2008 (the "**Execution Date**") is made by and among DIOMED HOLDINGS, INC., a Delaware corporation ("Holdings"), DIOMED, INC., a Delaware corporation ("Sub" and together with Holdings, the "**Sellers**", and each individually "Seller") and ANGIODYNAMICS, INC. a Delaware corporation, or a corporation formed for the purpose of acquiring the Business and controlled by ANGIODYNAMICS, INC. (the "**Buyer**"). Capitalized terms used in this Agreement are defined or cross-referenced in Exhibit A.

BACKGROUND INFORMATION

A. On March 14, 2008 (the "**Petition Date**"), Sellers commenced voluntary cases for reorganization (the "**Bankruptcy Case**") under Chapter 11 of the Bankruptcy Code, 11 U.S.C. § § 101 et seq. (the "**Bankruptcy Code**"), in the United States Bankruptcy Court for the District of Massachusetts (Western Division) (the "**Bankruptcy Court**") and docketed as case nos. 08-40749-JBR and 08-40750-JBR respectively.

B. Sellers develop and commercialize minimally invasive medical procedures that employ laser technology, including associated products, the primary focus of which is endovenous laser treatment ("**EVLT**") of varicose veins (the "**Business**").

C. Buyer desires to purchase the Business and assume the Assumed Liabilities from Sellers, and Sellers desire to sell, convey, assign and transfer to Buyer the Business, together with the Assumed Liabilities, all in the manner and subject to the terms and conditions set forth in this Agreement and in accordance with sections 105, 363 and 365 and other applicable provisions of the Bankruptcy Code.

D. The Business and Assumed Liabilities are assets and liabilities of Sellers and are to be purchased and assumed by Buyer pursuant to an order, in the form attached as Exhibit B or such other form satisfactory to Buyer in its sole discretion (the "**Bankruptcy Sale Order**"), approving such sale pursuant to sections 105, 363 and 365 of the Bankruptcy Code, which order will include the authorization for the assumption by Sellers and assignment to Buyer of the Acquired Contracts and liabilities thereunder in accordance with section 365 of the Bankruptcy Code, all in the manner and subject to the terms and conditions set forth in this Agreement and the Bankruptcy Sale Order, and in accordance with other applicable provisions of the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**").

E. The transactions contemplated by this Agreement are essential and necessary to the confirmation of the Sellers' anticipated liquidating plan of reorganization.

STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and their respective representations, warranties, covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sellers and Buyer hereby agree as follows:

ARTICLE 1. PURCHASE AND SALE OF THE ACQUIRED ASSETS

SECTION 1.1 Transfer of Acquired Assets. At the Closing, and upon the terms and conditions herein set forth, Sellers shall sell to Buyer, and Buyer shall acquire from Sellers, all right, title and interest of Sellers in, to and under the Acquired Assets, free and clear of all Liens. **"Acquired Assets"** shall mean all of the properties, assets and rights of Sellers, wherever located, whether personal, tangible or intangible, wherever located and whether now existing or hereafter acquired or arising relating to or involved in the Business, excluding only the Excluded Assets, including, without limitation:

(a) all (i) owned equipment, machinery, furniture, fixtures and improvements of Sellers (the **"Owned Machinery and Equipment"**), including, without limitation, all Owned Machinery and Equipment that is being stored, repaired, refurbished, modified or updated, including without limitation the Owned Machinery and Equipment listed on Schedule 1.1(a) and (ii) rights of Sellers to express or implied warranties and licenses received from manufacturers, sellers and suppliers of the Owned Machinery and Equipment;

(b) those Contracts listed on Schedule 1.1(b) as an Acquired Contract (collectively, the **"Acquired Contracts"**) and all deposits made under any Acquired Contract;

(c) all Accounts Receivable;

(d) all Inventory of Sellers;

(e) all Supplies of Sellers and all rights of Sellers to express or implied warranties and licenses received from manufacturers, sellers and suppliers of the Supplies;

(f) other than the Excluded Asset set forth Section 1.2(l), all Intellectual Property and Technology owned by any Seller, assigned to any Seller or licensed to any Seller (collectively, the **"Acquired Intellectual Property"**), including but not limited to the Intellectual Property and Technology listed on Schedule 1.1(f) and intangible personal property associated with the Business, including customer lists, marketing materials and installed base;

(g) all computer hardware and software (including, without limitation, process control software) owned by any Seller or licensed to any Seller, including but not limited to the computer hardware and software listed on Schedule 1.1(g);

(h) all permits, authorizations and licenses (collectively, the **"Permits"**) issued to Sellers by any Government and all pending applications, including but not limited to the Permits and applications set forth on Schedule 1.1(h) all to the extent assignable;

(i) except for the Employment Records or such records as may be subject to the attorney/client privilege, copies or originals of all books, files, documents and records owned by Sellers (in whatever format they exist, whether in hard copy or electronic format), including, without limitation, customer lists, historical customer files, accounting records, test results, product specifications, plans, data, studies,

drawings, diagrams, training manuals, engineering data, safety and environmental reports and documents, maintenance schedules and operating and production records, inventory records, business plans, credit records of customers, and marketing materials; and

(j) all goodwill of Sellers.

SECTION 1.2 Excluded Assets. Notwithstanding anything to the contrary in this Agreement, Sellers shall retain only the properties and assets of Sellers set forth below (all such properties and assets not being acquired by Buyer being herein referred to as the **"Excluded Assets"**):

(a) all Sellers' Cash held in the bank accounts on the Closing Date, [and the assets of Sellers set forth on Schedule 1.2(a) (and any proceeds from the disposition thereof)];

(b) all of Sellers' rights to insurance proceeds or other Contracts of insurance or indemnity (or similar agreement) recoveries, including, without limitation of any Sellers' directors, officers and corporate liability insurance policies;

(c) all rights to or Claims for refunds, overpayments or rebates of Taxes, as well as any rights to drawbacks, rebates or reimbursements, deposits or retainers;

(d) all Claims of Sellers arising under the Bankruptcy Code or under similar state law of Sellers, including but not limited to claims arising from or related to sections 544 through 550 of the Bankruptcy Code;

(e) all litigation Claims, including but not limited to (i) judgments in favor of Sub against Vascular Solutions, Inc.; and (ii) indemnification claims of Holdings, Sub or Diomed Ltd. or any of their respective directors, officers, employees, agents or representatives arising under their respective organization and operating documents or any contract or agreement to which any of them is a party under any applicable law, counterclaims under any threatened or pending action (including, without limitation, pending patent infringement litigation against Sellers commenced by VNUS Medical Technologies, Inc.);

(f) any asset of Sellers that otherwise would constitute an Acquired Asset but for the fact that such asset has been conveyed, leased or otherwise disposed of prior to or on the Closing Date in accordance with Sellers' obligations under this Agreement, including, but not limited to, those obligations set forth in Section 5.1(a);

(g) all Contracts that are not Acquired Contracts;

(h) all amounts due to Sellers from any Affiliate of any Seller;

(i) all books, files and records owned by Sellers that relate to any of the Excluded Assets and current or former employees and other personnel, including, without limitation, books, files and records that are related to medical history, medical insurance or other medical matters and to workers'

compensation and to the evaluation, appraisal or performance of current or former employees and other personnel of Sellers (collectively, the **"Employment Records"**) and Sellers' accounting records;

(j) all shares of capital stock or equity or other ownership interest in Diomed Limited, Diolaser Mexico SA DE CV and Lumintex Corporation;

(k) all corporate seals, minute books, charter documents, stock transfer records, record books, original Tax and financial records and such other files, books and records relating solely to the Excluded Assets or to the organization, existence or capitalization of Sellers or of any other Person; and

(l) the 777 Patent and the exclusive license with respect thereto.

SECTION 1.3 Assumption of Liabilities. At the Closing, Buyer shall assume, and thereafter pay perform and discharge, when due all of the following liabilities (the "Assumed Liabilities"), which Assumed Liabilities are listed by category:

(a) all liabilities and obligations of Sellers with respect to Acquired Contracts first arising after the Closing Date, which liabilities and obligations are required to be paid by Buyer in accordance with section 365(k) of the Bankruptcy Code;

(b) Buyer will perform warranty work for warranty claims for Products sold before the Closing Date; and

(c) Ordinary Course of Business wage, benefit and/or commission claims of employees of Sellers who will become employees of Buyer on the Closing Date in the event that the Closing Date occurs at any time prior to the conclusion of any pay period of Sellers, up to a maximum of $160,000 with respect to salaries and up to an additional $160,000 with respect to commissions.

SECTION 1.4 Retention of Liabilities. Buyer is assuming only the Assumed Liabilities and is not assuming any other liability or obligation of any Seller of whatever nature, whether presently in existence or arising hereafter. All such other liabilities and obligations shall be retained by and remain liabilities and obligations of Sellers (all such liabilities are, collectively, the **'Excluded Liabilities"**). For avoidance of doubt, the Excluded Liabilities include, without limitation, the following liabilities and obligations:

(a) all liabilities and obligations of Sellers relating to Excluded Assets;

(b) any and all liabilities that arise from the manufacture, distribution or sale of Products prior to the Closing Date, other than the warranty work referenced in Section 1.3(b);

(c) all liabilities and obligations of Sellers arising pursuant to the Massachusetts Workers' Compensation Act or pursuant to the actions, resolutions, rules or regulations of the Massachusetts Workers' Compensation Commission, including all workers' compensation claims or suits of any type, whether state or federal claims, including, without limitation, actions for employment discrimination, actions for wrongful opposition to a claim or any other claim or benefits of any kind, whether now known or unknown, whenever incurred or filed, which have occurred or arise from work-related injuries,

diseases, death, exposures, intentional torts, acts of discrimination or other incidents, acts, or injuries prior to the Closing Date, or otherwise arising out of or related to the employment of persons by the Sellers, and all premiums, assessments or other obligations related in any way to workers' compensation or work-related liabilities arising prior to the Closing Date or otherwise arising out of or related to the activities of Sellers;

(d) all of Sellers' accounts payable, whether arising before or after each Seller's respective Petition Date;

(e) any liability whatsoever arising out of or relating to any actions taken or not taken by or on behalf of Sellers on or prior to or subsequent to the Closing Date, under any notice and other labor requirements of applicable federal, state, local or other law or regulation in connection with the transaction contemplated by this Agreement, including, without limitation, under the Worker Adjustment and Retraining Notification Act (the "Warn Act") arising out of or relating to the Sellers' termination of any of its employees at any time;

(f) all liabilities and obligations of Sellers to employees employed in connection with the Business arising prior to the Closing Date, including (i) bonus, severance or similar payments or arrangements or other incentive compensation, and (ii) liabilities and obligations related to Sellers' Employee Benefit Plans; and

(g) all liabilities and obligations of any Seller of whatever nature whether presently in existence or hereafter arising, other than the Assumed Liabilities.

ARTICLE 2. CONSIDERATION

SECTION 2.1 Purchase Price. The aggregate consideration for the sale, transfer, assignment and conveyance of the Acquired Assets will be (a) $8,000,000 in cash (the **"Purchase Price"**), and (b) the assumption by Buyer of the Assumed Liabilities (such assumption, together with the Purchase Price, the **"Total Consideration"**), less any reduction to Total Consideration arising out of damage to the Acquired Assets as provided in Section 8.1(i), so long as Buyer does not terminate its obligations under this Agreement pursuant to Section 8.1(i). The Purchase Price shall be payable in accordance with Section 3.3(a).

SECTION 2.2 Debtor-in-Possession Financing. Buyer will provide up to $1,300,000 in debtor-in-possession financing pursuant to Section 364(c) of the Bankruptcy Code (the **"DIP Loan"**) on terms and conditions set forth in that DIP Loan Term Sheet attached hereto and incorporated herein by reference as Exhibit C, including but not limited to a first priority security interest in all of Sellers' assets. The actual principal amount of the DIP Loan unpaid and outstanding on the Closing Date shall be credited against the Purchase Price on a dollar for dollar basis.

SECTION 2.3 Transaction Deposit. Buyer shall deliver an earnest money deposit of $800,000 (the **"Buyer's Deposit"**), unless a different sum is required by order of the Bankruptcy Court, to counsel for Sellers within three Business Days of the entry of the Bidding Procedures Order. Such deposit shall be held in escrow in an interest bearing account, with accrued interest added to the Buyer's Deposit, in accordance with the terms of the Bidding Procedures Order and shall be subject to refund in accordance with Section 8.2.

SECTION 2.4 Adjustment of Purchase Price.

(a) As of March 31, 2008, the Accounts Receivable were valued at [$1,541,739] (the **"Target A/R Value"**) and the Inventory was valued at [$2,090,792] (the **"Target Inventory Value"**). Buyer acknowledges that Sellers' books and records value finished goods inventory purchased from Diomed Ltd. at a transfer price no higher than the price that Diomed Ltd. sells similar inventory to third party purchasers at volumes substantially similar to that purchased from Diomed Ltd. by Sellers.

(b) As soon as practicable, and in any event within seven (7) days following the Closing, Sellers shall deliver to Buyer one or more statements, each prepared on the same basis and using the same principles, policies and practices that were used by Sellers to prepare the Target A/R Value and the Target Inventory Value, setting forth the value of (i) the Accounts Receivable of the Business as of the Closing Date (the **"Closing A/R Value"**) and (ii) the Inventory of the Business as of the Closing Date (the **"Closing Inventory Value"**).

(c) Buyer shall have fifteen (15) days from the date it receives the latest of Seller's statements described in clause (b) above (the **"Objection Period"**) in which to review such statement(s). If, in Buyer's good faith judgment, Seller's statement(s) do not fairly present the Closing A/R Value or the Closing Inventory Value, Buyer shall have the right to propose an adjustment to the Closing A/R Value and Closing Inventory Value or any component thereof within the Objection Period. Any such proposed adjustment shall be in writing (the **"Adjustment Notice"**) and shall specify (i) the amount of the proposed adjustment, (ii) the item to which such proposed adjustment relates, and (iii) the facts and circumstances supporting the reasonableness of such adjustment. Upon the submission of any Adjustment Notice, Buyer and Sellers shall work together in good faith after Sellers' receipt of such Adjustment Notice in an attempt to agree on the Closing A/R Value and the Closing Inventory Value.

(d) If such dispute is not resolved within fifteen (15) days after Sellers' receipt of the Adjustment Notice, the dispute shall be submitted for resolution by a nationally recognized firm of certified public accountants (the **"Accounting Firm"**). Each of Buyer and Sellers shall propose a firm to be selected as the Accounting Firm, and if the parties agree on one of such firms, such firm shall be the Accounting Firm. If the parties are unable to agree on the selection of the Accounting Firm, then the Accounting Firm shall be a nationally recognized firm of certified public accountants that is agreed upon by the two accounting firms previously selected by Buyer and Sellers. The decision of the Accounting Firm shall as to the resolution of the dispute shall be conclusive and binding on the parties. The fees and expenses of the Accounting Firm shall be borne by the Non-Prevailing Party. **"Non-Prevailing Party"** in any controversy, shall mean the party whose determination of the amount in controversy presented to the Accounting Firm designated pursuant to the terms of this Agreement is further from the final determination of the Accounting Firm.

(e) If Buyer fails to submit an Adjustment Notice within the Objection Period, then Buyer shall be deemed to have accepted Seller's Closing A/R Value and Closing Inventory Value.

(f) Based on the Closing A/R Value and the Closing Inventory Value, the following adjustments to the Purchase Price shall be made:

(i) if the Closing A/R Value is greater that the Target A/R Value, then Buyer shall pay Sellers an amount equal to such difference;

(ii) if the Target A/R Value is greater than the Closing A/R Value, then Sellers shall pay Buyer an amount equal to such difference;

(iii) if the Closing Inventory Value is greater than the Target Inventory Value, then Buyer shall pay Seller an amount equal to such difference; and

(iv) if the Target Inventory Value is greater than the Closing Inventory Value, then Seller shall pay Buyer an amount equal to such difference.

(g) Any net payments required to be made under clause (f) above, shall be made within five (5) days of the later of:

(i) the expiration of the Objection Period,

(ii) the date on which Buyer and Seller agree on the Closing A/R Value or the Closing Inventory Value, or

(iii) the date on which the decision of the Accounting Firm is rendered. All payments required to be made by Buyer or Seller pursuant to this clause (g) shall be paid to Buyer or Seller, as the case may be, by wire transfer of immediately available funds to such bank account as the recipient shall designate in writing, and shall be deemed to effect an increase or reduction, as the case may be, in the Purchase Price.

ARTICLE 3. CLOSING AND DELIVERIES

SECTION 3.1 Closing. The consummation of the transactions contemplated hereby (the **"Closing"**) shall take place at the offices of McGuireWoods LLP, 1345 Avenue of the Americas, 7th Floor, New York, NY 10105, at 10:00 a.m. (E.S.T.) on the first Business Day following the satisfaction or waiver by the appropriate party of all the conditions contained in Article 7 or on such other date or at such other place and time as may be mutually agreed to by the parties (the **"Closing Date"**). All proceedings to be taken and all documents to be executed and delivered by all parties at the Closing shall be deemed to have been taken and executed simultaneously and no proceedings shall be deemed to have been taken nor documents executed or delivered until all have been taken, executed and delivered.

SECTION 3.2 Sellers' Deliveries.

At the Closing, Sellers shall deliver the following to Buyer:

(a) The sale, transfer, assignment, conveyance and delivery of the Acquired Assets, including but not limited to the Acquired Contracts, by bills of sale, endorsements, assignments and other instruments of transfer and conveyance in form and substance reasonably acceptable to Buyer;

(b) A certified copy of the Bankruptcy Sale Order in the form noted in the attached Exhibit B. For purposes of clarity, the Bankruptcy Sale Order shall contain the provisions, findings and orders as set forth in the attached Exhibit B, including, but not limited to, the following:

(i) that the terms and conditions of the sale of the Acquired Assets to Buyer as set forth herein are approved;

(ii) that the sale of the Acquired Assets to Buyer is free and clear, other than for Assumed Liabilities, of any and all Liens, claims, interests, and encumbrances of any type or nature whatsoever pursuant to section 363 of the Bankruptcy Code;

(iii) that Sellers hold good and marketable title to the Acquired Assets;

(iv) that the Total Consideration constitutes fair value for the Acquired Assets;

(v) that Buyer is acquiring none of the Excluded Assets;

(vi) that the transactions contemplated by this Agreement were negotiated at arm's length, that the Buyer acted in good faith in all respects and that Buyer and its assignees and designees are entitled to the protections of Section 363(m) of the Bankruptcy Code;

(vii) that notice of the transactions contemplated hereby was good and sufficient and was provided timely to all creditors listed in the Debtors' Schedules filed in their bankruptcy cases and other parties-in-interest, including, without limitation, any and all creditors holding Liens or encumbrances on the Acquired Assets or any of them and to any non-debtor parties, guarantors or obligors, and to any other party to whom notice was required pursuant to the Federal Rules of Bankruptcy Procedure;

(viii) that the Sellers are authorized to assume and assign to Buyer each of the Acquired Contracts set forth on Schedule 1.1(b); provided, that Sellers shall have sole responsibility of paying the cure costs required to be paid in accordance with section 365(b)(1)(A) of the Bankruptcy Code and Section 7.2(k) of this Agreement;

(ix) that the Sellers are authorized and directed to consummate the transactions contemplated by this Agreement and to comply in all respects with the terms of this Agreement and to prosecute vigorously, and at the expense of Sellers' estates, all necessary judicial proceedings;

(x) that the sale process conducted by Sellers and/or its agents (including any auction or bid solicitation process) was non-collusive, fair and reasonable and was conducted in good faith;

(xi) that Buyer and Sellers did not engage in any conduct which would allow the transactions contemplated by this Agreement to be set aside pursuant to Section 363(n) of the Bankruptcy Code;

(xii) that Buyer is not a successor to, or otherwise liable for, the debts or obligations of the Sellers, other than as specifically set forth in this Agreement with respect to the Assumed Liabilities;

(xiii) that, pursuant to Section 105 of the Bankruptcy Code, any creditors of Sellers are prohibited from taking any actions against Buyer or the Acquired Assets except in connection with liabilities expressly assumed by Buyer herein;

(xiv) that Buyer shall not be deemed a successor employer to the Sellers for purposes of any liability arising under the Warn Act, any similar state or local law, or any collective bargaining agreement or other labor or employment agreement; and

(xv) that the Order is binding upon any successors to the Sellers, including any Chapter 7 Trustees;

(e) A certificate, dated as of the Closing Date, duly executed by each Seller's President, certifying the accuracy of the matters set forth in Section 7.2(a) and 7.2(b), in form and substance reasonably satisfactory to Buyer;

(f) Good standing certificates of Sellers issued by the Secretary of State of Delaware and the Secretary of State of Massachusetts issued within ten (10) days of the Closing Date;

(g) A settlement statement in form and substance satisfactory to the parties hereto, regarding certain Closing matters, including any adjustments to the Purchase Price, executed by Sellers;

(h) Any Consents to assignments from third parties relating to the Acquired Contracts that require such consents, as shown on Schedule 4.1(e), as well as any other Consents that Seller is legally obligated to obtain to the extent that the failure to obtain any such Consent would cause a Material Adverse Effect with respect to the Business;

(i) Legal, valid and binding UCC-3 termination statements (in form and substance reasonably satisfactory to Sellers, Buyer and their counsel), in recordable form, for which a UCC financing statement is of record with respect to any of the Acquired Assets;

(j) An opinion of counsel for Sellers, in the form attached as Exhibit E;

(k) An agreement executed by Sellers in form and substance reasonably satisfactory to the parties: (i) granting Buyer a right of first refusal with respect to the sale or transfer of the 777 Patent and the exclusive license with respect thereto, and (ii) a release and agreement not to sue or otherwise file legal actions against Buyer for infringement of the 777 Patent, which shall be binding upon Sellers' successors and assigns; and

(l) Such other bills of sale, certificates of title, documents and other instruments of transfer and such other instruments of conveyance as Buyer may reasonably request in

order to effect the sale, transfer, conveyance and assignment to Buyer of valid ownership of the Acquired Assets and such other documents as Seller may reasonably be requested by Buyer, each in form and substance reasonably satisfactory to Buyer;

SECTION 3.3 Buyer's Deliveries.

At the Closing, Buyer shall deliver the following to Sellers:

(a) Payment of the Purchase Price, less the Buyer's Deposit, the unpaid principal balance of the DIP Financing as of the Closing date and the Holdback, by Federal Funds wire transfer;

(b) An instrument of assignment and assumption of liabilities with respect to the Assumed Liabilities, reasonably satisfactory in form and substance to counsel for Sellers;

(c) A certificate, dated the Closing Date, duly executed by its President, certifying the accuracy of the matters set forth in Section 7.1(a) and Section 7.1(b); and

(d) A settlement statement in form and substance satisfactory to the parties hereto, regarding certain Closing matters, including any adjustments to the Purchase Price. Executed by Buyer.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES

SECTION 4.1 Representations and Warranties of Sellers. Sellers hereby represent and warrant to Buyer as follows:

(a) Corporate Organization. Each Seller is duly organized, validly existing and in good standing under the laws of the State of Delaware. Each Seller has all requisite corporate power and authority to own its properties and assets and to conduct its businesses as now conducted.

(b) Qualification to Conduct Business. Each Seller is duly qualified to do business and is in good standing in every jurisdiction in which the character of the properties owned or leased by it or the nature of the businesses conducted by it makes such qualification necessary.

(c) Authorization and Validity. Each Seller has, or on the Closing Date will have, as applicable, all requisite corporate power and authority to enter into this Agreement to which such Seller is or will become a party and, subject to the (i) Bankruptcy Court's entry of the Orders, and (ii) receipt of all Consents, to perform its obligations hereunder and thereunder, the execution and delivery of this Agreement and the performance of such Sellers' obligations hereunder and thereunder, has been, or on the Closing Date will be, duly authorized by all necessary corporate action of such Seller, and no other corporate proceedings on the part of such Seller are necessary to authorize such execution, delivery and performance. This Agreement has been or on the Closing Date will be, duly executed by each Seller, and, subject to the Bankruptcy Court's entry of the Orders, constitutes or will, when executed and delivered, constitute each Seller's valid and binding obligation, enforceable against each Seller in accordance with their respective terms. The boards of directors of Holdings and Sub have each resolved to

request that the Bankruptcy Court approve this Agreement and the transactions contemplated hereby. Subject to the entry of the Bidding Procedures Order, each Seller has full power and authority to grant the Break-Up Fee and the Expense Reimbursement.

(d) No Conflict or Violation. Subject to the (i) receipt of all Consents and (ii) the Bankruptcy Court's entry of the Orders, the execution, delivery and performance by each Seller of this Agreement to which any of them is or will become a party do not and will not (a) violate or conflict with any provision of the Certificate of Incorporation or By-laws of any Seller, (b) violate any provision of law, or any order, judgment or decree of any Government applicable to any Seller, (c) result in or require the creation or imposition of any Liens on any of the Acquired Assets; or (d) violate or result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contract entered into by any Seller after such Seller's respective Petition Date, by which the applicable Seller is bound or to which the assets of the applicable Seller are subject.

(e) Consents and Approvals. Schedule 4.1(e) sets forth a true and complete list of each consent, waiver, authorization or approval of any Person and each material declaration to or filing or registration with any Government that is required to be obtained by any Seller in connection with the execution and delivery by it of this Agreement or the performance by it of its obligations hereunder or thereunder, including, without limitation, any and all material consents and approvals that are required to be obtained, or rights of first refusal, first offer or other similar preferential rights to purchase that are required to be complied with, in connection with the assignment or transfer of any Acquired Assets to Buyer in accordance with the terms of this Agreement (collectively, the **"Consents"**).

(f) Compliance with Laws. Each Seller is in compliance with all applicable laws, regulations, orders or other legal requirements to which such Seller is subject. No Seller has received written notice of any violation of any law, regulation, order or other legal requirement and no Seller is in default with respect to any order, writ, judgment, award, injunction or decree of any Government.

(g) Title to Acquired Assets. Subject to the entry of the Bankruptcy Sale Order, at the Closing, Sellers has or will obtain good and marketable title to or a valid and enforceable right by Contract to use the Acquired Assets which shall be transferred to Buyer free and clear of all Liens. Except for the Excluded Assets, the Acquired Assets constitute all of the assets of Sellers and are adequate to conduct the Business as currently conducted.

(h) Accounts Receivable. All Accounts Receivable of Sellers have been properly recorded on the books and records of Sellers in accordance with GAAP consistently applied by Sellers in accordance with past practices of Sellers. Schedule 4.1(h) contains a true and complete list of Sellers' Accounts Receivable as of March 31, 2008.

(i) Inventory. All Inventory of Sellers has been properly recorded on the books and records of Sellers in accordance with GAAP in accordance with past practices of Sellers. Schedule 4.1(i) contains a true and complete list of Sellers' Inventory as of March 31, 2008.

(j) Absence of Certain Infirmities. Other than having filed the Bankruptcy Cases and operating the Business subject to protection under chapter 11 of the Bankruptcy Code,

since January 1, 2008, the Sellers have conducted the Business in all respects in the Ordinary Course of Business, and there has not been:

(i) any material damage, destruction or other casualty or loss (whether or not covered by insurance) affecting any of the Acquired Assets or any portion thereof that has not been repaired: or

(ii) any sale or other disposition of any assets (including, without limitation, discounting of accounts receivable) used or useful in the Business, other than sales of inventory in the Ordinary Course of Business consistent with Sellers' past practice.

(k) Collective Bargaining Agreements. The Sellers are not parties to any collective bargaining agreement or similar labor or employment agreement.

(l) Financial Data. Seller has delivered to Buyer: (i) the unaudited consolidated financial statements for the fiscal year ending December 31, 2007; and (ii) the unaudited consolidated financial statements for the two months ended February 28, 2008 (all such financial data being hereinafter collectively referred to as the "Financial Data"). To the Knowledge of Sellers, the Financial Data is true, complete and accurate in all material respects, has been prepared in accordance with GAAP, is not misleading and fairly reflects to the extent applicable (i) the consistent application of such accounting principles throughout the periods involved, if any, and (ii) the financial positions, results, operations and changes in the financial position of the Business as of such dates and for the periods then ended. The Financial Data has been prepared from, and are in accordance with, the Sellers' accounting records.

(m) No Material Adverse Change. Other than the filing of the Bankruptcy Cases and the resulting implications therefrom (i.e., reduced access to cash, reduced sales, change in manner in which Business is conducted between Sellers and Diomed Ltd.), since the respective dates of the Financial Data, there has not been or occurred any event or circumstance with respect to the Business, or any other operations, prospects, assets, results of operations or condition (financial or other) of Sellers, which has had or could have a Material Adverse Effect on the Business, and no event has occurred or circumstance exists that may result in such a Material Adverse Effect.

(n) Schedule 1.1(b) is a true and complete list of the Acquired Contracts that relate to the Business.

(o) Legal Proceedings. Other than filing of the Bankruptcy Cases, and except as set forth on Schedule 4.1(o), (i) neither Seller is subject to any order of, or written agreement or memorandum or understanding with the Government relating to the Business, (ii) there exists no litigation, action, suit, claim, investigation or other legal proceeding pending, or, to the Knowledge of Sellers, any litigation, action, suit, investigation, claim, investigation or other legal proceeding threatened against or affecting the Business or the Acquired Assets, or which could prohibit or impede the transactions contemplated by this Agreement, (iii) in the past three years there have been no claims, actions, proceedings, or investigations against the Business or any of the Acquired Assets, and (iv) there are no pending or

threatened warranty claims relating to Products at any time manufactured, distributed or sold or services at any time performed by Seller, and there have been no such claims during the Seller's current fiscal year.

(p) Permits. Sellers have obtained all Permits necessary for the operation of the Business, and Sellers have complied with all of the Permits. All Permits necessary for the operation of the Business are listed on Schedule 1.1(h).

(q) Taxes. Seller have prepared and duly filed or caused to be duly filed all Tax Returns and reports relating to the Business and the Acquired Assets and required to be filed with any Government prior to the Closing Date. Except as described in Schedule 4.1(q), Sellers have paid, or withheld and remitted, in full, all Taxes due and owing and all claims, demands, assessments, judgments, costs, and expenses connected therewith. Except as described in Schedule 4.1(q), Sellers are not a party to any action or proceeding, nor to the Knowledge of Sellers, is any such action or proceeding contemplated or threatened, for the assessment or collection of any Taxes relating to the Business or the Acquired Assets, and no deficiency notices or reports have been received by Sellers in respect of any Tax relating to the Business or the Acquired Assets.

(r) Schedule 1.1(f) is a true and complete list of the Intellectual Property that relates to the Business, including Intellectual Property in which Diomed Ltd. has an interest, as designated on Schedule 1.1(f).

(s) Disclosure. No representation or warranty or other statement made by Sellers in this Agreement or the certificate delivered pursuant to Section 3.2(e), or otherwise in connection with the transactions contemplated by this Agreement contains or will contain any materially untrue statement of fact or omits to state or will omit to state a material fact necessary to make any of them, in light of the circumstances in which it was made, not misleading. To the Knowledge of Sellers, other than the filing of the Bankruptcy Cases and the resulting implications therefrom, there is no fact that has specific application to the Business (other than general economic or industry conditions) and that may materially adversely affect the Acquired Assets or the prospects, financial condition, or results of operations of the Business that has not been set forth in this Agreement. Notwithstanding the foregoing provisions of this Section 4.1(s), Buyer acknowledges that Buyer's direct or indirect acquisition of the assets of Diomed Ltd. consistent with Section 7.2(h) and continuing ownership of substantially all assets of Diomed Ltd. concurrently with the Acquired Assets will be required for Buyer to operate the Business after Closing.

SECTION 4.2 Representations and Warranties of Buyer. Buyer hereby represents and warrants to Sellers as follows:

(a) Corporate Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its properties and assets and to conduct its businesses as now conducted.

(b) Qualification to Conduct Business. Buyer is duly qualified to do business as a domestic corporation and is in good standing in every jurisdiction in which the character of the properties owned or leased by it or the nature of the businesses conducted by it makes such qualification necessary.

(c) Authorization and Validity. Buyer has, or on the Closing Date will have, all requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement and the performance of Buyer's obligations hereunder and thereunder have been, or on the Closing Date will be, duly authorized by all necessary corporate action by the Board of Directors of Buyer, and no other corporate proceedings on the part of Buyer are necessary to authorize such execution, delivery and performance. This Agreement has been or on the Closing Date will be, duly executed by Buyer and constitute, or will constitute, when executed and delivered, Buyer's valid and binding obligations, enforceable against it in accordance with their respective terms except as may be limited by bankruptcy or other laws affecting creditors' rights and by equitable principles.

(d) No Conflict or Violation. The execution, delivery and performance by Buyer of this Agreement to which Buyer is or will become a party do not and will not (i) violate or conflict with any provision of the Certificate of Incorporation or Bylaws of Buyer, (ii) violate any provision of law, or any order, judgment or decree of any court or Government applicable to Buyer; or (iii) violate or result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contract to which Buyer is party or by which Buyer is bound or to which any of Buyers properties or assets is subject.

(e) Adequate Assurances Regarding Acquired Contracts. Buyer is capable of satisfying the conditions contained in sections 365(b)(1)(C) and 365(f)(2)(B) of the Bankruptcy Code with respect to the Acquired Contracts.

(f) Litigation. Other than as set forth in Schedule 4.2(f), there are no claims, actions, suits, proceedings or investigations pending or, to the Knowledge of Buyer, threatened, before any federal or state court, Government or Person brought by or against Buyer, or any Related Person of Buyer that could reasonably be expected to affect the ability of Buyer to consummate the transactions contemplated by this Agreement.

(g) Adequacy of Funds. Buyer has and on the Closing Date will have access to sufficient resources to fund the Total Consideration and has provided Sellers proof thereof prior to the date of this Agreement.

SECTION 4.3 Warranties Are Exclusive. The parties acknowledge that the representations and warranties contained in this Article 4 are the only representations or warranties given by the parties and that all other express or implied warranties are disclaimed. Without limiting the foregoing, Buyer acknowledges that the Acquired Assets are conveyed "AS IS", "WHERE IS" and '"WITH ALL FAULTS" and that all warranties of merchantability or fitness for a particular purpose are disclaimed. WITHOUT LIMITING THE FOREGOING, BUYER ACKNOWLEDGES THAT SELLERS AND THEIR RELATED PERSONS AND AFFILIATES HAVE MADE NO REPRESENTATION OR WARRANTY CONCERNING ANY (A) USE TO WHICH THE ACQUIRED ASSETS MAY BE PUT; (B) FUTURE REVENUES, COSTS, EXPENDITURES, CASH FLOW, RESULTS OF OPERATIONS, FINANCIAL CONDITION OR PROSPECTS THAT MAY RESULT FROM THE OWNERSHIP, USE OR SALE OF THE ACQUIRED ASSETS OR THE ASSUMPTION OF THE ASSUMED LIABILITIES; OR (C) OTHER INFORMATION OR DOCUMENTS MADE AVAILABLE TO BUYER OR ITS AFFILIATES OR RELATED PERSONS.

ARTICLE 5. COVENANTS AND OTHER AGREEMENTS

SECTION 5.1 Pre-Closing Covenants of Sellers. Sellers covenant to Buyer that during the period from the Execution Date through and including the Closing Date:

(a) Conduct of Business Before the Closing Date. Unless otherwise agreed by Sellers and Buyer, Sellers shall conduct the Business in all material respects in the Ordinary Course of Business and shall use commercially reasonable efforts to preserve intact the Business and relationships with third parties. Without obtaining the prior consent of Buyer to take any actions not permitted or required by the following clauses, Sellers:

(i) shall not take or agree to commit to take any action that would make any representation or warranty of any Seller inaccurate in any material respect at, or as of any time prior to, the Closing Date;

(ii) shall keep in full force and effect and pay all premiums and other amounts due under the insurance policies;

(iii) shall not make any change in its general pricing practices or policies or any material change in its credit or allowance practices or policies, except to the extent reasonably necessary to be competitive;

(iv) shall not sell or dispose of any Acquired Assets other than sales of products and Inventory in the Ordinary Course of Business;

(v) shall not make any material modification to any Acquired Contract; and

(vi) shall not discount Accounts Receivable or Inventory other than in the Ordinary Course of Business.

(b) Cooperation. Sellers shall use commercially reasonable efforts to (i) obtain the Consents and (ii) take, or cause to be taken, all action and to do, or cause to be done, all things necessary or proper, consistent with applicable law, to consummate and make effective as soon as possible the transactions contemplated hereby.

(c) Access to Records and Properties. Buyer shall be entitled, at its expense, and Sellers shall permit Buyer to conduct such investigation of the condition (financial or otherwise) of the Business, businesses, assets, properties or operations of Sellers as Buyer shall reasonably deem appropriate for a period up to and included fifteen (15) days following the date of full execution of this Agreement (the "**Extended Diligence Period**"). During the Extended Due Diligence Period Buyer shall be entitled to add or subtract from any Schedules to this Agreement by written notice to Sellers.

(d) Notice of Certain Events. Sellers shall promptly notify Buyer of, and furnish Buyer any information it may reasonably request with respect to, the occurrence of any event or condition or the existence of any fact that would reasonably be expected to cause any of the conditions to Buyer's obligations to consummate the transaction(s) contemplated by this Agreement not to be fulfilled.

(e) Assents from Secured Creditors. Prior to the hearing on the Sale Motion, Sellers shall obtain all necessary assents from Secured Creditors such that the sale contemplated under this Agreement may be free and clear of liens, claims and encumbrances, pursuant to Section 363(f) of the Bankruptcy Code.

SECTION 5.2 Pre-Closing Covenants of Buyer. Buyer covenants to Sellers that, during the period from the Execution Date through and including the Closing Date or the earlier termination of this Agreement:

(a) Cooperation. Buyer shall use commercially reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary or proper, consistent with applicable law, to consummate and make effective as soon as possible the transactions contemplated hereby.

(b) Adequate Assurances Regarding Acquired Contracts and Required Orders. With respect to each Acquired Contract, Buyer shall provide adequate assurance of the future performance of such Acquired Contract by Buyer. Buyer shall promptly take such actions as may be reasonably requested by Sellers to assist Sellers in obtaining the Bankruptcy Court's entry of the Bankruptcy Sale Order and any other order of the Bankruptcy Court reasonably necessary to consummate the transactions contemplated by this Agreement.

(c) Notice of Certain Events. Buyer shall promptly notify Sellers of, and furnish Sellers any information it may reasonably request with respect to, the occurrence of any event or condition or the existence of any fact that would reasonably be expected to cause any of the conditions to Sellers' obligations to consummate the transactions contemplated by this Agreement not to be fulfilled.

SECTION 5.3 Employment Covenants and Other Undertakings.

(a) Employee Benefits. Sellers shall retain all liabilities and obligations in respect of their past, present and future employees under applicable laws and the Sellers' Employee Benefit Plans. Without limiting the generality of the foregoing, Buyer shall have no liability or obligation whatsoever under the Sellers' Employee Benefit Plans nor shall Buyer assume the sponsorship of the Sellers Employee Benefit Plans. Prior to or upon commencement of employment with Buyer of any employees of Sellers hired by Buyer as of or after the Closing, Buyer shall offer such employees and their dependents employee benefits on such terms and conditions as Buyer may, in its sole discretion, determine.

(b) Future Employment. Buyer, in its sole discretion, may offer employment from and after the Closing to such employees or former employees of Sellers, and on such terms and conditions as Buyer may determine, in its sole discretion.

(c) No Right to Employment. Nothing herein expressed or implied shall confer upon any of the employees of any Seller, Buyer or any of their or its respective Affiliates, any rights or remedies, including any right to employment or continued employment for any specified period, of any nature or kind whatsoever under or by reason of this Agreement. Buyer shall not be required to hire any employee of either Seller.

(d) Other Obligations. Except as otherwise required by law, specified in this Agreement, or otherwise agreed in writing by Buyer and/or its Affiliates, neither Buyer

nor its Affiliates shall be obligated to provide any severance, separation pay or other payments or benefits, including any key employee retention payments, to any employee of any Seller on account of any termination of such employee's employment on or before the Closing Date, and such benefits (if any) shall be payable by Sellers.

(e) Employee and Retiree Information. To the extent necessary to enable Buyer to meet any obligation Buyer elects to undertake to any employees, former employees and retirees of Sellers after the Closing Date, on Schedule 5.3(e) Sellers shall provide to Buyer, in a format reasonably acceptable to Buyer, the name, social security number, current work location, dates of service, most recent job position and most recent annual salary or wage rate of each employee of Sellers; provided, that Sellers shall be obligated to provide only such information as may be reflected on Sellers' records. Sellers shall provide Buyer copies of all employment agreements between each Seller and any employees of such Seller. For purposes of maintaining the privacy of employees, the version of Schedule 5.3(e) filed of record with the Bankruptcy Court may contain redactions at the discretion of the Sellers.

ARTICLE 6. TAXES

SECTION 6.1 Taxes Related to Purchase of Acquired Assets. All Taxes, including, without limitation, all state and local Taxes in connection with the transfer of the Acquired Assets, and all recording and filing fees (collectively, **"Transaction Taxes"**), that may be imposed by reason of the sale, transfer, assignment and delivery of the Acquired Assets and that are not exempt under section 1146(a) of the Bankruptcy Code, shall be borne by Buyer. Buyer and Sellers shall cooperate to (a) determine the amount of Transaction Taxes payable in connection with the transactions contemplated under this Agreement, (b) provide all requisite exemption certificates and (c) prepare and file any and all required Tax Returns for or with respect to such Transaction Taxes with any and all appropriate Government taxing authorities.

SECTION 6.2 Cooperation on Tax Matters

(a) Buyer and Sellers shall furnish or cause to be furnished to each other, as promptly as practicable, such information and assistance relating to the Acquired Assets and the Assumed Liabilities as is reasonably necessary for the preparation and filing of any Tax Return, claim for refund or other required or optional filings relating to Tax mailers, for the preparation for and proof of facts during any Tax audit, for the preparation for any Tax protest, for the prosecution or defense of any suit or other proceeding relating to Tax matters and for the answer to any Government relating to Tax matters.

(b) Buyer shall retain possession of all accounting, business, financial and Tax records and information (i) relating to the Acquired Assets or the Assumed Liabilities that are in existence on the Closing Date and transferred to Buyer hereunder; and (ii) coming into existence after the Closing Date that relate to the Acquired Assets or the Assumed Liabilities before the Closing Date, for the minimal period from the Closing Date as required by the Internal Revenue Code. Buyer shall give Sellers notice and an opportunity to retain any such records in the event that Buyer determines to destroy or dispose of them after such period. In addition, from and after the Closing Date, Buyer shall provide access to Sellers and their Related Persons (after reasonable notice and during normal business hours and without charge), to the books, records, documents and other information relating to the Acquired Assets or the Assumed Liabilities as

Sellers may reasonably deem necessary to (i) properly prepare for, file, prove, answer, prosecute and defend any such Tax Return, claim, filing, tax audit, tax protest, suit, proceeding or answer; or (ii) administer or complete any cases under chapter 11 of the Bankruptcy Code of Sellers. Such access shall include, without limitation, access to any computerized information retrieval systems relating to the Acquired Assets or the Assumed Liabilities.

SECTION 6.3 Allocation of Purchase Price. Buyer and Sellers will allocate the Total Consideration among the Acquired Assets in accordance with a schedule to be reasonably agreed by them prior to the Closing Date (the **"Allocation"**). The Allocation will be binding upon Buyer and Sellers and their respective successors and assigns, and none of the parties to this Agreement will take any position (whether in returns, audits or otherwise) that is inconsistent with the Allocation. Buyer and Sellers will report the purchase and sale of the Acquired Assets on all tax returns, including, without limitation, Form 8594 as provided for in section 1060 of the Code, in accordance with the Allocation and will cooperate in timely filing with the Internal Revenue Service their respective Forms 8594.

ARTICLE 7. CONDITIONS PRECEDENT TO PERFORMANCE BY PARTIES

SECTION 7.1 Conditions Precedent to Performance by Sellers. The obligation of Sellers to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or before the Closing, of the following conditions, any one or more of which (other than the conditions contained in Section 7.1(c) or (d)) may be waived by Sellers, in their sole discretion:

(a) Representations and Warranties of Buyer. The representations and warranties of Buyer made in Section 4.2 of this Agreement, in each case, shall be true and correct as of the Execution Date and as of the Closing Date as though made by Buyer again as of the Closing Date, except to the extent (i) such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall be true and correct on and as of such earlier date, and (ii) any inaccuracies in such representations and warranties would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(b) Performance of the Obligations of Buyer. Buyer shall have performed in all material respects all obligations required under this Agreement to which it is party which are to be performed by it on or before the Closing Date (except with respect to the obligation to pay the Total Consideration in accordance with the terms of this Agreement and any obligations qualified by materiality, which obligations shall be performed in all respects as required under this Agreement).

(c) Governmental Consents and Approvals. The Bankruptcy Court shall have entered the Bankruptcy Sale Order. The Bankruptcy Sale Order shall be in full force and effect, and no order staying, reversing, modifying, vacating or amending the Bankruptcy Sale Order shall be in effect on the Closing Date.

(d) No Violation of Orders. No preliminary or permanent injunction or other order of any court or Government that declares this Agreement invalid or unenforceable in any material respect or which prevents the consummation of the transactions contemplated hereby shall be in effect.

(e) No Litigation. There shall not be pending or threatened in writing by any Government any suit, action or proceeding (i) challenging or seeking to restrain, prohibit, alter or materially delay the consummation of any of the transactions contemplated by this Agreement or (ii) seeking to obtain from any Seller any damages in connection with the transactions contemplated hereby.

(f) Closing Deliveries. Buyer shall have made the deliveries contemplated under Section 3.3.

(g) Allocation. Buyer and Sellers shall have agreed upon the Allocation.

SECTION 7.2 Conditions Precedent to the Performance by Buyer. The obligations of Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing, of the following conditions, any one or more of which (other than the conditions contained in Section 7.2(c) or (d)) may be waived by Buyer, in its sole discretion:

(a) Representations and Warranties of Sellers. The representations and warranties of Sellers made in Section 4.1 of this Agreement shall be true and correct as of the Execution Date and as of the Closing Date as though made by Sellers again as of the Closing Date, except to the extent (i) such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall be true and correct on and as of such earlier date and (ii) any inaccuracies in such representations and warranties would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(b) Performance of the Obligations of Sellers. Sellers shall have performed in all material respects all obligations required under this Agreement to which any Seller is party to be performed by any Seller on or before the Closing Date (except with respect to any obligations qualified by materiality, which obligations shall be performed in all respects as required under this Agreement).

(c) Governmental Consents and Approvals. The Orders shall have been entered and become Final Orders.

(d) No Violation of Orders. No preliminary or permanent injunction or other order of any court or Government that declares this Agreement invalid in any material respect or prevents the consummation of the transactions contemplated hereby shall be in effect.

(e) No Litigation. There shall not be pending or threatened in writing by any Government any suit, action or proceeding, (i) challenging or seeking to restrain, prohibit, alter or materially delay the consummation of any of the transactions contemplated by this Agreement, (ii) seeking to obtain from Buyer or any of its Affiliates any damages in connection with the transactions contemplated hereby or (iii) seeking to prohibit Buyer or any of its Affiliates from effectively controlling or operating any portion of the Acquired Assets.

(f) No Material Adverse Effect. There shall not have occurred any event, fact or circumstance that has had, or is reasonably likely to have, a Material Adverse Effect.

(g) Closing Deliveries. Sellers shall have made the deliveries contemplated under Section 3.2.

(h) Assets of Diomed Ltd. Buyer shall have acquired as of the Closing Date, all of the assets of Diomed Ltd. other than cash, intercompany balances owed to Diomed Ltd. by Sellers and any other assets of Diomed Ltd. that are specifically excluded from the purchase agreement by and between the administrator of Diomed Ltd. and Buyer or its affiliate.

(j) Condition of Acquired Assets. Other than (i) the sale of inventory in the ordinary course, (ii) the collection of Accounts Receivable in the ordinary course, and (iii) reasonable wear and tear with respect to Owned Machinery and Equipment, the Acquired Assets have not become subject to damage or other casualty causing a damage to Acquired Assets of a value exceeding $100,000.

(k) Acquired Contract Cure. Sellers shall, consistent with section 365(b)(1)(A) of the Bankruptcy Code, either pay undisputed cure claims relating to Acquired Contracts on the Closing Date or provide for a reservation of funds sufficient to pay the alleged amount of any disputed cure claim relating to an Acquired Contract on the Closing Date.

ARTICLE 8. TERMINATION

SECTION 8.1 Conditions of Termination. This Agreement may be terminated only in accordance with this Section 8.1. This Agreement may be terminated at any time before the Closing as follows:

(a) By mutual written consent of Sellers and Buyer;

(b) By Sellers, by written notice to Buyer, or by Buyer, by written notice to Sellers, on or after the date that is 65 days after the Execution Date (the **"Termination Date"**), subject, however, to extension by the mutual written consent of Sellers and Buyer, if the Closing shall not have occurred on or prior to the Termination Date; provided, however that a party shall not have the right to terminate this Agreement under this Section 8.1(b) if any Seller (in case of termination by Sellers) or Buyer (in case of termination by Buyer) is then in material breach of this Agreement;

(c) By Sellers, by written notice to Buyer, or by Buyer, by written notice to Sellers, if any injunction or other order restricting the transactions contemplated by this Agreement shall have become effective; provided, however that the party seeking to terminate this Agreement pursuant to this Section 8.1(c) has used its commercially reasonable efforts to remove such injunction or other order;

(d) By Sellers, by written notice to Buyer, if Sellers have previously provided Buyer with written notice of any inaccuracy of any representation or warranty contained in Section 4.2 which inaccuracy could reasonably be expected to result in, individually or in the aggregate with the results of other inaccuracies, a Material Adverse Effect, or a material failure to perform any covenant of Buyer contained in this Agreement, and Buyer has failed, within five Business Days after receipt of such notice, to remedy such inaccuracy or perform such covenant or provide reasonably adequate assurance to Sellers of Buyer's ability to remedy such inaccuracy or perform such covenant; provided, that no Seller shall have the right to terminate this Agreement under this Section 8.1(d) if any Seller is in material breach of this Agreement at the time either Seller gives such notice;

(e) By Buyer, by written notice to Sellers, if Buyer has previously provided Sellers with written notice of any inaccuracy of any representation or warranty of any Seller contained in Section 4.1 which inaccuracy could reasonably be expected to result in, individually or in the aggregate with the results of other inaccuracies, a Material Adverse Effect, or a material failure to perform any covenant of any Seller contained in this Agreement, and any Seller has failed, within five Business Days after receipt of such notice, to remedy such inaccuracy or perform such covenant or provide reasonably adequate assurance to Buyer of such Seller's ability to remedy such inaccuracy or perform such covenant; provided, that Buyer shall not have the right to terminate this Agreement under this Section 8.1(e) if Buyer is in material breach of this Agreement at the time it gives such notice;

(f) By Buyer, by written notice to Sellers, if (i) the Bidding Procedures and Sale Motion is not filed with the Bankruptcy Court within five Business Days after the Execution Date, (ii) the Bidding Procedures Order in form and substance acceptable to Buyer is not entered by the Bankruptcy Court within 15 days of the Execution Date or (iii) the Bankruptcy Sale Order in form and substance acceptable to Buyer is not entered by the Bankruptcy Court within 65 days of the Execution Date;

(g) By Buyer, written notice to Sellers within the Extended Diligence Period, if the results of Buyer's due diligence investigation under Section 5.1(c) is not satisfactory to Buyer, in its sole discretion;

(h) Automatically, if Sellers enter into a definitive written agreement providing for an Alternative Transaction pursuant to the Bidding Procedures Order; and

(i) By Buyer, by written notice to Sellers delivered within one Business Day after gaining knowledge of such damage, if damage to the Acquired Assets in excess of $100,000 occurs prior to the Closing Date; provided, that if damage or casualty to Acquired Assets exceeding $100,000 occurs, Buyer shall have the option in lieu of terminating this Agreement, which option shall be exercisable by Buyer in its sole discretion in writing delivered to Sellers not less than one Business Day prior to the Closing, to reduce Total Consideration otherwise payable by Buyer by the amount that such damage or casualty exceeds $100,000.

SECTION 8.2 Effect of Termination; Remedies.

(a) In the event of termination pursuant to any provision of Section 8.1, this Agreement shall become null and void and have no effect with no liability on the part of Sellers or Buyer, or their respective Affiliates or respective Related Persons, with respect to this Agreement, except for any obligation or liability provided for in this Section 8.2.

(b) If Buyer terminates this Agreement pursuant to Section 8.1(f) or if this Agreement is terminated pursuant to Section 8.1(h), then, (i) within two Business Days after such termination, Sellers shall return the Buyer's Deposit to Buyer and shall pay to Buyer the Expense Reimbursement in cash, and (ii) if Sellers enter into a definitive written agreement to consummate an Alternative Transaction within 90 days after such

termination, Sellers also shall pay to Buyer a break-up fee in cash equal to $250,000 (the **"Break-Up Fee"**) upon the closing of such Alternative Transaction.

(c) If this Agreement is terminated pursuant to any of Section 8.1(a), Section 8.1(b), Section 8.1(c), Section 8.1(e), Section 8.1(g) and Section 8.1(i), then, within two Business Days after such termination, Sellers shall return the Buyer's Deposit to Buyer.

(d) Any payments of the Break-Up Fee or Expense Reimbursement under this Section 8.2, and the return of the Buyer's Deposit under this Section 8.2, shall be made by Sellers by wire transfer of immediately available funds to an account designated in writing by Buyer. Sellers acknowledge that the Break-Up Fee or Expense Reimbursement (or any portion thereof) are necessary and appropriate expenses for the administration of their estates, pursuant to sections 503 and 507 of the Bankruptcy Code, and that the Break-Up Fee and Expense Reimbursement (or any portion thereof) are allowed administrative expenses against each of their estates. In addition, the Break-Up Fee and the Expense Reimbursement shall be payable directly from and secured by the cash component consideration of the Alternative Transaction.

SECTION 8.3 Exclusive Remedy. Prior to the Closing Date, the parties' only remedies for any claim arising out of or in connection with this Agreement shall be termination in accordance with this Article 8 and/or such other relief as may be granted by the Bankruptcy Court.

SECTION 8.4 DIP Loan. Notwithstanding anything to the contrary contained in this Article 8, Sellers shall continue to be obligated to repay the DIP Loan in accordance with its terms.

ARTICLE 9. SURVIVAL AND INDEMNIFICATION

SECTION 9.1 Survival; Indemnification.

(a) The representations and warranties of the parties contained in this Agreement shall survive the Closing until the date that is six (6) months after the Closing Date (the **"Survival Period"**). No party shall have any claim or right of recovery for any Breach of a representation or warranty unless (x) written notice is given by that party to the other party of the representation or warranty pursuant to which the claim is made or right of recovery is sought setting forth in reasonable detail the basis for the purported Breach of the representation or warranty, the amount or nature of the claim being made, if then ascertainable, and the general basis therefor and (y) such notice is given prior to the expiration of the Survival Period. For avoidance of doubt, the covenants and agreements of the parties which are intended by their terms to be performed after the Closing, shall survive in perpetuity except as they may be limited by a specific period of time expressly set forth therein.

(b) Sellers hereby indemnify and agree to hold Buyer and its officers, directors, shareholders, employees, affiliates, attorneys, accountants and agents (collectively, the **"Buyer Parties"**) harmless from, against and in respect of:

(i) any and all loss suffered or incurred by Buyer Parties by reason of any untrue or inaccurate representation, breach of warranty or non-fulfillment of any covenant

by Sellers contained herein or in any schedule, exhibit, certificate, document or instrument delivered to Buyer pursuant hereto or in connection herewith;

(ii) any and all loss suffered or incurred by Buyer Parties in respect of, in connection with or arising out of any debts, liabilities or obligations of Sellers, other than the Assumed Liabilities;

(iii) any and all loss suffered or incurred by Buyer Parties in respect of, in connection with or arising out of any legal proceeding related to the operation of the Business prior to the Closing Date, whether or not pending on the Closing Date and whether or not disclosed on any Disclosure Schedule, including (x) any claim arising in connection with deaths, personal injuries, other injuries to persons, property damages or losses or deprivation of rights resulting from or related to any goods or services supplied by Seller, or (y) any environmental claim resulting from the operation of the Business prior to the Closing Date, in each case except to the extent such legal proceeding is expressly included in the Assumed Liabilities;

(iv) any loss incurred or suffered by the Buyer Parties arising out of or in connection with any failure by Sellers to comply with applicable bulk sales laws and bulk transfer tax laws in connection with the transactions contemplated hereby;

(v) any and all actions, suits, proceedings, claims, demands, assessments, judgments, costs and expenses, including legal fees and expenses, incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity; and

(vi) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Sellers (or any Person acting on Sellers behalf) in connection with any of the transactions contemplated by this Agreement.

(c) Buyer hereby agrees to indemnify and hold Sellers and its officers, directors, shareholders, employees, affiliates, attorneys, accountants and agents (collectively, the **"Seller Parties"**) harmless from, against and in respect of:

(i) any and all loss suffered or incurred by any of the Seller Parties by reason of any untrue representation, breach of warranty or non-fulfillment of any covenant by Buyer contained herein or in any schedule, exhibit, certificate, document or instrument delivered to Sellers pursuant hereto or in connection herewith;

(ii) any and all loss suffered or incurred by any of the Seller Parties in respect of, in connection with or arising out of any Assumed Liabilities in conformity with representations, warranties and covenants of Seller in this Agreement;

(iii) any and all losses suffered or incurred by any of the Seller Parties arising from Buyer's use or operation of the Business or the Acquired Assets from and after the Closing Date;

(iv) any and all actions, suits, proceedings, claims, demands, assessments, judgments, costs and expenses, including legal fees and expenses, incident to

any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity; and

(v) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Buyer (or any Person acting on Buyer's behalf) in connection with any of the transactions contemplated by this Agreement.

SECTION 9.2 Specific Performance. Each party acknowledges that in case of any breach of their covenants or other obligations, the others would suffer immediate and irreparable harm, which money damages would be inadequate to remedy, and accordingly, in case of any such breach each non-breaching party shall be entitled to obtain specific performance and other equitable remedies, in addition to other remedies provided in this Article 9.

SECTION 9.3 Exclusive Remedy. Following the Closing Date, the respective parties' sole and exclusive remedies for any claim arising out of or in connection with this Agreement shall be those set forth in this Article 9 and in Section 2.4.

ARTICLE 10. BIDDING PROCEDURES

SECTION 10.1 Bidding Procedures.

(a) Bankruptcy Court Approval. On the Execution Date or within five Business Days after the Execution Date, Sellers shall prepare and file with the Bankruptcy Court a bidding procedures motion in form and substance satisfactory to Buyer in its sole discretion (the **"Bidding Procedures Motion"**), seeking entry of a bidding procedures order in the form of Exhibit D or in other form reasonably satisfactory to Buyer (the **"Bidding Procedures Order"**). Sellers shall use commercially reasonable efforts to obtain entry by the Bankruptcy Court of the Bidding Procedures Order as soon as practicable. The Bidding Procedures Order shall contain, among other provisions, those contained in Section 10.1(b) and, in addition, shall contain additional provisions regarding qualification of bidders, bidding requirements and other matters. Sellers shall provide to Buyer copies of any and all pleadings filed in opposition to or in respect of the Bidding Procedures Motion immediately upon their receipt. Sellers shall use their best efforts to resolve or oppose, as applicable, any such pleadings.

(b) Other Bids

(i) Buyer acknowledges that Sellers may receive bids (**"Bids"**) from prospective purchasers (such prospective purchasers who are Qualified Bidders (as defined in the Bidding Procedures and Sale Motion), the **"Bidders**"), including, without limitation, the exercise by subordinated secured noteholders (so long as such noteholders are Qualified Bidders (as defined in the Bidding Procedures and Sale Motion)) of the right to credit bid pursuant to applicable provisions of the Bankruptcy Code, for the sale of all of the Acquired Assets or other assets owned by Sellers as provided in the Bidding Procedures Order. All Bids shall be subject to bid incentives and protections set forth in this Section 10.1(b) and overbid protections set forth in Section 10.1(c) of this Agreement. The Bidding Procedures Order shall require that all Bids (other than Bids

submitted by Buyer) will be submitted with two copies of this Agreement marked to show changes requested by the Bidder.

(ii) If Sellers receive any higher Bids, Sellers shall have the right to select, and seek final approval of the Bankruptcy Court for, the highest better Bid or Bids from the Bidders (the **"Superior Bid"**), which will be determined by considering, among other things, the (A) identity of the Bidder; (B) number, type and nature of any changes to this Agreement requested by the Bidder; (C) extent to which the identity of the Bidder or such modifications are likely to delay closing of the sale of the Acquired Assets and Assumed Liabilities to the Bidder and the cost to Sellers of such modifications or delay; (D) extent to which such Bid covers less than or more than all of the Acquired Assets and Assumed Liabilities; (E) form and amount of the total consideration to be received by Sellers and their bankruptcy estate; and (F) financial strength of the Bidder. Sellers shall provide copies of all Bids to Buyer.

(c) Overbid Protection. Sellers shall seek Bankruptcy Court approval of the following overbid protections: (A) no Bid will be considered by Sellers unless it is at least $150,000 more than the sum of (x) Total Consideration, (y) Break Up Fee and (z) Expense Reimbursement; and (B) a provision that Buyer will be credited with, and have added to the aggregate amount of its bid when comparing it to other bids, the amount of the Break-Up Fee and the Expense Reimbursement that will be earned by Buyer under Section 8.2 if it is not the successful bidder for the Acquired Assets.

SECTION 10.2 Sale Hearing and Entry of Bankruptcy Sale Order. Within two business days after the entry of the Bidding Procedures Order, Sellers shall file a Motion seeking the approval of the sale and transactions contemplated by this Agreement (the "Sale Motion"). The Sale Motion shall seek entry by the Bankruptcy Court of the Bankruptcy Sale Order. Sellers shall use commercially reasonable efforts to obtain entry by the Bankruptcy Court of the Bankruptcy Sale Order within 45 days of the Execution Date.

ARTICLE 11. MISCELLANEOUS

SECTION 11.1 Allowed Administrative Expenses. Buyer shall not be liable for any administrative expenses in connection with the Sellers' or Diomed Ltd.'s bankruptcy or insolvency proceedings. All Allowed Administrative Expenses shall be paid by the Sellers and/or Diomed Ltd. as appropriate.

SECTION 11.2 Alternative Transaction. Notwithstanding anything herein to the contrary, Sellers may furnish information concerning Sellers, the Acquired Assets and the Assumed Liabilities to any Person in connection with a potential Alternative Transaction pursuant to the Bidding Procedures Order, provided that such Person executes and delivers to Sellers a confidentiality agreement on substantially the same terms and conditions as contained in the confidentiality agreement executed and delivered to the Sellers by the Buyer, and negotiate, enter into and consummate an Alternative Transaction.

SECTION 11.3 Further Assurances. At the request and the sole expense of the requesting party, Buyer or Sellers, as applicable, shall execute and deliver, or cause to be executed and delivered, such documents as Buyer or Sellers, as applicable, or their respective counsel may reasonably request to effectuate the purposes of this Agreement.

SECTION 11.4 Successors and Assigns

(a) Buyer shall have the right to assign to any Person or Persons (each, an **"Assignee"**) any of its rights or obligations (including the right to acquire any of the Acquired Assets) and may require any such Assignee to pay all or a portion of the Purchase Price and/or to assume all or a portion of those Assumed Liabilities that are both described in Section 1.3 and relate to the Acquired Assets acquired by the Assignee (**"Assignable Liabilities"**). In the event of any assignment pursuant to this Section 11.4(a) Buyer shall not be relieved of any liability or obligation hereunder; provided, however that Buyer shall, with Sellers' approval, which shall not be unreasonably withheld, be fully released from such Assignable Liabilities upon their assumption by an Assignee.

(b) Sellers shall not assign this Agreement or any of their rights or obligations hereunder. This Agreement shall inure to the benefit of and shall be binding upon the successors and permitted assigns of the parties hereto.

SECTION 11.5 Governing Law: Jurisdiction. This Agreement Shall be construed, performed and enforced in accordance with, and governed by, the laws of the State of Delaware (without giving effect to the principles of conflicts of laws thereof), except to the extent that the laws of such State are superseded by the Bankruptcy Code or other applicable federal law. For so long as Sellers are subject to the jurisdiction of the Bankruptcy Court, the parties irrevocably elect, as the sole judicial forum for the adjudication of any matters arising under or in connection with the Agreement, and consent to the exclusive jurisdiction of, the Bankruptcy Court. In particular, the Bankruptcy Court shall retain original and exclusive jurisdiction over, among other matters, any and all disputes relating to Buyer's claims for payment of amounts from the Holdback for adjustments to Purchase Price under Section 2.4 and/or indemnification under Section 9.1.

SECTION 11.6 Expenses. Except as otherwise provided in this Agreement, each of the parties shall pay its own expenses in connection with this Agreement and the transactions contemplated hereby, including, without limitation, any legal and accounting fees, whether or not the transactions contemplated hereby are consummated.

SECTION 11.7 Broker's and Finder's Fees. Each of the parties represents and warrants that it has not engaged any broker or finder in connection with any of the transactions contemplated by this Agreement other than Jefferies & Company, Inc., which was engaged by Sellers prior to the Petition Date and whose fees and expenses shall not be an obligation of Buyer.

SECTION 11.8 Severability. In the event that any part of this Agreement is declared by any court or other judicial or administrative body to be null, void or unenforceable, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect only if, after excluding the portion deemed to be unenforceable, the remaining terms shall provide for the consummation of the transactions contemplated hereby in substantially the same manner as originally set forth at the later of (a) the Execution Date and (b) the date this Agreement was last amended.

SECTION 11.9 Notices. All notices, requests, demands, consents and other communications under this Agreement shall be in writing and shall be deemed to have been duly given: (i) on the date of service, if served personally on the party to whom notice is to be given; (ii) on the day of transmission, if sent via facsimile transmission to the facsimile number given below: (iii) on the day after delivery to Federal Express or similar overnight courier or the Express Mail service maintained by the United States Postal Service addressed to the party to whom notice is to be given; or (iv) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to the party as follows:

If to Sellers:

Diomed Holdings, Inc./Diomed, Inc.
1 Dundee Park
Andover, MA 01810
Attention: James Wylie, President
Facsimile: (978) 475-8488
Email: jwylie@diomedinc.com

With a copy to:

McGuire Woods LLP
625 Liberty Avenue, 23rd Floor
Pittsburgh, PA 15222
Attention: Mark E. Freedlander
Facsimile: (412) 667-7967
Email: mfreedlander@mcguirewoods.com

If to Buyer:

AngioDynamics, Inc.
603 Queensbury Avenue
Queensbury, NY 12804
Attn: Eamonn P. Hobbs
Facsimile: (518) 798-3625
Email: eamonn@angiodynamics.com

With a copy to:

Bond, Schoeneck & King, PLLC
111 Washington Avenue
Albany, NY 12210
Attn: Gregory J. Champion, Esq.
Facsimile: (518) 533-3299
Email: gchampion@bsk.com

Any party may change its address or facsimile number for the purpose of this Section 11.9 by giving the other parties written notice of its new address in the manner set forth above.

SECTION 11.10 Post-Closing Covenants. Within five (5) business days following the Closing, Sellers shall advise all customers in a writing approved by Sellers and Buyer that (i) Buyer is the transferee of the Accounts Receivable. All monies received by Sellers after the Closing Date in payment of Accounts Receivable shall be received in trust by the Sellers for the benefit of the Buyer, and Sellers shall promptly upon receipt pay over such payments to the Buyer. Buyer and Seller agree, in this regard, to cooperate fully and to execute and deliver as expeditiously as possible such papers, checks and documents as are needed immediately to complete the transfer of such payments.

ARTICLE 12. HOLDBACK

SECTION 12.1 Holdback.

(a) Buyer will withhold $300,000 (the "Holdback") at the Closing, which amount shall be held in an interest bearing account by counsel to Buyer, to be paid in satisfaction of: (i) any amounts due to Buyer pursuant to Section 2.4 and (ii) any claims for indemnity pursuant to Section 9.1(b), in each case after such amounts have been determined to become due in accordance with the applicable terms of such section within the periods of time set forth therein. The Holdback shall be the exclusive source of payment to Buyer with respect to any amounts otherwise due to Buyer pursuant to Section 2.4 and/or any claims for indemnity pursuant to Section 9.1(b).

(b) Any amount of the Holdback not applied pursuant to Section 12.1(a) shall be paid to Sellers promptly after the expiration of the Survival Period.

ARTICLE 13. TREATMENT OF INCOMPLETE TERMS

SECTION 13.1 Identification of Incomplete Items. The parties acknowledge that on the date of execution of this Agreement, the schedules and exhibits listed below as incomplete items (the “Incomplete Items”) were either being amended or supplemented or had not yet been agreed upon by the parties. The parties agree that, in addition to any other condition set forth in this Agreement, the obligations of each of the parties under this Agreement are further conditioned upon the Incomplete Items being completed and approved by Buyer and Sellers, each in their sole and absolute discretion, during the Extended Due Diligence Period.

SECTION 13.2 Manner and Effect of Approval. An Incomplete Item will be deemed approved by Buyer and Sellers only when a final form of such Incomplete Item is approved in writing by Buyers and Sellers. Upon such approval, such completed Incomplete Items shall be attached to, and become a part of, this Agreement.

SECTION 13.3 Effect of Non-Approval. In the event that any Incomplete Item is not approved by Buyer and Sellers by the end of the Extended Due Diligence Period, this Agreement shall be terminated.

(Signatures on following page)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

BUYER:

ANGIODYNAMICS, INC.

By: /s/ Eamonn P. Hobbs
Name: Eamonn P. Hobbs
Title: President and CEO

SELLERS:

DIOMED HOLDINGS, INC.

By: /s/ James A. Wylie, Jr.
Name: James A. Wylie, Jr.
Title: President and CEO

DIOMED, INC.

By: /s/ James A. Wylie, Jr.
Name: James A. Wylie, Jr.
Title: President and CEO

EXHIBIT A

The word "including" shall mean including without limitation. Any reference to the singular in this Agreement shall also include the plural and vice versa.

Certain Terms Defined. As used in this Agreement, the following terms have the following meanings:

"777 Patent" means U.S. Patent No. 6,398,777.

"Accounting Firm" has the meaning set forth in Section 2.4.

"Accounts Payable" has the meaning set forth in Section 1.3(a).

"Accounts Receivable" means all accounts receivable and notes receivable owed to the Sellers as of the Closing, including unpaid interest on any such accounts receivable and any security or collateral relating thereto.

"Acquired Assets" has the meaning set forth in Section 1.1.

"Acquired Contracts" has the meaning set forth in Section 1.1(b).

"Acquired Intellectual Property" has the meaning set forth in Section 1.1(f).

"Adjustment Notice" has the meaning set forth in Section 2.4.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with such Person 1.2(h)

"Agreement" has the meaning set forth in the Preamble.

"Allowed Administrative Expense Claim" means a claim under section 503(b) of the Bankruptcy Code entitled to priority under section 501(a)(1) of the Bankruptcy Code, which is not disputed by Sellers.

"Alternative Transaction" means any transaction (regardless of the form thereof) involving a sale of all or any substantial portion of the Acquired Assets by Sellers to a purchaser or purchasers other than Buyer, or the proposal by Sellers of a plan of reorganization that does not contemplate the sale of the Acquired Assets by Sellers to Buyer in accordance with the terms of this Agreement.

"Assignee" has the meaning set forth in Section 11.4(a)

"Assumed Liabilities" has the meaning set forth in Section 1.3

"Bankruptcy Cases" has the meaning set forth in Recital A.

"Bankruptcy Code" has the meaning set forth in Recital A.

"Bankruptcy Court" has the meaning set forth in Recital A.

"Bankruptcy Rules" has the meaning set forth in Recital D.

“Bankruptcy Sale Order” has the meaning set forth in Recital D.

“Bidders” has the meaning set forth in Section 10.1(b)(i)

“Bidding Procedures Motion” has the meaning set forth in Section 10.1(a)

“Bidding Procedures Order” has the meaning set forth in Section 10.1(a)

“Bids” has the meaning set forth in Section 10.1(b)(i)

“Breach” means any breach of, or any inaccuracy in, any representation or warranty or any breach of, or failure to perform or comply with, any covenant or obligation, in or of this Agreement or any other contract, or any event which with the passing of time or the giving of notice, or both, would constitute such a breach, inaccuracy or failure.

“Break-Up Fee” has the meaning set forth in Section 8.2(b)

“Business” has the meaning set forth in Recital B.

“Business Day” means any day other than Saturday, Sunday and any day that is a legal holiday or a day on which banking institutions in New York City, New York are authorized by law or other governmental action to close.

“Buyer” has the meaning set forth in the Preamble.

“Buyer’s Deposit” has the meaning given it in Section 2.3.

“Cash” means all cash and cash equivalents.

“Claim” means all rights, claims, causes of action, defenses, debts, demands, damages, obligations, and liabilities of any kind or nature under contract, at law or in equity, known or unknown, contingent or matured, liquidated or unliquidated, and all rights and remedies with respect thereto, including, without limitation, causes of action arising under chapter 5 of the Bankruptcy Code or similar state statutes.

“Closing” has the meaning set forth in Section 3.1.

“Closing A/R Value” has the meaning set forth in Section 2.4.

“Closing Date” has the meaning set forth in Section 3.1.

“Closing Inventory Value” has the meaning set forth in Section 2.4.

“Code” means the Internal Revenue Code of 1986, as amended

“Consents” has the meaning set forth in Section 4.1(e).

“Contract” means any written contract, agreement, lease or sublease, license or sublicense, instrument, indenture, commitment or undertaking.

“Diomed Ltd.” means Diomed Limited, a limited liability company incorporated under the laws of the United Kingdom and Wales and a wholly-owned subsidiary of Sub.

“DIP Loan” has the meaning set forth in Section 2.2.

“DIP Loan Term Sheet” means the term sheet attached as Exhibit C.

“Employee Benefit Plans” means all employee benefit plans as defined in section 3(3) of ERISA. all compensation, pay, severance pay, salary continuation, bonus, incentive, stock option, retirement, pension, profit sharing or deferred compensation plans, Contracts, programs, funds or arrangements of any kind and all other employee benefit plans, programs, funds or arrangements (whether written or oral, qualified or nonqualified, funded or unfunded, foreign or domestic, currently effective or terminated, and whether or not subject to ERISA) and any trust, escrow or similar agreement related thereto, whether or not funded.

“Excluded Assets” has the meaning set forth in Section 1.2.

“Excluded Liabilities” has the meaning set forth in Section 1.4.

“Expense Reimbursement” means reimbursement to Buyer of its actual documented out-of-pocket expenses (including professional fees) incurred in connection with the transactions contemplated by this Agreement, not to exceed $210,000.

“Extended Diligence Period” has the meaning set forth in Section 5.1(c).

“Final Order” means (i) an order or judgment of the Bankruptcy Court or any other court or adjudicative body as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending, or (ii) in the event that an appeal, writ of certiorari, reargument or rehearing thereof has been sought, such order of the Bankruptcy Court or any other court or adjudicative body shall have been affirmed by the highest court to which such order was appealed, or certiorari has been denied, or from which reargument or rehearing was sought, and the time to take any further appeal, petition for certiorari or move for reargument or rehearing shall have expired; provided, however, that no order shall fail to be a Final Order solely because of the possibility that a motion pursuant to Rule 60 of the Federal Rules of Civil Procedure or Bankruptcy Rule 9024 may be field with respect to such order.

“Financial Data” has the meaning set forth in Section 4.4(l).

“GAAP” means United States generally acceptable accounting principles as in effect as of the Execution Date.

“Government” means any agency, division, subdivision or governmental or regulatory authority or any adjudicatory body thereof, of the United States, or any state thereof.

“Holdback” has the meaning set forth in Section 12.1.

“Incomplete Item” has the meaning set forth in Section 12.1.

“Information Technology” has the meaning set forth in Section 4.

“Intellectual Property” means any and all patents, patent applications, trademarks, service marks, trade names, trade dress rights, internet domain names, trade secrets and copyrights;

foreign equivalent or counterpart rights having similar effect in any jurisdiction throughout the world; and registrations and applications for registration of any of the foregoing.

"Inventory" means all the finished goods, raw materials, work in process and inventoriable supplies owned by Sellers on the Closing Date.

"Knowledge of Buyer" or any other similar term or knowledge qualification means the actual knowledge of Eamonn P. Hobbs, after due inquiry.

"Knowledge of Sellers" or any other similar term or knowledge qualification means the actual knowledge of James Wylie and/or David Swank, after due inquiry.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien (judicial, statutory or other), conditional sale agreement, claim or liability.

"Material Adverse Effect" means taking into account the filing of the Bankruptcy Cases by Sellers and the implications arising therefrom, a state of facts, events, change or effect with respect to Sellers or Buyer, as the case may be, that results in a material adverse effect on the financial condition. business, operations, assets or liabilities of Sellers or Buyer, as the case may be, taken as a whole, but excludes any state of facts, event, change or effect caused by events, changes or developments relating to (A) changes or conditions affecting the Sellers' industry generally, (B) changes in economic, regulatory or political conditions generally and (C) termination of the employment of any officer or other employee of either Seller prior to the Closing Date.

"Motion Date" means the date on which the Bidding Procedures and Sale Motion is filed with the Bankruptcy Court.

"Objection Period" has the meaning set forth in Section 2.4.

"Ordinary Course of Business" means that an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if that action:

(i) is consistent in nature, scope and magnitude with the past practices of such Person, recognizing that the Sellers have filed the Bankruptcy Cases, and is taken in the ordinary course of the normal day-to-day operations of such Person;

(ii) does not require authorization by the board of directors or shareholders of such Person (or by any Person or group of Persons exercising similar authority) and does not require any other separate or special authorization of any nature, including prior approval of the Bankruptcy Court; and

(iii) is similar in nature, scope and magnitude to actions customarily taken, without any separate or special authorization, in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person, recognizing that the Sellers have filed the Bankruptcy cases.

"Orders" means the Bankruptcy Sale Order and the Bidding Procedures Order.

“Owned Machinery and Equipment” has the meaning set forth in Section 1.1(a).

“Payroll Liabilities” has the meaning set forth in Section 1.3(e).

“Permits” has the meaning set forth in Section 1.1(h).

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or Government.

“Petition Dates” has the meaning set forth in Recital A.

“Products” means any and all products manufactured by, distributed by and/or sold to customers of the Business.

“Purchase Price” has the meaning set forth in Section 2.1.

“Related Person” means, with respect to any Person, all past, present and future directors, officers, members, managers, stockholders, employees, controlling persons, agents, professionals, attorneys, accountants, lenders, investment bankers or representatives of any such Person.

“Sale Costs” means any costs of the sate (including Sellers’ professional fees) of the Acquired Assets or other claims that are required under the Sale Order to be paid.

“Sale Motion” has the meaning set forth in Section 10.2.

“SEC” means the U.S. Securities and Exchange Commission.

“Sellers” has the meaning set forth in the Preamble.

“Seller Parties” has the meaning set forth in Section 9.1.

“Supplies” means all tangible personal property, supplies, items and materials (including spare parts) owned by Sellers on the Closing Date.

“Survival Period” has the meaning set forth in Section 9.1.

“Target A/R Value” has the meaning set forth in Section 2.4.

“Target Inventory Value” has the meaning set forth in Section 2.4.

“Tax Return” means any report, return, information return, filing or other information, including any schedules, exhibits or attachments thereto, and any amendments to any of the foregoing required to be filed or maintained in connection with the calculation, determination, assessment or collection of any Taxes (including estimated Taxes).

“Taxes” means all taxes, however denominated, including any interest, penalties or additions to tax that may become payable in respect thereof, imposed by any Government, whether payable by reason of contract, assumption, transferee liability, operation of law or Treasury Regulation section 1.1502-6(a) (or any predecessor or successor thereof or any analogous or similar provision under state, local or foreign law), which taxes shall include all income taxes, payroll and employee withholding unemployment insurance, social security (or similar), sales and use,

excise, franchise, gross receipts, occupation, real and personal property, stamp, transfer, workmen's compensation, customs duties, registration, documentary, value added, alternative or add-on minimum, estimated, environmental (including taxes under section 59A of the Code) and other assessments or obligations of the same or a similar nature, whether arising before, on or after the Closing Date.

"Technology" means any and all inventions, discoveries, ideas, processes, formulae, designs, models, industrial designs, know-how, confidential information and proprietary information, whether or not patented or patentable, writings and other copyrightable works and works in progress, databases and software.

"Termination Date" has the meaning set forth in Section 8.1(b)

"Total Consideration" has the meaning set forth in Section 2.1.

"Transaction Taxes" has the meaning set forth in Section 6.1.

DATED 10 April 2008

DIOMED LIMITED (IN ADMINISTRATION) (1)
STEVEN LAW (AS ADMINISTRATOR) (2)
ANGIODYNAMICS INC. (3)

SALE OF THE BUSINESS AND ASSETS OF DIOMED LIMITED (IN ADMINISTRATION)

Taylor Vinters
Merlin Place
Milton Road
CAMBRIDGE
CB4 0DP

Tel: 01223 423444
Fax: 01223 423944

Email: username@taylorvinters.com

Our Ref: ABB

DocNumber

SALE OF THE BUSINESS AND ASSETS OF
DIOMED LIMITED (IN ADMINISTRATION)

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THIS AGREEMENT is dated 10 April 2008

PARTIES

1 **DIOMED LIMITED** (in administration) (registered number 02338196) whose registered office is at 2000 Cambridge Research Park, Ely Road, Waterbeach, Cambridge, CB25 9TE ("**the Vendor**") acting by its administrator **STEVEN LAW** of Ensors, Cardinal House, 46 St Nicholas Street, Ipswich IP1 1TT ("**the Administrator**");

2 **THE ADMINISTRATOR** (who is entering into this Agreement as agent of the Vendor and without personal liability); and

3 **ANGIODYNAMICS, INC.** a Delaware Corporation, the registered office of which is at 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware, U.S.A. ("**the Purchaser**").

BACKGROUND

1 The Vendor has for some time carried on the business of manufacture of medical and orthopaedic equipment.

2 The Administrator was appointed Administrator of the Vendor on 14 March 2008 by its board of directors in accordance with paragraph 22 of Schedule B1 of the Insolvency Act 1986.

3 The Vendor acting by the Administrator has agreed to sell to the Purchaser and the Purchaser has agreed to purchase such right, title and interest (if any) as the Vendor may have in its assets upon the terms and subject to the conditions contained in this Agreement.

4 The Purchaser enters into this Agreement having made such inspection of the assets of the Vendor as it thinks fit and in full knowledge and acceptance of the terms of this Agreement.

AGREED TERMS

1 DEFINITION AND INTERPRETATION

1.1 In this Agreement, and in the Background to it, the following terms shall have the following meanings:

1.1.1 "**the Assets**" the assets of the Vendor agreed to be sold pursuant to clause 2;

1.1.2 "**the Book Debts**" all sums of money owing or which become owing to the Vendor on or after the Transfer Date in respect of goods sold or services rendered on or before the Transfer Date;

1.1.3 "**the Business**" the business of the Vendor referred to in Background paragraph 1;

1.1.4 "**the Chattels**" the plant and machinery, office equipment, fixtures and fittings and any other chattels (including any motor vehicles) believed to be owned by the Vendor at the Transfer Date;

1.1.5 "**the Contracts**" the benefit (subject to the burden) of:

1.1.5.1 the contracts placed with the Vendor by customers and with distributors up to and including the Transfer Date which remain in whole or part uncompleted at the Transfer Date; and

1.1.5.2 the orders placed by the Vendor up to and including the Transfer Date to the extent that the goods or services ordered have not been delivered to the Vendor or performed by the Transfer Date;

but excluding any such contracts which are listed in Schedule 4 ("**the Excluded Contracts**")

1.1.6 "**Excluded Assets**" all those assets of the Vendor listed in Schedule 3;

1.1.7 "**the Goodwill**" the goodwill of the Vendor in relation to the Business together with the exclusive right (so far only as the Vendor can confer it) for the Purchaser to represent itself as carrying on the Business in succession to the Vendor and to trade under the name "Diomed";

1.1.8 "**the Intellectual Property**" all industrial and intellectual property rights believed to be owned by the Vendor at the Transfer Date including without limitation patents, trade marks and/or service marks (whether registered or unregistered), designs whether registered or unregistered, topography rights, database rights and copyright and any applications for any of the foregoing in any part of the world and the copyright in all

drawings, plans, specifications, designs and computer software owned by the Vendor and used in or for the purpose of the Business, internet domain names and all know-how and confidential information so owned and used, including (but not limited to) all that details of which (where known) are listed in Schedule 1;

1.1.9 "**the Premises**" the leasehold interest of the Vendor in the premises at 2000 Cambridge Research Park, Ely Road, Waterbeach, Cambridge details of which are set out in Schedule 2;

1.1.10 "**the Regulations**" the Transfer of Undertakings (Protection of Employment) Regulations 2006;

1.1.11 "**the Stock**" all stocks of products, supplies, consumables, raw materials and finished goods and work in progress wherever situate at close of business on the Transfer Date and used in the Business and believed to be owned by the Vendor at the Transfer Date;

1.1.12 "**the Transfer Date**" means the date upon which the conditions precedent set out in clause 4.2 of this Agreement have been fulfilled; and

1.1.13 "**US Sale Agreement**" means the sale and purchase agreement in the agreed form or in such other form as the US Bankruptcy Court may stipulate pursuant to the terms of which, inter alia, the Purchaser shall acquire for the sum of USD 8,000,000 the business and assets of: (a) Diomed Inc. (in Chapter 11), the parent company of the Vendor; and (b) the business and assets of Diomed Holdings Inc. (in Chapter 11), the parent company of Diomed Inc.

1.2 The headings to the clauses of this Agreement are for convenience only and shall not affect the construction of this Agreement.

1.3 In this Agreement unless the context otherwise requires:

1.3.1 references to this Agreement include the Schedules and appendices (if any);

1.3.2 references to clauses and Schedules are to be construed as references to the clauses of and Schedules to this Agreement;

1.3.3 references to the singular shall include the plural and vice versa;

1.3.4 references to any gender shall include the others;

1.3.5 all references to a statutory provision shall be construed as including references to any statutory modification, consolidation or re-enactment (whether before or after today's date) for the time being in force, all statutory instruments or orders made pursuant to it and any statutory provisions of which it is a consolidation, re-enactment or modification.

2 SALE OF ASSETS

2.1 Subject as provided in this Agreement the Vendor shall sell and the Purchaser shall purchase with effect from close of business on the Transfer Date such right, title and interest (if any) as the Vendor may have in and to:

2.1.1 the Chattels;

2.1.2 the benefit (subject to the burden) of the Contracts;

2.1.3 the Goodwill;

2.1.4 the Intellectual Property; and

2.1.5 the Stock;

to the intent that with effect from the Transfer Date the Purchaser shall be enabled to carry on and continue the Business as a going concern in succession to and to the exclusion of the Vendor.

2.2 If the Purchaser shall wish to use the name "Diomed" in its corporate or trading name it shall only do so in compliance with Section 216 of the Insolvency Act 1986 and Chapter 22 of Part 4 of the Insolvency Rules. The Purchaser shall not give any notice under paragraph (1) of Rule 4.228 of the Insolvency Rules without first having obtained the approval of the Administrator (which shall not be unreasonably withheld or delayed) to the wording of such notice who shall on request supply a list incorporating all the names and addresses of creditors of the Vendor known to the Administrator.

2.3 There shall be excluded from the sale and purchase under this Agreement all Excluded Assets.

3 PRICE

3.1 The price for the sale and purchase of the Assets shall be US$3,000,000 ("**Purchase Price**") which shall be payable in cash on the Transfer Date.

4 COMPLETION AND CONDITIONS PRECEDENT

4.1 Completion of the sale and purchase of the Assets shall take place on the next working day after the Transfer Date (subject to the payment of the Purchase Price by the Purchaser to the Administrator's solicitors without deduction counterclaim set off or any other withholding whatsoever) at the offices of the Vendor's solicitors or otherwise as the parties shall agree when the Vendor shall deliver to the Purchaser:

4.1.1 possession of those of the Assets title to which is capable of passing by delivery;

4.1.2 an assignment of the Intellectual Property and Goodwill in the agreed form, duly executed by the Vendor and the Administrator; and

4.1.3 all documents comprising or relating to the Intellectual Property in the possession of or under the control of the Vendor or the Administrator.

4.2 Completion of this Agreement is subject to, and conditional upon:

4.2.1 all due diligence being carried out to the satisfaction of the Purchaser (which the Purchaser shall be deemed to have been carried out to its satisfaction unless the Purchaser notifies the Administrator in writing that it is not satisfied with its due diligence within 21 days of the date of this Agreement); and

4.2.2 the entry of an order of the United States Bankruptcy Court for the District of Massachusetts authorising Diomed Holdings Inc. and Diomed Inc. to sell to the Purchaser substantially all their respective businesses and assets upon the terms of the US Sale Agreement ("**the Order**") as required under Chapter 11 of the US Bankruptcy Code.

4.3 The Purchaser may, subject always to the payment of the Purchase Price, waive any of the conditions in clause 4.2 by notice in writing to the Administrator.

4.4 Provided that the relevant condition has not previously been waived and payment of the Purchase Price made under clause 4.3, the Administrator may terminate this Agreement forthwith upon:

4.4.1 receiving notice from the Purchaser that it is not satisfied with its due diligence as provided for in clause 4.2.1; and/or

4.4.2 the US Bankruptcy Court not entering the Order within 65 days of the date of this Agreement

without in either case the Administrator having any liabilities whatsoever to the Purchaser in respect of the termination of this Agreement.

5 BOOK DEBTS

5.1 The Vendor shall continue to collect the Book Debts and may take legal proceedings for recovering such debts and money without having given prior notice to the Purchaser.

5.2 If the Purchaser shall receive any sums in respect of the Book Debts it shall forthwith pay to the Administrator such sums received by the Purchaser. If the Vendor or Administrator shall receive any sums in respect of debts due to the Purchaser they shall forthwith pay such sums received to the Purchaser. Where a debtor owes money both to the Vendor and the Purchaser it shall be assumed that, unless the debtor makes a specific appropriation to the contrary or it is apparent from such payment that it is in respect of a debt due to the Purchaser, any monies received by either the Vendor or the Purchaser from such debtor are paid first in respect of the debts due to the Vendor and secondly in respect of debts due to the Purchaser.

6 EMPLOYEES

6.1 It is believed by the parties that the transfer hereby effected is a "**relevant transfer**" within the meaning of the Regulations.

6.2 The Vendor shall comply with its duties under Regulation 11 (Notification of Employee Liability Information) and (subject to the Purchaser complying with Regulation 13(4)) Regulation 13 (Duty to inform and consult representatives).

6.3 Where any amount is agreed or found to be payable by any court or tribunal of competent jurisdiction (a "**Claim**"), in respect of any liability arising under or in relation to any contract of employment with any employee of the Vendor and which contract or liability is transferred to the Purchaser under the Regulations (excluding, for the avoidance of doubt, any liability which does not transfer to the Purchaser by virtue of Regulation 8), the Purchaser shall be solely responsible for paying that Claim and the Purchaser shall indemnify and keep the Vendor and/or the Administrators fully indemnified in respect of any Claim and all and any other liabilities whatsoever that may arise under the Regulations.

7 CONTRACTS

7.1 The Purchaser shall carry out and discharge the Contracts with effect from the Transfer Date and shall at all times keep the Vendor and the Administrator indemnified against all actions, claims, costs, proceedings and demands in respect of the Contracts insofar as they relate to the period from the Transfer Date.

7.2 Insofar as the benefit of the Contracts cannot effectively be transferred by the Vendor to the Purchaser except by way of an agreement of novation or with the consent to the assignment from the person, firm or company concerned:

7.2.1 the Vendor and the Purchaser shall (at the Purchaser's expense including without limitation the Vendor's and the Administrator's reasonable legal costs on a full indemnity basis) co-operate in procuring the Contracts to be novated or assigned as soon as reasonably practicable;

7.2.2 in the case of any assignment as aforesaid the Purchaser shall undertake to indemnify the Vendor and the Administrator against all actions, costs, claims, liabilities and expenses arising by reason of or in connection with the non-performance or the defective or negligent performance by the Purchaser of the Contracts following such assignments;

7.2.3 unless and until any such Contracts shall be novated or assigned the Purchaser shall for its own benefit and to the extent that such Contract

permits perform on behalf of the Vendor or the Administrator (as the case may be) (but at the Purchaser's expense) all the obligations of the Vendor and the Administrator thereunder with effect from the Transfer Date and indemnify the Vendor and the Administrator against all actions, costs, proceedings, claims, demands and expenses on a full indemnity basis which may be incurred by the Vendor or the Administrator as a result of any act or neglect, default or omission on the part of the Purchaser to conform or comply with any such obligations of the Vendor or the Administrator;

7.2.4 the Vendor shall be under no obligation to enter into or execute a novation agreement or assignment in respect of the Contracts which is not in a form reasonably approved by the Administrator's solicitors and the Purchaser shall accept the form and execute such novation agreement or assignment if it is approved by the Administrator's solicitors and is in a form reasonably acceptable to the Purchaser's solicitors.

7.3 The Purchaser may elect by notice in writing to the Administrator within 30 days of the Transfer Date for any contract between the Vendor and a customer, distributor or supplier to be treated either as a Contract or as an Excluded Contract, and until such time as such notice has been given it shall be treated as an Excluded Contract. No adjustment to the Purchase Price shall be made as the result of any such election.

7.4 Without prejudice to the generality of the foregoing provisions of this clause 7, the Purchaser shall perform at its own sole cost and expense all warranty work in respect of any warranty claims that may be made by any customer or distributor in respect of any goods supplied by the Vendor before the Transfer Date to such persons (whether pursuant to the terms of the Contracts or otherwise). For the avoidance of doubt, the Purchaser does not assume any other liabilities that arise from the manufacture, distribution or sale of any products by the Vendor before the Transfer Date.

8 BOOKS AND RECORDS

8.1 All minute books relating to meetings of the directors or shareholders of the Vendor and all statutory books and VAT records shall remain the property of the Vendor and shall be retained by it.

8.2 All customer records, files and business documents of the Vendors and all lists of suppliers, price lists, catalogues, sales literature and publicity materials, bought and sales ledgers, purchases and sales day books and purchases and sales invoices and other financial and commercial books and records of the Vendor used in the carrying on of the Business shall be transferred by the Vendor to the Purchaser on the Transfer Date PROVIDED THAT they shall throughout the currency of the administration or any subsequent liquidation of the Vendor at all reasonable times during usual business hours and upon the giving of reasonable notice be open to the inspection and use of the Administrator and/or any subsequently appointed liquidator of the Vendor and their servants and agents, who may (at the Purchaser's expense) take such copies and extracts from them as the Administrator and/or any subsequently appointed liquidator may reasonably require.

9 APPORTIONMENTS

9.1 All outgoings attributable to the Business up to the Transfer Date including but without limitation salaries, wages, accrued holiday pay, PAYE deductions and Social Security and National Insurance Contributions shall be borne by the Vendor (but without any obligation on the Vendor to discharge them except as otherwise expressly provided in this Agreement) and all outgoings attributable to the Business from and after the Transfer Date shall be borne by the Purchaser. All rents, royalties and other periodical payments receivable in respect of the Business up to the Transfer Date shall belong and be payable to the Vendor and from and after the Transfer shall belong and be payable to the Purchaser, provided that the Purchaser shall only be liable for such outgoings and payments in respect of the Premises to the extent stated in clause 17. Such outgoings and payments receivable relating to both the period before and after the Transfer Date shall be apportioned accordingly.

9.2 Where any amounts require to be apportioned under this Agreement, the Vendor shall provide the Purchaser with details of the apportionment together with supporting vouchers or other documents and in the absence of dispute the appropriate payment shall be made by or to the

Vendor (as the case may be) within 7 days. If the amount of any apportionment is in dispute the matter shall be referred to a Chartered Accountant nominated jointly by the Vendor and the Purchaser or, failing such nomination within 14 days after request by either party, nominated at the request of either of them by the President for the time being of the Institute of Chartered Accountants in England and Wales (or his deputy). The Chartered Accountant shall be entitled to call for and inspect such documents as he may reasonably consider necessary. In making his determination the Chartered Accountant shall act as an expert and not as an arbitrator and his decision shall (in the absence of manifest error) be final and binding on the parties and his fee shall be borne and paid by the Vendor and Purchaser in such proportions as the Chartered Accountant determines. The amount so determined shall be paid within 14 days of the determination together with interest calculated on a daily basis (after as well as before judgment) from the Transfer Date until the date of actual payment at the rate of 4% per annum above the base rate from time to time of the Bank of England base rate from time to time.

10 ACCESS TO PREMISES

10.1 The Purchaser shall give to the Vendor and the Administrator and their agents or employees reasonable access to the Premises (if occupied by the Purchaser) and staff of the Purchaser to enable the Vendor and the Administrator adequately to deal with matters arising after Completion in the administration of the Vendor (including the collection of the Book Debts).

11 THIRD PARTY CLAIMS

11.1 The Purchaser shall take the Assets subject to such charges, hire purchase liabilities and encumbrances as exist at the Transfer Date.

11.2 If any of the Assets shall be found to be subject to a charge, lien or other encumbrance or reservation of title claim or if the Vendor shall otherwise be unable to make title thereto the Vendor shall at its option be entitled to remove any such assets from this Agreement which are still in the possession or control of the Purchaser and the Purchaser shall raise no objection and have no right to a reduction in the purchase price paid or to be paid or to withhold any part of the purchase price or to rescind this Agreement or any other claim as a result thereof.

11.3 In relation to Assets used in the carrying on of the Business which are the subject matter of credit sale, hire, leasing or hire purchase agreements and in which there is in the opinion of the Administrator no equity value for the Vendor the Vendor shall not object to nor hinder any arrangements which the Purchaser may wish to make with the owner of such chattels and shall (at no cost to the Vendor) give reasonable assistance to the Purchaser to enable the Purchaser to acquire title to or otherwise continue to use such chattels provided always that if the owner of any such chattels refuses to sell or otherwise make available any such chattels to the Purchaser then the Purchaser shall forthwith deliver up such chattels for collection by the owner thereof.

11.4 The Purchaser shall indemnify and hold harmless the Vendor and the Administrator against all loss, damages, costs, expenses and claims which arise directly or indirectly as a result of any claim being made against the Vendor and/or the Administrator by the owners of or any party interested in the assets referred to in clause 11.2 and/or clause 11.3 (including any guarantor of the obligations of the Vendor arising under any agreement of the type referred to in clause 11.3) provided that this indemnity shall be limited to the value of each asset concerned and shall not apply to any assets which the Vendor has removed from this Agreement pursuant to clause 11.2.

12 Value Added Tax

12.1 The Vendor and the Purchaser intend that Article 5 of the Value Added Tax (Special Provisions) Order 1995 (“Article 5”) will apply to the sale of the Assets under this Agreement, so that the sale is treated as neither a supply of goods nor a supply of services.

12.2 If nevertheless any VAT is payable on any supply by the Vendor under this Agreement, the Purchaser must pay the amount of that VAT in addition to the price and the Vendor must issue to the Purchaser a proper VAT invoice in respect of that VAT.

12.3 Without limiting Clause 12.2, when HMRC agree to give a ruling on the VAT treatment of the sale, VAT will be treated as payable if HMRC rule that it is payable. If they have done so before Completion, the tax will be payable by the Purchaser on Completion. If they do so on or after Completion, the tax will be payable by the Purchaser within 5 days after the Vendor gives the Purchaser written notice of the ruling.

12.4 If the Purchaser fails to pay the amount of the tax on the due date under Clause 12.3, it must pay interest on that amount from the due date until actual payment (excluding any period for which interest indemnified under Clause 12.2 runs) at the rate of 4% per annum above the base rate from time to time of the Bank of England base rate from time to time.

12.5 With a view to procuring that Article 5 applies, the Purchaser:

12.5.1 must ensure that the Purchaser is registered for VAT not later than the date of actual Completion; and

12.5.2 warrants that the Assets are to be used by the Purchaser in carrying on the same kind of business as that carried on by the Vendor.

12.6 The Vendor and the Purchaser envisage that Section 49 of VATA ("s49") will apply to the sale and purchase of the Assets under this Agreement, but intend that the Vendor should retain the records referred to in that section, and accordingly:

12.6.1 notwithstanding anything in this Agreement the Vendor is not required to deliver to the Purchaser the records referred to in s49;

12.6.2 the Vendor must make a request to HMRC under s49 for the records to be preserved by the Vendor; and

12.6.3 if or for so long as that request is not granted, the Vendor must preserve the records on behalf of the Purchaser for such period as may be required by law, and must during that period permit the Purchaser reasonable access to them to inspect or make copies of them.

13 EXCLUSION CLAUSES

13.1 Save as expressly otherwise provided in this Agreement all representations, warranties and conditions express or implied, statutory or otherwise in respect of the Assets sold hereunder are expressly excluded (including without limitation, warranties and conditions as to

quiet possession, satisfactory quality, fitness for purpose, and description) and (subject to Section 12(3) to (5A) of the Sale of Goods Act 1979) title and it is hereby agreed by the Purchaser that the terms and conditions of this Agreement are fair and reasonable in the context of a sale by a company in administration.

13.2 Without prejudice to the generality of clause 13.1 the Purchaser acknowledges that it has made such inspection of the Assets as it thinks fit and on this basis is prepared to enter into this transaction further acknowledging that save as expressly otherwise provided in this Agreement the Vendor makes no warranty as to the title to (subject to Section 12(3) to (5A) of the Sale of Goods Act 1979) or description or condition of the Assets and that it shall be deemed to purchase with full knowledge thereof including the whereabouts and state and conditions of the Assets.

13.3 The Purchaser acknowledges that it places and has placed no reliance whatsoever on any representations, agreements, statements or undertakings (oral or in writing) which have or which it believes have been made on or prior to the date of this Agreement by or on behalf of the Vendor or the Administrator or their respective agents or employees.

14 ADMINISTRATOR TO HAVE NO LIABILITY

14.1 The Administrator acts as agent of the Vendor and has been acting in that capacity in the negotiation, preparation and implementation of this Agreement.

14.2 The Administrator and his staff, employees, advisers and agents shall have no personal liability under this Agreement or any other deed, instrument or document entered into pursuant to it and any liability to which the Administrator or its staff, employees, advisers and agents would otherwise be subject (whether in contract, tort or otherwise) is expressly excluded.

14.3 Any right under this Agreement which is for the benefit of the Administrator shall also be for the benefit of, and shall be exercisable by, any subsequent administrator(s). Any right which is for the benefit of the Administrator shall also be for the benefit of, and shall be exercisable by

any liquidator or other insolvency practitioner (a "**Subsequent Appointee**") appointed in respect of the Vendor and so that, as regards such Subsequent Appointee, the relevant clause shall apply mutatis mutandis so that references to the Administrator shall be treated as references to such Subsequent Appointee.

15 FURTHER ASSURANCE

15.1 For a period of six months following the Transfer Date (or, in the case of the Administrator, until such earlier time as the Administrator has ceased holding office) the Vendor shall (at the cost of the Purchaser which shall include the reasonable legal costs of the Vendor or the Administrator in approving the terms of any such deeds or documents) do and execute all such lawful and necessary acts, deeds, documents and things, within its powers as the Purchaser may reasonably require for effectively vesting the Assets in the Purchaser and pending the doing and executing of such acts, deeds, documents and things the Vendor shall hold the legal estate in the Assets in trust for the Purchaser to the extent it has not already vested in the Purchaser.

16 LICENCE

16.1 For a period of three months from the Transfer Date (or if earlier until the date of determination as herein provided) ("**the Licence Period**") the Vendor shall permit the Purchaser to occupy the Premises as bare licensee on condition that the Purchaser will:

16.1.1 deliver up possession of the Premises to the Vendor's landlord thereof if required to do so;

16.1.2 not do or allow to be done anything on the Premises which would constitute a breach of the Vendor's obligations under the Vendor's lease or tenancy of the Premises;

16.1.3 pay and indemnify and keep indemnified the Vendor and the Administrator against all rents, rates and further outgoings (including any charges for the supply of electricity, water gas or telephone) and all other expenses and outgoings whatsoever payable in respect of the Premises from the Transfer Date during the Licence Period;

16.1.4 keep the Premises in such repair and condition as is consistent with the

Vendor's own obligations in respect thereof PROVIDED that the Purchaser shall not be required to keep or put the Premises into a better state of repair and condition than they are now;

16.1.5 comply with all covenants, restrictions, reservations, conditions, freehold or statutory rights, bye-laws, orders, building regulations and other stipulations affecting the Premises; and will

16.1.6 not damage the Premises or any fixtures, fittings, furniture, furnishings or services situate thereat (fair wear and tear excluded) and make good forthwith any such damage that the Purchaser causes to the Premises including any damage caused by the removal of any of the Purchaser's assets situated on the Premises.

16.2 The licence to the Purchaser in respect of the Premises shall be personal to the Purchaser and shall not be transferable and the Purchaser shall not permit anyone other than those employed by the Purchaser and those doing business with the Purchaser to have access to the Premises.

16.3 No dealing by the Purchaser with its interest in the licence shall be permitted.

16.4 In no circumstances shall the licence continue after the expiration of the Licence Period.

16.5 If and whenever during the Licence Period there is a breach by the Purchaser of any of the conditions of this clause 16 or the Purchaser enters into any insolvency proceedings of any form in any jurisdiction then the licence hereby granted shall absolutely cease and determine but without prejudice to any rights or remedies that may have accrued to the Vendor or the Administrator against the Purchaser in respect of any antecedent breach of the conditions herein.

16.6 The Purchaser recognises that as against the Landlords of the Premises the Vendor may have no right to grant the licence hereby granted and the Purchaser shall indemnify and keep indemnified the Vendor and the Administrator against any actions, proceedings, claims, demands, damages, penalties and costs whatsoever arising by reason directly or indirectly out of the Vendor permitting the Purchaser to occupy the Premises pursuant to this clause 16 or the use and occupation of the Premises by the Purchaser, its servants, employees, agents or representatives.

16.7 Determination of the licence hereby granted for any reason whatsoever shall not give rise to any claim whether for the return of the consideration money (or any part of it) paid for the Assets or otherwise.

16.8 The Purchaser may at any time prior to the expiration of the Licence Period determine the licence by giving to the Administrator not less than three days' notice in writing and on the expiration of such notice the license shall absolutely cease and determine but without prejudice to any rights or remedies that may have accrued to the Vendor or the Administrator against the Purchaser in respect of any antecedent breach of the conditions herein.

16.9 The Purchaser shall be solely responsible for negotiating with the landlord any assignment of the lease of the Premises should it wish to take such an assignment.

17 FACSIMILES AND COUNTERPARTS

17.1 For the purpose of this Agreement, any copy, facsimile telecommunication or other reliable reproduction of a writing, transmission or signature may be substituted for or used in lieu of the original writing, transmission or signature for any and all purposes for which the original writing, transmission or signature could be used provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing, transmission or signature as the case may be.

17.2 This Agreement may be executed in any number of counterparts with the same effect as if all signatory parties had signed the same document. All counterparts shall be construed together and shall constitute one and the same instrument.

18 ANNOUNCEMENTS

18.1 No announcement or circular or other publicity in connection with the subject matter of this Agreement (other than as expressly permitted by this Agreement) shall be made by or on behalf of either party without the

approval of the other as to its content, form and manner of publication (such approval not to be unreasonably withheld or delayed) save that any announcement, circular or other publicity required to be made or issued by either party pursuant to any legal or regulatory authority (including without limitation as may be required under the UK or US securities or insolvency legislation) may be made or issued by either party (as the case may be) without such approval. The parties shall consult together upon the form of any such announcement, circular or other publicity and the other party shall promptly provide such information and comment as the party issuing any such announcement, circular or other publicity may from time to time reasonably request.

19 VARIATION

19.1 No variation of this Agreement shall be effective unless in writing and signed as a Deed by or on behalf of a duly authorised representative of each party.

20 ASSIGNMENT

20.1 This Agreement shall be binding on the parties and their respective successors in title.

20.2 None of the parties shall be entitled to assign this Agreement or any of its rights and obligations under it except as permitted in this Agreement.

21 WAIVER OF RIGHTS

21.1 A failure by any party to exercise and any delay, forbearance or indulgence by any party in exercising any right, power or remedy under this Agreement shall not operate as a waiver of that right, power or remedy or preclude its exercise at any subsequent time or on any subsequent occasion. The single or partial exercise of any right, power or remedy shall not preclude any other or further exercise of that right, power or remedy. No custom or practice of the parties at variance with the terms of this Agreement shall constitute a waiver of the rights of any party under this Agreement. The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers or remedies provided by law.

21.2 Any party may release or compromise the liability of any other party or grant to such other party time or other indulgence without affecting its rights in relation to any other parties.

22 COSTS

22.1 Each party shall bear its own costs in connection with the preparation and execution of this Agreement.

23 THIRD PARTY RIGHTS

23.1 No term of this Agreement shall be enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party, but this does not affect any right or remedy of a third party which exists or is available apart from under that Act.

24 NOTICES

24.1 Any notice to be given by a party to this Agreement shall be in writing and shall be given personally or sent by fax or by prepaid recorded delivery post to the addressee at the address set opposite its name below:

Vendor and Administrator at c/o Ensors, Cardinal House, 46 St Nicholas Street, Ipswich IP1 1TT, marked for the attention of Steven Law;

Purchaser at c/o Kidd Rapinet, 14 & 15 Craven Street, London, WC2N 5AD , marked for the attention of Philip Wild

or at such other address (within England) as the party to be served may have notified as its address for service

24.2 Any notice given in accordance with clause 24.1 shall be deemed to have been received:

24.2.1 if delivered personally, at the time of delivery; or

24.2.2 in the case of a notice sent by pre-paid recorded delivery post 48 hours after the date or posting

For the purposes of this clause "**business hours**" means the hours of 9.00am to 5.30pm local time in the country of the addressee and "**Business Day**" means any day (other than a Saturday or Sunday) when banks in London are open for business.

25 MISCELLANEOUS

25.1 The terms and conditions of this Agreement and the Schedules and the appendices (if any) and the documents referred to in it represent the entire agreement between the parties relating to the sale and purchase of the Assets.

26 GOVERNING LAW AND JURISDICTION

26.1 This agreement shall be governed by English law, and each of the parties submits to the exclusive jurisdiction of the courts of England.

THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

EXECUTED AS A DEED by **STEVEN LAW** as Administrator for and on behalf of **DIOMED LIMITED (IN ADMINISTRATION)** (signing as its agent and without personal liability) in the presence of:	))))))	/s/ Steven Law
Witness signature:		/s/ R M Davison
Witness name:		R M Davison
Witness address:		46 St. Nicholas Street Ipswich IPITT
Witness occupation:		Insolvency Manager
EXECUTED AS A DEED by **STEVEN LAW** on his own behalf (for the purposes only of obtaining the benefits of the indemnities in this agreement) without personal liability in the presence of:	)))	/s/ Steven Law
Witness signature:		/s/ R M Davison
Witness name:		R M Davison
Witness address:		46 St. Nicholas Street Ipswich IPITT
Witness occupation:		Insolvency Manager

EXECUTED AS A DEED by ANGIODYNAMICS INC.	)	D. Joseph Gersuk
Acting by:	)	/s/ D. Joseph Gersuk
	)	Authorised Signatory

Exhibit 10.18

NOTE PURCHASE AGREEMENT

Relating to

$5,000,000
AngioDynamics, Inc.
Taxable Adjustable Rate Notes, Series 2006

Dated: December 5, 2006

NOTE PURCHASE AGREEMENT

This NOTE PURCHASE AGREEMENT is dated December 5, 2006, by and between ANGIODYNAMICS, INC., a Delaware corporation (the "Issuer"), and KEYBANC CAPITAL MARKETS, a division of McDonald Investments Inc., an Ohio corporation, as underwriter (the "Underwriter").

1. Description of the Notes.

The Issuer proposes to issue its $5,000,000 principal amount of Taxable Adjustable Rate Notes, Series 2006 (the "Notes"). The proceeds of the Notes will be used (i) to finance the construction, improving and equipping of an approximately 35,660 square foot facility including a warehouse and distribution center, located on an approximately 565,020 square foot parcel of land, located at 603 Queensbury Avenue, Queensbury, New York, for use as a warehouse and distribution center for medical device products, (ii) to finance the costs of issuance of Notes and (iii) for other purposes as are approved by the Letter of Credit Bank (the "Project").

(a) The Notes will mature on December 1, 2026, subject to prior redemption as described in the Offering Circular (as hereinafter defined). The initial interest rate on the Series 2006 Notes, effective on the date of their initial delivery through and including the following Wednesday shall be % per annum. The Notes will be issued pursuant to a Trust Indenture, dated as of December 1, 2006 (the "Indenture"), between the Issuer and The Huntington National Bank, as trustee (the "Trustee") for the holders of the Notes. The Notes will be payable from and secured by a pledge of certain funds to the Trustee under the Indenture, including certain payments to be made by the Issuer under the Indenture. The Notes are also secured by and paid from draws under an irrevocable direct pay Letter of Credit (the "Letter of Credit"), dated as of the date of initial delivery of the Notes, issued by KeyBank National Association (the "Bank"). The Trustee is entitled to draw under the Letter of Credit (1) an amount equal to the principal of the outstanding Notes (i) to pay the principal of the Notes when due at maturity or upon redemption or acceleration or (ii) to pay the portion of the purchase price corresponding to the principal of Notes purchased pursuant to the Indenture to the extent remarketing proceeds are not available for such purpose, plus (2) an amount equal to 98 days' interest thereon (calculated at a maximum rate of 10% per annum) (i) to pay interest on the Notes when due or (ii) to pay the portion of the purchase price of Notes purchased pursuant to the Indenture corresponding to the accrued interest, if any, on such Notes to the extent remarketing proceeds are not available for such purchase. Pursuant to a Reimbursement Agreement, dated as of December 1, 2006 (the "Reimbursement Agreement"), between the Issuer and the Bank, the Issuer will agree to reimburse the Bank for amounts drawn on the Letter of Credit. The Issuer's obligations under the Reimbursement Agreement will be evidenced or secured by a Security Agreement, dated as of December 1, 2006 and a Note Pledge Agreement, dated as of December 1, 2006 (collectively, the "Bank Credit Documents"). Pursuant to the Indenture, holders of the Notes will have the option to tender Notes for purchase, which tendered Notes will be purchased with funds from the remarketing of the Notes or drawings on the Letter of Credit, as provided in the Indenture.

(b) The Notes are being initially issued without registration under the provisions of the Securities Act of 1933, as amended (the "Securities Act") pursuant to exemption from such registration under Section 3(a)(2) of the Securities Act and without registration under any state securities laws. It is intended that the Notes may be purchased by the Underwriter without registration of any security under the Securities Act of 1933, as amended (the "Securities Act"), or qualification of the Indenture under the Trust Indenture Act of 1939 (the "Trust Indenture Act").

(c) To provide for the remarketing of the Notes pursuant to the terms of the Indenture, the Issuer and the Underwriter, as Remarketing Agent, will enter into a Remarketing Agreement, dated as of December 1, 2006 (the "Remarketing Agreement").

(d) Pursuant to the Indenture and the Letter of Representations as defined therein, the Notes are being issued in book-entry only form, and the parties acknowledge that, where appropriate, references herein to Notes shall mean Beneficial Ownership Interests, as defined in the Indenture.

2. Purchase and Closing.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Issuer hereby agrees to sell to the Underwriter and the Underwriter hereby agrees to purchase from the Issuer all (but not less than all) of the Notes as contemplated herein. The Underwriter shall purchase the Notes from the Issuer at an aggregate purchase price of $4,968,050.00, representing the aggregate principal amount of the Notes ($5,000,000.00) less Underwriter's discount of $31,250.00, less Underwriter's expenses of $700.00. In connection with the purchase of the Notes, the Issuer shall pay to the Underwriter the expenses described in Section 7 hereof (net of the underwriter's discount as set forth in the preceding sentence), to be payable by wire transfer in immediately available funds on the Closing Date (as defined below).

(b) The Issuer has delivered or shall cause to be delivered to the Underwriter copies of the Offering Circular, dated December 1, 2006 (the "Offering Circular") in quantities and at times sufficient to enable the Underwriter to comply with the applicable rules of the Securities and Exchange Commission. The Issuer hereby approves the use and distribution by the Underwriter to persons who may be interested in the purchase of the Notes of the Offering Circular, and hereby authorizes the Underwriter to use and distribute the Offering Circular, and copies of the Indenture and all other documents, including without limitation the Letter of Credit and related documents, to be executed in connection with the purchase of the Notes.

(c) The Underwriter covenants and agrees to send to each person that purchases Notes from the Underwriter a copy of the Offering Circular concurrently with or prior to sending to such purchaser a final written confirmation of the sale. Further, the Underwriter agrees not to use the Offering Circular for the purpose of marketing the Notes subsequent to receiving written notice from the Bank or the Issuer which (i) states that the Offering Circular contains an untrue statement of a material fact or omits to state a material fact, and (ii) specifically identifies the material fact or omission, provided that upon the amendment of the Offering Circular to the satisfaction of the party delivering the notice pursuant hereto, the Underwriter may, subject to the continuing obligations contained herein, resume use of the amended Offering Circular in marketing the Notes.

(d) At 9:00 a.m. Eastern time on December 6, 2006, or at such earlier or later time or date as shall be agreed by the Issuer, the Bank and the Underwriter (such time and date being herein referred to as the "Closing Date"), the Issuer will issue and deliver the Notes in definitive form (being in the aggregate principal amount of $5,000,000, registered in the name of Cede & Co.), duly executed by the Issuer and authenticated by the Trustee as provided for in the Indenture; and the Underwriter shall pay the purchase price of the Notes by wire transfer in immediately available funds to an account specified by the Trustee, for the account of the Issuer (such delivery and payment being herein referred to as the "Closing"). The Notes shall be delivered to the Trustee to be held in its custody pursuant to a FAST delivery arrangement with and on behalf of The Depository Trust Company ("DTC"), in respective denominations equal to the aggregate principal amount of Notes. It is anticipated that CUSIP identification numbers will be placed on the Notes, but neither the failure to place those numbers on any Note nor any error with respect thereto shall constitute cause for failure or refusal by the Underwriter to accept delivery of the Notes in accordance with the terms of this Note Purchase Agreement.

3. Issuer's Representations and Warranties. The Issuer makes the following representations and warranties to the Underwriter:

(a) The Issuer is a corporation, duly organized, validly existing under the laws of the State of Delaware, and has full legal right, power and authority to own the Issuer's properties and conduct the Issuer's business. The Issuer has full legal right, power and authority to execute and deliver this Note Purchase Agreement, the Indenture, the Notes, the Bank Credit Documents to which it is a party, the Reimbursement Agreement, the Letter of Representations and the Remarketing Agreement, to authorize the distribution and use of the Offering Circular, and to take any and all such action as may be required on its part to carry out, give effect to and consummate the transactions contemplated by this Note Purchase Agreement, the Indenture, the Notes, the Bank Credit Documents to which it is a party, the Remarketing Agreement, the Reimbursement Agreement and the Letter of Representations (all of the foregoing are collectively hereinafter referred to as the "Issuer Documents").

(b) The Issuer has duly authorized, executed and delivered this Note Purchase Agreement, and on the Closing Date will have duly authorized, executed and delivered the other Issuer Documents, and has taken or will take all such action as may be required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by each of the Issuer Documents. This Note Purchase Agreement constitutes, and the other Issuer Documents, when executed and delivered, will constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their respective terms, except that enforceability may be limited by laws relating to bankruptcy, reorganization or other similar laws affecting the rights of creditors or by equitable principles which may affect the availability of specific performance or other equitable remedies.

(c) Neither the execution and delivery of the Issuer Documents, nor the consummation of the transactions contemplated therein or the compliance with the provisions thereof, will conflict with, or constitute on the part of the Issuer a violation of, or a breach of or default under, the Issuer's Certificate of Incorporation, By-laws or any material indenture, mortgage, commitment, note or other agreement or instrument to which the Issuer is a party or by which the Issuer is bound, or any order, rule or regulation of any court or governmental

agency or body having jurisdiction over the Issuer or any of its activities or properties. All consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the Issuer's execution and delivery of, consummation of the transactions contemplated by and compliance with the provisions the Issuer Documents have been obtained.

(d) Except as disclosed to the Underwriter, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the best of the knowledge of the Issuer, threatened, against the Issuer, or the actions taken or contemplated to be taken by the Issuer, nor, to the best of the knowledge of the Issuer, is there any basis therefor, which would be expected to materially adversely affect the business, financial condition or operations of the Issuer, or the transactions contemplated by, or the validity or enforceability of the Issuer Documents.

(e) No event has occurred and no condition exists which, upon issuance of the Notes, would constitute (or with the giving of notice or lapse of time, or both, would constitute) an Event of Default under any of the Issuer Documents.

(f) The Issuer is not in violation of any provisions of, or in default under, its Certificate of Incorporation, By-laws, or any statute, material indenture, mortgage, commitment, note or other agreement or instrument to which it is a party or by which it is bound, or any order, rule, regulation or decision of any court or governmental agency or body having jurisdiction over it or any of its activities or properties, which violation would materially and adversely affect its business or financial condition.

(g) The Issuer hereby ratifies and authorizes the distribution and use of the Offering Circular. Subject to the proviso that the Offering Circular is a summary and does not contain detailed information about the Issuer or its intended use of proceeds from the sale of the Notes and that the Issuer makes no representation as to the financial condition of the Bank or the information contained in the Offering Circular on the cover page and under the captions "INTRODUCTORY STATEMENT" (except to the extent pertaining to the Issuer, the Project or the use of Note Proceeds), "THE LETTER OF CREDIT BANK", "THE CREDIT FACILITY", "THE REIMBURSEMENT AGREEMENT", "THE NOTES–Book-Entry Only System", "LEGAL MATTERS", "UNDERWRITING OF THE NOTES" and in APPENDIX A–KEYBANK NATIONAL ASSOCIATION", the Offering Circular does not and will not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading; provided, however, that this representation is made solely for the benefit of the parties to this Note Purchase Agreement and their successors and assigns and is not made for and shall not confer any rights, remedies or benefits upon any third parties including any purchasers of the Notes.

(h) The Issuer will furnish such information, execute such instruments, and cooperate with the Underwriter as the Underwriter may request in order for the Underwriter to qualify the Notes, or perfect an exemption from registration, for offer and sale of the Notes under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and the Issuer will use its best effort to continue such exemption or qualification in effect so long as required for distribution of the Notes;

provided however, that the Issuer shall not be required to execute a general or special consent to service of process or to qualify to do business in connection with such exemption or qualification.

(i) Any certificate signed by any officer of the Issuer and delivered to the Issuer's Counsel, the Underwriter or the Bank at or before the Closing Date shall be deemed a representation and warranty by the Issuer to Bond, Schoeneck & King, PLLC, as Issuer's Counsel, the Underwriter, Underwriter's Counsel (as defined hereinbelow) and the Bank as to the truth of the statements therein contained.

4. Covenants of the Issuer. The Issuer covenants as follows:

(a) At all times subsequent to the acceptance hereof by the Underwriter, including the Closing Date, the Offering Circular (not including the sections excepted in Section 3(g) hereof) will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they shall have been made, not misleading. The Issuer agrees to provide the Underwriter, in such quantities as may be requested by the Underwriter, the Offering Circular not later than the Closing Date.

(b) The Issuer will take such action as may be requested to facilitate the timely consummation of the transactions contemplated by this Note Purchase Agreement.

(c) The Issuer will notify the Underwriter and the Bank of any material adverse change in the business, properties or financial condition of the Issuer occurring before the Closing Date.

(d) Prior to or at the Closing, the Issuer will have duly authorized, executed and delivered the Issuer Documents.

(e) At all times subsequent to the acceptance hereof by the Underwriter to and including the Closing Date, the Issuer will not take any action which would cause any representation or warranty made by it herein to be untrue in any material respects as of the Closing Date.

5. Conditions to the Obligations of the Underwriter. The obligation of the Underwriter to purchase the Notes on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the Issuer contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the Issuer and the Bank made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the Issuer of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) At the Closing Date, the Issuer Documents, all other Bank Credit Documents and the Letter of Credit shall have been duly authorized, executed and delivered by the respective parties thereto, and the Offering Circular shall have been delivered to the Underwriter, and none of the foregoing agreements shall have been amended, modified or

supplemented so as to materially affect the content thereof, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Notes, and with the transactions contemplated thereby and by this Note Purchase Agreement, all such actions as Calfee, Halter & Griswold LLP, counsel to the Underwriter ("Underwriter's Counsel"), shall deem to be necessary and appropriate.

(b) At the Closing Date, the Offering Circular shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter.

(c) At or prior to the Closing Date, no event shall have occurred or information become known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Offering Circular or has the effect that the Offering Circular contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) At or prior to the Closing Date, the Underwriter shall have received an original copy or copies of the following documents, in each case satisfactory in form and substance to the Underwriter and in each applicable case conforming in all material respects with any description thereof contained in the Offering Circular:

(i) The Issuer Documents, the Letter of Credit and the other Bank Credit Documents, each duly executed and delivered by the respective parties thereto, with such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(ii) The opinion of Bond, Schoeneck & King, PLLC, counsel to the Issuer, dated the Closing Date, satisfactory to the Underwriter and Underwriter's Counsel;

(iii) The enforceability opinion of Calfee, Halter & Griswold LLP, special co-counsel to the Bank, dated the Closing Date, satisfactory to the Underwriter and the Underwriter's Counsel;

(iv) The securities opinion of Calfee, Halter & Griswold LLP, Underwriter's Counsel, dated the Closing Date, satisfactory to the Underwriter;

(v) The opinion of Lemery, Greisler, LLC, Esq., counsel to the Bank, dated the Closing Date, to the effect that the description of the Reimbursement Agreement in the Offering Circular is an accurate summary of that document;

(vi) Certificates, dated the Closing Date, signed by duly authorized officers of the Bank, satisfactory to the Underwriter and the Underwriter's Counsel;

(vii) A certificate, dated the Closing Date, signed by a duly authorized officer of the Issuer, satisfactory to the Underwriter and the Underwriter's Counsel, to the effect that the representations and warranties of the Issuer set forth in Section 3 hereof are true, correct and complete on the date of such certificate; and

(viii) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or the Underwriter's Counsel may request to evidence compliance by the Bank, the Trustee or the Issuer with legal requirements of closing, and to certify the truth and accuracy, as of the Closing Date, of the representations of the Issuer contained herein and the due performance or satisfaction by the Bank, the Trustee and the Issuer at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by each of them.

(e) Between the date hereof and the Closing Date, legislation shall not have been enacted by the Congress or be actively considered for enactment by Congress, or recommended to the Congress for enactment by the President of the United States, or introduced or favorably reported for passage to either house of the Congress, and neither a decision, order or decree of a court of competent jurisdiction, nor an order, ruling, regulation or official statement of or on behalf of the Securities and Exchange Commission shall have been rendered or made, with the purpose or effect that the issuance, offering or sale of the Notes or any related security or obligations of the general character of the Notes or any related security as contemplated hereby, or the execution and delivery of the Indenture, is or would be in violation of any provision of, or is or would be subject to registration or qualification requirements under, the Securities Act or the Trust Indenture Act.

(f) Between the date hereof and the Closing Date, there shall not have occurred any action by the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, or any governmental agency or court which calls into question the validity or enforceability of the Letter of Credit.

(g) No event shall have occurred or fact exist which makes untrue, incorrect or inaccurate, in any material respect as of the time the same purports to speak, any statement or information contained in the Offering Circular, or which is not reflected in the Offering Circular but should be reflected therein as of the time and for the purpose for which the Offering Circular is to be used in order to make the statements and information contained therein not misleading in any material respect as of such time.

(h) None of the following shall have occurred: (i) additional material restriction not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange or such trading shall have been suspended; (ii) the New York Stock Exchange or other national securities exchange, or the National Association of Securities Dealers, Inc. or other national securities association, or other similar national self-regulatory rule-making board, or any governmental authority, shall impose, as to the Notes or similar obligations, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or change in the net capital requirements of, underwriters; (iii) a general banking moratorium shall have been declared by federal, New York or Ohio authorities; or (iv) a war involving the United States of America, whether or not declared, or any other national or international calamity or

crisis, or a financial crisis, shall have occurred, the effect of which, in the judgment of the Underwriter, would make it impracticable to market the Notes or would materially and adversely affect the ability of the Underwriter to enforce contracts for the sale of the Notes.

(i) All matters relating to this Note Purchase Agreement, the Offering Circular, the Issuer Documents, the other Bank Credit Documents, the Letter of Credit and the consummation of the transactions contemplated by this Note Purchase Agreement and the Offering Circular, shall be satisfactory to and subject to the approval of the Underwriter.

If the conditions to the Underwriter's obligations contained in this Note Purchase Agreement are not satisfied or if the Underwriter's obligations shall be terminated for any reason permitted herein, this Note Purchase Agreement shall, at the option of the Underwriter, terminate and neither the Underwriter nor the Issuer shall have any further obligations hereunder, except as provided in Section 7 with respect to the payment of certain expenses.

6. Survival of Representations, Warranties, Covenants, Agreements and Indemnities. All representations, warranties, covenants, agreements and indemnities contained in this Note Purchase Agreement, or contained in the certificates of members, officials, partners or officers of the Issuer submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation by or on behalf of the Underwriter or any person controlling the Underwriter, and shall survive delivery of the Notes to the Underwriter and payment therefor by the Underwriter.

7. Expenses. All costs and expenses incident to the performance of the Underwriter's and the Issuer's obligations in connection with the authorization, issuance and sale of the Notes shall be paid by the Issuer, including without limitation the costs for preparing, negotiating and reproducing the Issuer Documents and the other Bank Credit Documents (if any), fees and expenses of the Bank, including fees and expenses of its counsel, fees and expenses of the Trustee, fees and expenses of Note Counsel and all expenses of underwriting the Notes, including without limitation fees and expenses of the Underwriter and the Underwriter's Counsel. All such costs and expenses shall be paid by the Issuer whether or not the Notes are actually issued and sold. To the extent statements for such costs and expenses are available on the Closing Date, the Issuer shall pay such costs and expenses on the Closing Date.

8. Indemnification.

(a) General. The Underwriter and the Issuer (each, an "Indemnifying Party") each covenants and agrees to indemnify the other party hereto and their respective directors, officers, members, partners, trustees, representatives and employees and each person, if any, who controls any of such persons within the meaning of Section 15 of the Securities Act (collectively, the "Indemnified Parties") for, and to hold each Indemnified Party harmless against, all liabilities, claims, costs, losses and expenses (including without limitation, to the extent permitted by law, attorneys' fees and expenses), imposed upon or asserted against the Indemnified Parties:

(i) Under any statute or regulation, at law, in equity or otherwise, insofar as those liabilities, claims, costs, losses and expenses arise out of or are based upon any untrue statement or alleged untrue statement of a material fact with reference to the information referred to in Section 8(c) hereof contained in the Offering Circular, or any amendment thereof or supplement thereto, or any other sales material used by the Underwriter (provided that the Indemnifying Party shall have approved in writing the use of such material), or which arise out of or are based upon any omission or alleged omission to state therein with reference to such information a material fact which is required to be stated therein or which is necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(ii) Pursuant to any action, claim or proceeding brought in connection with any of the foregoing; and

(iii) To the extent of the aggregate amount paid in settlement of any actions, claims or proceedings, commenced or threatened, based upon any untrue statement, alleged untrue statement, omission or alleged omission described above, if the settlement is effected with the written consent of the Indemnifying Party;

and (unless the Indemnifying Party assumes the defense of the applicable claim, suit, action or proceeding pursuant to paragraph (b) below) shall reimburse any legal or other expenses incurred by any Indemnified Party in connection with investigating and defending any liability, claim, cost, loss, expense, action or proceeding described above; provided, nothing herein shall require the Indemnifying Party to pay for any losses, claims, damages, liabilities or expenses resulting from the negligence or the willful misconduct of an Indemnified Party. At the request and the expense of the Indemnifying Party, each Indemnified Party shall cooperate in making any investigation and defense of any action, claim or proceeding and shall assert appropriately the rights, privileges and defenses which are available to the Indemnified Party in connection therewith.

(b) Procedure. The Indemnified Party shall, in the event of any claim, suit, action or proceeding against it in respect of which indemnity may be sought on account of any indemnity agreement by the Indemnifying Parties contained herein, promptly give written notice thereof to the appropriate Indemnifying Parties. When such notice is given, the Indemnifying Party shall be entitled to participate at its own expense in the defense of, or if it so elects, to assume the defense of, such claim, suit, action or proceeding, in which event such defense shall be conducted by counsel chosen by the Indemnifying Party, but if the Indemnifying Party shall elect not to assume such defense, it shall reimburse such Indemnified Party or Parties for the fees and expenses of any counsel retained by them. The foregoing notwithstanding, in the event that the Indemnifying Party shall assume such defense and any Indemnified Party or Parties shall be advised by independent legal counsel that counsel selected by the Indemnifying Party is not fully and adequately protecting such party or parties and representing the interests of such party or parties, any such Indemnified Party or Parties shall have the right to conduct its or their own defense against any such claim, suit, action or proceeding in addition to or in lieu of any defense conducted by the Indemnifying Party, and the Indemnifying Party shall indemnify and hold harmless such Indemnified Party or Parties against and from any and all suits, claims, damages, liabilities or expenses whatsoever (including fees and expenses of counsel selected by such

Indemnified Party or Parties) incurred by and arising out of or in connection with any such claim, suit, action or proceeding. An Indemnifying Party shall not be liable for the settlement of any claim, suit, action or proceeding effected without its consent, which consent shall not be withheld unreasonably.

(c) Indemnified Information. The information as to which each Indemnifying Party hereto indemnifies the Indemnified Parties is as follows:

(i) The Issuer as Indemnifying Party: the entire Offering Circular, with the exception of: the information on the cover page (except to the extent pertaining to the Issuer, the Project, or the use of proceeds) and in the sections captioned "INTRODUCTORY STATEMENT" (except to the extent pertaining to the Issuer, the Project or the use of Note Proceeds), "THE LETTER OF CREDIT BANK", "THE CREDIT FACILITY", "THE REIMBURSEMENT AGREEMENT", "THE NOTES–Book-Entry Only System", and "LEGAL MATTERS", APPENDIX A–KEYBANK NATIONAL ASSOCIATION' and the information set forth in (ii) below; and

(ii) The Underwriter as Indemnifying Party: information in the section of the Offering Circular captioned "UNDERWRITING OF THE NOTES."

9. Parties in Interest. This Note Purchase Agreement is made solely for the benefit of the Underwriter, the Issuer and their respective successors and assigns, and the Indemnified Parties, and no other person, partnership, limited liability company, association, corporation or other legal entity shall acquire or have any rights under or by virtue of this Note Purchase Agreement. Nothing contained in this Note Purchase Agreement, express or implied, is intended or shall be construed to confer upon or give to any person, firm, corporation or other legal entity including any purchaser of the Notes, other than a party hereto or its successors and assigns, any rights, remedies or other benefits under or by reason of this Note Purchase Agreement, all third party rights being hereby negated.

10. Notices. Any notice or other communication to be given to any party to this Note Purchase Agreement may be given by delivering the same in writing at the respective addresses set forth below:

Issuer: AngioDynamics, Inc.
603 Queensbury Avenue
Queensbury, New York 12804
Attention: Eamonn P. Hobbs and Joseph G. Gerardi

Underwriter: KeyBanc Capital Markets
a division of McDonald Investments Inc.
127 Public Square–4th Floor
Mail Code: OH-01-27-0427
Cleveland, Ohio 44114
Attn: Mr. Jeffrey S. Freese

11. Severability. If any provisions of this Note Purchase Agreement shall be held or deemed to be or shall, in fact, be inoperative, invalid or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule or public policy, or any other reason, such circumstance shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Note Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.

12. Good Faith. Each party to this Note Purchase Agreement shall be obligated to act in good faith in the performance and enforcement of its obligations and rights hereunder, and shall have an obligation to deal fairly with the other party with respect to all matters pertaining hereto, expressed herein or otherwise, having due regard for all relevant facts and circumstances.

13. Applicable Law. This Note Purchase Agreement shall be governed by and construed in accordance with the laws of the State of New York.

14. Counterparts. This Note Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the Issuer and the Underwriter have caused this Note Purchase Agreement to be duly executed by their duly authorized representatives, respectively, as of the date first above written.

ANGIODYNAMICS, INC.

By: /S/ ROBERT D. MITCHELL
Robert D. Mitchell
Vice President and Chief Operating Officer

KEYBANC CAPITAL MARKETS, a division of McDonald Investments Inc.

By: /S/ JEFFREY S. FREESE
Jeffrey S. Freese, Managing Director

REIMBURSEMENT AGREEMENT

THIS REIMBURSEMENT AGREEMENT, dated as of the 1st day of December, 2006, by and between **ANGIODYNAMICS, INC.**, a corporation organized and existing under the laws of the State of Delaware, having a place of business at 603 Queensbury Avenue, Queensbury, New York 12804 (the "Company") and **KEYBANK NATIONAL ASSOCIATION,** a national banking association, having an office at 66 South Pearl Street, Albany, New York 12207 (the "Bank").

WHEREAS, the Company intends to issue its Taxable Adjustable Rate Notes, Series 2006 in the aggregate amount of $5,000,000.00 (the "Notes"), and utilize the proceeds of the Notes to finance costs of the Project, (as defined in the Indenture [as hereinafter defined]); and

WHEREAS, the Notes are to be issued pursuant to a certain Trust Indenture dated as of December 1, 2006, by and between Company and The Huntington National Bank, Cleveland, Ohio, as Trustee (the "Trustee") (as amended or supplemented from time to time, the "Indenture"); and

WHEREAS, in connection therewith Bank is about to issue its irrevocable transferable direct pay letter of credit (the "Letter of Credit") in favor of Trustee; and

WHEREAS, the proceeds of the Notes are to be advanced pursuant to a certain Building Loan Agreement, dated as of December 1, 2006, by and between the Bank and Company (as amended or supplemented from time to time, the "Building Loan Agreement; and

WHEREAS, the Premises (as hereinafter defined) are to be sold to Company on an installment sale basis pursuant to an Installment Sale Agreement, dated as of August 1, 2002, by and between the Agency and Company (as amended or supplemented from time to time, the "Installment Sale Agreement"); and

WHEREAS, it is the purpose of this Reimbursement Agreement to set forth the Bank's commitment to issue the Letter of Credit and Company's agreement to reimburse Bank for any and all payments made by Bank pursuant to the Letter of Credit and to otherwise set forth Bank's and Company's respective duties, covenants and agreements in respect of the Letter of Credit.

NOW THEREFORE, in consideration of the mutual agreements made herein and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

SECTION ONE

DEFINITIONS

Section 1.1. Terms Defined. As used in this Reimbursement Agreement, the following terms have the following respective meanings. Any accounting term used but not specifically defined herein shall be construed in accordance with GAAP (as hereinafter defined). The

definition of each agreement, document, and instrument set forth in this Section 1.1 shall be deemed to mean and include such agreement, document, or instrument as amended, restated, or modified from time to time:

"Agency" shall mean the Counties of Warren and Washington Industrial Development Agency, a corporate governmental agency constituting a body corporate and politic and a public benefit corporation duly organized and existing under the laws of the state of New York, and it successors or assigns.

"Affiliate" shall mean, with respect to any Person, any other Person directly controlling, controlled by or under direct or indirect common control with such Person. A Person shall be deemed to control a second Person if such first Person possesses, directly or indirectly, the power to (i) vote 10% or more of the securities having ordinary voting power for the directors or managers of such second Person or (ii) direct or cause the direction of the management and policies of such second Person, whether through the ownership of voting securities, by contract or otherwise. Notwithstanding the foregoing, (x) a director, officer, or employee of a Person shall not, solely by reason of such status, be considered an Affiliate of such Person and (y) the Bank shall not be considered an Affiliate of the Company.

"Amortization Expense" shall mean, for any period, all amortization expenses of the Company, calculated in accordance with GAAP.

"**Architect**" shall mean, whether individually or collectively, any and all architects performing architectural services in connection with the Project.

"**Assignment of Contracts**" shall mean the assignment of contracts, dated as of December 1, 2006, by Company in favor of Bank, as said assignment of contracts may be amended or supplemented from time to time.

"**Bond Counsel**" shall mean Bond Schoeneck & King PLLC or any other nationally recognized Bond Counsel reasonably acceptable to Bank.

"Building Loan Agreement" shall mean the building loan agreement, dated as of December 1, 2006, by and between the Company and the Bank, as said building loan agreement may be amended or supplemented from time to time.

"**Business Day**" shall mean any day of the year other than (i) a Saturday or Sunday, (ii) any day on which commercial banks located in Cleveland, Ohio, or the city or cities in which are located the corporate trust offices of the Trustee and the Tender Agent and the office of Bank at which demands for payment under the Letter of Credit are to be presented are authorized by law to close, or (iii) any day on which the New York Stock Exchange is closed.

"Cash Interest Expense" shall mean for any period, Interest Expense, reduced by any amount included therein which is "paid-in-kind" through an increase to principal or the issuance of an additional debt security in a principal amount equal to such interest.

"Closing Date" shall mean December , 2006, or such other date agreed upon by Company and Bank.

"Change Order Amount" means $50,000.00.

"Completion Date" means January 1, 2008.

"**Construction Contract**" shall mean, whether individually or collectively, any and all contracts, whether now existing or hereafter entered into, for the construction of the Facility between Company and Contractor, as approved, in writing, by Bank.

"**Construction Inspector**" shall mean, at Bank's option, either an officer or employee of Bank or consulting architects, engineers or inspectors appointed by Bank.

"**Contractor**" shall mean, whether individually or collectively, any and all contractors performing work at the Project pursuant to the Construction Contract, all as approved, in writing, by Bank.

"**Credit**" shall have the meaning set forth in Section 8.1(b) hereof.

"**Credit Documents**" shall mean, whether individually or collectively, this Reimbursement Agreement, the Mortgage, the Building Loan Agreement, any agreement between Company and Bank, or any affiliate of Bank, with regard to the interest payable upon any obligation, whether direct or contingent, of Company to Bank, or any affiliate of Bank (whether individually or collectively, the "Swap Documentation"), the Note Pledge, the Security Agreement, the Assignment of Contracts, the Indemnity Agreement and any other document now or hereafter executed by Company in favor of Bank or any affiliate thereof which affects the rights of Bank in or to the Project, in whole or in part, or which evidences, secures or guarantees any sum due under any Credit Document or any other obligation arising pursuant to any Credit Document.

"**Date of Issuance**" shall mean the date of issuance of the Letter of Credit.

"**Default Rate**" shall mean an interest rate per annum equal to five percent (5%) in excess of the Prime Rate, with each change in the Prime Rate automatically changing the Default Rate.

"Depreciation Expense' shall mean, for any period, all depreciation expenses of the Company, calculated in accordance with GAAP.

"EBIT" shall mean, for any period, Net Income for such period, plus the sum of the amounts for such period included in determining such Net Income of (i) Interest Expense and (ii) Income Tax Expense, calculated in accordance with GAAP.

"EBITDA" shall mean, for any period, EBIT for such period, plus the sum (without duplication) of the amounts for such period included in determining EBIT of (i) Depreciation Expense, and (ii) Amortization Expense, calculated in accordance with GAAP.

"**Environmental Law**" shall mean any federal, state, or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability upon a Person in connection with the use, release or disposal of any hazardous toxic or dangerous substance, waste or material.

"**ERISA**" shall mean the Employee Retirement Income Security Act of 1974, as the same may from time to time be amended or supplemented, and all regulations thereunder.

"**Event of Default**" shall have the meaning assigned thereto in Section 7 hereof.

"**Expiration Date**" shall mean December , 2009, subject to extension as provided in Section 2.5 herein.

"**Facility**" shall have the meaning assigned to such term in the Indenture.

"**Fee Calculation Amount**" shall have the meaning set forth in Section 2.2(b).

"Financial Covenants" shall mean each and every covenant set forth in Section 6.25.

"Fiscal Quarter" shall mean the three calendar month period ending on August 31, November 30, the last day of February and May 31 of each calendar year.

"Fiscal Year" shall mean the twelve calendar month period ending on August 31 of each calendar year.

"**Fixed Charge Ratio"** shall mean the ratio of the Company's (i) Operating Cash Flow to (ii) current maturities of long term debt plus current portion of long term leases plus Cash Interest Expense paid on loans and leases plus lease expense, calculated in accordance with GAAP.

"Funded Debt Ratio" shall mean the ratio of the Company's (i) total funded Indebtedness to (ii) EBITDA less Unfunded Capital Expenditures, calculated in accordance with GAAP.

"**GAAP**" shall mean generally accepted accounting principles as then in effect, which shall include the official interpretations thereof by the Financial Accounting Standards Board, consistently applied.

"Income Tax Expense" shall mean, for any period, all provisions for taxes based upon Net Income (including, without limitation, any additions to such taxes, any penalties and interest with respect thereto), calculated in accordance with GAAP.

"**Indebtedness**" shall mean, at a particular date, all indebtedness for money borrowed or for the deferred purchase price of property and lease obligations of Company which have been, or which in accordance with Statement of Financial Accounting Standards No. 13, as from time to time amended, should be, capitalized.

"**Indemnity Agreement**" shall mean the environmental compliance and indemnification agreement, dated as of December 1, 2006, by Company in favor of Bank, as said environmental compliance and indemnification agreement may be amended or supplemented from time to time.

"**Indenture**" shall mean the trust indenture, dated as of December 1, 2006, between the Company and the Trustee, as said indenture of trust may be amended or supplemented from time to time.

"**Indenture Default**" shall mean an Event of Default under and pursuant to the Indenture.

"**Interest Commitment**" shall have the respective meaning set forth in the Letter of Credit.

"Interest Coverage Ratio" shall mean the ratio of the Company's (i) EBIT to (ii) Cash Interest Expense, calculated in accordance with GAAP.

"**Interest Coverage Requirement**" shall mean an amount equal to (i) ninety eight (98) days' accrued interest at the Maximum Rate on the outstanding principal amount of the Notes to enable the Trustee to pay the interest on the Notes when due and (ii) an amount equal to the interest portion, if any, of the purchase price of any Notes tendered for purchase by the holder thereof to the extent remarketing proceeds are not available for such purposes.

"**Interest Drawing**" shall have the respective meaning set forth in the Letter of Credit.

"Interest Expense" shall mean, for any period, total interest expense (including that which is capitalized, that which is attributable to capital leases and the pre-tax equivalent of dividends payable on redeemable stock) with respect to all outstanding Indebtedness including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and net costs under any hedging agreements.

"**Letter of Credit**" shall mean the Letter of Credit to be issued by Bank on the Closing Date pursuant to this Reimbursement Agreement, the Letter of Credit to be substantially in the forms of Exhibit A hereto.

"**Letter of Credit Commitment**" shall have the respective meaning set forth in the Letter of Credit.

"**Lien**" means any interest in Property securing an obligation owed to a Person whether such interest is based on the common law, statute or contract, and including but not limited to a security interest arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" includes reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions and encumbrances, including but not limited to mechanics', materialmens', warehousemens' and carriers' liens and other similar encumbrances, affecting real property. For the purposes hereof, a Person shall be deemed to be the owner of Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

"**Maximum Rate**" shall mean, as applicable, the interest rate per annum of ten percent (10.00%).

"**Mortgage**" shall mean the mortgage and security agreement dated as of December 1, 2006 from the Agency and the Company in favor of the Bank, as said mortgage and security agreement may be amended or supplemented from time to time.

"Net Income" shall mean, for any period, the net income (or loss), without deduction for minority interests, for such period taken as a single accounting period and calculated in accordance with GAAP.

"**Note Documents**" shall mean the Indenture and any other document executed by Company in connection with the issuance and sale of the Notes (other than the Credit Documents).

"**Note Pledge**" shall mean the pledge and security agreement, dated as of December 1, 2006, by and between Company and Bank, as said pledge and security agreement may be amended or supplemented from time to time.

"**Notes**" shall mean, whether individually or collectively, the $5,000,000.00 in aggregate principal amount of Taxable Adjustable Rate Notes, Series 2006.

"**Operating Cash Flow**" shall mean net income after taxes and exclusive of extraordinary gains and losses, gains on sale of fixed assets and other income plus Depreciation Expense plus Amortization Expense plus Interest Expense plus lease expense less dividends and distributions, calculated in accordance with GAAP.

"**Permitted Encumbrances**" shall mean, with respect to the Pledged Collateral, as of any particular time, (a) liens for ad valorem taxes and special assessments not then delinquent, (b) this Reimbursement Agreement, the Mortgage, the Note Pledge, the Security Agreement and any security interest or other lien created thereby, (c) any Permitted Encumbrances defined in any of the Credit Documents, (d) any liens permitted by Section 6.8 hereof, and (e) such minor defects, irregularities, encumbrances, clouds on title and to-be-created utility easements necessary for operation of the Project Facility as normally exist with respect to property similar in character to the Pledged Collateral and as do not materially interfere with or impair the use or value of the property affected thereby.

"**Person**" shall mean any natural person, corporation (which shall be deemed to include business trust), association, partnership, political entity, or political subdivision thereof.

"**Plan**" shall mean any plan defined in Section 4021(a) of ERISA in respect of which Company or any Subsidiary of Company is an "employer" or a "substantial employer" as defined in Sections 3(5) and 4001(a)(2) of ERISA, respectively.

"**Plans and Specifications**" shall mean the plans and specifications for the Project approved by Bank.

"**Pledged Collateral**" shall mean the collateral in which Company has given Bank a lien or security interest pursuant to the Mortgage, the Security Agreement, the Assignment of Contracts and/or the Note Pledge and/or any other Credit Document.

"Premises" shall mean the real property located in the Town of Queensbury, Warren County, New York made subject to, and more fully described in the Mortgage.

"Prime Rate" shall mean that interest rate established from time to time by Bank as Bank's Prime Rate, whether or not such rate is publicly announced. The Prime Rate may not be the lowest rate charged by Bank for commercial or other extensions of credit.

"Principal Commitment" shall have the meaning set forth in the Letter of Credit.

"Principal Drawing" shall have the meaning set forth in the Letter of Credit.

"Project" shall have the meaning assigned to such term in the Indenture.

"Project Facility" shall have the meaning assigned to such term in the Indenture.

"Project Fund" shall have the meaning assigned thereto in the Indenture.

"Purchaser" shall mean the original purchaser or purchasers of the Notes.

"Qualified Investments" shall have the meaning assigned thereto in the Indenture.

"Remarketing Agent" shall mean Keybanc Capital Markets, a division of McDonald Investments Inc., an Ohio corporation. and its successors as provided in Section 718 of the Indenture

"Remarketing Drawing" shall have the meaning set forth in the Letter of Credit.

"Reportable Event" shall mean any reportable event as that term is defined in ERISA.

"Security Agreement" shall mean the security agreement, dated as of December 1, 2006, by Company to Bank, as said security agreement may be amended or supplemented from time to time.

"Senior Funded Debt" shall mean Total Funded Debt less subordinated Indebtedness, calculated in accordance with GAAP.

"Subsidiary" or **"Subsidiaries"** shall mean (i) any corporation more than fifty percent (50%) of the capital stock of which is owned or controlled, directly or indirectly, by Company or any Subsidiary and whose accounts are required to be consolidated with those of Company in accordance with GAAP, consistently applied; and (ii) any non-profit corporation which is controlled, directly or indirectly, by Company.

"Title Company" shall mean Chicago Title Insurance Company.

"Title Report" shall mean the title rundown to be issued by the Title Company, with respect to the Mortgage.

"**Total Debt**" shall mean the total of all items of Indebtedness or liability which in accordance with GAAP would be included in determining total liabilities on the liability side of the balance sheet as of the date of determination.

"**Total Funded Debt**" means the sum without duplication for a Person and any Subsidiary of all indebtedness for borrowed money, whether maturing in less than or more than one year plus all bonds, notes, debentures or similar debt instruments plus all capitalized lease obligations plus the present value of all basic rental obligations under any synthetic lease.

"**Trustee**" shall mean The Huntington National Bank, or any successor Trustee under the Indenture.

"Unfunded Capital Expenditures" shall mean total capital expenditures minus any corresponding increase in long-term debt or capital eases, calculated in accordance with GAAP.

SECTION TWO

ISSUANCE OF LETTER OF CREDIT

Section 2.1. Issuance of Letter of Credit. Subject to the terms and conditions hereof, Bank agrees to execute and deliver the Letter of Credit. The obligations of Bank under the Letter of Credit shall be absolute and irrevocable and shall be performed strictly in accordance with the terms of the Letter of Credit and this Reimbursement Agreement.

Section 2.2. Fees and Reimbursement.

(a) Company hereby agrees to pay to Bank:

(i) Before 2:00 p.m., New York time, on each date that any amount is drawn under the Letter of Credit pursuant to a Principal Drawing or an Interest Drawing, Company shall pay a sum equal to the amount so drawn under the Letter of Credit plus (x) interest accrued, if any, on the amount so drawn under the Letter of Credit as determined by clause (iv) of this subsection (a) of this Section 2.2, plus (y) any and all charges and expenses which Bank may pay or incur relative to such drawing under the Letter of Credit, plus (z) a fee in the amount of Two Hundred Dollars ($200.00) for that drawing under the Letter of Credit;

(ii) Upon a Remarketing Drawing under the Letter of Credit, provided there is then no uncured Event of Default, Company shall have until the Expiration Date to reimburse Bank for the amount of the Remarketing Drawing, subject to the right of Bank to require redemption of the Notes pursuant to Section 7.2 hereof. Any amounts received by Bank from the remarketing of Notes purchased out of a Remarketing Drawing and registered to Bank or, at the direction of Bank, to Company, shall be applied pro rata against Company's obligation to reimburse Bank for the amount of the Remarketing Drawing. The amount of any unreimbursed Remarketing Drawing shall bear interest from the date of the Remarketing

Drawing at a rate per annum equal to the Prime Rate plus one percent (1.0%). Such interest shall be payable on each Interest Payment Date for so long as such Remarketing Drawing or any portion thereof is unreimbursed. The payments of interest hereunder shall be credited pro rata against the interest accrued on the Notes pledged to Bank under the Note Pledge. Interest hereunder shall be calculated based on a 360-day year but calculated for the actual number of days elapsed;

(iii) Upon each transfer of the Letter of Credit in accordance with its terms and as a condition thereto, a transfer fee of Five Hundred Dollars ($500.00) and such additional amounts as shall be necessary to cover the reasonable costs and expenses to Bank incurred in connection with such transfer;

(iv) Company shall pay interest at the Default Rate, payable on demand, on any and all amounts of any Principal Drawing, Interest Drawing and/or Remarketing Drawing not paid by Company when due under any section of this Reimbursement Agreement from the date such amounts become due until payment in full;

(v) For any payment of principal and/or interest not paid within ten (10) Business Days after such payment is due, Company shall pay a late charge of an amount equal to the greater of five percent (5%) of the amount of the payment or $50.00;

(vi) On demand, reasonable costs, fees and expenses incurred by Bank in connection with the issuance of the Letter of Credit or the preparation or execution of any documents or opinions related thereto;

(vii) On demand, any and all reasonable expenses incurred by Bank in enforcing any of its rights under this Reimbursement Agreement, or any of the Credit Documents;

(viii) On or prior to the Closing Date, any and all appraisal fees relating to the appraisal of the Premises; and

(ix) On or prior to Closing Date, a one-time origination fee in the amount of $5,134.00.

(b) Company hereby agrees to pay to Bank commissions (whether individually or collectively, the “Letter of Credit Fee”) equal to an amount calculated at the percentage rate of the maximum respective “Fee Calculation Amount” as hereinafter defined, available on each date of payment of the Letter of Credit Fee, as set forth in the following table based upon the Company’s Funded Debt Ratio on a rolling 12 month/four fiscal quarter period as reflected in the financial information for each of the immediately preceding four fiscal quarters of the Company (:

Level	Funded Debt Ratio	Annual Letter of Credit Fee (as a percentage of the Fee Calculation Amount)
I	≥1.5 to 2.00	1.35%
II	≥1.0 to 1.0 ≤1.5 to 1.0	1.00%
III	<1.0 to 1.0	.75%

From the Closing Date until receipt of the audited financial statements for the Company for Fiscal Year end 2006 and Fiscal Quarter ended February 29, 2008 the annual Letter of Credit Fee shall be set at "Level III" as described in the above table. Changes in the Annual Letter of Credit Fee resulting from changes in the Funded Debt Ratio shall become effective on the date (the "Adjustment Date") on which quarterly financial statements delivered to the Bank pursuant to Section 6.1, hereof, (but in any event not later than the 45th day after the end of the Fiscal Quarters of the Borrower ending on February 28, May 31, August 30 and the ninetieth day after the end of the Fiscal Quarter of the Borrower ending on November 30) beginning with respect to changes in the Funded Debt Ratio with the first Fiscal Quarter of the Borrower for which statements/reports are provided or delivered after the Closing Date, whether or not such Fiscal Quarter ended on, before or after, the Closing Date, and shall remain in effect until the next change to be effected pursuant to this paragraph. The period from an Adjustment Date until the day immediately preceding the next following Adjustment Date is referred to herein as the "Fee Calculation Amount Period". The Applicable Letter of Credit Fee for any given Fee Calculation Amount Period shall be reduced from the Applicable Letter of Credit Fee in effect for the immediately preceding Fee Calculation Amount Period if any only if as of the immediately preceding May 31 and November 30 the Covenant Compliance Certificates prepared and submitted by the Company to the Bank in accordance with Section 6.1, hereof evidence that as of the date of such certificate(s) the Borrower was in compliance with the covenants set forth in section6.1, hereof. If the Covenant Compliance Certificate delivered by the Company to the Bank for the fiscal quarter ended May 31 and November 30, evidence that and/or the Company as of May 31 and November 30 failed to comply with the Financial Covenants, then the Applicable Letter of Credit Fee shall be the greater of (i) the Annual Letter of Credit Fee in effect on the date immediately preceding the applicable Adjustment Date and (ii) the Letter of Credit Fee Calculation Amount applicable to the Company based on the greater of (a) its Funded Debt Ratio for the most recently completed Fiscal Quarter or (b) the Letter of Credit Fee Calculation Amount established pursuant to the immediately following sentence, if applicable. If any financial statements or Compliance Certificates referred to above are not delivered within the time periods specified above, then, until such financial statements are delivered, the Letter of Credit Fee as at the end of the fiscal period that would have been

covered thereby shall for the purposes of this definition be deemed to be 1.35% of the Fee Calculation Amount. Each determination of the Funded Debt Ratio pursuant to this section shall be made with respect to the period of four consecutive Fiscal Quarters of the Borrower ending at the end of the period covered by the relevant financial statements.

The Letter of Credit Fee shall be payable in annual installments in advance on each anniversary of the Date of Issuance until the Expiration Date of such Letter Credit; provided, however, that upon the Date of Issuance of the Letter of Credit, Company shall pay an installment of the Letter of Credit Fee for the period from the Date of Issuance to and including the day before the anniversary of the Date of Issuance in 2007. The "Fee Calculation Amount" shall be the sum of (i) the maximum amount then available to be drawn under the Letter of Credit with respect to the Principal Commitment plus (ii) the maximum amount then available to be drawn under the Letter of Credit with respect to the Interest Commitment. If the Letter of Credit is terminated prior to the Expiration Date, the Letter of Credit Fee shall be refunded to Company for any calendar quarter that the Letter of Credit will not be outstanding provided that Company returns or causes the return of the Letter of Credit to Bank prior to the start of such calendar quarter.

(c) Company shall pay to Bank all reasonable legal, documentation, search and recording fees, and construction monitoring costs associated with closing and funding this transaction;

(d) If any change in any law or regulation or in the interpretation thereof by any court or administrative or governmental authorities charged with the administration thereof shall impose, modify or deem applicable any reserve, special deposit or similar requirement which would impose on Bank any reasonable additional costs (i) generally upon the issuance or maintenance of letters of credit by Bank; (ii) specifically in respect of this Reimbursement Agreement or the Letter of Credit; or (iii) in respect of any capital adequacy requirement (including, without limitation, a requirement which affects the manner in which Bank allocates capital resources to its commitments), and the result of such imposition of additional costs as described in clause (i), (ii), or (iii) above shall be to increase the cost to Bank of issuing or maintaining the Letter of Credit (which increase in cost shall be the result of Bank's reasonable allocation of the aggregate of such cost increases resulting from such events), then (x) within thirty (30) days of Bank's obtaining knowledge of such change in law, regulations or interpretation thereof, Bank shall so notify Company, and (y) upon receipt of such notice from Bank, accompanied by a certificate as to such increased cost, Company shall pay as of the effective date of such change or interpretation all reasonable additional amounts which are necessary to compensate Bank for such increased cost incurred by Bank. The certificate of Bank as to such increased costs shall show the manner of calculation and shall be conclusive (absent manifest error) as to the amount thereof; and

(e) Company's obligations to make payments to Bank under this Section 2 shall be deemed satisfied to the extent of payments made by the Trustee to Bank from funds on deposit with and held by the Trustee pursuant to the Indenture.

Section 2.3. Company's Obligations Unconditional. The payment obligations of Company under this Reimbursement Agreement shall be absolute, unconditional and irrevocable and shall be satisfied strictly in accordance with the terms of this Reimbursement Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) Any lack of validity or enforceability of the Credit Documents, the Note Documents or any other agreement or instrument relating thereto;

(b) Any amendment or waiver of or any consent to departure from the terms of the Letter of Credit, the Credit Documents, the Note Documents or any other agreement or instrument relating thereto;

(c) The existence of any claim, setoff, defense or right which Company may have at any time against any beneficiary or any transferee of the Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee may be acting), Bank or any other person or entity, whether in connection with this Reimbursement Agreement, the transactions contemplated by the Credit Documents or the Note Documents, or any unrelated transaction;

(d) Any statement or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(e) Payment by Bank under the Letter of Credit against presentation of a request which on its face appears to be in accordance with the terms of the Letter of Credit; or

(f) Any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Section 2.4. Payments. The payments and amounts due Bank under Section 2.2 above shall be made by Bank's debiting Company's operating account with Bank (the "Operating Account"). Company covenants and agrees that on the date any payment or other amount is due under Section 2.2 above, Company will have unrestricted funds in the Operating Account in an amount no less than the amount then due. Subject to the foregoing provisions of this Section, all payments by Company hereunder to Bank shall be made in lawful currency of the United States and in immediately available funds to the Bank's Standby Letter of Credit Processing and Service Center, 4910 Tiedeman Road–OH01510435, Cleveland, Ohio 44144-2338.

Section 2.5. Letter of Credit Extension. Bank may in writing extend the Expiration Date of the Letter of Credit; provided, however, that such extension shall be, in each instance, made in the sole discretion of Bank and Bank may at any time, upon written notice delivered to Company and Trustee, elect not to extend the Expiration Date. Bank shall notify Company and Trustee of its decision of whether the Expiration Date shall be extended no later than ninety (90)

days prior to the Expiration Date, provided that the failure of Bank to deliver such notice, or to deliver any notice, shall not mean that Bank has elected to extend the Expiration Date. If Bank extends the Expiration Date, it shall do so in the form of an amendment to the Letter of Credit, which it shall promptly deliver to Trustee.

SECTION THREE

REPRESENTATIONS, WARRANTIES AND COVENANTS

Company expressly represents, warrants and covenants that:

Section 3.1. Existence and Legal Authority. Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to own its property and to carry on its business as now being conducted, to enter into the Credit Documents and the other agreements referred to herein and transactions contemplated thereby, and to carry out the provisions and conditions of the Credit Documents. Company is duly qualified to do business and is in good standing in the State of New York and in every jurisdiction where the failure to so qualify would have a material adverse effect on the business of Company.

Section 3.2. Due Execution and Delivery. Company and/or Agency has full power, authority and legal right to incur the obligations provided for in, and to execute and deliver and to perform and observe the terms and provisions of, the Credit Documents, and each of them has been duly executed and delivered by Company by all required action, and Company has obtained all requisite consents to the transactions contemplated thereby under any instrument to which it is a party, and the Credit Documents constitute the legal, valid and binding obligations of Company enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency or other similar laws affecting creditors' rights generally.

Section 3.3. No Breach of Other Instruments. Neither the execution and delivery of the Credit Documents, nor the compliance by Company with the terms and conditions of the Credit Documents, nor the consummation of the transactions contemplated thereby, will conflict with or result in a breach of Company's Certificate of Incorporation or By-Laws, or any of the terms, conditions or provisions of any agreement or instrument or any other restriction or law, regulation, rule or order of any governmental body or agency to which Company is now a party or is subject, or imposition of a lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Company pursuant to the terms of any such agreement or instrument.

Section 3.4. Government Authorization. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by Company of the transactions contemplated by the Credit Documents.

Section 3.5. Pledged Collateral. Company has good fee simple title to the Premises, free and clear of all liens, pledges, mortgages, security interests, charges, claims and other encumbrances, except the Permitted Encumbrances. Company has good title to the Pledged Collateral, free and clear of all liens, pledges, mortgages, security interests, charges, claims and other encumbrances, except Permitted Encumbrances. The Mortgage, the Security Agreement,

the Assignment of Contracts and/or Note Pledge create a valid and prior lien or security interest in favor of Bank in the Pledged Collateral, subject to no other liens or encumbrances arising by, through or under Company or any other person, except for Permitted Encumbrances.

Section 3.6. Absence of Defaults, etc. Company is not (i) in material default under any indenture or contract or agreement to which it is a party or by which it is bound; (ii) in violation of its Certificate of Incorporation or By-Laws, each as amended to date; (iii) in default with respect to any order, writ, injunction or decree of any court; or (iv) in default under any order or license of any federal or state governmental department, which default or violation in any of the aforesaid cases materially and adversely affects its business or property. There exists no condition, event or act which constitutes, or after notice or lapse of time or both would constitute, an Event of Default.

Section 3.7. Indebtedness of Company. Company does not have outstanding on the date hereof any Indebtedness for borrowed money, except for such Indebtedness reflected on the financial statements referred to in Section 3.9 hereof, except in connection with the Notes.

Section 3.8. Subsidiaries. Company has no Subsidiaries.

Section 3.9. Financial Statements. All financial statements of Company furnished to Bank on or prior to the date hereof are correct and complete in all material respects and fairly present the financial position of Company at the dates thereof and the results of Company's operations for the periods covered thereby, and such financial statements, including any notes and comments contained therein, have been prepared in conformity with GAAP applied on a consistent basis throughout the periods involved.

Section 3.10. No Adverse Change. Subsequent to the date of the financial statements referred to in Section 3.9 hereof, Company has not incurred any liabilities or obligations, direct or contingent, not in the ordinary course of business, and there has not been any increase in the aggregate amount of Indebtedness of Company (except in connection with the issuance of the Notes), or any change in the business, properties or condition, financial or otherwise, of Company, except for changes arising in the ordinary course of business or in connection with the issuance and sale of the Notes or as may be otherwise disclosed in writing to Bank prior to the date hereof.

Section 3.11. Taxes. Company has filed, or secured a lawful extension to file, all tax returns which are to be filed and has paid, or has made adequate provision for the payment of, all taxes which have or may become due pursuant to said returns or to assessments received by them. Company knows of no deficiency assessment or proposed deficiency assessment of taxes against Company, except as may be otherwise disclosed in writing to Bank prior to the date hereof.

Section 3.12. ERISA. No Reportable Event or Prohibited Transaction (as defined in Section 4975 of the Internal Revenue Code) has occurred and is continuing with respect to any Plan and Company has not incurred any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA.

Section 3.13. Litigation. Except as otherwise disclosed in writing to Bank prior to the date hereof, there are no actions, suits or proceedings pending, or to the knowledge of Company, threatened against Company or its property in any court, or before or by any federal, state or municipal or other governmental department, commission, board, bureau, agency or other instrumentality, domestic or foreign, which could result in any adverse change in the business, property or assets, or in the condition, financial or otherwise, of Company, except for actions, suits or proceedings of a character normally incident to the kind of business conducted by Company, none of which, either individually or in the aggregate, if adversely determined, would materially impair Company's right or ability to carry on its business substantially as now conducted or materially adversely affect the financial position or operations of Company.

Section 3.14. Ownership of Property. Company has good and marketable fee title to, or valid leasehold interests in its real properties in accordance with the laws of the jurisdiction where located, and good and marketable title to substantially all its other property and assets, subject, however, in the case of real property, to title defects and restrictions which do not materially interfere with the operations conducted thereon by Company. Except for (i) liens in favor of Bank and/or (ii) liens in favor of other lenders which affect or constitute a lien upon property other than any portion of the Project, the real property and all other property and assets of Company are free from any liens or encumbrances securing Indebtedness and from any other liens, encumbrances, charges or security interests of any kind. Each lease to which Company is a party is in full force and effect, no material default on the part of any party thereto exists, and, as to each of such leases to which Company is party as lessee, Company enjoys peaceful and undisturbed possession of the property affected thereby.

Section 3.15. No Burdensome Restrictions. Company is not a party to any instrument or agreement or subject to any charter or other corporate restriction which would to a material extent adversely affect the business, property, assets, operations or condition, financial or otherwise, of Company.

Section 3.16. Environmental Matters. Company is in compliance with all Environmental Laws and all applicable federal, state and local health and safety laws, regulations, ordinances or rules, except to the extent that any non-compliance will not, in the aggregate, have a materially adverse effect on Company or the ability of Company to fulfill its obligations under this Reimbursement Agreement.

SECTION FOUR

CLOSING CONDITIONS

The obligation of Bank to issue the Letter of Credit on the Closing Date shall be subject to the following conditions precedent:

Section 4.1. Execution and Delivery of the Credit Documents and the Note Documents. Company shall have delivered to Bank fully executed copies of each of the Credit Documents, and the the Trustee and Company shall have duly authorized, executed and delivered the Note Documents, transcript of proceedings, authorizing resolutions and incumbency certificates.

Section 4.2. Delivery of Documents Relating to the Pledged Collateral. Company shall have duly and validly executed and delivered the Mortgage, the Security Agreement, the Assignment of Contracts, the Indemnity Agreement, the Note Pledge and UCC financing statements; the Mortgage, and UCC financing statements shall have been duly filed in favor of Bank. In addition, Company shall have delivered to Bank:

(a) Evidence that the Premises are not located in a special flood hazard area as identified by HUD;

(b) Certificates of insurance and evidence of payment of premiums therefor with respect to the insurance required by Bank with respect to the Premises as set forth in Section 6.2 below, including but not limited to, general liability insurance and hazard insurance, and flood insurance if applicable;

(c) Intentionally Omitted;

(d) Environmental data with respect of the Premises, satisfactory to Bank in its sole discretion;

(e) Evidence satisfactory to Bank that the Project, when completed, and the Premises, and the proposed and actual use thereof, will comply with all applicable laws, statutes, codes, ordinances, rules and regulations, including, but not limited to, zoning and Environmental Laws, of all governmental authorities having jurisdiction over the same, and that there is no action or proceeding pending (or any time for an appeal of any decision rendered) before any court, quasi-judicial body or administrative agency at the Date of Issuance relating to the validity of this Reimbursement Agreement or the transactions contemplated hereby or the proposed or actual use or operation of the Premises; and

(g) Intentionally Omitted.

Section 4.3. Issuance and Sale of the Notes. The Notes shall have been duly issued and sold to the Purchaser pursuant to the Note Documents.

Section 4.4. Representations and Warranties True as of Closing and No Event of Default. The representations and warranties contained in this Reimbursement Agreement and the other Credit Documents shall be true in all material respects on the Closing Date with the same effect as though made on and as of that date and no condition, event or act shall have occurred which constitutes an Event of Default or, with notice or lapse of time, or both, would constitute an Event of Default.

Section 4.5. Opinion of Company's Counsel. Bank shall have received from Bond Schoeneck & King, PLLC, counsel for Company, a closing opinion or opinions with respect to (i) the matters described in Sections 3.1 and 3.2 of this Reimbursement Agreement; (ii) the matters described in Sections 3.3, 3.4, 3.6 and 3.13 of this Reimbursement Agreement, to the best of such counsel's knowledge and belief after inquiry; and (iii) such other matters incident to the transactions contemplated hereby as Bank may reasonably request.

Section 4.6. Opinion of Other Counsel. Bank shall have received from Bond Counsel an opinion as Bank my reasonably request.

Section 4.7. Proceedings Satisfactory. All proceedings taken in connection with the execution and delivery of this Reimbursement Agreement and the other Credit Documents shall be satisfactory to Bank, and Bank shall have received copies of such certificates, documents and papers as reasonably requested in connection therewith, all in form and substance satisfactory to Bank.

Section 4.8 Additional Deliveries. Except as provided below, Company shall furnish the following documentation to Bank at least ten (10) Business Days prior to the Closing Date unless such date shall be extended in writing by Bank, all in form, substance and execution satisfactory to Bank:

(a) Invoices for work to be performed or materials to be supplied in connection with the Project, in each case approved by Bank;

(b) A cost breakdown and itemization of all hard and soft costs for the Project shall be provided, in form satisfactory to Bank.

(c) A final construction budget, acceptable to Bank;

(d) Certified copy of Company's resolutions authorizing the action required of Company;

(e) Project development schedule provided by Company and development supervisor setting forth the approximate start and finish dates of all major stages of the Project; such schedule shall provide that the development of the Project shall commence not later than thirty (30) days after the Closing Date;

(f) Evidence of such building permits as may be required;

(g) The Construction Contract, in form and substance acceptable to Bank;

(h) A completion bond issued on behalf of the Contractor in an amount not less than the fixed amount due and payable under the Construction Contract in form and substance acceptable to the Bank and containing a dual obligee rider identifying the Bank as a beneficiary thereof

(i) Company's federal tax identification number; and

(j) Such other documents which may be required by Bank to assure compliance with this Reimbursement Agreement and other Credit Documents.

SECTION FIVE

DISBURSEMENTS FROM PROJECT FUND; COMPLETION GUARANTY

DISBURSEMENTS FROM PROJECT FUND Company shall not request or receive any disbursement of funds from the Project Fund unless Bank shall have approved such disbursement in writing to the Trustee and the following conditions have been met:

Section 5.1. Conditions Precedent to First Disbursement. The following conditions must be satisfied prior to the first disbursement of funds from the Project Fund:

(a) The proceeds of the Notes shall have been deposited into the Project Fund, and Bank and the Trustee shall have been granted a perfected security interest in the Project Fund;

(b) Company shall have provided evidence that all insurance requirements set forth herein have been satisfied;

(c) Company shall have delivered to Bank a schedule of all Contractors, by trade, to be engaged in the construction and installation of the Project Facility, together with copies of the Construction Contract; and

(d) Company shall have delivered to Bank copies of the consent of each of the Project Architect and Contractor, to the Assignment of Contracts, if known, as provided therein.

Section 5.2. Bank's Inspections; Construction Inspector. Prior to each disbursement, if required by Bank, Bank, or an agent engaged by Bank at Company's expense, may inspect the property to verify that the request for disbursement accurately indicates the amount of construction completed to said date. Bank shall engage the Construction Inspector with regard to the renovations/construction at the Premises. The Construction Inspector, at the cost of Company, shall, at Bank's option, perform and or all of the following services on behalf of Bank:

(a) To make an initial pre-cost analysis verifying that the Improvements can be completed for the amount available for construction from the Project Budget;

(b) To review and advise Bank whether, in the opinion of the Construction Inspector, the Plans and Specifications are satisfactory;

(c) To review Draw Requests and change orders;

(d) To make periodic inspections (approximately at the date of each Draw Request) for the purpose of assuring that construction of the Facility to date is in accordance with the Plans and Specifications and to approve Company's then current Draw Request as being consistent with Company's obligations under this Agreement, including inter alia, an opinion as to Company's continued compliance with the provisions of Section 6.1 (g) (4) hereof.

The fees of the Construction Inspector shall be paid by Company forthwith upon billing therefor and expenses incurred by Bank on account thereof shall be reimbursed to Bank forthwith upon request therefor, but neither Bank nor the Construction Inspector shall have any liability to Company on account of (i) the services performed by the Construction Inspector, (ii) any neglect or failure on the part of the Construction Inspector to properly perform its services, or (iii) any approval by the Construction Inspector of construction of the Facility. Neither Bank nor the Construction Inspector assumes any obligation to Company or any other person concerning the quality of construction of the Facility or the absence therefrom of defects.

Section 5.3. Intentionally Omitted.

Section 5.4. Request for Approval of Disbursement. In addition to satisfaction of any procedures required by the terms of the Note Documents, not later than ten (10) business days before the date on which Company desires a disbursement from the Project Fund, Company shall submit to Bank (i) a written request for approval of the disbursement from the Project Fund (each a "draw request"); (ii) a certification of Company that, among other things, Company has paid or actually incurred the costs for which the request is being made; (iii) a revised Project Budget showing the balance of each category of Project costs; and (iv) a requisition in form satisfactory to Bank. Draw requests should not be made more frequently than once per month. Bank will authorize disbursements of amounts as approved by Bank for the cost of materials stored on site if and only if such materials are (i) stored on site, (ii) physically secured against loss or damage, including, but not limited to, theft and/or vandalism, (iii) clearly identified as property of the Project and Company, and (iv) insured against loss or damage in an amount equal to the full replacement cost of the stored materials by an insurance company acceptable to Bank. No disbursements will be made for materials not stored on site. Bank's "Use of Proceeds" form shall be submitted for Bank's use to approve all draw requests submitted to the Trustee for disbursements to be made from the Trust Estate (as defined in the Note Documents). All requests for disbursement with respect to construction costs shall be accompanied by executed AIA Forms G-702 and G-703. Bank shall not be required to approve disbursement of funds for any line item in excess of the amount shown on Bank's Use of Proceeds form; however, Company may request an increase in a line item by reducing a budgeted line item. Any such reallocation shall not cause a deficiency with respect to the "Company's Equity" category, and must be substantiated by a cost saving in the line item being reduced. All authorizations of draw requests shall be made within ten (10) days after receipt of all information required by Bank to approve the draw requests.

Section 5.5. Timing. Company will submit draw requests not more often than once a month. Each disbursement shall not be more than ninety (90%) of the value of construction work which has been completed and which is covered by such disbursement until the Project is fully completed, and the balance will be paid upon completion based on requirements set forth below. Retainage will be held on a subcontract by subcontract basis, and released in connection with a particular subcontract upon the expiration of the time for filing of any mechanic's lien with respect to such subcontract provided all work thereunder has been completed to the satisfaction of Bank and its inspector and a mechanic's lien waiver has been received from the subcontractor for all their work done on the property. There are no retainage requirements for "soft costs" on the Project. "Soft costs" are defined as expenses which have no mechanic's lien rights on the

subject security (this does not include the contingency line item under the Construction Contract). Upon completion of all work and prior to disbursement of the retainage, Company shall submit evidence of substantial completion of the Project, consisting of a certificate of the Project Architect and a certificate of occupancy for the Facility. Notwithstanding the foregoing, Bank, in its sole discretion, may elect to release the retainage prior to completion of the Project.

Section 5.6. Supporting Documentation. Company shall furnish Bank with an affidavit of Company identifying all subcontractors and materialmen who have performed work or furnished materials in connection with the Project, together with lien waivers from the Contractor and from all subcontractors and materialmen who have provided notices of furnishing or who have performed work or furnished materials in connection with the Project, current through the end of the period covered by Company's most recent request, and such other evidence or affidavits required by Bank at the time of each request to ensure that all bills then due and payable for labor and materials used in constructing the Facility and all bills due and payable to the Contractor, subcontractors, materialmen and their respective subcontractors, laborers, and material suppliers have been paid in full, except those bills to be paid with the proceeds of such disbursement, and except for retainages. Bank shall be provided with an update to the Title Policy as of the date of the draw request, showing no additional liens or encumbrances upon the Premises.

Section 5.7. Material Damage. Notwithstanding any provision of this Reimbursement Agreement to the contrary, if the Premises shall have suffered any material damage or destruction prior to any disbursement from the Project Fund, such damaged or destroyed portion shall be restored or replaced in a manner acceptable to Bank without cost to Bank prior to the approval by Bank of any further disbursement from the Project Fund.

Section 5.8. Other Disbursement Approval Conditions. Bank shall not be obligated to approve any disbursement from the Project Fund if, at the time of a proposed disbursement, (i) an Event of Default or an event which, with the passage of time or service of notice, or both, would be an Event of Default under any of the Credit Documents has occurred, or (ii) any representation or warranty made by Company in any of the Credit Documents proves to be untrue in any material respect, or (iii) Bank determines, at any time, that the Project will not be approved by the appropriate governmental regulatory authorities.

Section 5.9. Permits. Company shall have delivered to Bank building, zoning, and other required permits covering construction of the Facility together with evidence satisfactory to Bank that all approvals required with respect to the Premises from third parties or any governmental or quasi-governmental authorities have been obtained or, in the case of approvals relating to the operation of the Facility which cannot be obtained until completion of construction, evidence satisfactory to Bank that such approvals are obtainable.

Section 5.10. Utilities. [Intentionally Omitted]

Section 5.11. Conditions for Final Disbursement. Company will, on or prior to the date of the final disbursement from the Project Fund, deliver or cause to be delivered to Bank the following:

(a) An affidavit of Company stating that each person providing any material or performing any work in connection with the Premises has been (or will be, with the proceeds of and immediately following receipt by Company of such final disbursement) paid in full or bonded or insured to the reasonable satisfaction of Bank;

(b) Notification from the Construction Inspector to the effect that the improvements to the Premises have been completed in a good and workmanlike manner in accordance with the applicable Plans and Specifications;

(c) An as-built survey certified to the Bank and the Title Company showing the location of the completed improvements to the Premises; and

(d) A certificate of occupancy with respect to the completed improvements to the Premises.

Section 5.12. Sufficiency of Project Fund to Complete Construction. Notwithstanding anything contained in this Reimbursement Agreement to the contrary, it is expressly understood and agreed that the Project Fund and equity to be received from Company during construction (collectively, the "Construction Proceeds") shall at all times be "in balance." The Construction Proceeds shall be deemed to be "in balance" only at such time and from time to time, as Bank may determine in Bank's sole discretion based on the certification of Bank's Inspector that the then undisbursed portion of the Construction Proceeds equals or exceeds the amount necessary for the timely and full payment of (i) all work done and not theretofore paid for or to be done in connection with the completion of the construction of the Facility in accordance with the Plans and Specifications, including the installation of all fixtures and equipment required for operation of the Facility and the Premises, and (ii) all other costs and expenses incurred and not theretofore paid for, or to be incurred in connection with the Project and the Premises (to the extent revenues will not, in Bank's sole judgment, be sufficient for the timely and full payment of such costs and expenses). Company agrees that if the Construction Proceeds are deemed not to be "in balance," Company shall, within thirty (30) days after written request by Bank, deposit the deficiency with Bank (the "Deficiency Deposit"), which Deficiency Deposit shall first be exhausted before any further disbursement from the Construction Proceeds is made. Bank shall not be obligated to make any disbursement if the Construction Proceeds are not in balance.

Section 5.13. Contractors May Be Paid Directly. Bank reserves the right to direct that the Trustee pay individual contractors directly upon the occurrence of any Event of Default under the Credit Documents.

COMPLETION GUARANTY

Section 5.14. Completion Guaranty. The Company irrevocably and unconditionally guarantees to the Bank:

(A) that the construction and installation of the Project Facility will be completed substantially in accordance with the Plans and Specifications as modified in accordance with the Building Loan Agreement on or before January 1, 2008;

(B) the payment and discharge of all Liens connected with or arising from the completion of the work referred to in (A) above.

Further, the Company irrevocably and unconditionally agrees to indemnify the Bank against, and to save the Bank harmless from, all costs, expenses (including counsel fees, disbursements and the costs to complete the construction and installation of the Project Facility), and damages which the Bank may incur or suffer by reason of the failure of the Company to complete the construction and installation of the Project Facility on or before January 1, 2008 in accordance with the Plans and Specifications as modified pursuant to the Building Loan Agreement and Change Orders (as defined in the Building Loan Agreement) and/or to perform the obligations set forth in (B) above when the same become due and payable. The Company further covenants and agrees, if requested by the Bank, to complete or to cause to be completed the construction and installation of the Project Facility in the manner and at the times set forth above.

SECTION SIX

COVENANTS

Company covenants and agrees that, except as otherwise waived by Bank in writing, from the date of this Reimbursement Agreement and until the obligations of Company to Bank hereunder are satisfied in full, it will comply with the following provisions:

Section 6.1. Accounting; Financial Statements and Other Information. Company will maintain a standard system of accounting, established and administered in accordance with GAAP consistently followed throughout the periods involved, and will set aside on its books for each fiscal year the proper amounts for depreciation, obsolescence, amortization, bad debts, current and deferred taxes, and other purposes as shall be required by GAAP. Company will deliver to Bank all in form and substance satisfactory to the Bank:

(a) As soon as practicable after the end of each fiscal quarter in each fiscal year, except the last, commencing with the fiscal quarter ended February 29, 2008 and in any event within forty five (45) days thereafter, financial statements of Company for such quarter, certified as complete and correct by the principal financial officer of Company, subject to changes resulting from year-end adjustments;

(b) Not later than January 15th and July 15th of each calendar year, a certificate on behalf of the Company by the chief financial officer (a) to the effect that, to the best knowledge of the Company, no Default or Event of Default exists or, if any Default or Event of Default does exist, specifying the nature and extent thereof and the actions the Company proposes to take with respect thereto, (b) setting forth the calculation of the Funded Debt Ratio as of 11:59 p.m. ET on the last day of each of the immediately preceding four Fiscal Quarters and (c) setting forth the calculations required to establish compliance with the provisions of Section 6.25 hereof;

(c) As soon as practicable after the end of each fiscal year, commencing with the fiscal year ending on or about May 31, 2007 and in any event within one hundred twenty (120) days thereafter, (i) annual revenue and expense budget for the current fiscal year including the assumptions underlying the forecasts forming the basis thereof, and accounts receivable aging report, each prepared by Company, together with copies of filed federal income tax returns including all schedules and (ii) annual statement of condition of Company as of the end of such year, and statements of cash flows and changes in financial position and/or changes in fund balances as applicable of Company for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and certified as complete and correct by the principal financial officer of Company, accompanied by a report and an unqualified opinion of independent certified public accountants of recognized standing, selected by Company and satisfactory to Bank, which report and opinion shall be audited and prepared in accordance with generally accepted accounting principles;

(d) Promptly upon receipt thereof, copies of all other written reports submitted to Company by independent accountants in connection with any annual or interim audit of the corporate books of Company; and

(e) With reasonable promptness, such other data and information as from time to time may be reasonably requested by Bank, including Company's annual tax return.

Section 6.2. Insurance and Maintenance of Properties and Business. Company will maintain, with financially sound and reputable insurers, insurance to protect its properties and business against losses or damages of the kind customarily insured against by corporations of established favorable reputation engaged in the same or a similar business and similarly situated, including, but not limited to, (a) adequate fire and extended coverage insurance in amounts and issued by insurers acceptable to Bank, (b) necessary workers' compensation insurance, (c) adequate public liability insurance, and (d) such other insurance as may be required by law or as may be reasonably required in writing by Bank. Company will, upon request, furnish to Bank a schedule of all insurance carried by it, setting forth in detail the amount and type of such insurance. Company will maintain, in good repair, working order and condition, all properties used or useful in the business of Company.

Section 6.3. Payment of Indebtedness and Taxes. Company will pay (a) all of its Indebtedness (not required to be subordinated hereunder) and other obligations in accordance with normal terms or any applicable grace periods and (b) all taxes, assessments, and other governmental charges levied upon any of its respective properties or assets or in respect of its respective franchises, business, income, or profits before the same become delinquent, except that no such Indebtedness, obligations, taxes, assessments, or other charges need be paid if contested by Company in good faith and by appropriate proceedings promptly initiated and diligently conducted and if appropriate provision, if any, as shall be required by GAAP, shall have been made therefor.

Section 6.4. Litigation; Adverse Changes. Company will promptly notify Bank in writing of (a) any event which, if existing at the date hereof, would require qualification of the representations and warranties set forth in Sections 3.10 and 3.13 and (b) any material adverse change in the condition, business, or prospects, financial or otherwise, of Company.

Section 6.5. Inspection. Company will make available for inspection during regular business hours by duly authorized representatives of Bank, its books, records, and properties when reasonably requested to do so, and will furnish Bank such information regarding its respective business affairs and financial condition within a reasonable time after written request therefor.

Section 6.6. Environmental Matters. Company:

(a) Shall comply with all Environmental Laws; and

(b) Shall deliver promptly to Bank (i) copies of any documents received from the United States Environmental Protection Agency or any state, county or municipal environmental or health agency, and (ii) copies of any documents submitted by Company or any of its Subsidiaries to the United States Environmental Protection Agency or any state, county or municipal environmental or health agency concerning its operations.

Section 6.7. Sale, Purchase of Assets. Company will not, directly or indirectly, (a) purchase, lease, or otherwise acquire any assets except in the ordinary course of business or as otherwise permitted in this Reimbursement Agreement or (b) sell, lease, transfer, or otherwise dispose of any plant or any manufacturing facility or other tangible assets, except for (i) tangible assets sold for full and adequate consideration which an executive officer of Company has determined to be worn out, obsolete, or no longer needed or useful in its business, (ii) tangible assets sold in the ordinary course of business provided that Company receives full and adequate consideration in exchange for such assets sold. Notwithstanding anything to the contrary stated above, in any instance when Company determines in good faith that any asset shall have become inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary or should otherwise be replaced, Company may remove such items, provided that Company, in connection therewith:

(a) may remove, without substitution or payment, and without Bank's prior written consent, assets not in excess of $10,000.00 annually in the aggregate; or

(b) may substitute and install other assets having equal or greater value (but not necessarily the same function) in the operation of Company's business.

Section 6.8. Mortgage, Security Interests, and Liens. Company will not, directly or indirectly, create, incur, assume, or permit to exist any mortgage, security interest, lien, charge, encumbrance on, pledge or deposit of, or conditional sale or other title retention agreement with respect to, any of the Facility or the Pledged Collateral (herein called "Liens") other than:

(a) Liens for taxes, assessments, or governmental charges or levies the payment of which is not at the time required by law;

(b) Liens imposed by law, such as Liens of landlords, carriers, warehousemen, mechanics, and materialmen arising in the ordinary course of business for sums not yet due or being contested by appropriate proceedings promptly initiated and diligently conducted, provided other appropriate provision, if any, as shall be required by GAAP shall have been made therefor;

(c) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance, and other types of social security, or to secure the performance of tenders, statutory obligations, and surety and appeal Notes, or to secure the performance and return of money Notes and other similar obligations, excluding obligations for the payment of borrowed money;

(d) Any judgment Lien, unless the judgment it secures shall, within thirty (30) days after the entry thereof, have been discharged or execution therefor stayed pending appeal, or shall have been discharged within thirty (30) days after the expiration of any such stay;

(e) Other Liens (other than mechanic's liens relating to the Project) incidental to the conduct of Company's business or ownership of properties and assets, which are not incurred nor granted in connection with the borrowing of money or the obtaining of advances or credits, and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the ordinary course of business; provided the aggregate amount of all such Liens by Company shall not exceed $10,000.00;

(f) Liens evidenced by the Security Agreement or the Note Pledge, as well as any other Liens in favor of Bank or any affiliate of Bank.

Section 6.9. Borrowed Money. Company will not, directly or indirectly, create, incur, or assume Indebtedness, or otherwise become, be, or remain liable with respect to, any Indebtedness in excess of $100,000.00 in the aggregate during any fiscal year, provided that the foregoing restrictions shall not apply to:

(a) The Indebtedness evidenced hereunder and any other Indebtedness now or hereafter payable by Company to Bank or any affiliate of Bank;

(b) Existing Indebtedness which is reflected on Company's financial statements referred to in Section 3.9 hereof; or

(c) Indebtedness of Company evidenced by the Notes.

Section 6.10. Assumptions; Guaranties. Company will not assume, guarantee, endorse, or otherwise become directly or contingently liable for (including, without limitation, liable by way of agreement, contingent or otherwise, to purchase, to provide funds for payment,

to supply funds to, or otherwise invest in any debtor or otherwise to assure the creditor against loss) any financial obligation or Indebtedness of any other Person, except guaranties by endorsement of negotiable instruments for deposit, collection, or similar transactions in the ordinary course of business.

Section 6.11. Mergers; Consolidation. Company will not merge or consolidate with any Person, dissolve, wind up its affairs, or sell, assign, lease, or otherwise dispose of (whether in one transaction or in a series of transactions), all or substantially all of its assets (whether now owned or hereafter acquired) to any Person.

Section 6.12. INTENTIONALLY OMITTED.

Section 6.13. Evidence of Payment of Costs. Company will furnish to Bank copies of all affidavits, lien waivers, releases or other evidence reasonably requested by Bank from time to time to establish that all bills for labor and materials performed or furnished in connection with the Project and all bills of the Contractor have been paid in full. Company will comply with Section 13 of the New York Lien Law, as amended, regarding improvements on the Premises and Company shall indemnify and hold Bank harmless from any and all claims for unpaid amounts due for work or labor performed, or materials furnished, to the Premises. Bank shall not be required to make any disbursements after the filing or service upon Bank of any notice of mechanic's, materialman's or laborer's lien until such lien is bonded or released.

Section 6.14. Changes to Plans and Specifications, Construction Contract. Company will not make or permit to be made (a) any material change in the Plans and Specifications; (b) any changes in any line item of the Project budget, (c) any material change in the terms and conditions of the Construction Contract or (d) any change in the identity of the Contractor.

Section 6.15. Construction and installation of Project Facility.

(a) Company will cause construction and installation of the Project Facility to be carried on continuously in phases and to be one hundred percent (100%) completed, lien free and ready for occupancy not later than the Completion Date, time being of the essence of this Reimbursement Agreement. The Project Facility will be constructed and installed substantially in accordance with the Plans and Specifications, and strictly in accordance with all applicable legal requirements. The Facility will be constructed entirely on the Premises and will not encroach upon or overhang any easement, building line or right of way and, when erected, will not violate applicable use or other restrictions of record. If, in Bank's judgment, the Project is not in conformity with the foregoing requirements, Bank shall notify Company in writing of any deficiencies and if such deficiencies are not corrected within thirty (30) days after the giving of such notice, Bank shall have the right to stop the work and order repair or reconstruction in accordance therewith and to withhold its consent to all further disbursements until the work is in satisfactory compliance with the Plans and Specifications and all legal requirements as required herein. Upon notice from Bank to Company, or Company's discovery irrespective of such notice, that the work is not in

substantial conformity with the Plans and Specifications and/or in strict compliance with all legal requirements, Company shall commence correcting the deviation, as promptly as is practicable, and in any event within ten (10) days after the notice or discovery and shall prosecute such work diligently to completion, which, in no event, shall be later than twenty-five (25) days after such notice of discovery. No other notice shall be required to render such deviation an Event of Default (as hereinafter defined) hereunder;

(b) Company shall not authorize any material changes in the Plans and Specifications without the prior written consent of Bank except for change orders which have the effect of increasing the cost of the Project either by itself or when aggregated with any prior change orders to which the Bank's consent was not required to be obtained pursuant to the provisions hereof by an amount not in excess of the Change Order Amount; and

(c) All materials incorporated in such construction will be purchased so that absolute ownership and title vest in Company upon delivery of such materials to the Facility.

Section 6.16. Additional Funds. Company will, at any time or times upon request of Bank, deposit with Bank such additional funds as are determined by Bank or Bank's Inspector to be necessary (in excess of the proceeds of the Notes) to pay for completion of the Project and all costs and expenses related thereto.

Section 6.17. Evidence of Payment of Costs. Company will furnish to Bank copies of all affidavits, lien waivers, releases or other evidence requested by Bank from time to time to establish that all bills for labor and materials performed or furnished in connection with the Project and all bills of the Contractor and its subcontractors and material suppliers, have been paid in full, except for retainages. Company shall indemnify and hold Bank harmless from any and all claims for unpaid amounts due for work or labor performed, or materials furnished, to the Premises. Bank shall not be required to make any disbursements after the filing or service upon Bank of any notice of mechanic's, materialman's or laborer's lien until such lien is bonded or released.

Section 6.18. Entry; Correction of Defective Work. Company will allow Bank, and Bank's officers, agents or employees, at all reasonable times, (a) the right of entry and free access to the Premises to inspect all work done, labor performed and materials furnished in furtherance of the Project and (b) to require to be replaced or otherwise corrected any materials or work which fails to comply with the Plans and Specifications.

Section 6.19. INTENTIONALLY OMITTED.

Section 6.20. Title. Company will keep the title to the Premises free and clear of all liens, encumbrances, easements, restrictions and claims, except for (a) the Permitted Encumbrances, (b) any lien, restriction or encumbrance created in connection with this Reimbursement Agreement or otherwise approved by Bank, and (c) real estate taxes and installments of special assessments, if any, which are a lien but not yet due and payable.

Section 6.21. Subsequent Appraisals. Company will immediately upon demand reimburse Bank for the cost and expense of any appraisal of the Project obtained by Bank on or after the date hereof if such appraisal is obtained by Bank pursuant to the requirements of any law, statute, rule, regulation, interpretive ruling, opinion, or directive of any state or federal governmental agency or unit governing, regulating, or controlling the activities of Bank, whether now existing or hereafter enacted.

Section 6.22. Purchase of Materials, Equipment, etc. No materials, equipment, personal property, or fixtures of any kind will be purchased or acquired by Company for installation or use in or about the Facility under any conditional sales contract or security agreement or any lease agreement, and all such materials, equipment, personal property, and fixtures will be fully paid for before payment therefor becomes past due or in any event within fifty (50) days after delivery thereof; provided, however, that the foregoing shall not apply to amounts withheld and unpaid on account of bona fide disputes with the suppliers.

Section 6.23. Amendment of Contracts. Company will not without the prior written consent of Bank modify or amend a material term contained in any contract of Company relating to the development or financing of the Project, including any such contracts described herein.

Section 6.24. Payment Schedule of Notes. Company shall cause the original principal amount of the Notes to be repaid not later than the scheduled payments described in Exhibit B attached hereto and made a part hereof.

Section 6.25. Financial Covenants.

(a) The Company shall maintain a minimum Fixed Charge Coverage Ratio of 1.25 to 1.00 calculated as of the close of each Fiscal Quarter based upon the most recently concluded four fiscal quarters of the Company.

(b) The Company's Senior Funded Debt to EBITDA Ratio shall not exceed 1.75 to 1.00 calculated as of each May 31st and November 30th based upon the most recently concluded four fiscal quarters of the Company.

Section 6.26. Distributions. The Company shall not make any distributions or payments of dividends.

Section 6.27. Deposit and Cash Management Accounts. Company shall maintain with the Bank all of its deposit accounts and cash management accounts.

Section 6.28. Payments to Affiliates/other Persons.

The Company shall not make any payments of any kind to any other Person, including any Affiliate of the Company, except for payments in the ordinary course of business.

SECTION SEVEN

EVENTS OF DEFAULT

Section 7.1. Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default under this Reimbursement Agreement:

(a) If Company fails to make or cause to be made any payment to Bank required to be made pursuant to the terms of the Credit Documents, including, but not limited to the Swap Documentation;

(b) If any representation or warranty made by Company or any officer thereof herein, in the Credit Documents or in any other written statement, certificate, report, or financial statement at any time furnished by or for Company in connection with any of the Credit Documents, proves to be incorrect in any material respect when made; or

(c) If Company shall fail to perform or observe any other provision, covenant, or agreement contained in this Reimbursement Agreement or in any other of the Credit Documents applicable to Company, and such failure remains unremedied for thirty (30) calendar days after Bank shall have given written notice thereof to Company; or

(d) If Company (i) fails to pay any Indebtedness for borrowed money (other than as arising under this Reimbursement Agreement) owing by Company when due, whether at maturity, by acceleration, or otherwise including, but not limited to, any Indebtedness due and owing to the Bank or any Affiliate thereof; or (ii) fails to perform any term, covenant, or agreement on its part to be performed under any agreement or instrument (other than this Reimbursement Agreement) evidencing, securing or relating to such Indebtedness when required to be performed, or is otherwise in default thereunder, if the effect of such failure is to accelerate, or to permit the holder(s) of such Indebtedness or the trustee(s) under any such agreement or instrument to accelerate, the maturity of such Indebtedness, unless waived by such holder(s) or trustee(s); or

(e) If Company discontinues business except as otherwise permitted under this Reimbursement Agreement; or

(f) If Company at any time hereafter sponsors or establishes any Plan and Company (i) fails to notify Bank in writing of such occurrence within the ten (10) days after such Plan is authorized by Company or (ii) fails to agree within a reasonable time to such amendments to this Reimbursement Agreement regarding provisions with respect to ERISA that Bank customarily uses at that time in loan agreements with other borrowers; or

(g) An Indenture Default shall have occurred under the Indenture; or

If Company (i) is adjudicated a debtor or insolvent, or ceases, is unable, or admits in writing its inability, to pay its debts as they mature, or makes an assignment for the benefit of creditors; (ii) applies for, or consents to, the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property, or any such receiver, trustee, or similar officer is appointed without the application or consent of Company; (iii) institutes, or consents to the institution of, by petition, application, or otherwise, any bankruptcy reorganization, arrangement, readjustment of debt, dissolution, liquidation, or similar proceeding relating to it under the laws of any jurisdiction; (iv) has any such proceeding described in clause (iii) instituted against it and such proceeding remains thereafter undismissed for a period of ninety (90) days; or (v) has any judgment, writ, warrant of attachment or execution or similar process issued or levied against a substantial part of its property and such judgment, writ, or similar process is not released, vacated, or fully bonded within ninety (90) days after its issue or levy.

(j) Except as otherwise permitted in this Reimbursement Agreement, if at any time, (i) the sum of the undisbursed portion of the Project Fund is less than the amount necessary for the timely and full payment of (a) all work done and not theretofore paid for or to be done in connection with the completion of the Project in accordance with the Plans and Specifications, including installation of all fixtures, furniture and equipment contemplated by the Plans and Specifications, and (b) all other costs incurred and not theretofore paid for, or to be incurred in connection with the Project, and (ii) Company fails within fifteen (15) Business Days after written request by Bank, to deposit the deficiency with Bank.

Section 7.2. No Waiver; Remedies. If an Event of Default occurs, Bank may exercise any and all remedies, legal or equitable, to collect the amounts due from Company, pursuant to this Reimbursement Agreement, and in its sole discretion, may notify the Trustee that an Event of Default has occurred and may instruct the Trustee to accelerate the principal amount of the Notes. Upon receipt by the Trustee of such instructions from Bank, the Notes shall be paid pursuant to the Indenture. No failure on the part of Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy. The remedies herein provided are cumulative and not exclusive of any remedies provided by law or equity.

SECTION EIGHT

TRANSFER, REDUCTION OR TERMINATION OF LETTER OF CREDIT

Section 8.1. Transfer of Letter of Credit; Reduction or Termination of Letter of Credit and Related Matters.

(a) The Letter of Credit may be transferred in accordance with the provisions set forth therein;

(b) If Company shall be entitled to a credit against the principal amount of the Notes prior to maturity (the "Credit") pursuant to an optional redemption of a portion of the Notes or to the purchase of Notes in the open market and cancellation of such Notes in accordance with the provisions of the Indenture, and such amounts have been paid by or on behalf of Company other than by Bank, Company shall have the right at any time thereafter to reduce permanently, without penalty or premium, the Letter of Credit Commitment in the manner set forth below. The Letter of Credit Commitment will be reduced by an amount equal to the sum of the following corresponding reductions in the Principal Commitment and the Interest Commitment: (a) the respective Principal Commitment will be reduced pro rata by an amount equal to the amount of such Credit; and (b) the respective Interest Commitment will be reduced pro rata by an amount equal to ninety eight (98) days' interest on the amount of such Credit at the Maximum Rate (using a 365-day divisor). The aforementioned reduction will occur not less than three (3) Business Days' after written notice to Bank, accompanied by the original Letter of Credit and the written certificate of the Trustee and Company stating that Company is entitled to such Credit and designating the amount of such Credit and the date upon which such credit shall become effective (which shall be a Business Day);

(c) If the Letter of Credit Commitment shall be reduced pursuant to paragraph (b) hereof, and Bank shall have received from the Trustee the outstanding Letter of Credit then, in substitution for the then outstanding Letter of Credit, a substitute irrevocable letter of credit, shall be issued dated such date, for an amount equal to the amount to which the Letter of Credit Commitment shall have been so reduced (also less the amount of any drawings upon the Letter of Credit which have not been reinstated under paragraph (d) hereof) but otherwise having terms identical to the then outstanding Letter of Credit;

(d) The obligation of Bank to honor Interest Drawings, under the Letter of Credit, up to the aggregate amount of the Interest Commitment (as same may have been reduced pursuant to subsection (b) of this Section 8.1 or in connection with a Principal Drawing)will be automatically reinstated pro rata to the Interest Coverage Requirement on the date of payment of each Interest Drawing; and

(e) Bank shall reinstate pro rata amounts drawn under the Letter of Credit pursuant to a Remarketing Drawing as set forth in the Letter of Credit.

The Letter of Credit shall terminate automatically on the earliest of (i) the payment by Bank to the Trustee of the final drawing available to be made under the Letter of Credit; (ii) receipt by Bank of the Letter of Credit and a certificate signed by an officer of the Trustee and an authorized representative of Company stating that no Notes remain outstanding; (iii) receipt by Bank of the Letter of Credit and a certificate signed by an officer of the Trustee and an authorized representative of Company stating that "A Substitute Letter of Credit or a Substitute Credit Facility in substitution for the Letter of Credit has been accepted by the Trustee and is in effect"; or (iv) the stated Expiration Date. Notwithstanding the foregoing, the Expiration Date may be extended at Bank's option pursuant to Section 2.5 hereof.

SECTION NINE

MISCELLANEOUS

Section 9.1. Liability of Bank. Between Company and Bank, Company assumes all risks of the acts or omissions of the Trustee and any transferee of the Letter of Credit with respect to its use of the Letter of Credit or its proceeds. Neither Bank nor any of its officers or directors shall be liable or responsible for: (a) the use which may be made of the Letter of Credit or its proceeds or for any acts or omissions of the Trustee and any transferee in connection therewith; (b) the validity, sufficiency or genuineness of documents, inaccuracy of any of the statements or representations contained therein or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) good faith payment by Bank against presentation of documents which do not strictly comply with the terms of the Letter of Credit, including any failure of any documents to bear any reference or adequate reference to the Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit. In furtherance and not in limitation of the foregoing, Bank may accept documents that appear on their face to be in order, and may assume the genuineness and rightfulness of any signature thereon, without responsibility for further investigation, regardless of any notice or information to the contrary unless actually received by Bank; provided, that if Bank shall receive written notification from both the Trustee and Company that documents conforming to the terms of the Letter of Credit to be presented to Bank are not to be honored, Bank agrees that it will not honor such documents and Company shall indemnify and hold Bank harmless from such failure to honor.

Section 9.2. Right to Set-Off. Upon the occurrence of any Event of Default hereunder Bank is hereby irrevocably authorized at any time and from time to time without notice to Company, any such notice being expressly waived by Company, to set-off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect or contingent or matured or unmatured, at any time held or owing by Bank to or for the credit or the account of Company, or any part thereof in such amounts as Bank may elect, against and on account of the obligations and liabilities of Company to Bank hereunder and claims of every nature and description of Bank against Company, whether arising hereunder or otherwise, as Bank may elect, whether or not Bank has made any demand for payment and although such obligations, liabilities and claims may be contingent or unmatured. Bank agrees to notify in writing Company promptly of any such set-off and the application made by Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of Bank under this subsection are in addition to other rights and remedies (including, without limitation, other rights of set-off) which Bank may have.

Section 9.3. Additional Collateral. As additional security for this Reimbursement Agreement, Company agrees that in the event that Trustee shall, after the occurrence of a continuing Event of Default hereunder and acceleration of the indebtedness evidenced hereby, draw upon the Letter of Credit to pay all Notes, Bank shall be and become the assignee of all rights and interests of the Agency and the Trustee, all as provided more fully in the Indenture. Company does hereby consent to such Assignment, and does agree to execute any and all such documents, instruments and certificates in connection therewith as Bank shall deem appropriate.

Section 9.4. Optional Redemption. If Company elects to exercise its option to direct redemption of the Notes by a prepayment, Company shall give Bank three (3) days' prior written notice of such intent. Prior to notifying the Trustee of its election to redeem the Notes, Company shall deliver moneys (in good and collected funds) in an amount equal to the amount necessary to effect the redemption to Bank and Bank shall then inform the Trustee that those moneys are on deposit and that the Trustee may draw on the Letter of Credit to effect that redemption of the Notes.

Section 9.5. Pledge of Notes. Notes which are not remarketed shall be held by the Trustee, as agent for Bank, as security for the obligations of Company under the Note Pledge. Company hereby grants a lien on such Notes while they are so held by the Trustee.

Section 9.6. Notices. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been made when delivered, or mailed first-class postage prepaid, or receipt by fax, independently confirmed by other than the Sender's machine:

(a) if to Bank, at:

KeyBank National Association
Standby Letter of Credit Processing and Service Center
4910 Tiedeman Road–OH01510435
Cleveland, Ohio 44114-2338
Fax Number: (216) 813-3719

and a copy to:

KeyBank National Association
66 South Pearl Street
Albany, New York 12207
Fax Number: (518) 257-8587
Attention: Corporate Banking Division

and to:

Lemery Greisler LLC
60 Railroad Place
Saratoga Springs, New York 12866
Fax Number: (518) 581-8823
Attention: James A. Carminucci, Esq.

or at such other address as may have been furnished for such purpose to Company by Bank in writing; or

(b) if to Company, at:

Angiodynamics, Inc.
603 Queensbury Avenue
Queensbury, New York 12804
Fax Number: 518-798-3625
Attention: Eamonn P. Hobbs and Joseph Gerardi

and a copy to:

Bond, Schoeneck & King, PLLC
111 Washington Avenue
Albany, New York 12210
Attention: Sarah Lewis Belcher, Esq.

or at such other address as may have been furnished for such purpose to Bank by Company in writing.

Section 9.7. Survival of Representations and Warranties. All agreements, representations and warranties contained in the Credit Documents shall survive the execution and delivery of this Reimbursement Agreement, any investigation at any time made by or on behalf of Bank and the issuance and acceptance of the Letter of Credit. All statements contained in any certificates or other instruments delivered by or on behalf of Company pursuant hereto shall constitute representations and warranties by Company under this Reimbursement Agreement.

Section 9.8. Payments on Holidays. Whenever any payment to be made pursuant to this Reimbursement Agreement shall be stated to be due on a public holiday in the State of New York, Saturday or Sunday, such payment may be made on the next succeeding Business Day and such extension of time shall in such case be included in computing interest, if any, in connection with such payment.

Section 9.9. Computation of Interest. Unless specified to the contrary herein, all computations of interest hereunder shall be made on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

Section 9.10. Entire Agreement. The Credit Documents and the Letter of Credit embody the entire agreement and understanding between Bank and Company and supersede all prior agreements and understandings relating to the subject matter hereof, provided, however, that in the event of any inconsistency between the Credit Documents and the Commitment Letter, the Credit Documents shall control.

Section 9.11. Parties in Interest. All the terms and provisions of this Reimbursement Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

Section 9.12. Participations. Bank reserves the right to sell participations in its obligations evidenced by the Letter of Credit, provided, however, that Company shall continue to deal solely with Bank in such event, it being understood and agreed that Company shall have no responsibility to such participants.

Section 9.13. Expenses. Company agrees, regardless of whether or not the Notes are eventually issued and sold and regardless of whether or not the transactions contemplated hereby shall be consummated, to pay all reasonable expenses incurred by Bank incident to such transactions in the preparation of documentation relating thereto, including all fees and disbursement of the counsel (whether special outside counsel or attorneys in its Law Department) to Bank, for services to Bank. Company further agrees to pay all like expenses incurred by Bank in connection with any amendments of or waivers or consents requested by Company under or with respect to the Credit Documents or the enforcement from time to time by Bank of its rights under and pursuant to the Credit Documents.

Section 9.14. Counterparts. This Reimbursement Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Reimbursement Agreement by signing any such counterpart.

Section 9.15. Governing Law. This Reimbursement Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of New York.

Section 9.16. Waiver of Jury Trial.

(a) Company, to the extent permitted by law, waives any right to have a jury participate in resolving any dispute, whether sounding in contract, tort, or otherwise, between Bank and Company arising out of, in connection with, related to, or incidental to the relationship established between Company and Bank in connection with this Reimbursement Agreement or any other agreement, instrument or document executed or delivered in connection therewith or the transactions related thereto. This waiver shall not in any way affect, waive, limit, amend or modify Bank's ability to pursue remedies pursuant to any confession of judgment or cognovit provision contained in this Reimbursement Agreement, or any other agreement, instrument or document related thereto;

(b) Company waives demand, presentment for payment, notice of dishonor, protest and notice of protest, and diligence in the collection and bringing suit and agrees to the application of any bank balance as payment or part payment of this Reimbursement Agreement, or as an offset thereto, and that Bank may extend the time for payment, accept partial payment, take security therefor, or exchange or release any collateral, without discharging or releasing Company; and

(c) Each of the parties hereto hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the bringing of any suit, action or proceeding arising out of or relating to this Reimbursement Agreement or any other document related hereto in any New York state or federal court sitting in New York. each of the parties hereto hereby waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court. Company confirms that the foregoing waivers are informed and freely made.

IN WITNESS WHEREOF, the undersigned have caused this Reimbursement Agreement to be executed as of the date first above written.

ANGIODYNAMICS, INC.

By: /s/ ROBERT D. MITCHELL
Name: **Robert D. Mitchell**
Title: **Chief Operating Officer**

KEYBANK NATIONAL ASSOCIATION

By: /s/ GINA A. LEWIS
Gina A. Lumia, Vice President

STATE OF NEW YORK)
)ss:
COUNTY OF ALBANY)

On the 5th day of December in the year 2006 before me, the undersigned, a notary public in and for said state, personally appeared **ROBERT D. MITCHELL,** personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s) or the person upon behalf of which the individual(s) acted, executed the instrument.

Sarah H. Lewis Belcher
Notary Public

STATE OF NEW YORK)
)ss:
COUNTY OF ALBANY)

On the 5th day of December in the year 2006 before me, the undersigned, a notary public in and for said state, personally appeared **GINA A. LUMIA,** personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s) or the person upon behalf of which the individual(s) acted, executed the instrument.

Sarah H. Lewis Belcher
Notary Public

Exhibit 21

Subsidiaries of AngioDynamics, Inc.

Subsidiary	State of Incorporation or Organization
Leocor, Inc.	Delaware
RITA Medical Systems, LLC	Delaware
AngioDynamics UK Limited	United Kingdom
Oncobionic, Inc.	California

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-120057, No. 333-138456 and No. 333-140627) of AngioDynamics, Inc. of our report dated August 14, 2008 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Albany, New York
August 14, 2008

Exhibit 31.1

CERTIFICATION

I, Eamonn P. Hobbs, certify that:

1. I have reviewed this annual report on Form 10-K of AngioDynamics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ EAMONN P. HOBBS

Eamonn P. Hobbs,
President, Chief Executive Officer and Director

Exhibit 31.2

CERTIFICATION

I, D. Joseph Gersuk, certify that:

1. I have reviewed this annual report on Form 10-K of AngioDynamics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ D. JOSEPH GERSUK

D. Joseph Gersuk,
Executive Vice President – Chief Financial Officer and Treasurer

Exhibit 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

I, Eamonn P. Hobbs, President, Chief Executive Officer and Director of ANGIODYNAMICS, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

1. the annual report on Form 10-K of the Company for the fiscal year ended May 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2008

/s/ EAMONN P. HOBBS

Eamonn P. Hobbs,
President, Chief Executive Officer, Director

Exhibit 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

I, D. Joseph Gersuk, Executive Vice President, Chief Financial Officer of ANGIODYNAMICS, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

1. the annual report on Form 10-K of the Company for the fiscal year ended May 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

3. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2008

/s/ D. JOSEPH GERSUK

D. Joseph Gersuk,
Executive Vice President – Chief Financial Officer and Treasurer