

ANGIODYNAMICS INC
Form 10-Q
April 05, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2018

OR

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

For the transition period from _____ to _____

Commission file number 0-50761

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

Delaware	11-3146460
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14 Plaza Drive Latham, New York	12110
(Address of principal executive offices)	(Zip Code)

(518) 795-1400

Registrant's telephone number, including area code

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

Title of each class	Name of each exchange on which registered
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Common stock, par value \$.01	NASDAQ Global Select Market
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Preferred Stock Purchase Rights	NASDAQ Global Select Market
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Securities registered pursuant to Section 12(g) of the Act:

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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 whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Class	Outstanding as of April 3, 2018
Common Stock, par value \$.01	36,804,506

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months		Nine Months Ended	
	Ended			
	Feb 28,	Feb 28,	Feb 28,	Feb 28,
	2018	2017	2018	2017
Net sales	\$83,851	\$85,602	\$255,968	\$262,729
Cost of sales (exclusive of intangible amortization)	38,403	41,810	126,560	128,895
Gross profit	45,448	43,792	129,408	133,834
Operating expenses:				
Research and development	6,457	5,951	19,005	18,573
Sales and marketing	18,009	19,418	56,378	58,343
General and administrative	7,723	7,051	23,319	23,090
Amortization of intangibles	4,191	4,360	12,433	12,886
Change in fair value of contingent consideration	31	122	218	(15,386)
Acquisition, restructuring and other items, net	4,177	1,750	11,932	12,028
Total operating expenses	40,588	38,652	123,285	109,534
Operating income	4,860	5,140	6,123	24,300
Other (expenses) income:				
Interest expense, net	(740)	(627)	(2,223)	(2,156)
Other income (expense), net	(49)	44	238	(269)
Total other expenses, net	(789)	(583)	(1,985)	(2,425)
Income before income tax expense	4,071	4,557	4,138	21,875
Income tax expense (benefit)	(9,948)	1,670	(10,095)	3,954
Net income	\$14,019	\$2,887	\$14,233	\$17,921
Earnings per share				
Basic	\$0.38	\$0.08	\$0.38	\$0.49
Diluted	\$0.37	\$0.08	\$0.38	\$0.48
Weighted average shares outstanding				
Basic	37,122	36,625	37,031	36,557
Diluted	37,442	37,126	37,358	37,068

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of dollars)

	Three Months Ended		Nine Months Ended	
	Feb 28, 2018	Feb 28, 2017	Feb 28, 2018	Feb 28, 2017
Net income	\$ 14,019	\$ 2,887	\$ 14,233	\$ 17,921
Other comprehensive income (loss), before tax:				
Unrealized gain (loss) on marketable securities	21	(2) 66	—
Foreign currency translation	188	(41) 621	(906)
Other comprehensive income (loss), before tax	209	(43) 687	(906)
Income tax expense related to items of other comprehensive income	—	—	—	—
Other comprehensive income (loss), net of tax	209	(43) 687	(906)
Total comprehensive income, net of tax	\$ 14,228	\$ 2,844	\$ 14,920	\$ 17,015

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands of dollars, except share data)

	Feb 28, 2018	May 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$52,292	\$47,544
Marketable securities	1,281	1,215
Accounts receivable, net of allowances of \$2,438 and \$2,945, respectively	41,827	44,523
Inventories	56,564	54,506
Prepaid income taxes	103	336
Prepaid expenses and other	4,502	5,790
Total current assets	156,569	153,914
Property, plant and equipment, net	43,058	45,234
Other assets	3,038	1,886
Intangible assets, net	134,512	145,675
Goodwill	361,252	361,252
Total assets	\$698,429	\$707,961
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$16,350	\$18,087
Accrued liabilities	30,973	38,804
Current portion of long-term debt	5,000	5,000
Current portion of contingent consideration	2,080	9,625
Total current liabilities	54,403	71,516
Long-term debt, net of current portion	87,798	91,320
Deferred income taxes	15,962	26,112
Contingent consideration, net of current portion	1,149	3,136
Other long-term liabilities	789	850
Total liabilities	160,101	192,934
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, par value \$.01 per share, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value \$.01 per share, 75,000,000 shares authorized; 37,544,506 and 37,210,091 shares issued and 37,174,506 and 36,840,091 shares outstanding at February 28, 2018 and May 31, 2017, respectively	370	367
Additional paid-in capital	541,282	532,705
Retained earnings (accumulated deficit)	3,027	(11,007)
Treasury stock, 370,000 shares at February 28, 2018 and May 31, 2017, respectively	(5,714)	(5,714)
Accumulated other comprehensive loss	(637)	(1,324)
Total Stockholders' Equity	538,328	515,027
Total Liabilities and Stockholders' Equity	\$698,429	\$707,961

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

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

	Nine Months Ended	
	Feb 28, 2018	Feb 28, 2017
Cash flows from operating activities:		
Net income	\$14,233	\$17,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,395	18,455
Stock based compensation	5,821	5,078
Change in fair value of contingent consideration	218	(15,386)
Deferred income taxes	(10,150)	3,624
Change in accounts receivable allowances	(35)	(605)
Fixed and intangible asset impairments and disposals	30	3,822
Write-off of other assets	—	2,685
Other	(635)	(535)
Changes in operating assets and liabilities:		
Accounts receivable	2,897	6,898
Inventories	(1,913)	(2,585)
Prepaid expenses and other	(548)	(1,215)
Accounts payable, accrued and other liabilities	(9,797)	(1,405)
Net cash provided by operating activities	17,516	36,752
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,647)	(2,258)
Acquisition of intangibles	(1,265)	—
Proceeds from sale or maturity of marketable securities	—	450
Net cash used in investing activities	(2,912)	(1,808)
Cash flows from financing activities:		
Proceeds from issuance of and borrowings on long-term debt	—	116,471
Repayment of long-term debt	(3,750)	(139,131)
Deferred financing costs on long-term debt	—	(1,335)
Payment of acquisition related contingent consideration	(9,500)	(9,850)
Repurchase of common stock	—	(7,840)
Proceeds from exercise of stock options and employee stock purchase plan	2,560	10,269
Net cash used in financing activities	(10,690)	(31,416)
Effect of exchange rate changes on cash and cash equivalents	834	(290)
Increase in cash and cash equivalents	4,748	3,238
Cash and cash equivalents at beginning of period	47,544	32,333
Cash and cash equivalents at end of period	\$52,292	\$35,571
Supplemental disclosure of non-cash investing and financing activities:		
Contractual obligations for acquisition of fixed assets	\$95	\$99

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

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AngioDynamics, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(unaudited)

(in thousands of dollars, except share data)

	Common Stock		Additional paid in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at May 31, 2017	37,210,091	\$ 367	\$ 532,705	\$ (11,007)	\$ (1,324)	(370,000)	\$(5,714)	\$515,027
Net income				14,233				14,233
Adjustment from the adoption of ASU 2016-09			199	(199)				—
Exercise of stock options	118,377	1	1,295					1,296
Issuance/Cancellation of restricted stock units	126,095	1						1
Purchases of common stock under ESPP	89,943	1	1,262					1,263
Stock-based compensation			5,821					5,821
Other comprehensive income, net of tax					687			687
Balance at February 28, 2018	37,544,506	\$ 370	\$ 541,282	\$ 3,027	\$ (637)	(370,000)	\$(5,714)	\$538,328

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

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AngioDynamics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of February 28, 2018, the consolidated statement of stockholders' equity for the nine months ended February 28, 2018 and the consolidated statements of income, consolidated statements of comprehensive income for the three and nine months ended February 28, 2018 and 2017, and consolidated statements of cash flows for the nine months ended February 28, 2018 and 2017 have been prepared by us and are unaudited. The consolidated balance sheet as of May 31, 2017 was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to state fairly the financial position, changes in stockholders' equity and comprehensive income, results of operations and cash flows as of and for the period ended February 28, 2018 (and for all periods presented) have been made.

The unaudited interim consolidated financial statements for the three and nine months ended February 28, 2018 and 2017 include the accounts of AngioDynamics, Inc. and its wholly owned subsidiaries, collectively, the "Company". All intercompany balances and transactions have been eliminated.

Reclassifications

A reclassification was made to conform the prior year consolidated financial statements to reclassify bad debt expense from sales and marketing to general and administrative. The amount of the reclassification related to the three and nine months ended February 28, 2017 is \$0.1 million and \$0.1 million, respectively.

2. INVENTORIES

Inventories are stated at lower of cost and net realizable value (using the first-in, first-out method). As of February 28, 2018 and May 31, 2017, inventories consisted of the following:

	Feb 28,	May 31,
	2018	2017

(in thousands)

Raw materials	\$22,135	\$17,563
Work in process	10,783	12,602
Finished goods	23,646	24,341
Inventories	\$56,564	\$54,506

The Company periodically reviews for both obsolescence and loss of value. The Company makes assumptions about the future demand for and market value of the inventory. Based on these assumptions, the Company estimates the amount of obsolete, expiring and slow moving inventory. The total inventory reserve at February 28, 2018 and May 31, 2017 was \$6.8 million and \$7.3 million, respectively. Of the \$6.8 million reserve for fiscal year 2018, \$1.5 million relates to the inventory reserve for Acculis inventory as a result of the recall announced in the fourth quarter of fiscal year 2017 and \$0.7 million relates to a specific reserve related to the termination of an agreement with a Japanese distributor in the second quarter of fiscal year 2018. Of the \$7.3 million in the prior year, \$2.4 million relates to the inventory reserve for Acculis inventory as a result of the recall.

3. GOODWILL AND INTANGIBLE ASSETS

Intangible assets other than goodwill are amortized over their estimated useful lives on either a straight-line basis or proportionately to the benefit being realized. Useful lives range from two to eighteen years. The Company periodically reviews the estimated useful lives of our intangible assets and review such assets or asset groups for impairment whenever events or changes in circumstances indicate that the carrying value of the assets or asset groups may not be recoverable. If an intangible asset or asset group 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.

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Goodwill is not amortized, but rather, is tested for impairment annually or more frequently if impairment indicators arise. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination.

The Company's annual testing for impairment of goodwill was completed as of December 31, 2017. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. The Company determines the fair value of the reporting unit based on the market valuation approach and concluded that it was not more-likely-than-not that the fair value of the Company's reporting unit was less than its carrying value.

Even though the Company determined that there was no goodwill impairment as of December 31, 2017, the future occurrence of a potential indicator of impairment, such as a significant adverse change in legal, regulatory, business or economic conditions or a more-likely-than-not expectation that the reporting unit or a significant portion of the reporting unit will be sold or disposed of, would require an interim assessment for the reporting unit prior to the next required annual assessment as of December 31, 2018. The Company continued to assess for potential impairment through February 28, 2018 and noted no events that would be considered a triggering event. There were no adjustments to goodwill for the nine months ended February 28, 2018.

As of February 28, 2018 and May 31, 2017, intangible assets consisted of the following:

	February 28, 2018		
	Gross carrying value	Accumulated amortization	Net carrying value
(in thousands)			
Product technologies	\$147,178	\$(66,470)	\$80,708
Customer relationships	56,487	(22,325)	34,162
Trademarks	28,400	(11,208)	17,192
Licenses	5,752	(4,186)	1,566
Distributor relationships	1,250	(366)	884
	\$239,067	\$(104,555)	\$134,512
	May 31, 2017		
	Gross carrying value	Accumulated amortization	Net carrying value
(in thousands)			
Product technologies	\$147,172	\$(59,696)	\$87,476
Customer relationships	56,375	(19,194)	37,181
Trademarks	28,400	(9,069)	19,331
Licenses	4,487	(3,821)	666
Distributor relationships	1,250	(229)	1,021
	\$237,684	\$(92,009)	\$145,675

Amortization expense for the three months ended February 28, 2018 and 2017 was \$4.2 million and \$4.4 million, respectively. Amortization expense for the nine months ended February 28, 2018 and 2017 was \$12.4 million and \$12.9 million, respectively.

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Expected future amortization expense related to the intangible assets is as follows:

(in thousands)

Remainder of 2018	\$4,040
2019	16,566
2020	15,013
2021	13,854
2022	12,970
2023 and thereafter	72,069
	\$134,512

4. ACCRUED LIABILITIES

As of February 28, 2018 and May 31, 2017, accrued liabilities consisted of the following:

	Feb 28, 2018	May 31, 2017
(in thousands)		
Payroll and related expenses	\$7,232	\$11,383
Royalties	1,247	2,885
Accrued severance	2,634	2,075
Sales and franchise taxes	664	856
Outside services	1,880	1,622
Litigation matters	12,500	12,500
Acculis recall liability	—	2,563
Other	4,816	4,920
	\$30,973	\$38,804

In the fourth quarter of fiscal year 2017, the Company issued a voluntary recall of its Acculis probes that were sold over the past two years and recorded a liability of \$2.6 million. In the third quarter of fiscal year 2018, the Company completed the replacement of Acculis probes that were returned with Solero probes.

5. LONG TERM DEBT

On November 7, 2016, the Company entered into a Credit Agreement (the "Credit Agreement") with the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Keybank National Association as co-syndication agents, and JPMorgan Chase Bank, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Keybank National Association as joint bookrunners and joint lead arrangers.

The Credit Agreement provides for a \$100.0 million senior secured term loan facility ("Term Loan") and a \$150.0 million senior secured revolving credit facility, which includes up to a \$20.0 million sublimit for letters of credit and a \$5.0 million sublimit for swingline loans (the "Revolving Facility", and together with the Term Loan, the "Facilities"). On November 7, 2016, the Company borrowed \$100.0 million under the Term Loan and approximately \$16.5 million under the Revolving Facility to repay the balance of \$116.5 million under the former credit agreement. As of February 28, 2018 and May 31, 2017 the carrying value of long-term debt approximates its fair market value. The interest rate on the Term Loan at February 28, 2018 was 3.07%.

The Company was in compliance with the Credit Agreement covenants as of February 28, 2018.

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The Company's maturities of principal obligations under the Credit Agreement are as follows, as of February 28, 2018:

(in thousands)

Remainder of 2018	\$1,250
2019	5,000
2020	7,500
2021	11,250
2022	68,750
Total term loan	93,750
Revolving facility	—
Total debt	93,750
Less: Unamortized debt issuance costs (952)	
Total	92,798
Less: Current portion of long-term debt (5,000)	
Total long-term debt, net	\$87,798

6. INCOME TAXES

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full fiscal year adjusted for any discrete events, which are recorded in the period that they occur. The estimated annual effective tax rate prior to discrete items was 4.9% in the third quarter of fiscal 2018, as compared to 42.9% for the same period in fiscal 2017. The Company's effective tax rate differs from the U.S. statutory rate primarily due to a U.S. valuation allowance, foreign taxes and state taxes. The change from the prior quarter fiscal year 2017 is principally related to the enactment of the Tax Cuts and Jobs Act ("Tax Reform Act") as it relates to amortization of goodwill for tax purposes which will no longer be treated as a permanent item in our tax provision.

On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system, expanding the tax base and imposing a tax deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate federal income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company has recognized the impact of the Tax Reform Act in these unaudited consolidated financial statements and related disclosures. Staff Accounting Bulletin No. 118 ("SAB 118") provides Companies with guidance on accounting for the impact of the Tax Reform Act. Specifically, SAB 118 provides for a measurement period, not to exceed one year, that begins on the date of enactment of December 22, 2017, and ends when the Company has obtained, prepared, and analyzed information needed to complete accounting requirements. In accordance with SAB 118, the Company recorded provisional amounts reflecting the impact of the Tax Reform Act in these unaudited consolidated financial statements and related disclosures.

As a result of the Tax Reform Act, in the third quarter of fiscal 2018, the Company has recognized a discrete tax benefit in the amount of \$9.3 million due to the revaluation of the Company's indefinite lived deferred tax liability related to amortizable goodwill to reflect the lower statutory rate. Because the remaining U.S. deferred tax assets are offset by a full valuation allowance, the reduction in net deferred tax assets for the lower rate was fully offset by a corresponding reduction in valuation allowance resulting in no additional tax provision. The Tax Reform Act changed the NOL carryover rules and created a new limitation on their use. NOLs created in fiscal 2018 and beyond may be carried forwarded indefinitely but are limited to 80% of taxable income in any year. As a result of this change, the Company believes it is appropriate to offset some of its indefinite lived deferred tax liability against its deferred tax assets, and as a result, recognized an estimated \$0.8 million discrete benefit in the third quarter of fiscal 2018. Additionally, this change impacts the Company's effective tax calculation on a go forward basis as the amortization of goodwill for tax purposes will no longer be treated as a permanent item in our tax provision.

The Tax Reform Act imposes a one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiaries' earnings. Based on the information available as of December 31, 2017, the Company estimated undistributed foreign earnings of approximately \$4.8 million. The taxable income arising from this deemed repatriation is expected to result in the utilization of net operating loss carryforwards and other tax credits, offset by changes in the valuation allowance, resulting in no net impact to tax expense. In accordance with SAB 118, the estimated income tax impact associated with the one-time transition tax of zero represents our best estimate based on interpretation of the U.S. legislation as we are still

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accumulating data to finalize the underlying calculation. In accordance with SAB 118, estimated income tax impact associated with the one-time transition tax is considered provisional and will be finalized prior to the end of the measurement period. The ultimate impact may differ from these provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Act.

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

7. SHARE-BASED COMPENSATION

The Company has two stock-based compensation plans that provide for the issuance of up to approximately 9.5 million shares of common stock. The 2004 Stock and Incentive Award Plan (the "2004 Plan") provides for the grant of incentive options to our employees and for the grant of non-statutory stock options, restricted stock, stock appreciation rights, performance units, performance shares and other incentive awards to our employees, directors and other service providers. The Company also has an employee stock purchase plan.

For the three months ended February 28, 2018 and 2017, share-based payment expense was \$2.1 million and \$1.7 million, respectively. For the nine months ended February 28, 2018 and 2017, share-based payment expense was \$5.8 million and \$5.1 million, respectively.

During the nine months ended February 28, 2018 and 2017, the Company granted stock options and restricted stock units under the 2004 Plan to certain employees and members of the Board of Directors. Stock option awards are valued using the Black-Scholes option-pricing model and then amortized on a straight-line basis over the requisite service period of the award. Restricted stock unit awards are valued based on the closing trading value of the Company's shares on the date of grant and then amortized on a straight-line basis over the requisite service period of the award.

In the nine months of fiscal year 2018, the Company granted market-based performance share awards under the 2004 Plan to certain employees. The awards may be earned by achieving relative performance levels over the three year requisite service period. The performance criteria are based on the total shareholder return ("TSR") of the Company's common stock relative to the TSR of the common stock of a pre-defined industry peer-group. The fair value of these awards are based on the closing trading value of the Company's shares on the date of grant and use a Monte Carlo simulation model.

As of February 28, 2018, there was \$15.0 million of unrecognized compensation expense related to share-based payment arrangements. These costs are expected to be recognized over a weighted-average period of approximately four years. The Company has sufficient shares to satisfy expected share-based payment arrangements.

8. EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share includes the dilutive effect of potential common stock consisting of stock options, restricted stock units and performance stock units, provided that the inclusion of such securities is not anti-dilutive. In periods with a net loss, stock options and restricted stock units are not included

in the computation of diluted loss per share as the impact would be anti-dilutive.

The following table reconciles basic to diluted weighted-average shares outstanding for the three and nine months ended February 28, 2018 and 2017 (in thousands):

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(in thousands)	Three Months Ended		Nine Months Ended	
	Feb 28, 2018	Feb 28, 2017	Feb 28, 2018	Feb 28, 2017
Basic	37,122	36,625	37,031	36,557
Effect of dilutive securities	320	501	327	511
Diluted	37,442	37,126	37,358	37,068
Securities excluded as their inclusion would be anti-dilutive	1,259	1,040	1,139	973

9. SEGMENT AND GEOGRAPHIC INFORMATION

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

The table below summarizes net sales by product category:

(in thousands)	Three Months Ended		Nine Months Ended	
	Feb 28, 2018	Feb 28, 2017	Feb 28, 2018	Feb 28, 2017
Net sales				
Peripheral Vascular	\$48,517	\$48,929	\$149,751	\$154,654
Vascular Access	23,279	23,680	69,091	72,238
Oncology/Surgery	12,055	12,993	37,126	35,837
Total	\$83,851	\$85,602	\$255,968	\$262,729

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

(in thousands)	Three Months Ended		Nine Months Ended	
	Feb 28, 2018	Feb 28, 2017	Feb 28, 2018	Feb 28, 2017
Net sales				
United States	\$65,787	\$67,656	\$203,020	\$211,295
International	18,064	17,946	52,948	51,434
Total	\$83,851	\$85,602	\$255,968	\$262,729

10. FAIR VALUE

On a recurring basis, the Company measures certain financial assets and financial liabilities at fair value based upon quoted market prices, where available. Where quoted market prices or other observable inputs are not available, the Company applies valuation techniques to estimate fair value. FASB ASC Topic 820, Fair Value Measurements and Disclosures, establishes a three-level valuation hierarchy for disclosure of fair value measurements. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted market prices for identical assets or liabilities.

Level 2 - Inputs to the valuation methodology are other observable inputs, including quoted market prices for similar assets or liabilities and market-corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable inputs based on management's best estimate of inputs market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk.

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The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, accounts payable and contingent consideration. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value due to the immediate or short-term maturities. The Company's recurring fair value measurements using significant unobservable inputs (Level 3) relate to our marketable securities, which are comprised of auction rate securities and contingent consideration.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis as of February 28, 2018 and May 31, 2017 (in thousands of dollars):

(in thousands)	Fair Value Measurements using inputs considered as:		Fair Value at February 28, 2018
	Level 1	Level 2	Level 3
Financial Assets:			
Marketable securities			
U.S. government agency obligations	\$—	—\$ 1,281	\$ 1,281
Total Financial Assets	\$—	—\$ 1,281	\$ 1,281
Financial Liabilities:			
Contingent consideration for acquisition earn out	\$—	—\$ 3,229	\$ 3,229
Total Financial Liabilities	\$—	—\$ 3,229	\$ 3,229

(in thousands)	Fair Value Measurements using inputs considered as:		Fair Value at May 31, 2017
	Level 1	Level 2	Level 3
Financial Assets:			
Marketable securities			
U.S. government agency obligations	\$—	—\$ 1,215	\$ 1,215
Total Financial Assets	\$—	—\$ 1,215	\$ 1,215
Financial Liabilities:			
Contingent consideration for acquisition earn out	\$—	—\$ 12,761	\$ 12,761
Total Financial Liabilities	\$—	—\$ 12,761	\$ 12,761

There were no transfers between Level 1, 2 and 3 for the three and nine months ended February 28, 2018.

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The table below presents the changes in fair value components of Level 3 instruments in the three and nine months ended February 28, 2018:

(in thousands)	Three Months Ended February 28, 2018	
	Financial Assets Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Financial Liabilities Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance, November 30, 2017	\$ 1,260	\$ 3,198
Total gains or losses (realized/unrealized):		
Change in present value of contingent consideration	—	31
Included in other comprehensive income (loss)	21	—
Currency gain (loss) from remeasurement	—	—
Proceeds from sale or maturity of marketable securities	—	—
Transfers in and/or (out) of Level 3	—	—
Contingent consideration payments	—	—
Balance, February 28, 2018	\$ 1,281	\$ 3,229

(in thousands)	Nine Months Ended February 28, 2018	
	Financial Assets Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Financial Liabilities Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance, May 31, 2017	\$ 1,215	\$ 12,761
Total gains or losses (realized/unrealized):		
Change in present value of contingent consideration	—	218
Included in other comprehensive income (loss)	66	—
Transfers in and/or (out) of Level 3	—	—
Contingent consideration payments	—	(9,750)
Balance, February 28, 2018	\$ 1,281	\$ 3,229

Contingent Consideration for Acquisition Earn Outs

Some of our business combinations involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones or various other performance conditions. Payment of the additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels or product development targets. Contingent consideration is recorded at the estimated fair value of the contingent payments on the acquisition date. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within change in fair value of contingent consideration in the consolidated statements of income.

We measure the initial liability and remeasure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements and is determined using a discounted cash flow model applied to

projected net sales, using probabilities of achieving projected net sales and projected payment dates. Projected net sales are based on our internal projections and extensive analysis of the target market and the sales potential. Increases or decreases in any valuation inputs in isolation may result in a significantly lower or higher fair value measurement in the future.

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The recurring Level 3 fair value measurements of the contingent consideration liabilities include the following significant unobservable inputs as of February 28, 2018 (in thousands of dollars):

(in thousands)	Fair value at Feb 28, 2018	Valuation Technique	Unobservable Input	Range
Revenue based payments	\$ 3,229	Discounted cash flow	Discount rate	4%
			Probability of payment	100%
			Projected fiscal year of payment	2019-2020

At February 28, 2018, the estimated potential amount of undiscounted future contingent consideration that we expect to pay as a result of all completed acquisitions is approximately \$3.3 million, which represents the remaining contractual minimum payments.

11. MARKETABLE SECURITIES

Marketable securities, which can be government agency bonds, auction rate investments or corporate commercial paper, are classified as “available-for-sale securities” and are reported at fair value, with unrealized gains and losses excluded from operations and reported as accumulated other comprehensive income (loss), net of the related tax effects, in stockholders’ equity. Cost is determined using the specific identification method. We hold an investment in an auction rate security that is high credit quality and generally achieved with municipal bond insurance. Sell orders for any security traded through an auction process could exceed bids and, in such cases, the auction fails and we may be unable to liquidate our position in the security in the near term. We have not participated in any recent auctions. As of February 28, 2018 and May 31, 2017, we had \$1.3 million and \$1.2 million, respectively, in investments in one auction rate security. The authorities are current in their interest payments on the security. The auction rate security will mature in 2029.

As of February 28, 2018 and May 31, 2017, marketable securities consisted of the following (in thousands of dollars):

(in thousands)	February 28, 2018			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Government agency obligations	\$ 1,350	\$ —	\$ (69)	\$ 1,281
	\$ 1,350	\$ —	\$ (69)	\$ 1,281

(in thousands)	May 31, 2017			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Government agency obligations	\$ 1,350	\$ —	\$ (135)	\$ 1,215
	\$ 1,350	\$ —	\$ (135)	\$ 1,215

12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

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

On January 11, 2012, C.R. Bard, Inc. ("Bard") filed a suit in the United States District Court of Utah claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the "Utah Action"). Bard's Complaint sought unspecified damages and other relief. The Court denied Bard's motion for pre-trial consolidation with separate actions it filed on the same day against Medical Components, Inc. and Smiths Medical ASD, Inc., but had asked for supplemental briefing on the issue of whether to conduct a common Markman hearing. Meanwhile, we filed petitions for reexamination in the US Patent and Trademark Office ("PTO") seeking to invalidate all three patents asserted by Bard in the litigation. Our petitions were granted and 40 of Bard's 41 patent claims were rejected and, following further proceedings, the Patent Office issued a Final Rejection of all 40 claims subject to reexamination. Thereafter, Bard filed appeals to the PTO Board of Appeals and Interferences for all three reexams. The parties completed briefing on the appeals and oral argument was held on June 18, 2015. The Patent Office issued decisions in all three appeals. In one (issued on March 11, 2016 for US Patent No. 7,785,302), the rejections of six of the ten claims under reexamination were affirmed, but were reversed on four of the ten claims. In the second (issued on March 24, 2016 for U.S. Patent No. 7,959,615), the rejections of eight of the ten claims under reexamination were affirmed but the rejections of the other two of the ten claims were reversed. In the third (issued on March 29 for U.S. Patent No. 7,947,022) the rejections of all twenty claims under reexamination were affirmed. Thereafter, Bard filed Requests for Rehearing in all three reexamination appeals and the Company filed Requests for Rehearing in two of the reexamination appeals (the '302 and '615 patent reexaminations). Each party filed comments in Opposition to the other party's Rehearing Requests, The PTO denied all three Rehearing Requests - - on February 1, 2017 for the '302; on February 17, 2017 for the '022; and on February 21, 2017 for the '615, but modified its characterization of one prior art reference for the '302 and '022 decisions. Bard filed a Notice of Appeal to the Federal Circuit Court of Appeals in all three reexams and the Company filed Cross-Appeals for the '302 and the '615 reexams. The parties have completed the process of filing the various appellate briefs, starting with Bard's Opening Brief (filed on August 30, 2017), the Company's Responsive/Opening Brief (filed on November 9, 2017), Bard's reply (filed on January 19, 2018) and our Reply Brief (filed on March 5, 2018). MedComp also filed an Amicus Brief in support of the Company on November 22, 2017. A date for the oral hearing has not yet been set. The Utah Action has been stayed pending final resolution of the PTO process. In the Federal Circuit appeal, Bard moved to substitute Bard Peripheral Vascular, Inc. ("BPV") as the Appellant (because Bard assigned the Asserted Patents to BPV on July 12, 2017) or, alternatively, to add BPV as Co-Appellant. The Company opposed substitution; and the Federal Circuit added BPV as Co-Appellant. However, in the District court case, Bard moved only to substitute BPV as plaintiff, but the Company has opposed. The District Court denied Bard's motion to substitute on February 7, 2018. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

On March 10, 2015, C.R. Bard, Inc. ("Bard") and Bard Peripheral Vascular, Inc. ("BPV") filed suit in the United States District Court for the District of Delaware claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the "Delaware Action"). Bard's complaint seeks unspecified damages and other relief. The patents asserted in the Delaware Action are different than those asserted in the Utah Action. On June 1, 2015, the Company filed two motions in response to Bard's Complaint - one sought transfer to the District of Utah where the Utah Action is currently pending, and the other sought dismissal of the entire complaint on grounds that none of the claims in the asserted patents is directed to patent eligible subject matter under Section 101 of the Patent Statute and in light of recent authority from the U. S. Supreme Court.

On January 12, 2016, the Court issued a decision denying both motions. The Company then served an Answer and Counterclaim to which Bard served a Reply. On March 10, 2016, the Court held a Case Management Conference, and, on March 14, 2016, the Court entered a Scheduling Order which set, inter alia, a Markman hearing for March 10, 2017, a summary judgment hearing for December 8, 2017 and trial for March 12, 2018. The parties thereafter served various discovery requests on each other, produced documents to each other, conducted party and third-party

depositions, etc.; on May 27, 2016 Bard served its Initial Infringement Contentions which identified all the port products accused of infringement; and, on June 24, 2016, the Company served its Initial Invalidity Contentions which detail various grounds for invalidating the three asserted patents. The Markman hearing was held on March 10, 2017 and the Court issued its Claim Construction Order on May 19, 2017. On May 19, 2017, Bard served its Final Infringement Contentions and on June 2, 2017, the Company served its Final Invalidity Contentions. In August, 2017, Judge Robinson (who had been assigned to the case) retired and the case was reassigned to Judge Bataillon (who normally sits in the District of Nebraska). The Scheduling Order has been amended and currently provides for briefing on Case-Dispositive Motions (and other pre-trial motions) between February 16, 2018 and April 27, 2018 (no oral argument date is currently set) and trial to commence July 23, 2018. The parties completed Expert Discovery on January 30, 2018; including: exchanging opening, rebuttal and supplemental expert reports on infringement, invalidity, and damages between September 1, 2017 and December 12, 2017, and conducted expert depositions between December 7, 2017 and January 30, 2018. Meanwhile, Bard also sought to substitute BPV as plaintiff in this case via a Supplemental Complaint, but stipulated that the Company could assert in Cross-Claims and/or Third-Party Complaint against C. R. Bard for its claims of inequitable conduct and unclean hands, which the Company has since done. BPV responded with a partial Motion to Dismiss

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and the Company has served an amended Answer, Counterclaims and Cross-Claims/Third-Party Complaint. Bard and BPV have since answered/responded to the Company's Cross-Claims/Complaint without renewing the dismissal motion. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

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

On May 30, 2017, we commenced an action in the United States District Court for the Northern District of New York entitled AngioDynamics, Inc. v. C.R. Bard, Inc. and Bard Access Systems, Inc. ("Bard"). In this action, we allege that Bard has illegally tied the sales of its tip location systems to the sales of its PICCs. We allege that this practice violates the federal antitrust laws and has had, and continues to have, an anti-competitive effect in the market for PICCs. We seek both monetary damages and injunctive relief. Bard moved to dismiss on September 8, 2017 and the motion has been submitted to the court. The court has adjourned the initial conference in the case pending its resolution of the motion to dismiss.

Governmental Investigations

In June 2014 we received a subpoena from the U.S. Department of Justice (the "DOJ") requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding BTG International, Inc.'s LC Bead® product beginning in 2003. RITA Medical Systems and AngioDynamics, Inc., after its acquisition of RITA, was the exclusive distributor of LC Beads in the United States from 2006 through December 31, 2011. We are cooperating fully with this investigation.

In April 2015 we received a subpoena from the DOJ requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding purported promotion of certain of AngioDynamics' VenaCure EVLT products for un-cleared indications. We are cooperating fully with this investigation.

As of May 31, 2017, the Company accrued \$12.5 million for these matters and in August 2017 the Company agreed in principle with the government to resolve these matters for approximately \$12.5 million.

13. ACQUISITION, RESTRUCTURING, AND OTHER ITEMS, NET

Acquisition, Restructuring and Other Items

For the three and nine months ended February 28, 2018 and 2017 acquisition, restructuring and other items, net consisted of:

(in thousands)	Three Months		Nine Months	
	Ended Feb 28, 2018	Feb 28, 2017	Ended Feb 28, 2018	Feb 28, 2017
Legal	\$2,319	\$1,528	\$7,299	\$5,162
Intangible and other asset impairment	—	—	—	—
Other asset write-off	—	4	—	5,604
Restructuring	1,548	208	4,184	208
Other	310	10	449	1,054
Total	\$4,177	\$1,750	\$11,932	\$12,028

Restructuring

The Company evaluates its performance and looks for opportunities to improve the overall operations of the Company on an ongoing basis. As a result of this evaluation, certain restructuring initiatives are taken to enhance the Company's overall operations.

Operational Consolidation

On February 1, 2017, the Company announced to employees an operational consolidation plan (the "plan") to consolidate our manufacturing facilities in Manchester, GA and Denmead, UK into the Glens Falls and Queensbury, NY facilities. This plan will streamline and optimize the manufacturing functions into one centralized location increasing the utilization of the Glens Falls and Queensbury facilities, optimizing inventory and reducing cost of goods sold through savings in overhead

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expenses and direct labor. The restructuring activities associated with the plan are expected to be completed in the fourth quarter of fiscal year 2018.

The following table provides a summary of our estimated costs associated with the plan:

Type of cost	Total estimated amount expected to be incurred (in millions)
Termination benefits	\$1.75 to \$2.25
Plant consolidation (1)	\$2.25 to \$2.50
Regulatory filings	\$0.75 to \$1.00
Contract cancellations	\$0.75 to \$1.00
Other	\$0.75 to \$1.00
	\$6.25 to \$7.75

(1) Equipment transfer, validation and other start-up costs to prepare the facilities for the new product lines.

The Company recorded restructuring charges related to the plan during the three and nine months ended February 28, 2018 of \$1.5 million and \$4.2 million, respectively. During the three and nine months ended February 28, 2017, the Company recorded \$0.2 million and \$0.2 million, respectively. Total restructuring charges recorded to date are \$5.5 million. Termination benefits are only earned if an employee stays until their termination date; therefore, the expenses related to termination benefits are being recorded ratably over the service period.

The table below presents the restructuring reserve for the three and nine months ended February 28, 2018:

	Three Months Ended February 28, 2018					Total
	Termination Benefits	Plant Consolidation	Regulatory Filings	Contract Cancellation Costs	Other Costs	
(in thousands)						
Balance at November 30, 2017	\$1,745	\$ 55	\$ —	\$ —	—\$ 24	\$1,824
Charges	304	1,182	43	—	19	1,548
Non-cash adjustments	—	39	—	—	—	39
Cash payments	(464)	(1,175)	(27)	—	(40)	(1,706)
Balance at February 28, 2018	\$1,585	\$ 101	\$ 16	\$ —	—\$ 3	\$1,705
	Nine Months Ended February 28, 2018					Total
	Termination Benefits	Plant Consolidation	Regulatory Filings	Contract Cancellation Costs	Other Costs	
(in thousands)						
Balance at May 31, 2017	\$851	\$ 111	\$ —	\$ —	—\$ —	\$962
Charges	1,499	2,574	43	—	68	4,184
Non-cash adjustments	—	(276)	—	—	—	(276)
Cash payments	(765)	(2,308)	(27)	—	(65)	(3,165)
Balance at February 28, 2018	\$1,585	\$ 101	\$ 16	\$ —	—\$ 3	\$1,705

The Company's restructuring liability of \$1.7 million is mainly comprised of accruals for termination benefits which are included in accrued expenses on the consolidated balance sheet.

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14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss), net of tax, are as follows for the three and nine months ended February 28, 2018:

(in thousands)	Three months ended February 28, 2018		
	Foreign currency translation gain (loss)	Unrealized marketable securities gain (loss)	Total
Balance at November 30, 2017	\$(872)	\$ 26	\$(846)
Other comprehensive income before reclassifications, net of tax	188	21	209
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income	\$188	\$ 21	\$209
Balance at February 28, 2018	\$(684)	\$ 47	\$(637)
	Nine months ended February 28, 2018		
(in thousands)	Foreign currency translation gain (loss)	Unrealized marketable securities gain (loss)	Total
	translation gain (loss)	marketable securities gain (loss)	Total
Balance at May 31, 2017	\$(1,305)	\$ (19)	\$(1,324)
Other comprehensive income before reclassifications, net of tax	621	66	687
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income	\$621	\$ 66	\$687
Balance at February 28, 2018	\$(684)	\$ 47	\$(637)

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15. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following table provides a description of recent accounting pronouncements that may have a material effect on the Company's consolidated financial statements:

Recently Issued Accounting Pronouncements - Adopted

Standard	Description	Date Adopted	Effect on the Consolidated Financial Statements
ASU 2016-09, Compensation - Stock Based Compensation (Topic 718: Improvements to Employee Share-Based Payment Accounting)	This ASU simplifies and improves various aspects of ASC 718 for share-based payments, including income tax items and the classification of these items on the statement of cash flows.	June 1, 2017	The Company now recognizes unrealized excess tax benefits and will classify such benefits as an operating activity in the statement of cash flows on a prospective basis. Due to the full valuation allowance on our federal and state income taxes, the adoption of ASU 2016-09 did not impact our accounting for income taxes. The Company elected the accounting policy change to account for forfeitures as they occur. This was adopted using the modified retrospective transition method by means of a cumulative-effect adjustment to equity as of June 1, 2017. The adoption of ASU 2016-09 did not materially impact the Company's consolidated statements of income, consolidated balance sheet, equity or cash flows.
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350)	This ASU simplifies the subsequent measurement of goodwill by eliminating steps from the goodwill impairment test.	June 1, 2017	This adoption did not have an impact on the Company's financial statements.
ASC Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. Update No. 2015-11	This ASU more closely aligns the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards by requiring companies using the first-in, first-out and average costs methods to measure inventory using the lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.	June 1, 2017	This adoption did not have an impact on the Company's financial statements.

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Recently Issued Accounting Pronouncements - Not Yet Applicable or Adopted

Standard	Description	Effective Date	Effect on the Consolidated Financial Statements
ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09)	This ASU provides a single, comprehensive accounting model for revenues arising from contracts with customers that supersedes most of the existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance.	June 1, 2018	The Company has established an implementation team which includes third-party specialists to assist in the evaluation and implementation of the new standard. The Company is currently in the process of performing an assessment of the impact of the standards on its contract portfolio by reviewing the Company's current accounting policies and practices and to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts. At this time, the Company does not anticipate a significant impact to its financial statements upon adoption of the new standard. However, the assessment is ongoing and further analysis of contracts may identify a more significant impact. The Company currently expects, in part due to the limited anticipated impact, it will utilize the modified retrospective approach of adopting the ASU. In addition, during fiscal year 2018 the Company plans to identify and implement, if necessary, appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new standard.
ASU 2016-02, Leases (Topic 842)	This ASU increases transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities.	June 1, 2019	The Company is currently in the process of evaluating the impact of this ASU on its consolidated financial statements.
ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)	This ASU identifies how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows under Receipts and Cash Topic 230.	June 1, 2018	The Company is currently in the process of evaluating the impact of this ASU on its consolidated financial statements.

continue to make investments in, research and development activities and business development opportunities. We feel confident that our existing capital structure and free cash flow generation will allow us to properly fund those activities.

We sell our products in the United States primarily through a direct sales force, and outside the U.S. through a combination of a direct sales and distributor relationships. We expect our businesses to grow in both sales and profitability through geographic expansion, market penetration, new product introductions and increasing our direct presence internationally.

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In evaluating the operating performance of our business, management focuses on revenue, gross margin, operating income, earnings per share and cash flow from operations. A summary of these key financial metrics for the three and nine months ended February 28, 2018 compared to the three and nine months ended February 28, 2017 follows:

Three months ended February 28, 2018:

- Revenue decreased by 2.0% to \$83.9 million
- Gross margin as a percentage of sales increased by 300 bps to 54.2%
- Operating income decreased by \$0.3 million to \$4.9 million
 - Earnings per share increased by \$0.30 to \$0.38

Nine months ended February 28, 2018:

- Revenue decreased by 2.6% to \$256.0 million
- Gross margin as a percentage of sales decreased by 0.3% to 50.6%
- Operating income decreased by \$18.2 million to \$6.1 million
- Earnings per share decreased by \$0.11 to \$0.38
- Cash flow from operations decreased by \$19.2 million to \$17.5 million

The decline in revenue during the third quarter was primarily driven by declines in the Venous portfolio within Peripheral Vascular, non-BioFlo products within Vascular Access and Radiofrequency Ablation within Oncology/Surgery. The decrease in Radiofrequency Ablation was primarily due to the discontinuation of this product line in Japan. In the prior year there was a \$1.7 million sale to introduce Radiofrequency Ablation into the Japanese market.

The decline was partially offset by increased sales of Solero, a microwave ablation device that received FDA clearance during the first quarter of fiscal year 2018, and NanoKnife capital sales in Oncology/Surgery. Other areas of growth include Fluid Management, AngioVac and Core within Peripheral Vascular and the BioFlo family of products within Vascular Access.

New Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 15 to our consolidated financial statements in this Quarterly Report on Form 10-Q.

Results of Operations for the Three Months ended February 28, 2018 and 2017

For the three months ended February 28, 2018, we reported net income of \$14.0 million, or \$0.37 per diluted share, on net sales of \$83.9 million, compared with net income of \$2.9 million, or \$0.08 per share, on net sales of \$85.6 million during the same quarter of the prior year.

Net Sales

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

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Net sales for the three months ended February 28, 2018 and 2017:

	Three months ended		
	Feb 28, 2018	Feb 28, 2017	% Growth
Net Sales by Product Category			
Peripheral Vascular	\$48,517	\$48,929	(1)%
Vascular Access	23,279	23,680	(2)%
Oncology/Surgery	12,055	12,993	(7)%
Total	\$83,851	\$85,602	(2)%
Net Sales by Geography			
United States	\$65,787	\$67,656	(3)%
International	18,064	17,946	1%
Total	\$83,851	\$85,602	(2)%

For the three months ended February 28, 2018, net sales decreased \$1.8 million to \$83.9 million compared to the same period in the prior year.

Consolidated and U.S. net sales decreased from the prior year as a result of lower net sales across all Global Business Units.

Peripheral Vascular

Total Peripheral Vascular sales decreased \$0.4 million primarily attributable to decreased sales volume of Venous products of \$2.7 million due to reimbursement challenges. This decrease was offset by strong performance in our Fluid Management and core product lines, which increased \$1.2 million and \$0.7 million, respectively. The increase in Fluid Management was attributed to the Fluid Management dedicated sales team being fully staffed and promoting new custom kits.

U.S. Peripheral Vascular sales decreased \$1.2 million due to decreased sales volume of Venous products. This decreased sales volume in the U.S. was offset by an increase in volume in Fluid Management and Thrombus Management categories. International Peripheral Vascular sales increased \$0.8 million due to increased sales volume in Fluid Management.

Vascular Access

Total Vascular Access sales decreased \$0.4 million primarily in our non-BioFlo businesses. Our BioFlo product lines, other than BioFlo PICCs, increased \$0.8 million year over year. This was offset by decreased sales of BioFlo PICCs of \$1.1 million. BioFlo product lines comprise 48% of our overall vascular access sales, compared to 49% a year ago. U.S. Vascular Access sales declined by 3% due to softness across the non-BioFlo portfolio. This was partially offset by growth in Midline and BioFlo Dialysis products which continue to gain traction in the marketplace. International Vascular Access sales increased by \$0.1 million.

Oncology/Surgery

Total Oncology/Surgery sales decreased \$0.9 million year over year primarily due to decreased sales in Radiofrequency Ablation and NanoKnife disposables. The decrease in Radiofrequency Ablation was primarily due to the discontinuation of this product line in Japan. In the prior year there was a \$1.7 million sale to introduce Radiofrequency Ablation into the Japanese market. This was partially offset by the successful launch of our Solero product line, which generated \$0.5 million of growth year over year, and increased sales of NanoKnife generators.

U.S. Oncology/Surgery decreased by 2%, driven by decreased sales in Radiofrequency Ablation and NanoKnife disposables partially offset by increased sales in NanoKnife generators of \$0.5 million.

International Oncology/Surgery sales decreased by \$0.9 million year over year as a result of decreased Radiofrequency sales of \$1.9 million offset by Solero Microwave capital and disposable sales growth of \$0.5 million and NanoKnife generators sales growth of \$0.6 million.

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

	Three months ended			% Change
	Feb 28, 2018	Feb 28, 2017		
Gross profit	\$45.4	\$43.8	4	%
Gross profit % of sales	54.2 %	51.2 %		
Research and development	\$6.5	\$6.0	8	%
% of sales	7.7 %	7.0 %		
Selling and marketing	\$18.0	\$19.4	(7)	%
% of sales	21.5 %	22.7 %		
General and administrative	\$7.7	\$7.1	8	%
% of sales	9.2 %	8.2 %		

Gross profit - Gross profit consists of net sales less the cost of goods sold, which includes the costs of materials, products purchased from third parties and sold by us, manufacturing personnel, royalties, freight, business insurance, depreciation of property and equipment and other manufacturing overhead, exclusive of intangible amortization.

Gross profit increased by \$1.6 million compared to the prior year. The increase is attributable to the following:

Net productivity of approximately \$1.8 million, the expiration of a royalty agreement in September of approximately \$1.5 million and currency of \$0.6 million. These increases were partially offset by volume, mix and freight of approximately \$2.4 million.

Research and development expenses - Research and development (“R&D”) expenses include internal and external costs to develop new products, enhance existing products, validate new and enhanced products, and manage clinical, regulatory and medical affairs.

R&D expense increased \$0.5 million compared to the prior year. The increase is attributable to the following:

Timing of project spend in the third quarter of fiscal year 2018 compared to prior year was up \$0.1 million along with increased compensation and benefits associated with additional headcount of \$0.4 million.

Sales and marketing expenses - Sales and marketing (“S&M”) expenses consist primarily of salaries, commissions, travel and related business expenses, attendance at medical society meetings, product promotions and marketing activities.

S&M expense decreased by \$1.4 million compared to the prior year. The decrease is attributable to the following:

Compensation and benefits decrease of approximately \$1.8 million, which was primarily the result of decreased variable compensation of \$0.7 million and open headcount of \$0.5 million. In addition, severance expense was down \$0.6 million from the third quarter of the prior year.

Open headcount resulted in increased travel of \$0.2 million and recruiting expense of \$0.2 million.

Lower consulting spend of \$0.2 million.

General and administrative expenses - General and administrative (“G&A”) expenses include executive management, finance, information technology, human resources, business development, legal, and the administrative and professional costs associated with those activities.

G&A expense increased by \$0.6 million compared to the prior year. The increase is attributable to the following:

Compensation and benefits increase of approximately \$1.4 million was primarily the result of increased headcount year over year of \$0.4 million and increased benefits expense of \$0.9 million.

The increase in compensation and benefits was partially offset by lower depreciation of \$0.2 million, a decrease in bad debt expense of \$0.2 million, a decrease in recruiting expense of \$0.2 million and a decrease in travel expense of \$0.1 million.

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	Three months ended		
	Feb 28, Feb 28, \$		
	2018	2017	Change
Amortization of intangibles	\$4.2	\$4.4	\$ (0.2)
Change in fair value of contingent consideration	\$—	\$0.1	\$ (0.1)
Acquisition, restructuring and other items, net	\$4.2	\$1.8	\$ 2.4
Other expense	\$(0.8)	\$(0.6)	\$ (0.2)

Amortization of intangibles - Represents the amount of amortization expense that was taken on intangibles assets held by the Company.

•The decrease of \$0.2 million is primarily related to intangible assets that became fully amortized during the prior year.

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

The decrease is due to the fact that in the second quarter of fiscal year 2018, the final minimum payment was made on the AngioVac product contingent consideration. The normal amortization of the present value discount on the contingent liabilities is now less than \$0.1 million per quarter.

Acquisition, restructuring and other items, net - Represents costs associated with mergers and acquisitions, restructuring expenses, legal costs that are related to litigation that is not in the ordinary course of business, legal settlements and other one-time items.

Acquisition, restructuring and other items, net increased by \$2.4 million compared to the prior year. The increase is attributable to the following:

•There was \$1.5 million of expense related to the plant consolidation that was announced in the third quarter of fiscal year 2017. The expense consisted mainly of severance of \$0.3 million and costs to move the product lines including equipment transfer expenses, accelerated depreciation for assets that will not be transferred, validation of products and other start up costs of \$1.2 million. This is compared to \$0.2 million of severance in the prior year.

•Legal expenses, related to litigation that is outside of the normal course of business, of \$2.3 million were recorded in the current year compared to \$1.5 million in the prior year.

Other expenses - Other expenses include interest expense, foreign currency impacts, bank fees, and amortization of deferred financing costs.

•The increase in other expenses from the prior year is due to the increased interest expense of \$0.2 million.

Income Tax Provision (Benefit)

	Three months ended	
	Feb 28, 2018	Feb 28, 2017
Income tax expense (benefit)	\$(9.9)	\$1.7
Effective tax rate including discrete items	(244.4%)	36.6 %

Our effective tax rate including discrete items for the three month periods ended February 28, 2018 and 2017 was (244.4)% and 36.6%, respectively.

The estimated annual effective tax rate, however, prior to discrete items was 4.9% in the third quarter of fiscal 2018, as compared to 42.9% for the same period in fiscal 2017. The Company's effective tax rate differs from the U.S. statutory rate primarily due to the valuation allowance, foreign taxes and state taxes. The change from the prior quarter fiscal year 2017 is principally related to the enactment of the Tax Cuts and Jobs Act ("Tax Reform Act") as it relates to amortization of goodwill for tax purposes which will no longer be treated as a permanent item in our tax provision.

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On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system, expanding the tax base and imposing a tax deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate federal income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company has recognized the impact of the Tax Reform Act in these unaudited consolidated financial statements and related disclosures. Staff Accounting Bulletin No. 118 (“SAB 118”) provides Companies with guidance on accounting for the impact of the Tax Reform Act. Specifically, SAB 118 provides for a measurement period, not to exceed one year, that begins on the date of enactment of December 22, 2017, and ends when the Company has obtained, prepared, and analyzed information needed to complete accounting requirements. In accordance with SAB 118, the Company recorded provisional amounts reflecting the impact of the Tax Reform Act in these unaudited consolidated financial statements and related disclosures.

As a result of the Tax Reform Act, in the third quarter of fiscal 2018, the Company has recognized a discrete tax benefit in the amount of \$9.3 million due to the revaluation of the Company's indefinite lived deferred tax liability related to amortizable goodwill to reflect the lower statutory rate. Because the remaining U.S. deferred tax assets are offset by a full valuation allowance, the reduction in net deferred tax assets for the lower rate was fully offset by a corresponding reduction in valuation allowance resulting in no additional tax provision. The Tax Reform Act changed the NOL carryover rules and created a new limitation on their use. NOLs created in fiscal 2018 and beyond may be carried forward indefinitely but are limited to 80% of taxable income in any year. As a result of this change, the Company believes it is appropriate to offset some of its indefinite lived deferred tax liability against its deferred tax assets, and as a result, recognized an estimated \$0.8 million discrete benefit in the third quarter of fiscal 2018. Additionally, this change impacts the Company's effective tax calculation on a go forward basis as the amortization of goodwill for tax purposes will no longer be treated as a permanent item in our tax provision.

The Tax Reform Act imposes a one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiaries' earnings. Based on the information available as of December 31, 2017, the Company estimated undistributed foreign earnings of approximately \$4.8 million. The taxable income arising from this deemed repatriation is expected to result in the utilization of net operating loss carryforwards and other tax credits, offset by changes in the valuation allowance, resulting in no net impact to tax expense. In accordance with SAB 118, the estimated income tax impact associated with the one-time transition tax of zero represents our best estimate based on interpretation of the U.S. legislation as we are still accumulating data to finalize the underlying calculation. In accordance with SAB 118, estimated income tax impact associated with the one-time transition tax is considered provisional and will be finalized prior to the end of the measurement period. The ultimate impact may differ from these provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Act.

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

Results of Operations for the Nine Months ended February 28, 2018 and 2017

For the nine months ended February 28, 2018, we reported a net income of \$14.2 million, or \$0.38 per diluted share, on net sales of \$256.0 million, compared with net income of \$17.9 million, or \$0.49 per share, on net sales of \$262.7

million during the same quarter of the prior year.

Net Sales

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

Net sales for the nine months ended February 28, 2018 and 2017:

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	Nine months ended		
	Feb 28, 2018	Feb 28, 2017	% Growth
Net Sales by Product Category			
Peripheral Vascular	\$ 149,751	\$ 154,654	(3)%
Vascular Access	69,091	72,238	(4)%
Oncology/Surgery	37,126	35,837	4%
Total	\$255,968	\$262,729	(3)%
Net Sales by Geography			
United States	\$203,020	\$211,295	(4)%
International	52,948	51,434	3%
Total	\$255,968	\$262,729	(3)%

For the nine months ended February 28, 2018, net sales decreased \$6.8 million to \$256.0 million compared to the same period in the prior year.

Consolidated net sales decreased from the prior year as a result of decreased net sales from Peripheral Vascular and Vascular Access. This decrease was partially offset by 4% year over year growth in our Oncology/Surgery Global Business Unit.

Peripheral Vascular

Total Peripheral Vascular sales decreased \$4.9 million primarily attributable to decreased sales volume of Venous and Angiographic products of \$8.6 million. The decrease in our Venous product line of \$6.1 million is due to reimbursement challenges. The decrease in our Angiographic product line of \$2.5 million is related to the prior year volume from backorders related to a competitor recall. These decreases were offset by strong performance in our Fluid Management product line, which increased \$2.8 million year over year. The increase in Fluid Management was attributed to the Fluid Management dedicated sales team being fully staffed and promoting new custom kits. U.S. Peripheral Vascular sales decreased \$4.6 million and international Peripheral Vascular sales decreased \$0.3 million, which was primarily due to decreased sales volume of Venous and Angiographic core products. This decreased sales volume was offset by an increase in volume in Fluid Management and Thrombus Management categories.

Vascular Access

Total Vascular Access sales decreased \$3.1 million primarily due to declines in our non-BioFlo businesses. Our BioFlo product lines, other than PICC sales, increased \$2.2 million year over year, while BioFlo PICC sales decreased \$2.2 million. BioFlo product lines now comprise 49% of our overall Vascular Access sales, compared to 47% a year ago.

U.S. Vascular Access sales declined by 5% due to softness across the non-BioFlo portfolio offset by Midline and BioFlo Ports and BioFlo Dialysis which continue to gain traction in the marketplace.

International Vascular Access sales decreased by \$0.1 million.

Oncology/Surgery

Total Oncology/Surgery sales increased \$1.3 million year over year primarily due to the successful launch of our Solero product line, which generated \$3.7 million of growth year over year.

U.S. Oncology/Surgery declined by 3%, driven primarily by the timing of NanoKnife disposable sales of \$0.7 million and market challenges in the Radiofrequency Ablation product line which decreased sales by \$1.3 million. This was

partially offset by increased Microwave capital and disposable sales of \$1.3 million.

International Oncology/Surgery sales increased \$1.8 million year over year as a result of increased Microwave capital and disposable sales of \$2.4 million and NanoKnife capital and disposable sales of \$0.5 million. This was partially offset by decreased Radiofrequency Ablation sales of \$1.3 million. The decrease in Radiofrequency Ablation was

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primarily due to the discontinuation of this product line in Japan. In the prior year there was a \$1.7 million sale to introduce Radiofrequency Ablation into the Japanese market.

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

	Nine months ended		
	Feb 28, 2018	Feb 28, 2017	% Change
Gross profit	\$129.4	\$133.8	(3)%
Gross profit % of sales	50.6 %	50.9 %	
Research and development	\$19.0	\$18.6	2 %
% of sales	7.4 %	7.1 %	
Selling and marketing	\$56.4	\$58.3	(3)%
% of sales	22.0 %	22.2 %	
General and administrative	\$23.3	\$23.1	1 %
% of sales	9.1 %	8.8 %	

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, exclusive of intangible amortization.

Gross profit decreased by \$4.4 million compared to the prior year. The decrease is attributable to the following:

In second quarter of fiscal year 2018, the Company decided to discontinue selling our Radiofrequency Ablation product in Japan which resulted in a \$1.7 million inventory provision. Volume softness, product mix and pricing headwinds of approximately \$7.3 million were offset by the expiration of a royalty agreement of approximately \$2.3 million and net productivity of approximately \$2.1 million.

Research and development expenses - Research and development (“R&D”) expenses include internal and external costs to develop new products, enhance existing products, validate new and enhanced products, and manage clinical, regulatory and medical affairs.

R&D expense increased \$0.4 million compared to the prior year. The increase is attributable to the following:

Timing of project spend in the third quarter of fiscal year 2018 compared to prior year was up \$0.4 million along with increased compensation and benefits associated with additional headcount of \$0.1 million. This was partially offset by a decrease in recruiting expense of \$0.2 million.

- R&D expense as a percentage of sales increased slightly year over year as a result of the higher R&D expense along with lower sales in the third quarter of fiscal year 2018.

Sales and marketing expenses - Sales and marketing (“S&M”) expenses consist primarily of salaries, commissions, travel and related business expenses, attendance at medical society meetings, product promotions and marketing activities.

S&M expense decreased by \$1.9 million compared to the prior year. The decrease is attributable to the following:

- Compensation and benefits decrease of approximately \$2.6 million was primarily the result of decreased variable compensation of \$2.2 million and open headcount of \$0.4 million.
- Open headcount resulted in increased travel of \$0.4 million and recruiting expense of \$0.3 million.
- Lower consulting spend of \$0.5 million was partially offset by increased samples expense related to the Solero launch of \$0.2 million.

General and administrative expenses - General and administrative (“G&A”) expenses include executive management, finance, information technology, human resources, business development, legal, and the administrative and professional costs associated with those activities.

G&A expense increased by \$0.2 million compared to the prior year. The increase is attributable to the following:

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Compensation and benefits increase of approximately \$1.3 million was primarily the result of increased headcount year over year of \$0.8 million which was partially offset by a decrease in bonus expense of \$0.4 million. In addition, benefits expense increased \$0.8 million due to significant favorability in the prior year.

Higher professional fees of \$0.3 million.

These increases were partially offset by lower depreciation of \$0.6 million, a decrease in bad debt expense of \$0.2 million, a decrease in recruiting expense of \$0.6 million and a decrease in travel expense of \$0.1 million.

	Nine months ended		
	Feb 28, Feb 28, \$		
	2018	2017	Change
Amortization of intangibles	\$12.4	\$12.9	\$(0.5)
Change in fair value of contingent consideration	\$0.2	\$(15.4)	\$ 15.6
Acquisition, restructuring and other items, net	\$11.9	\$12.0	\$(0.1)
Other expense	\$(2.0)	\$(2.4)	\$ 0.4

Amortization of intangibles - Represents the amount of amortization expense that was taken on intangibles assets held by the Company.

The decrease of \$0.5 million is primarily related to intangible assets that became fully amortized during the second quarter of the prior year.

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

In the prior year, a gain of \$13.4 million was taken on the AngioVac product as a result of decreases in future sales projections that eliminated any payments above the minimums and a gain of \$3.1 million on the TiLo product as the milestone will not be achieved. The normal amortization of the present value discount on the contingent liabilities was approximately \$0.1 million per quarter for the first two quarters of fiscal year 2018. In the third quarter the amortization is now less than \$0.1 million as the final minimum payment was made on AngioVac in the second quarter of fiscal 2018.

Acquisition, restructuring and other items, net - Represents costs associated with mergers and acquisitions, restructuring expenses, legal costs that are related to litigation that is not in the ordinary course of business, legal settlements and other one-time items.

Acquisition, restructuring and other items, net decreased by \$0.1 million compared to the prior year. The decrease is attributable to the following:

In the prior year there was a \$2.0 million write-off of Embomedics due to termination of the agreement and \$3.6 million related to the decision to discontinue our investment in the TiLo product.

There was \$4.2 million of expense related to the plant consolidation that was announced in the third quarter of fiscal year 2017. The expense consisted mainly of severance of \$1.5 million and costs to move the product lines including equipment transfer expenses, accelerated depreciation for assets that will not be transferred, product validation and other start up costs of \$2.6 million. In the prior year, there was \$0.2 million recorded for severance as of the end of the third quarter.

Legal expenses, related to litigation that is outside of the normal course of business, of \$7.3 million were recorded in the current year compared to \$5.2 million in the prior year.

Other expenses - Other expenses include interest expense, foreign currency impacts, bank fees, and amortization of deferred financing costs.

The decrease of \$0.4 million was due to the prior year write-off of \$0.7 million of deferred financing fees related to the original credit facility, offset partially by higher interest expense as a result of increased interest rates.

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Income Tax Provision (Benefit)	Nine months ended	
	Feb 28, 2018	Feb 28, 2017
Income tax expense (benefit)	\$(10.1)	\$4.0
Effective tax rate including discrete items	(244.0)%	18.1 %

Our effective tax rate including discrete items for the three month periods ended February 28, 2018 and 2017 was (244.0)% and 18.1%, respectively.

The estimated annual effective tax rate, however, prior to discrete items was 4.9% in the third quarter of fiscal 2018, as compared to 42.9% for the same period in fiscal 2017. The Company's effective tax rate differs from the U.S. statutory rate primarily due to the valuation allowance, foreign taxes and state taxes. The change from the prior quarter fiscal year 2017 is principally related to the enactment of the Tax Cuts and Jobs Act ("Tax Reform Act") as it relates to amortization of goodwill for tax purposes which will no longer be treated as a permanent item in our tax provision.

On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system, expanding the tax base and imposing a tax deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate federal income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company has recognized the impact of the Tax Reform Act in these unaudited consolidated financial statements and related disclosures. Staff Accounting Bulletin No. 118 ("SAB 118") provides Companies with guidance on accounting for the impact of the Tax Reform Act. Specifically, SAB 118 provides for a measurement period, not to exceed one year, that begins on the date of enactment of December 22, 2017, and ends when the Company has obtained, prepared, and analyzed information needed to complete accounting requirements. In accordance with SAB 118, the Company recorded provisional amounts reflecting the impact of the Tax Reform Act in these unaudited consolidated financial statements and related disclosures.

As a result of the Tax Reform Act, in the third quarter of fiscal 2018, the Company has recognized a discrete tax benefit in the amount of \$9.3 million due to the revaluation of the Company's indefinite lived deferred tax liability related to amortizable goodwill to reflect the lower statutory rate. Because the remaining U.S. deferred tax assets are offset by a full valuation allowance, the reduction in net deferred tax assets for the lower rate was fully offset by a corresponding reduction in valuation allowance resulting in no additional tax provision. The Tax Reform Act changed the NOL carryover rules and created a new limitation on their use. NOLs created in fiscal 2018 and beyond may be carried forwarded indefinitely but are limited to 80% of taxable income in any year. As a result of this change, the Company believes it is appropriate to offset some of its indefinite lived deferred tax liability against its deferred tax assets, and as a result, recognized an estimated \$0.8 million discrete benefit in the third quarter of fiscal 2018. Additionally, this change impacts the Company's effective tax calculation on a go forward basis as the amortization of goodwill for tax purposes will no longer be treated as a permanent item in our tax provision.

The Tax Reform Act imposes a one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiaries' earnings. Based on the information available as of December 31, 2017, the Company estimated undistributed foreign earnings of approximately \$4.8 million. The taxable income arising from this deemed

repatriation is expected to result in the utilization of net operating loss carryforwards and other tax credits, offset by changes in the valuation allowance, resulting in no net impact to tax expense. In accordance with SAB 118, the estimated income tax impact associated with the one-time transition tax of zero represents our best estimate based on interpretation of the U.S. legislation as we are still accumulating data to finalize the underlying calculation. In accordance with SAB 118, estimated income tax impact associated with the one-time transition tax is considered provisional and will be finalized prior to the end of the measurement period. The ultimate impact may differ from these provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Act.

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

Liquidity and Capital Resources

Our cash and cash equivalents totaled \$52.3 million as of February 28, 2018, compared with \$47.5 million as of May 31, 2017. Marketable securities totaled \$1.3 million as of February 28, 2018 and \$1.2 million as of May 31, 2017, and consist of an auction rate security. As of February 28, 2018, total principal debt outstanding was \$93.8 million and the fair value of contingent consideration payments was \$3.2 million.

The table below summarizes our cash flows for the nine months ended February 28, 2018 and 2017:

(in thousands)	Nine Months Ended	
	Feb 28, 2018	Feb 28, 2017
Cash provided by (used in):		
Operating activities	\$17,516	\$36,752
Investing activities	(2,912)	(1,808)
Financing activities	(10,690)	(31,416)
Effect of exchange rate changes on cash and cash equivalents	834	(290)
Net change in cash and cash equivalents	\$4,748	\$3,238

During the nine months ended February 28, 2018 and 2017, cash flows consisted of the following:

Cash provided by operating activities

- With regards to working capital, the Company continues to focus on optimizing days sales outstanding (DSO) which contributed to \$2.9 million of working capital improvement. This working capital improvement was offset by increased inventory on hand of \$1.9 million and \$9.8 million of higher payments for accounts payable and accrued liabilities from May 31, 2017 through February 28, 2018.

Cash used in investing activities

\$1.6 million in fixed asset additions compared to \$2.3 million in the prior year.

- In the third quarter of fiscal year 2018, we entered into a distribution and license agreement where we recorded the upfront license of \$1.3 million as an intangible asset that will be amortized over 36 months.

Cash used in financing activities

\$3.8 million in repayments on long-term debt, consistent with the required amortization payment on the Term Loan, in the first nine months of fiscal year 2018 compared to \$22.7 million in the first nine months of fiscal year 2017. The

prior year payments include a \$16.5 million payment to pay down the Revolving Facility in full.

\$2.6 million of proceeds from stock option and ESPP activity compared to \$10.3 million in the first nine months of the prior year. The large decrease is related to the exercise of stock based awards from executive management turnover that took place in fiscal year 2017.

\$9.5 million payment on earn-out liabilities in the first nine months of fiscal year 2018 compared to \$9.9 million in the first nine months of fiscal year 2017.

\$7.8 million from the repurchase of common shares in the first nine months of fiscal year 2017. There were no repurchases of common shares in the first nine months of fiscal year 2018.

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On November 7, 2016, the Company entered into a Credit Agreement that provides for a \$100.0 million senior secured term loan facility and a \$150.0 million senior secured revolving credit facility, which includes up to a \$20.0 million sublimit for letters of credit and a \$5.0 million sublimit for swingline loans.

We believe that our current cash and investment balances, together with future cash generated from operations and our revolving credit facility capacity of up to \$150.0 million as of February 28, 2018, will provide sufficient liquidity to meet our anticipated needs for capital for at least the next 12 months. If we seek to make significant acquisitions of other businesses or technologies in the future, we may require additional external financing.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

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

We transact sales in currencies other than the U.S. Dollar, particularly the Euro, British pound and Canadian dollar. Approximately 8% of our sales in the third quarter of fiscal 2018 were denominated in foreign currencies. We do not have expenses denominated in foreign currencies at the level of our sales and as a result, our profitability is exposed to currency fluctuations. When the U.S. Dollar strengthens, our sales and gross profit will be negatively impacted. In addition, we have assets and liabilities denominated in non-functional currencies which are remeasured at each reporting period, with the offset to changes presented as a component of Other (Expenses) Income. Significant non-functional balances include accounts receivable due from a sub-section of our international customers.

Interest Rate Risk

On November 7, 2016, we entered into the Credit Agreement which provides for a \$100 million senior secured Term Loan and a \$150 million Revolving Facility. Interest on both the Term Loan and Revolving Facility is based on a base rate or Eurodollar rate plus an applicable margin which increases as our total leverage ratio increases, with the base rate and Eurodollar rate having ranges of 0.50% to 1.25% and 1.50% to 2.25% respectively. In the event of default, the interest rate may be increased by 2.0%. A 50 basis point (0.50%) increase or decrease in the interest rate would result approximately in a \$2.0 million increase or decrease in interest expense over the life of the agreement.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist primarily of cash and cash equivalents, our credit facility and trade accounts receivable.

The Company maintains cash and cash equivalents at various institutions and performs periodic evaluations of the relative credit standings of these financial institutions to ensure their credit worthiness. In addition, the Credit Agreement is structured across five above investment grade banks. The Company has the ability to draw equally amongst the five banks which limits the concentration of credit risk of one institution.

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers that purchase products from the Company. No single customer represents more than 10% of total sales. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Although the Company does not currently foresee a significant credit risk associated with the outstanding accounts receivable, repayment is dependent upon the financial stability of our customers.

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Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting for the fiscal quarter ended February 28, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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AngioDynamics, Inc. and Subsidiaries

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

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

On January 11, 2012, C.R. Bard, Inc. ("Bard") filed a suit in the United States District Court of Utah claiming certain of our implantable port products infringe on three U.S. patents held by Bard (the "Utah Action"). Bard's Complaint sought unspecified damages and other relief. The Court denied Bard's motion for pre-trial consolidation with separate actions it filed on the same day against Medical Components, Inc. and Smiths Medical ASD, Inc., but had asked for supplemental briefing on the issue of whether to conduct a common Markman hearing. Meanwhile, we filed petitions for reexamination in the US Patent and Trademark Office ("PTO") seeking to invalidate all three patents asserted by Bard in the litigation. Our petitions were granted and 40 of Bard's 41 patent claims were rejected and, following further proceedings, the Patent Office issued a Final Rejection of all 40 claims subject to reexamination. Thereafter, Bard filed appeals to the PTO Board of Appeals and Interferences for all three reexams. The parties completed briefing on the appeals and oral argument was held on June 18, 2015. The Patent Office issued decisions in all three appeals. In one (issued on March 11, 2016 for US Patent No. 7,785,302), the rejections of six of the ten claims under reexamination were affirmed, but were reversed on four of the ten claims. In the second (issued on March 24, 2016 for U.S. Patent No. 7,959,615), the rejections of eight of the ten claims under reexamination were affirmed but the rejections of the other two of the ten claims were reversed. In the third (issued on March 29 for U.S. Patent No. 7,947,022) the rejections of all twenty claims under reexamination were affirmed. Thereafter, Bard filed Requests for Rehearing in all three reexamination appeals and the Company filed Requests for Rehearing in two of the reexamination appeals (the '302 and '615 patent reexaminations). Each party filed comments in Opposition to the other party's Rehearing Requests, The PTO denied all three Rehearing Requests - - on February 1, 2017 for the '302; on February 17, 2017 for the '022; and on February 21, 2017 for the '615, but modified its characterization of one prior art reference for the '302 and '022 decisions. Bard filed a Notice of Appeal to the Federal Circuit Court of Appeals in all three reexams and the Company filed Cross-Appeals for the '302 and the '615 reexams. The parties have completed the process of filing the various appellate briefs, starting with Bard's Opening Brief (filed on August 30, 2017), the Company's Responsive/Opening Brief (filed on November 9, 2017), Bard's reply (filed on January 19, 2018) and our Reply Brief (filed on March 5, 2018). MedComp also filed an Amicus Brief in support of the Company on November 22, 2017. A date for the oral hearing has not yet been set. The Utah Action has been stayed pending final resolution of the PTO process. In the Federal Circuit appeal, Bard moved to substitute Bard Peripheral Vascular, Inc. ("BPV") as the Appellant (because Bard assigned the Asserted Patents to BPV on July 12, 2017) or, alternatively, to add BPV as Co-Appellant. The Company opposed substitution; and the Federal Circuit added BPV as Co-Appellant. However, in the District court case, Bard moved only to substitute BPV as plaintiff, but the Company has opposed. The District Court denied Bard's motion to substitute on February 7, 2018. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

On March 10, 2015, C.R. Bard, Inc. ("Bard") and Bard Peripheral Vascular, Inc. ("BPV") filed suit in the United States District Court for the District of Delaware claiming certain of our implantable port products infringe on 3 U.S. patents held by Bard (the "Delaware Action"). Bard's complaint seeks unspecified damages and other relief. The patents asserted in the Delaware Action are different than those asserted in the Utah Action. On June 1, 2015, the Company filed 2 motions in response to Bard's Complaint - one sought transfer to the District of Utah where the Utah Action is currently pending, and the other sought dismissal of the entire complaint on grounds that none of the claims in the asserted patents is directed to patent eligible subject matter under Section 101 of the Patent Statute and in light of recent authority from the U. S. Supreme Court.

On January 12, 2016, the Court issued a decision denying both motions. The Company then served an Answer and Counterclaim to which Bard served a Reply. On March 10, 2016, the Court held a Case Management Conference, and, on March 14, 2016, the Court entered a Scheduling Order which set, inter alia, a Markman hearing for March 10, 2017, a summary judgment hearing for December 8, 2017 and trial for March 12, 2018. The parties thereafter served various discovery requests on each other, produced documents to each other, conducted party and third-party depositions, etc.; on May 27, 2016 Bard served its Initial Infringement Contentions which identified all the port products accused of infringement; and, on June 24, 2016, the Company served its Initial Invalidity Contentions which detail various grounds for invalidating the three asserted patents. The Markman hearing was held on March 10, 2017 and the Court issued its Claim Construction Order on May 19, 2017. On May 19, 2017, Bard served its Final Infringement Contentions and on June 2, 2017, the Company served its Final Invalidity Contentions. In August, 2017, Judge Robinson (who had been assigned to the case) retired and the case was reassigned to Judge Bataillon (who normally sits in the District of Nebraska). The Scheduling Order has been amended and currently provides for briefing on Case-Dispositive Motions (and other pre-trial motions) between February 16, 2018 and April

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27, 2018 (no oral argument date is currently set) and trial to commence July 23, 2018. The parties completed Expert Discovery on January 30, 2018; including: exchanging opening, rebuttal and supplemental expert reports on infringement, invalidity, and damages between September 1, 2017 and December 12, 2017, and conducted expert depositions between December 7, 2017 and January 30, 2018. Meanwhile, Bard also sought to substitute BPV as plaintiff in this case via a Supplemental Complaint, but stipulated that the Company could assert in Cross-Claims and/or Third-Party Complaint against C. R. Bard for its claims of inequitable conduct and unclean hands, which the Company has since done. BPV responded with a partial Motion to Dismiss and the Company has served an amended Answer, Counterclaims and Cross-Claims/Third-Party Complaint. Bard and BPV have since answered/responded to the Company's Cross-Claims/Complaint without renewing the dismissal motion. We believe these claims are without merit and intend to defend them vigorously. We have not recorded an expense related to the outcome of this litigation because it is not yet possible to determine if a potential loss is probable nor reasonably estimable.

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

On May 30, 2017, we commenced an action in the United States District Court for the Northern District of New York entitled AngioDynamics, Inc. v. C.R. Bard, Inc. and Bard Access Systems, Inc. ("Bard"). In this action, we allege that Bard has illegally tied the sales of its tip location systems to the sales of its PICCs. We allege that this practice violates the federal antitrust laws and has had, and continues to have, an anti-competitive effect in the market for PICCs. We seek both monetary damages and injunctive relief. Bard moved to dismiss on September 8, 2017 and the motion has been submitted to the court. The court has adjourned the initial conference in the case pending its resolution of the motion to dismiss.

Governmental Investigations

In June 2014 we received a subpoena from the U.S. Department of Justice (the "DOJ") requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding BTG International, Inc.'s LC Bead® product beginning in 2003. RITA Medical Systems and AngioDynamics, Inc., after its acquisition of RITA, was the exclusive distributor of LC Beads in the United States from 2006 through December 31, 2011. We are cooperating fully with this investigation.

In April 2015 we received a subpoena from the DOJ requesting documents in relation to a criminal and civil investigation the DOJ is conducting regarding purported promotion of certain of AngioDynamics' VenaCure EVLT products for un-cleared indications. We are cooperating fully with this investigation.

As of May 31, 2017, the Company accrued \$12.5 million for these matters and in August 2017 the Company agreed in principle with the government to resolve these matters for approximately \$12.5 million.

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Item 1A. Risk Factors.

In addition to information set forth in this report, you should carefully consider the factors discussed in “Part I, Item 1A. Risk Factors” of our annual report on Form 10-K for our fiscal year ended May 31, 2017 which set forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. You should review and consider such Risk Factors in making any investment decision with respect to our securities. An investment in our securities continues to involve a high degree of risk. There have been no material changes to the risk factors previously disclosed in our annual report on Form 10-K.

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

The following table provides information with respect to the shares of the Company's common stock repurchased during the three months ended February 28, 2018:

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
December 1 - December 31, 2017	—	\$ —	—	\$ —
January 1 - January 31, 2018	981	\$ 16.59	—	\$ —
February 1 - February 28, 2018	—	\$ —	—	\$ —
Total	981	\$ 16.59	—	—

(1) Reflects shares withheld to satisfy minimum statutory tax withholding amounts due from employees related to the vesting of restricted shares from equity-based awards.

(2) The Company has \$11.4 million available to repurchase under the Repurchase Program that was approved by the Board of Directors for the twenty-four month period ending November 6, 2018.

Item 3. Defaults on Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

EXHIBIT INDEX

No.	Description
31.1	<u>Certification pursuant to Rule 13a-14(a) or 15d-14 under the Securities Exchange Act of 1934.</u>
31.2	<u>Certification pursuant to Rule 13a-14(a) or 15d-14 under the Securities Exchange Act of 1934.</u>
32.1	<u>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</u>
32.2	<u>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</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Documents
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Documents
101.PRE	XBRL Presentation Linkbase Documents

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SIGNATURES

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

ANGIODYNAMICS, INC.
(Registrant)

Date: April 5, 2018 / S / JAMES C. CLEMMER
James C. Clemmer, President,
Chief Executive Officer
(Principal Executive Officer)

Date: April 5, 2018 / S / MICHAEL C. GREINER
Michael C. Greiner, Executive Vice President,
Chief Financial Officer
(Principal Financial and Accounting Officer)