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EZ EM INC
Form 10-Q
October 15, 2002

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 August 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-11479

E-Z-EM, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-1999504

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

717 Main Street, Westbury, New York

(Address of principal executive offices)

11590

(Zip Code)

(516) 333-8230

Registrant's telephone number, including area code

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

Yes No

As of October 8, 2002, there were 4,001,341 shares of the issuer's Class A common stock outstanding and 5,990,974 shares of the issuer's Class B common stock outstanding.

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E-Z-EM, Inc. and Subsidiaries

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS (in thousands)

ASSETS	August 31, 2002 ----- (unaudited)	June 1, 2002 ----- (audited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,356	\$ 8,019
Debt and equity securities	13,316	16,045

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Accounts receivable, principally trade, net	18,003	17,721
Inventories	26,874	26,251
Other current assets	4,588	4,218
	-----	-----
Total current assets	69,137	72,254
PROPERTY, PLANT AND EQUIPMENT - AT COST, less accumulated depreciation and amortization	19,233	19,187
GOODWILL, less accumulated amortization	370	377
INTANGIBLE ASSETS, less accumulated amortization	1,493	1,557
DEBT AND EQUITY SECURITIES	1,052	1,984
INVESTMENTS AT COST	900	600
OTHER ASSETS	6,704	6,322
	-----	-----
	\$ 98,889	\$102,281
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

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

LIABILITIES AND STOCKHOLDERS' EQUITY	August 31, 2002	June 1, 2002
	-----	-----
	(unaudited)	(audited)
CURRENT LIABILITIES		
Notes payable	\$ 711	\$ 698
Current maturities of long-term debt	202	179
Accounts payable	6,868	6,841
Accrued liabilities	6,129	7,292
Accrued income taxes	115	498
	-----	-----
Total current liabilities	14,025	15,508
LONG-TERM DEBT, less current maturities	320	327
OTHER NONCURRENT LIABILITIES	2,994	2,924
	-----	-----
Total liabilities	17,339	18,759
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		

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Preferred stock, par value \$.10 per share - authorized, 1,000,000 shares; issued, none		
Common stock		
Class A (voting), par value \$.10 per share - authorized, 6,000,000 shares; issued and outstanding 4,001,341 shares at August 31, 2002 and 4,002,188 shares at June 1, 2002 (excluding 52,859 shares held in treasury at June 1, 2002)	400	400
Class B (non-voting), par value \$.10 per share - authorized, 10,000,000 shares; issued and outstanding 5,990,974 shares at August 31, 2002 and 5,983,517 shares at June 1, 2002 (excluding 430,789 shares held in treasury at June 1, 2002)	599	598
Additional paid-in capital	21,057	21,062
Retained earnings	62,982	63,723
Accumulated other comprehensive loss	(3,488)	(2,261)
	-----	-----
Total stockholders' equity	81,550	83,522
	-----	-----
	\$ 98,889	\$ 102,281
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

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

	Thirteen weeks ended	
	August 31, 2002	September 1, 2001
	-----	-----
Net sales	\$ 30,280	\$ 27,641
Cost of goods sold	17,783	16,971
	-----	-----
Gross profit	12,497	10,670
	-----	-----
Operating expenses		
Selling and administrative	12,027	9,465
Research and development	1,589	1,481
	-----	-----
Total operating expenses	13,616	10,946
	-----	-----
Operating loss	(1,119)	(276)
Other income (expense)		
Interest income	70	152
Interest expense	(69)	(70)
Other, net	316	120
	-----	-----

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Loss before income taxes	(802)	(74)
Income tax provision (benefit)	(61)	38
	-----	-----
NET LOSS	\$ (741)	\$ (112)
	=====	=====
Loss per common share		
Basic and diluted	\$ (.07)	\$ (.01)
	=====	=====
Weighted average common shares		
Basic and diluted	9,994	9,853
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Thirteen weeks ended August 31, 2002

(unaudited)

(in thousands, except share data)

	Class A common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accu o compr l
	Shares	Amount	Shares	Amount			
Balance at June 1, 2002	4,002,188	\$400	5,983,517	\$598	\$21,062	\$63,723	\$ (2
Exercise of stock options			22,962	2	99		
Income tax benefits on stock options exercised					33		
Compensation related to stock option plans					1		
Purchase of treasury stock	(847)		(15,505)	(1)	(138)		
Net loss						(741)	
Unrealized holding loss on debt and equity securities							
Foreign currency translation adjustments							
Comprehensive loss	-----	-----	-----	-----	-----	-----	-----
Balance at August 31, 2002	4,001,341	\$400	5,990,974	\$599	\$21,057	\$62,982	\$ (3
	=====	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of this statement.

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E-Z-EM, Inc. and Subsidiaries

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

	Thirteen weeks ended	
	August 31, 2002	September 1, 2001
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (741)	\$ (112)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	781	707
Provision for (reduction in) doubtful accounts	122	(28)
Deferred income tax provision	4	2
Other non-cash items	1	2
Changes in operating assets and liabilities		
Accounts receivable	(404)	3,087
Inventories	(623)	(1,174)
Other current assets	(370)	1,516
Other assets	(308)	(152)
Accounts payable	27	569
Accrued liabilities	(1,163)	(676)
Accrued income taxes	(354)	25
Other noncurrent liabilities	69	50
	-----	-----
Net cash provided by (used in) operating activities	(2,959)	3,816
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(834)	(762)
Investments at cost	(300)	(600)
Available-for-sale securities		
Purchases	(32,467)	(26,240)
Proceeds from sale	35,196	26,127
	-----	-----
Net cash provided by (used in) investing activities	1,595	(1,475)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of debt	31	147
Repayments of debt	(56)	(75)
Proceeds from exercise of stock options	101	
Purchase of treasury stock	(139)	(27)
	-----	-----
Net cash provided by (used in) financing activities	(63)	45
	-----	-----

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E-Z-EM, Inc. and Subsidiaries

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

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	Thirteen weeks ended	
	August 31, 2002	September 1, 2001
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	\$ (236)	\$ (7)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,663)	2,379
Cash and cash equivalents		
Beginning of period	8,019	4,391
	-----	-----
End of period	\$ 6,356	\$ 6,770
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid (refunded) during the period for:		
Interest	\$ 15	\$ 22
	=====	=====
Income taxes paid (refunded) (net of payments of \$224 in 2001)	\$ 664	\$ (591)
	=====	=====

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2002 and September 1, 2001
(unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of August 31, 2002, the consolidated statement of stockholders' equity and comprehensive loss for the period ended August 31, 2002, and the consolidated statements of operations and cash flows for the periods ended August 31, 2002 and September 1, 2001, have been prepared by the Company without audit. The consolidated balance sheet as of June 1, 2002 was derived from audited consolidated financial statements. In the opinion of management, all adjustments (which include only normally recurring adjustments) necessary to present fairly the financial position, changes in stockholders' equity and comprehensive loss, results of operations and cash flows at August 31, 2002 (and for all periods presented) have been made.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the fiscal 2002 Annual Report

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on Form 10-K filed by the Company on August 29, 2002. The results of operations for the periods ended August 31, 2002 and September 1, 2001 are not necessarily indicative of the operating results for the respective full years.

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

NOTE B - EARNINGS PER COMMON SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share are based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the period. Potential common shares were excluded from the diluted calculation for the thirteen weeks ended August 31, 2002 and September 1, 2001, as their effects were anti-dilutive.

Excluded from the calculation of earnings per common share, are options to purchase 1,395,780 and 1,540,010 shares of common stock at August 31, 2002 and September 1, 2001, respectively, as their inclusion would be anti-dilutive. The range of exercise prices on the excluded options was \$3.66 to \$12.49 per share at August 31, 2002 and September 1, 2001.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

August 31, 2002 and September 1, 2001
(unaudited)

NOTE C - EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As of June 2, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", while retaining many of the requirements of such statement. The adoption of this statement had no effect on the Company's results of operations or financial position.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this statement is not expected to have a material impact on the Company's results of operations or financial position.

NOTE D - COMPREHENSIVE LOSS

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

	Thirteen weeks ended	
	August 31, 2002	September 1, 2001
	-----	-----
	(in thousands)	
Net loss	\$ (741)	\$ (112)
Unrealized holding loss on debt and equity securities	(851)	(445)
Foreign currency translation adjustments	(376)	(65)
	-----	-----
Comprehensive loss	\$ (1,968)	\$ (622)
	=====	=====

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

	August 31, 2002	June 1, 2002
	-----	-----
	(in thousands)	
Unrealized holding gain (loss) on debt and equity securities	\$ (33)	\$ 818
Cumulative translation adjustments	(3,455)	(3,079)
	-----	-----
Accumulated other comprehensive loss	\$ (3,488)	\$ (2,261)
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

August 31, 2002 and September 1, 2001
(unaudited)

NOTE E - INVESTMENT AT COST

In August 2001, the Company acquired 240,000 shares of the Series B Convertible Preferred Stock, or approximately 5%, of PointDx, Inc. ("PointDx") for \$600,000. PointDx, a Delaware corporation based in Winston-Salem, North Carolina, is an emerging medical technology company focused on the development of virtual colonoscopy software and structured reporting solutions for radiology. Virtual colonoscopy is an innovative technology which visualizes the colon using advanced CT imaging and 3-D computer reconstruction of that image data. The Company also acquired a three-year warrant to purchase an additional 120,000 shares of the Series B Convertible Preferred Stock at \$2.50 per share, and the right to designate one nominee for the PointDx board of directors. The Company's investment in PointDx is accounted for by the cost method.

NOTE F - INVENTORIES

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Inventories consist of the following:

	August 31, 2002 -----	June 1, 2002 -----
	(in thousands)	
Finished goods	\$14,103	\$13,939
Work in process	2,119	2,237
Raw materials	10,652	10,075
	-----	-----
	\$26,874	\$26,251
	=====	=====

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

August 31, 2002 and September 1, 2001
(unaudited)

NOTE G - COMMON STOCK

Under the 1983 and 1984 Stock Option Plans, options for 22,962 shares were exercised at prices ranging from \$3.89 to \$5.63 per share, options for 3,253 shares were forfeited at prices ranging from \$4.22 to \$5.63 per share, and no options were granted or expired during the thirteen weeks ended August 31, 2002. Under the 1997 AngioDynamics Stock Option Plan, options for 1.14 shares were forfeited at \$40,000 per share, and no options were granted, exercised or expired during the thirteen weeks ended August 31, 2002.

During the thirteen weeks ended August 31, 2002, the Company concluded a program to repurchase 500,000 shares of its Class A and Class B common stock. In aggregate, the Company repurchased 53,706 shares of Class A common stock and 446,294 shares of Class B common stock for approximately \$3,548,000, of which 847 shares of Class A common stock and 15,505 shares of Class B common stock for approximately \$139,000 were repurchased during the thirteen weeks ended August 31, 2002. Effective August 15, 2002, the Company retired all treasury shares.

On July 25, 2002, the Board of Directors approved a previously announced plan to combine the Company's two currently outstanding classes of common stock - Class A and Class B - into a single class of common stock. The Company will submit the proposed transaction to a vote of its stockholders at the Company's Annual Meeting of Stockholders currently scheduled for October 15, 2002. The Company expects the proposed transaction to be tax-free to the Company and the holders of the Company's Class A and Class B shares.

NOTE H - SUBSEQUENT EVENT

Subsequent to August 31, 2002, the Company closed on the financing for a facility expansion. This expansion will be principally financed with Industrial Revenue Development Bonds aggregating \$3,500,000.

NOTE I - OPERATING SEGMENTS

The Company is engaged in the manufacture and distribution of a wide variety of products which are classified into two operating segments: E-Z-EM products,

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formerly called the Diagnostic products operating segment, and AngioDynamics products. E-Z-EM products include X-ray fluoroscopy products, CT imaging products, virtual colonoscopy products, specialty diagnostic tests, and accessory medical products and devices. The E-Z-EM segment also includes third-party contract manufacturing of diagnostic contrast agents, pharmaceuticals, non-prescription healthcare products and defense decontaminants. AngioDynamics products include angiographic products and accessories, image-guided vascular access products, dialysis products, thrombolytic products, PTA dilation catheters, biliary stents, and drainage products used in the interventional radiology marketplace.

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E-Z-EM, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

August 31, 2002 and September 1, 2001
(unaudited)

NOTE I - OPERATING SEGMENTS (continued)

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

	Thirteen weeks ended	
	August 31, 2002	September 1, 2001
	----	----
	(in thousands)	
Net sales to external customers		
E-Z-EM products	\$ 22,183	\$ 21,067
AngioDynamics products	8,097	6,574
	-----	-----
Total net sales to external customers	\$ 30,280	\$ 27,641
	=====	=====
Intersegment net sales		
AngioDynamics products	\$ 231	\$ 169
	-----	-----
Total intersegment net sales	\$ 231	\$ 169
	=====	=====
Operating profit (loss)		
E-Z-EM products	\$ (1,675)	\$ (478)
AngioDynamics products	560	205
Eliminations	(4)	(3)
	-----	-----
Total operating loss	\$ (1,119)	\$ (276)
	=====	=====
Net earnings (loss) (1)		
E-Z-EM products	\$ (1,069)	\$ (82)
AngioDynamics products	332	(27)
Eliminations	(4)	(3)
	-----	-----
Total net loss	\$ (741)	\$ (112)
	=====	=====
	August 31,	June 1,

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	2002 ----	2002 ----
	(in thousands)	
Assets		
E-Z-EM products	\$ 107,410	\$ 110,421
AngioDynamics products	19,671	20,046
Eliminations	(28,192)	(28,186)
	-----	-----
Total assets	\$ 98,889 =====	\$ 102,281 =====

(1) Effective June 2, 2002 and for fiscal 2003, E-Z-EM's loans to AngioDynamics are non-interest bearing. For the thirteen weeks ended September 1, 2001, interest charges on such loans were \$216,000.

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

of Operations

Quarters ended August 31, 2002 and September 1, 2001

The Company's quarters ended August 31, 2002 and September 1, 2001 both represent thirteen weeks.

Results of Operations

Segment Overview

The Company operates in two industry segments: E-Z-EM products and AngioDynamics products. The E-Z-EM operating segment includes X-ray fluoroscopy products, CT imaging products, virtual colonoscopy products, specialty diagnostic tests, and accessory medical products and devices. The E-Z-EM segment also includes third-party contract manufacturing of diagnostic contrast agents, pharmaceuticals, non-prescription healthcare products and defense decontaminants. The AngioDynamics operating segment includes angiographic products and accessories, image-guided vascular access products, dialysis products, thrombolytic products, PTA dilation catheters, biliary stents, and drainage products used in the interventional radiology marketplace.

	E-Z-EM -----	AngioDynamics -----	Eliminations -----	Total -----
	(in thousands)			
Quarter ended August 31, 2002				
Unaffiliated customer sales	\$22,183	\$8,097	-	\$30,280
Intersegment sales	-	231	(\$231)	--
Gross profit (loss)	8,333	4,168	(4)	12,497
Operating profit (loss)	(1,675)	560	(4)	(1,119)

Quarter ended September 1, 2001

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Unaffiliated customer sales	\$21,067	\$6,574	-	\$27,641
Intersegment sales	-	169	(\$169)	--
Gross profit (loss)	7,492	3,181	(3)	10,670
Operating profit (loss)	(478)	205	(3)	(276)

E-Z-EM Products

E-Z-EM segment operating losses for the current quarter increased by \$1,197,000 due to increased operating expenses, partially offset by increased sales and improved gross profit. Net sales increased 5%, or \$1,116,000, due primarily to increased sales of CT imaging contrast and injector systems of \$1,222,000 and contract manufacturing products of \$561,000, partially offset by decreased sales of X-ray fluoroscopy products of \$882,000. Price increases had little effect on net sales for the current quarter. Gross profit, expressed as a percentage of net sales, improved to 38% for the current quarter, from 36% for the comparable quarter of the prior year, due primarily to increased production throughput at the Company's Westbury facility. Increased operating expenses of \$2,038,000 can be attributed, in large part, to: i) increased selling and marketing infrastructure and promotional activities to support the Company's CT injector and virtual colonoscopy businesses; ii) costs associated with the Company's planned common stock recapitalization of \$582,000; and iii) increased severance costs of \$329,000.

AngioDynamics Products

AngioDynamics segment operating profit improved by \$355,000 in the current quarter due to increased sales and improved gross profit, partially offset by

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increased operating expenses. Net sales increased 23%, or \$1,523,000, due primarily to increased sales of dialysis products of \$834,000, PTA dilation catheters of \$221,000, image-guided vascular access products of \$198,000, angiographic products of \$116,000 and thrombolytic products of \$110,000. Price increases had little effect on net sales for the current quarter. Gross profit, expressed as a percentage of net sales, improved to 50% for the current quarter, from 47% for the comparable quarter of the prior year, due primarily to favorable changes in sales product mix and improved manufacturing efficiencies at the Company's Queensbury, New York facility, resulting, in large part, from increased automation in the manufacture of angiographic catheters. Operating expenses increased \$632,000 due, in large part, to the continued expansion of the domestic sales force, investment in new product introductions and increased research and development expenses.

Consolidated Results of Operations

For the quarter ended August 31, 2002, the Company reported a net loss of \$741,000, or (\$.07) per common share on both a basic and diluted basis, as compared to a net loss of \$112,000, or (\$.01) per common share on both a basic and diluted basis, for the comparable period of last year. Results for the current quarter were adversely affected by increased operating expenses in both segments, partially offset by increased sales and improved gross profit in both segments.

Net sales for the quarter ended August 31, 2002 increased 10%, or \$2,639,000, as compared to the quarter ended September 1, 2001, due to increased sales of AngioDynamics products of \$1,523,000 and E-Z-EM products of \$1,116,000, which resulted from the factors previously disclosed in the segment overview. Price

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increases had little effect on net sales for the current quarter. Net sales in international markets, including direct exports from the U.S., increased 17%, or \$1,264,000, for the current quarter from the comparable period of last year due, in large part, to increased sales of contract manufacturing products of \$561,000 and CT imaging contrast and injector systems of \$366,000.

Gross profit, expressed as a percentage of net sales, increased to 41% for the current quarter from 39% for the comparable quarter of the prior year due to improved gross profit in both the AngioDynamics and E-Z-EM segments, which resulted from the factors previously disclosed in the segment overview.

Selling and administrative ("S&A") expenses were \$12,027,000 for the quarter ended August 31, 2002 compared to \$9,465,000 for the quarter ended September 1, 2001. This increase of \$2,562,000, or 27%, for the current quarter was due to increased E-Z-EM S&A expenses of \$2,153,000 and increased AngioDynamics S&A expenses of \$409,000. Increased E-Z-EM S&A expenses can be attributed, in large part, to: i) increased selling and marketing infrastructure and promotional activities to support the Company's CT injector and virtual colonoscopy businesses; ii) costs associated with the Company's planned common stock recapitalization of \$582,000; and iii) increased severance costs of \$329,000. Increased AngioDynamics S&A expenses resulted, in large part, from the continued expansion of its domestic sales force and investment in new product introductions.

Research and development ("R&D") expenditures increased 7% for the current quarter to \$1,589,000, or 5% of net sales, from \$1,481,000, or 5% of net sales, for the comparable quarter of the prior year due primarily to increased spending relating to AngioDynamics projects of \$223,000, partially offset by reduced spending relating to X-ray fluoroscopy and CT imaging projects of \$123,000. Of the R&D expenditures for the current quarter, approximately 37% relate to X-ray fluoroscopy and CT imaging projects, 36% to AngioDynamics projects, 16% to general regulatory costs, 10% to virtual colonoscopy projects and 1% to specialty diagnostic projects. R&D expenditures are expected to continue at approximately current levels.

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Other income, net of other expenses, totaled \$317,000 of income for the current quarter compared to \$202,000 of income for the comparable period of last year. This increase was due primarily to an increase in foreign currency exchange gains of \$194,000, partially offset by decreased interest income of \$82,000 resulting, in large part, from lower interest rates.

For the quarter ended August 31, 2002, the Company's unusually low effective tax benefit rate of 8% differed from the Federal statutory tax rate of 34% due to non-deductible expenses, primarily related to the Company's planned common stock recapitalization. For the quarter ended September 1, 2001, the Company reported an income tax provision of \$38,000 against a loss before income taxes of \$74,000 due primarily to non-deductible expenses.

Liquidity and Capital Resources

For the quarter ended August 31, 2002, capital expenditures and the purchase of treasury stock were funded by cash reserves. The Company's policy has been to fund capital requirements without incurring significant debt. At August 31, 2002, debt (notes payable, current maturities of long-term debt and long-term debt) was \$1,233,000 as compared to \$1,204,000 at June 1, 2002. The Company has available \$1,283,000 under a bank line of credit of which no amounts were outstanding at August 31, 2002.

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At August 31, 2002, approximately \$19,672,000, or 20%, of the Company's assets consisted of short-term debt and equity securities and cash and cash equivalents. The current ratio was 4.93 to 1, with net working capital of \$55,112,000, at August 31, 2002, as compared to a current ratio of 4.66 to 1, with net working capital of \$56,746,000, at June 1, 2002.

During the quarter ended August 31, 2002, the Company began the expansion of the AngioDynamics headquarters and manufacturing facility in Queensbury, New York, and, to date, has expended approximately \$163,000 on this project. The Company expects this expansion to cost approximately \$3,500,000, most of which will be expended in fiscal 2003. This expansion is being financed principally with Industrial Revenue Development Bonds aggregating \$3,500,000.

During the quarter ended August 31, 2002, the Company concluded a program to repurchase 500,000 shares of its Class A and Class B common stock. In aggregate, the Company repurchased 53,706 shares of Class A common stock and 446,294 shares of Class B common stock for approximately \$3,548,000, of which 847 shares of Class A common stock and 15,505 shares of Class B common stock for approximately \$139,000 were repurchased during the quarter ended August 31, 2002. Effective August 15, 2002, the Company retired all treasury shares.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are intended to be covered by the safe harbors created thereby. Words such as "expects", "intends", "anticipates", "plans", "believes", "seeks", "estimates", or variations of such words and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the ability of the Company to develop its products, future actions by the U.S. Food and Drug Administration or other regulatory agencies, results of pending or future clinical trials, overall economic conditions, general market conditions, foreign currency exchange rate fluctuations, the effects on pricing from group purchasing organizations, and competition, including alternative procedures which continue to replace traditional fluoroscopic procedures. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be

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inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

Critical Accounting Policies

The Company's significant accounting policies are summarized in Note A to the Consolidated Financial Statements included in the Company's fiscal 2002 Annual Report on Form 10-K. While all these significant accounting policies impact its financial condition and results of operations, the Company views certain of these policies as critical. Policies determined to be critical are those

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policies that have the most significant impact on the Company's financial statements and require management to use greater degree of judgment and/or estimates. Actual results may differ from those estimates.

The Company believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on the Company's consolidated results of operations, financial position or liquidity for the periods presented in this report. The accounting policies identified as critical are as follows:

Revenue Recognition - The Company recognizes revenues in accordance with generally accepted accounting principles as outlined in Staff Accounting Bulletin No. 101, which requires that four basic criteria be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) product delivery, including customer acceptance, has occurred or services have been rendered; (3) the price is fixed or determinable; and (4) collectibility is reasonably assured. Decisions relative to criteria (4) regarding collectibility are based upon management judgments and should conditions change in the future and cause management to determine this criteria is not met, the Company's recognized results may be affected. The Company recognizes revenues as products are shipped, which is when title passes to customers.

Allowance for Doubtful Accounts - The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors agings, collections and payments from customers and a provision for estimated credit losses is maintained based upon its historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the Company's expectations and the provisions established, the Company cannot guarantee that the same credit loss rates will be experienced in the future. Concentration risk exists relative to the Company's accounts receivable, as 28% of the Company's total accounts receivable balance at August 31, 2002 is concentrated in two distributors. While the accounts receivable related to these distributors may be significant, the Company does not believe the credit loss risk to be significant given the consistent payment history of these distributors.

Income Taxes - In preparing the Company's financial statements, income tax expense is calculated for each of the jurisdictions in which the Company operates. This process involves estimating actual current taxes due plus assessing temporary differences arising from differing treatment for tax and accounting purposes that are recorded as deferred tax assets and liabilities. Deferred tax assets are periodically evaluated to determine their recoverability (based primarily on the Company's ability to generate future taxable income), and where recovery is unlikely, a valuation allowance is established and a corresponding additional tax expense is recorded in the Company's statement of

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earnings. In the event that actual results differ from the Company's estimates given changes in assumptions, the provision for income taxes could be materially impacted.

Inventories - The Company values its inventory at the lower of the actual cost to purchase and/or manufacture (on the first-in, first-out method) or the current estimated market value of the inventory. On an ongoing basis, inventory quantities on hand are reviewed and an analysis of the provision for excess and obsolete inventory is performed based primarily on product expiration dating and the Company's estimated sales forecast of product demand, which is based on

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sales history and anticipated future demand. The Company's estimates of future product demand may prove to be inaccurate, in which case the Company may have understated or overstated the provision required for excess and obsolete inventory. Therefore, although every effort is made to ensure the accuracy of the Company's forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of the Company's inventory and reported operating results.

Property, Plant and Equipment - Property, plant and equipment are depreciated principally using the straight-line method over the estimated useful lives of the assets. Useful lives are based on management's estimates of the period over which the asset will generate revenue. Any change in conditions that would cause management to change its estimate as to the useful lives of a group or class of assets may significantly impact the Company's depreciation expense on a prospective basis.

Effects of Recently Issued Accounting Pronouncements

As of June 2, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", while retaining many of the requirements of such statement. The adoption of this statement had no effect on the Company's results of operations or financial position.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this statement is not expected to have a material impact on the Company's results of operations or financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign currency exchange rates and, to a much lesser extent, interest rates on investments and financing, which could impact results of operations and financial position. The Company does not currently engage in hedging or other market risk management tools. There have been no material changes with respect to market risk previously disclosed in the fiscal 2002 Annual Report on Form 10-K.

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Foreign Currency Exchange Rate Risk

The financial reporting of the Company's international subsidiaries is denominated in currencies other than the U.S. dollar. Since the functional currency of the Company's international subsidiaries is the local currency, foreign currency translation adjustments are accumulated as a component of accumulated other comprehensive loss in stockholders' equity. Assuming a

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hypothetical aggregate change in the foreign currencies versus the U.S. dollar exchange rates of 10% at August 31, 2002, the Company's assets and liabilities would increase or decrease by \$2,304,000 and \$509,000, respectively, and the Company's net sales and net losses would increase or decrease by \$2,144,000 and \$40,000, respectively, on an annual basis.

The Company also maintains intercompany balances and loans receivable with subsidiaries with different local currencies. These amounts are at risk of foreign exchange losses if exchange rates fluctuate. Assuming a hypothetical aggregate change in the foreign currencies versus the U.S. dollar exchange rates of 10% at August 31, 2002, results of operations would be favorably or unfavorably impacted by approximately \$515,000 on an annual basis.

Interest Rate Risk

The Company is exposed to interest rate change market risk with respect to its investments in tax-free municipal bonds in the amount of \$13,280,000. The bonds bear interest at a floating rate established weekly. For the quarter ended August 31, 2002, the after-tax interest rate on the bonds approximated 1.3%. Each 100 basis point (1%) fluctuation in interest rates will increase or decrease interest income on the bonds by approximately \$133,000 on an annual basis.

As the Company's principal amount of fixed interest rate financing approximated \$1,233,000 at August 31, 2002, a change in interest rates would not materially impact results of operations or financial position. At August 31, 2002, the Company did not maintain any variable interest rate financing.

Item 4. Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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Part II: Other Information

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No. ---	Description -----	Page ----
10	Employee Stock Purchase Plan, as amended through September 30, 2002	24
99.1	Certification Pursuant to Title 18, United States Code, Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Anthony A. Lombardo)	27
99.2	Certification Pursuant to Title 18, United States Code, Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Dennis J. Curtin)	28

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the quarter ended August 31, 2002:

On July 10, 2002, the Company filed a Form 8-K reporting information under "Item 5. Other Events" and "Item 7. Financial Statements and Exhibits" announcing a plan to combine its outstanding shares of Class A common stock and Class B common stock into a single class of common stock.

On July 25, 2002, the Company filed a Form 8-K reporting information under "Item 5. Other Events" and "Item 7. Financial Statements and Exhibits" announcing that its board of directors approved a previously announced plan to combine its outstanding shares of Class A common stock and Class B common stock into a single class of common stock.

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

E-Z-EM, Inc.

(Registrant)

Date October 15, 2002

/s/ Anthony A. Lombardo

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

Date October 15, 2002

/s/ Dennis J. Curtin

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

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CERTIFICATIONS

I, Anthony A. Lombardo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of E-Z-EM, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the

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effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date October 15, 2002

/s/ Anthony A. Lombardo

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

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CERTIFICATIONS -----

I, Dennis J. Curtin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of E-Z-EM, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date October 15, 2002

/s/ Dennis J. Curtin

Dennis J. Curtin, Senior Vice
President - Chief Financial Officer