

EZ EM INC  
Form 10-Q  
January 12, 2006

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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 December 3, 2005

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.)

**1111 Marcus Avenue, Lake Success, New York**

\_\_\_\_\_  
(Address of principal executive offices)

**11042**

\_\_\_\_\_  
(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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

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Yes  No

As of January 6, 2006, there were 10,853,440 shares of the issuer's 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	December 3, 2005	May 28, 2005
	(unaudited)	(audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,441	\$ 10,183
Debt and equity securities, at fair value	18,655	18,419
Accounts receivable, principally trade, net	22,098	17,677
Inventories, net	27,460	22,822
Refundable income taxes	1,154	1,444
Other current assets	3,691	4,705
	<u>81,499</u>	<u>75,250</u>
<b>PROPERTY, PLANT AND EQUIPMENT - AT COST, less accumulated depreciation and amortization</b>	13,377	13,256
<b>INTANGIBLE ASSETS, less accumulated amortization</b>	4,495	4,867
<b>DEBT AND EQUITY SECURITIES, at fair value</b>	1,156	746
<b>OTHER ASSETS</b>	9,208	7,936
<b>NONCURRENT ASSETS HELD FOR DISPOSAL</b>	3,554	3,593
	<u>\$ 113,289</u>	<u>\$ 105,648</u>

The accompanying notes are an integral part of these statements.

## E-Z-EM, Inc. and Subsidiaries

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

<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>December 3, 2005</b>	<b>May 28, 2005</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>CURRENT LIABILITIES</b>		
Notes payable	\$ 207	\$ 347
Current maturities of long-term debt	88	99
Accounts payable	5,301	5,069
Accrued liabilities	9,013	9,916
Accrued income taxes	559	207
	<u>15,168</u>	<u>15,638</u>
Total current liabilities	15,168	15,638
LONG-TERM DEBT, less current maturities	35	85
<b>OTHER NONCURRENT LIABILITIES</b>	5,010	4,205
	<u>20,213</u>	<u>19,928</u>
Total liabilities	20,213	19,928
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$.10 per share - authorized, 1,000,000 shares; issued, none		
Common stock, par value \$.10 per share - authorized, 16,000,000 shares; issued and outstanding 10,852,740 shares at December 3, 2005 and 10,827,772 shares at May 28, 2005 (excluding 89,205 shares held in treasury at December 3, 2005 and May 28, 2005)	1,085	1,083
Additional paid-in capital	29,243	28,478
Retained earnings	58,575	54,497
Accumulated other comprehensive income	4,173	1,662
	<u>93,076</u>	<u>85,720</u>
Total stockholders equity	93,076	85,720
	<u>\$ 113,289</u>	<u>\$ 105,648</u>

The accompanying notes are an integral part of these statements.

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E-Z-EM, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF EARNINGS**

(unaudited)

(in thousands, except per share data)

	Thirteen weeks ended		Twenty-seven weeks ended December 3, 2005	Twenty-six weeks ended November 27, 2004
	December 3, 2005	November 27, 2004		
Net sales	\$ 34,204	\$ 26,222	\$ 68,988	\$ 50,234
Cost of goods sold	18,876	14,360	37,787	28,356
<b>Gross profit</b>	<b>15,328</b>	<b>11,862</b>	<b>31,201</b>	<b>21,878</b>
Operating expenses				
Selling and administrative	11,415	8,788	21,815	17,269
Plant closing and operational restructuring costs (credits)	(23)	824	135	1,425
Research and development	1,414	1,469	2,755	2,498
<b>Total operating expenses</b>	<b>12,806</b>	<b>11,081</b>	<b>24,705</b>	<b>21,192</b>
<b>Operating profit</b>	<b>2,522</b>	<b>781</b>	<b>6,496</b>	<b>686</b>
Other income (expense)				
Interest income	153	80	313	147
Interest expense	(121)	(81)	(241)	(165)
Other, net	(230)	324	(326)	1,026
<b>Earnings from continuing operations before income taxes</b>	<b>2,324</b>	<b>1,104</b>	<b>6,242</b>	<b>1,694</b>
<b>Income tax provision</b>	<b>799</b>	<b>281</b>	<b>2,164</b>	<b>240</b>
<b>Earnings from continuing operations</b>	<b>1,525</b>	<b>823</b>	<b>4,078</b>	<b>1,454</b>
<b>Earnings from discontinued operation, net of income tax provision</b>		<b>608</b>		<b>1,228</b>
<b>NET EARNINGS</b>	<b>\$ 1,525</b>	<b>\$ 1,431</b>	<b>\$ 4,078</b>	<b>\$ 2,682</b>
Basic earnings per common share				
From continuing operations	\$ 0.14	\$ 0.08	\$ 0.38	\$ 0.14
From discontinued operation, net of income tax provision		0.05		0.11

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	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net earnings	\$ 0.14	\$ 0.13	\$ 0.38	\$ 0.25
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Diluted earnings per common share				
From continuing operations	\$ 0.14	\$ 0.08	\$ 0.37	\$ 0.14
From discontinued operation, net of income tax provision		0.05		0.11
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Net earnings	\$ 0.14	\$ 0.13	\$ 0.37	\$ 0.25
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Weighted average common shares				
Basic	10,847	10,749	10,842	10,741
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Diluted	11,110	10,936	11,055	10,934
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these statements.

## E-Z-EM, Inc. and Subsidiaries

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

Twenty-seven weeks ended December 3, 2005

(unaudited)

(in thousands, except share data)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total	Comprehensive income
	Shares	Amount					
Balance at May 28, 2005	10,827,772	\$ 1,083	\$ 28,478	\$ 54,497	\$ 1,662	\$ 85,720	
Exercise of stock options	16,968	1	70			71	
Income tax benefits on stock options exercised			539			539	
Compensation related to stock option plans, net of income tax benefit			28			28	
Issuance of stock	8,000	1	128			129	
Net earnings				4,078		4,078	\$ 4,078
Unrealized holding gain on debt and equity securities					258	258	258
Foreign currency translation adjustments					2,253	2,253	2,253
Comprehensive income							\$ 6,589
Balance at December 3, 2005	10,852,740	\$ 1,085	\$ 29,243	\$ 58,575	\$ 4,173	\$ 93,076	

The accompanying notes are an integral part of this statement.



## E-Z-EM, Inc. and Subsidiaries

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

	<b>Twenty-seven weeks ended December 3, 2005</b>	<b>Twenty-six weeks ended November 27, 2004</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 4,078	\$ 2,682
Earnings from discontinued operation, net of tax		(1,228)
Adjustments to reconcile net earnings to net cash used in operating activities		
Depreciation and amortization	1,887	1,515
Gain on sale of investments		(1,406)
Provision for doubtful accounts	19	48
Tax benefit on exercise of stock options	539	286
Deferred income tax provision	21	67
Stock option compensation cost	44	385
Other non-cash items	126	98
Changes in operating assets and liabilities		
Accounts receivable	(4,440)	(712)
Inventories	(4,638)	(4,607)
Other current assets	1,304	486
Other assets	(164)	(315)
Accounts payable	232	190
Accrued liabilities	(1,545)	(52)
Accrued income taxes	352	30
Other noncurrent liabilities	155	74
Net cash provided by operating activities of discontinued operation		567
	<u>(2,030)</u>	<u>(1,892)</u>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment, net	(966)	(2,234)
Available-for-sale securities		
Purchases	(89,650)	(18,280)
Proceeds from sale	89,414	15,926
Net cash used in investing activities of discontinued operation		(11,140)
	<u>(1,202)</u>	<u>(15,728)</u>

The accompanying notes are an integral part of these statements.

## E-Z-EM, Inc. and Subsidiaries

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

	<b>Twenty-seven weeks ended December 3, 2005</b>	<b>Twenty-six weeks ended November 27, 2004</b>
	<u>          </u>	<u>          </u>
Cash flows from financing activities:		
Repayments of debt	\$ (163)	\$ (183)
Proceeds from issuance of debt		92
Proceeds from repayment of debt by discontinued operation		3,000
Dividends paid		(3,220)
Proceeds from exercise of stock options	71	225
Proceeds from issuance of stock in connection with the stock purchase plan	3	6
Cash distributed with discontinued operation		(8,453)
Net cash provided by financing activities of discontinued operation		18,958
	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	(89)	10,425
	<u>          </u>	<u>          </u>
Effect of exchange rate changes on cash and cash equivalents	1,579	2,685
	<u>          </u>	<u>          </u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,742)	(4,510)
Cash and cash equivalents		
Beginning of period	10,183	12,334
	<u>          </u>	<u>          </u>
End of period	\$ 8,441	\$ 7,824
	<u>          </u>	<u>          </u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 135	\$ 69
	<u>          </u>	<u>          </u>
Income taxes	\$ 1,056	\$ 1,526
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these statements.

E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE A NATURE OF BUSINESS AND BASIS OF PRESENTATION**

**Nature of Business**

E-Z-EM, Inc. and its subsidiaries ( the Company or E-Z-EM ) is a leading provider of medical products used by radiologists, gastroenterologists and speech language pathologists primarily in screening for and diagnosing diseases and disorders of the gastrointestinal (GI) tract. Products are used for colorectal cancer screening, evaluation of swallowing disorders (dysphagia), and testing for other diseases and disorders of the GI system. The Company is also a third-party contract manufacturer, a business that enables the Company to leverage its capacity in quality control, process, automation and manufacturing. Prior to the spin-off of AngioDynamics, Inc. ( AngioDynamics ) on October 30, 2004, the Company was also a provider of innovative medical devices used in minimally invasive, image-guided procedures to treat peripheral vascular disease, or PVD. AngioDynamics designed, developed, manufactured and marketed a broad line of therapeutic and diagnostic devices that enabled interventional physicians (interventional radiologists, vascular surgeons and others) to treat PVD and other non-coronary diseases.

**Basis of Presentation**

The consolidated balance sheet as of December 3, 2005, the consolidated statement of stockholders' equity and comprehensive income for the twenty-seven weeks ended December 3, 2005, and the consolidated statements of earnings and cash flows for the periods ended December 3, 2005 and November 27, 2004, have been prepared by the Company without audit. The consolidated balance sheet as of May 28, 2005 was derived from audited consolidated financial statements. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, changes in stockholders' equity and comprehensive income, results of operations and cash flows at December 3, 2005 (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 Annual Report on Form 10-K for the fiscal year ended May 28, 2005 filed by the Company on August 11, 2005. The results of operations for the periods ended December 3, 2005 and November 27, 2004 are not necessarily indicative of the operating results for the respective full years.

E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE A NATURE OF BUSINESS AND BASIS OF PRESENTATION (continued)**

The consolidated financial statements include the accounts of E-Z-EM, Inc. and all wholly owned subsidiaries, as well as the accounts of AngioDynamics, an 80.4%-owned subsidiary, through its spin-off on October 30, 2004. As a result of the spin-off, AngioDynamics is reported separately as a discontinued operation for the periods ended November 27, 2004 within the consolidated financial statements (see Note B. Discontinued Operation). All significant intercompany balances and transactions have been eliminated.

**NOTE B DISCONTINUED OPERATION**

On May 27, 2004, AngioDynamics, the Company's former subsidiary, sold 1,950,000 shares of its common stock at \$11.00 per share through an initial public offering (IPO). Proceeds from the IPO, net of certain financing costs, totaling \$19,949,000 were received by AngioDynamics on June 2, 2004. At May 29, 2004, E-Z-EM owned 9,200,000 shares, or 82.5% of the 11,150,000 shares outstanding. On June 15, 2004, the underwriters of the IPO exercised their over-allotment option and acquired 292,500 shares at \$11.00 per share, less underwriting discounts and commissions, and on June 18, 2004, AngioDynamics received net proceeds of \$2,992,000. At June 15, 2004, E-Z-EM's ownership interest in AngioDynamics decreased to 80.4%.

On October 30, 2004, the Company completed the spin-off of AngioDynamics by means of a tax-free distribution of the Company's remaining 80.4% ownership of AngioDynamics. In February 2004, the Company received a favorable private letter ruling from the Internal Revenue Service regarding the tax-free treatment of the distribution of E-Z-EM's remaining ownership in AngioDynamics. The Company made a pro rata distribution of its 9,200,000 shares of AngioDynamics common stock on October 30, 2004 to E-Z-EM shareholders of record as of October 11, 2004 (the Record Date). Based on the shares outstanding of each company on the Record Date, E-Z-EM shareholders received .856377 of a share of AngioDynamics stock for each share of E-Z-EM stock they owned on the Record Date. For all periods presented, AngioDynamics is accounted for as a discontinued operation in the Company's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for Impairment and Disposal of Long-Lived Assets. Amounts in the financial statements and related notes for all periods shown have been reclassified to reflect the discontinued operation.

In fiscal 2004, E-Z-EM entered into three agreements with AngioDynamics—a master separation and distribution agreement, a corporate agreement and a tax allocation and indemnification agreement—that relate to its relationship with AngioDynamics both before and after the separation of AngioDynamics from the Company. All of the agreements between the Company and AngioDynamics were made in the context of a parent-subsiary relationship and were negotiated in the overall context of the spin-off.

## E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 3, 2005 and November 27, 2004  
(unaudited)**NOTE B DISCONTINUED OPERATION (continued)**

Summarized results of operations for AngioDynamics, including minority interest, as reported in earnings from discontinued operation in the accompanying consolidated statements of earnings are as follows:

	<b>Thirteen weeks ended November 27, 2004</b>	<b>Twenty-six weeks ended November 27, 2004</b>
	(in thousands)	
Net sales		
From unaffiliated customers	\$ 9,484	\$ 22,342
From affiliates	173	420
	<u>          </u>	<u>          </u>
Total net sales	\$ 9,657	\$ 22,762
	<u>          </u>	<u>          </u>
Earnings before income taxes and minority interest	\$ 1,338	\$ 2,628
Income tax provision	579	1,103
	<u>          </u>	<u>          </u>
Earnings before minority interest	759	1,525
Minority interest	151	297
	<u>          </u>	<u>          </u>
Earnings from discontinued operation	\$ 608	\$ 1,228
	<u>          </u>	<u>          </u>

For the thirteen weeks ended November 27, 2004, the results of operations for AngioDynamics represented nine weeks activity. For the twenty-six weeks ended November 27, 2004, the results of operations for AngioDynamics represented twenty-two weeks activity.

**NOTE C - STOCK-BASED COMPENSATION**

At December 3, 2005, the Company had three stock-based compensation plans. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations. Accordingly, no compensation expense has been recognized under these plans concerning options granted to key employees and to members of the Board of Directors, as all such options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. For the thirteen weeks ended December 3, 2005 and November 27, 2004, compensation expense of \$21,000 and \$385,000, respectively, was recognized under these plans for options granted to a former director serving as a consultant. For the twenty-seven weeks ended December 3, 2005 and the twenty-six weeks ended November 27, 2004, compensation expense of \$44,000 and \$385,000, respectively, was recognized under these plans for options granted to a former director serving as a

consultant.

## E-Z-EM, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 3, 2005 and November 27, 2004  
(unaudited)

## NOTE C - STOCK-BASED COMPENSATION (continued)

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under these plans to key employees and to members of the Board of Directors:

	Thirteen weeks ended		Twenty-seven weeks ended December 3, 2005	Twenty-six weeks ended November 27, 2004
	December 3, 2005	November 27, 2004		
	(in thousands, except per share data)			
Net earnings, as reported	\$ 1,525	\$ 1,431	\$ 4,078	\$ 2,682
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of income tax effects	(272)	(222)	(558)	(580)
Pro forma net earnings	\$ 1,253	\$ 1,209	\$ 3,520	\$ 2,102
Earnings per common share				
Basic - as reported	\$ .14	\$ .13	\$ .38	\$ .25
Basic - pro forma	.12	.11	.32	.20
Diluted - as reported	\$ .14	\$ .13	\$ .37	\$ .25
Diluted - pro forma	.11	.11	.32	.19

During the twenty-seven weeks ended December 3, 2005, options for 207,500 shares were granted at \$14.48 per share, options for 16,968 shares were exercised at prices ranging from \$3.55 to \$14.23 per share, options for 995 shares expired at \$3.55 per share, and no options were forfeited under the 1983, 1984 and 2004 Stock Option Plans.

E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 3, 2005 and November 27, 2004  
(unaudited)**NOTE D - 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.

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

	<b>Thirteen weeks ended</b>		<b>Twenty-seven</b>	<b>Twenty-six</b>
	<b>December 3, 2005</b>	<b>November 27, 2004</b>	<b>weeks ended December 3, 2005</b>	<b>weeks ended November 27, 2004</b>
	(in thousands)			
Basic	10,847	10,749	10,842	10,741
Effect of dilutive securities (stock options)	263	187	213	193
Diluted	11,110	10,936	11,055	10,934

**NOTE E - EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In March 2004, the Financial Accounting Standards Board ( FASB ) Emerging Issues Task Force ( EITF ) released Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 provides guidance for determining whether impairment for certain debt and equity investments is other-than-temporary and the measurement of an impaired loss. Certain disclosure requirements of EITF 03-1 were adopted in fiscal 2004 and the Company has complied with the new disclosure requirements in its consolidated financial statements. The recognition and measurement requirements of EITF 03-1 were initially effective for reporting periods beginning after June 15, 2004. In September 2004, the FASB Staff issued FASB Staff Position ( FSP ) EITF 03-1-1 that delayed the effective date for certain measurement and recognition guidance contained in EITF 03-1. The FSP requires that entities continue to apply previously existing other-than-temporary guidance until a final consensus is reached. The Company does not anticipate that the issuance of a final consensus will materially impact its financial condition or results of operations.



E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE E - EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)**

In November 2004, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 151, Inventory Costs , an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 will improve financial reporting by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 24, 2004. The adoption of this statement is not expected to have a material impact on the Company s financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (R), Share-Based Payment , which revises SFAS No. 123, Accounting for Stock-Based Compensation and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS No. 123 (R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123 (R), only certain pro forma disclosures of fair value were required. In April 2005, the Securities and Exchange Commission adopted a new rule that amended the compliance dates of SFAS No. 123 (R) to require the implementation no later than the beginning of the first annual reporting period beginning after June 15, 2005. The adoption of this statement may have a material impact on the Company s financial condition or results of operations commencing with the fiscal quarter ending September 2, 2006.

On December 31, 2004, the FASB issued FASB Staff Position No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004, ( FSP No. 109-2 ). This staff position provides accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 ( AJCA ) that was signed into law on October 22, 2004. FSP No. 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. The Company is investigating the repatriation provision to determine whether it might repatriate extraordinary dividends, as defined in the AJCA. The Company is currently evaluating all available U.S. Treasury guidance.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 changes the requirements for the accounting for

## E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE E - EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)**

and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income for the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements. The Company does not believe the adoption of SFAS No. 154 will have a material impact on its financial condition or results of operations.

**NOTE F - COMPREHENSIVE INCOME**

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

	Thirteen weeks ended		Twenty-seven weeks ended	Twenty-six weeks ended
	December 3, 2005	November 27, 2004	December 3, 2005	November 27, 2004
	(in thousands)			
Net earnings	\$ 1,525	\$ 1,431	\$ 4,078	\$ 2,682
Unrealized holding gain on debt and equity securities:				
Arising during the period	195	776	258	1,151
Reclassification adjustment for gains included in net earnings		(688)		(1,406)
Decrease in fair value on interest rate swap arising during the period				(55)
Foreign currency translation adjustments arising during the period	496	3,277	2,253	4,153
Comprehensive income	\$ 2,216	\$ 4,796	\$ 6,589	\$ 6,525

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

	December 3, 2005	May 28, 2005
	(in thousands)	
Unrealized holding gain on debt and equity securities	\$ 566	\$ 308
Cumulative translation adjustments	3,607	1,354

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	<u>          </u>	<u>          </u>
Accumulated other comprehensive income	\$ 4,173	\$ 1,662
	<u>          </u>	<u>          </u>

E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 3, 2005 and November 27, 2004  
(unaudited)**NOTE G PLANT CLOSING AND OPERATIONAL RESTRUCTURING**

In the fourth quarter of fiscal 2005, the Company substantially completed its plan to further streamline its operations, specifically by moving its powder-based barium production in Westbury, N.Y. to its manufacturing facility in Montreal, Canada. For the twenty-seven weeks ended December 3, 2005 and the twenty-six weeks ended November 27, 2004, project costs aggregated \$135,000 and \$1,425,000, respectively. At December 3, 2005 and May 28, 2005, the liability for this restructuring, which is included in accrued liabilities, approximated \$132,000 and \$598,000, respectively. On November 30, 2005, the Company entered into an agreement to sell the property encompassing its Westbury manufacturing facility for \$5,100,000 and expects to complete the sale by the end of January 2006. As a result, no loss is expected on the sale of this property, which had a carrying value of \$3,554,000 at December 3, 2005 and has been reported as assets held for disposal in the accompanying balance sheet.

**NOTE H - INVENTORIES**

Inventories consist of the following:

	December 3, 2005	May 28, 2005
	(in thousands)	
Finished goods	\$ 12,220	\$ 10,305
Work in process	157	573
Raw materials	15,083	11,944
	<u>\$ 27,460</u>	<u>\$ 22,822</u>

**NOTE I DEBT AND EQUITY SECURITIES**

During the thirteen and twenty-six weeks ended November 27, 2004, the Company sold 100,000 shares and 200,000 shares, respectively, of its investment in Cedara Software Corporation. The Company recognized gains on these sales totaling \$688,000 and \$1,406,000, respectively, during the thirteen and twenty-six weeks ended November 27, 2004, which are included in the consolidated statements of earnings under the caption Other, net .

E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE J INCOME TAXES**

For the thirteen weeks ended November 27, 2004, the Company's effective tax rate of 25% differed from the Federal statutory tax rate of 34% due primarily to the reversal of a valuation allowance relating to a previously impaired, non-core equity security, partially offset by non-deductible expenses. For the twenty-six weeks ended November 27, 2004, the Company's effective tax rate of 14% differed from the Federal statutory tax rate of 34% due primarily to the reversal of a valuation allowance relating to a previously impaired, non-core equity security, partially offset by non-deductible expenses, including stock option compensation costs of \$377,000.

**NOTE K CONTINGENCIES**

**Litigation Matters**

The Company was named as a co-defendant in an action entitled Jeffrey Madison d/b/a Maqguide.com vs. Avail Medical Products, Inc. et al., Case No. 05CC03584 filed in Superior Court for the State of California, Orange County, on February 28, 2005. The complaint alleges that in March 2003, the Company sought a contract manufacturer to manufacture and supply certain medical products and the Company, acting through its agent, Sopheon Corporation, solicited Maqguide to assist in this process. The complaint alleges that, acting on this information, Maqguide contacted Avail Medical Products, Inc., or Avail, about this opportunity and helped negotiate a final agreement between the Company and Avail. The complaint further alleges that Maqguide had an agreement with Avail that required Avail to pay a commission to Maqguide upon the execution of the agreement with the Company. The complaint alleges 18 causes of action against all of the defendants, including breach of contract, breach of the covenant of good faith, quantum meruit, fraud and deceit, promissory estoppel, conspiracy and conversion. The complaint seeks compensatory, punitive and other monetary damages in an unspecified amount in excess of \$25,000. The Company has engaged counsel to defend this matter and believes that the allegations against it are without merit and intends to vigorously defend this action.

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E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE K CONTINGENCIES (continued)**

AngioDynamics and E-Z-EM were named as co-defendants in an action entitled Duhon, et. al vs. Brezoria Kidney Center, Inc. et. al, case no. 27084 filed in the District Court of Brezoria County, Texas, 239<sup>th</sup> Judicial District on December 29, 2003. The complaint alleged that AngioDynamics and its co-defendants, E-Z-EM and Medical Components, Inc. or Medcomp, designed, manufactured, sold, distributed and marketed a defective catheter that was used in the treatment of, and caused the death of, a hemodialysis patient, as well as committed other negligent acts. The complaint sought compensatory and other monetary damages in unspecified amounts. Under AngioDynamics distribution agreement with Medcomp, Medcomp was required to indemnify AngioDynamics against all its costs and expenses, as well as losses, liabilities and expenses (including reasonable attorneys' fees) that relate in any way to products covered by the agreement, and Medcomp accepted the defense of the action. This matter has been settled and an order for dismissal with prejudice was entered into the court on August 5, 2005.

In accordance with the Master Separation and Distribution Agreement between AngioDynamics and E-Z-EM, AngioDynamics has agreed to indemnify E-Z-EM against any claims that arise out of the business operations of AngioDynamics prior to its spin-off (October 30, 2004) in which E-Z-EM is a named defendant solely because E-Z-EM was the sole stockholder of AngioDynamics.

The Company is party to other claims, legal actions and complaints that arise in the ordinary course of business. The Company believes that any liability that may ultimately result from the resolution of these matters will not, individually or in the aggregate, have a material adverse effect on its financial position or results of operations.

**Other Matters**

During 2004, the Company was notified by a competitor that it believed specific claims contained in issued United States patents owned by this competitor may be relevant to certain features of the Company's electromechanical injector systems. In August 2005, the Company entered into a licensing arrangement covering the design and form of its injector systems as of the date of such agreement. At May 28, 2005, the Company recorded an estimated liability in this matter of \$350,000 that the Company believes relieved it of all claims relating to prior sales.

E-Z-EM, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 3, 2005 and November 27, 2004  
(unaudited)

**NOTE K CONTINGENCIES (continued)**

**Concentration of Credit Risk**

In November 2005, Merry X-Ray Corporation ( Merry X-Ray ), a significant distributor of the Company's products in the U.S., acquired SourceOne Healthcare Technologies, Inc. ( SourceOne ), the Company's largest distributor in the U.S. For the twenty-seven weeks ended December 3, 2005 and the twenty-six weeks ended November 27, 2004, sales of products to Merry X-Ray, including sales to SourceOne before its acquisition by Merry X-Ray, represented 38% and 36% of total sales, respectively. Approximately 37% of accounts receivable pertained to Merry X-Ray at December 3, 2005 and approximately 6% and 31% of accounts receivable pertained to Merry X-Ray and SourceOne, respectively, at May 28, 2005. While the accounts receivable related to Merry X-Ray are significant, the Company does not believe the credit risk to be significant given the consistent payment history of this distributor.

**NOTE L - COMMON STOCK**

**Stock Repurchase Program**

In March 2003, the Board of Directors authorized the repurchase of up to 300,000 shares of the Company's common stock at an aggregate purchase price of up to \$3,000,000. During the twenty-seven weeks ended December 3, 2005, no shares were repurchased under this program. In aggregate, the Company has repurchased 74,234 shares of common stock for approximately \$716,000 under this program.

**Cash Dividends**

In June 2004, the Company's Board of Directors declared a cash dividend of \$.30 per outstanding share of the Company's common stock. The dividend, which aggregated \$3,220,000, was distributed on July 1, 2004 to shareholders of record as of June 15, 2004. Future dividends are subject to Board of Directors' review of operations and financial and other conditions then prevailing.

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

The following information should be read together with the consolidated financial statements and the notes thereto and other information included elsewhere in this Quarterly Report on Form 10-Q.

**Forward-Looking Statements and Risk Factors**

Our disclosure and analysis in this report, including but not limited to the information discussed in this Item 2, contain forward-looking information about our company's financial results and estimates, business prospects and products in research that involve substantial risks and uncertainties. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe, will, and words and terms of similar meaning in connection with any discussion of future operations or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, the outcome of contingencies, such as legal proceedings, and financial results. Among the risk factors that could cause actual results to differ materially are the following:

our pricing flexibility is constrained by the formation of large Group Purchasing Organizations;

our reliance on our sole Canadian manufacturing facility to produce substantially all of our CT and X-ray fluoroscopy barium sulfate formulation products may impair our ability to respond to natural disasters or other adverse events, and also exposes us to the effects of changes in Canadian dollar U.S. dollar exchange rate;

we currently purchase significant amounts of finished products, product components and raw materials from several single-source suppliers;

the market dynamics and competitive environment in the healthcare industry are subject to rapid change, which may affect our operations;

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

we sell our products in the U.S. through a network of approximately 150 distributors, although one distributor accounted for approximately 37% of our net sales in fiscal 2005, which exposes us to a concentration of credit risk;

the market potential for our Reactive Skin Decontamination Lotion product is uncertain and sales in this market are complex;

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



if we fail to adequately protect our intellectual property rights, our business may suffer;

the adoption rate of virtual colonoscopy as a screening modality for colon cancer continues to be slower than we anticipated;

if we cannot obtain approval from governmental agencies for new or modified products, we will not be able to sell those products;

inadequate levels of reimbursement from governmental or other third-party payors for procedures using our products may cause our revenues to decline; and

if we incur a tax liability in connection with our spin-off of AngioDynamics, we would be required to pay a potentially significant expense, which would diminish our financial resources.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Form 10-K filing for the 2005 fiscal year listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Item 7 of that filing under the heading Risk Factors. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

#### **Overview**

We are a leading provider of medical diagnostic oral contrast agents and devices used in the diagnosis of abdominal disease. Our customers include radiologists and gastroenterologists. We are focused on becoming a worldwide CT solutions company for the computed tomography (CT) market. This focus is driven by the trend away from older fluoroscopic procedures (e.g., barium enema) to CT-based applications for imaging the abdominal tract.

We have pioneered solutions for the emerging area of Virtual Colonography, which may offer unique capabilities for the early detection of colorectal cancer, and have also developed new contrast agents (e.g., VoLumen) that focus on CT and CT Angiography applications in Multidetector CT technology. We also manufacture and market a line of CT power injectors, that deliver CT contrast agents.

We recently introduced our IRiSCT™ software technology at the Radiological Society of North America convention. We believe this software platform is the first contrast information management system to be brought to market, and will enhance both the clinical and operational efficiency of our CT power

injectors. The platform allows for multiple Empower CT power injectors to be networked to a central computer database. Injector performance and contrast utilization data is collected on a real-time basis and is automatically transferred to a central database for remote review. This information can be used to evaluate and quantify the clinical aspects of the injector's performance, thus enabling more effective and productive use in treating patients.

In addition to our products for the radiology market, we have continued to focus our efforts in the area of defense decontaminants. Reactive Skin Decontamination Lotion (RSDL) is a liquid skin decontaminant that is effective in neutralizing a broad spectrum of chemical warfare and toxic agents. On April 7, 2005, we purchased from our strategic partner, O'Dell Engineering, all its assets related to the RSDL technology, principally consisting of the marketing rights to this product. We now have exclusive, worldwide rights to the RSDL technology for the military and first-responder markets. Prior to the acquisition, we were the exclusive manufacturer of RSDL under an agreement between O'Dell Engineering and our Canadian subsidiary. We are continuing to staff key positions within our RSDL product team.

In mid-December 2004, our principal competitor, Mallinckrodt, a division of Tyco International Ltd., initiated a recall of its liquid barium products due to potential microbial contamination. As a result, we estimate that our current quarter net sales were favorably affected by \$3.0 million to \$3.2 million and our current six-month net sales were favorably affected by \$8.5 million to \$9.2 million due to our ability to provide replacement products. In the fourth quarter of our fiscal 2005, Mallinckrodt returned to market with one of their products. However, we have no specific knowledge of Mallinckrodt's plans to re-enter the market with their remaining products, but we expect their re-entry shortly. We are unable to predict the extent of the effect that Mallinckrodt's return to the market will have on our business.

**Results of Operations**

**Quarters ended December 3, 2005 and November 27, 2004**

Our quarters ended December 3, 2005 and November 27, 2004 both represent thirteen weeks.

**Consolidated Results of Operations**

For the quarter ended December 3, 2005, we reported net earnings of \$1,525,000, or \$.14 per common share on both a basic and diluted basis, as compared to net earnings of \$1,431,000, or \$.13 per common share on both a basic and diluted basis, for the comparable period of last year.

The following table sets forth earnings from continuing operations and earnings from discontinued operation:

	<u>Thirteen weeks ended</u>	
	<u>December 3, 2005</u>	<u>November 27, 2004</u>
	(in thousands)	
Earnings from continuing operations	\$ 1,525	\$ 823
Earnings from discontinued operation		608
	<u>          </u>	<u>          </u>
Net earnings	\$ 1,525	\$ 1,431
	<u>          </u>	<u>          </u>

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Our operating results are expressed as a percentage of net sales in the following table:

	Thirteen weeks ended	
	December 3, 2005	November 27, 2004
Net sales	100.0%	100.0%
Cost of goods sold	55.2	54.8
<b>Gross profit</b>	<b>44.8</b>	<b>45.2</b>
Operating expenses		
Selling and administrative	33.4	33.5
Plant closing and operational restructuring costs (credits)	(0.1)	3.1
Research and development	4.1	5.6
<b>Total operating expenses</b>	<b>37.4</b>	<b>42.2</b>
<b>Operating profit</b>	<b>7.4</b>	<b>3.0</b>
Other income (expense)		
Interest income	0.5	0.3
Interest expense	(0.4)	(0.3)
Other, net	(0.7)	1.2
<b>Earnings from continuing operations before income taxes</b>	<b>6.8</b>	<b>4.2</b>
<b>Income tax provision</b>	<b>2.3</b>	<b>1.1</b>
<b>Earnings from continuing operations</b>	<b>4.5</b>	<b>3.1</b>
<b>Earnings from discontinued operation, net of income tax provision</b>		<b>2.3</b>
<b>NET EARNINGS</b>	<b>4.5%</b>	<b>5.4%</b>

**Continuing Operations**

Operating results for the current quarter were favorably affected by increased sales and gross profit, partially offset by increased operating expenses. Results for the comparable quarter of last year included \$824,000 pre-tax, or \$.05 per basic share, in plant closing and operational restructuring costs incurred in moving our powder-based barium production to our manufacturing facility in Montreal, Canada.

Net sales for the quarter ended December 3, 2005 increased 30%, or \$7,982,000, as compared to the quarter ended November 27, 2004, due to sales growth, of which we estimate from \$3,000,000 to \$3,200,000 was attributable to the liquid barium product recall by our principal competitor, Mallinckrodt. The increase in net sales attributable to the Mallinckrodt recall affected both CT imaging and X-ray fluoroscopy product categories. Price increases accounted for less than 1% of net sales for the current quarter, as a significant portion of our domestic products are sold under long-term group purchasing organization contracts. On a product line basis, the net sales increase resulted from increased sales of CT imaging contrast



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products, particularly our CT Smoothie lines, and CT injector systems, totaling \$3,116,000, X-ray fluoroscopy products of \$2,470,000 and all other products of \$2,396,000.

Net sales in international markets, including direct exports from the U.S., increased 19%, or \$1,814,000, for the current quarter from the prior year's quarter due to increased sales of defense decontaminants of \$857,000, X-ray fluoroscopy products of \$497,000, CT imaging products of \$205,000 and all other products of \$255,000.

The following table sets forth net sales by product category for the quarters ended December 3, 2005 and November 27, 2004:

	2005		2004	
	\$	%	\$	%
(dollars in thousands)				
CT Imaging Contrast	\$ 8,194	24.0	\$ 5,944	22.7
CT Injector Systems	5,346	15.6	4,480	17.1
Total CT Imaging	13,540	39.6	10,424	39.8
X-Ray Fluoroscopy	12,342	36.1	9,872	37.6
Contract Manufacturing	2,724	8.0	1,595	6.1
Accessory Medical Devices	1,337	3.9	1,359	5.2
Gastroenterology	1,200	3.5	1,130	4.3
Virtual Colonoscopy	1,079	3.1	890	3.4
Defense Decontaminants	1,063	3.1	193	0.7
Other	919	2.7	759	2.9
	\$ 34,204	100.0	\$ 26,222	100.0

Gross profit, expressed as a percentage of net sales, was 45% for both the current quarter and the comparable quarter of the prior year. Favorable changes in sales product mix and sales price increases, including the effects of lower distributor rebates as a percentage of sales, offset the effects of raw material cost increases. Favorable changes in sales product mix can be attributed, in part, to the increased sales resulting from the Mallinckrodt recall.

Selling and administrative ( S&A ) expenses were \$11,415,000 for the quarter ended December 3, 2005 compared to \$8,788,000 for the quarter ended November 27, 2004. This increase of \$2,627,000, or 30%, was due, in large part, to: i) increased compensation costs, including fringe benefits, of \$794,000; ii) additional infrastructure to support our defense decontaminants business of \$670,000; iii) costs of \$442,000 associated with our participation in the Radiological Society of North America convention (this convention occurred in the last month of our current fiscal quarter and the first month of our third fiscal quarter of the prior year); and iv) outside consulting and auditing costs of \$95,000 for Sarbanes-Oxley Act Section 404 compliance.

Research and development ( R&D ) expenditures decreased 4% for the current quarter to \$1,414,000, or 4% of net sales, from \$1,469,000, or 6% of net sales, for the comparable quarter of the prior year due primarily to decreased spending relating to virtual colonoscopy projects of \$159,000 and gastroenterology projects of \$150,000, partially offset by increased general regulatory costs of \$135,000 and increased spending relating to X-ray fluoroscopy and CT imaging projects of \$123,000. Of the R&D expenditures for the current quarter, approximately 53% related to X-ray fluoroscopy and CT imaging projects, 34% to general regulatory costs, 8% to gastroenterology

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projects and 5% to other projects. R&D expenditures are expected to continue at approximately current levels.

Other income and expenses totaled \$198,000 of expense for the current quarter compared to \$323,000 of income for the comparable period of last year. The comparable period of last year included gains of \$688,000 on the sales of a non-core equity security.

For the quarter ended December 3, 2005, our effective tax rate of 34% equaled the Federal statutory tax rate as the effects of non-deductible expenses offset tax-exempt income. For the quarter ended November 27, 2004, our effective tax rate of 25% differed from the Federal statutory tax rate of 34% due primarily to the reversal of a valuation allowance relating to a previously impaired, non-core equity security sold during the quarter, partially offset by non-deductible expenses, including stock option compensation costs of \$377,000.

### **Discontinued Operation**

We have consolidated the financial statements of AngioDynamics and reported its results as a discontinued operation in an amount equal to our percentage of equity ownership through October 30, 2004, the date on which our spin-off of AngioDynamics was completed. Since the spin-off occurred in the second quarter of our prior fiscal year, the results for the discontinued operation were excluded from the accompanying consolidated statement of earnings for the current quarter.

Summarized results of operations for AngioDynamics, including minority interest, as reported in earnings from discontinued operation in the accompanying consolidated statement of earnings for the nine weeks ended October 30, 2004 are as follows (amounts in thousands):

Net sales	
From unaffiliated customers	\$ 9,484
From affiliates	173
	<hr/>
Total net sales	\$ 9,657
	<hr/>
Earnings before income taxes and minority interest	\$ 1,338
Income tax provision	579
	<hr/>
Earnings before minority interest	759
Minority interest	151
	<hr/>
Earnings from discontinued operation	\$ 608
	<hr/>

### **Six months ended December 3, 2005 and November 27, 2004**

Our six months ended December 3, 2005 and November 27, 2004 represent twenty-seven weeks and twenty-six weeks, respectively.

### **Consolidated Results of Operations**

For the six months ended December 3, 2005, we reported net earnings of \$4,078,000, or \$.38 and \$.37 per common share on a basic and diluted basis, respectively, compared to net earnings of \$2,682,000, or \$.25 per common

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share on both a basic and diluted basis, for the comparable period of last year.

The following table sets forth earnings from continuing operations and earnings from discontinued operation:

	Twenty-seven weeks ended December 3, 2005	Twenty-six weeks ended November 27, 2004
	(in thousands)	
Earnings from continuing operations	\$ 4,078	\$ 1,454
Earnings from discontinued operation		1,228
Net earnings	\$ 4,078	\$ 2,682

Our operating results are expressed as a percentage of net sales in the following table:

	Twenty-seven weeks ended December 3, 2005	Twenty-six weeks ended November 27, 2004
Net sales	100.0%	100.0%
Cost of goods sold	54.8	56.4
Gross profit	45.2	43.6
Operating expenses		
Selling and administrative	31.6	34.4
Plant closing and operational restructuring costs	0.2	2.8
Research and development	4.0	5.0
Total operating expenses	35.8	42.2
Operating profit	9.4	1.4
Other income (expense)		
Interest income	0.4	0.3
Interest expense	(0.3)	(0.3)
Other, net	(0.5)	2.0
Earnings from continuing operations before income taxes	9.0	3.4
Income tax provision	3.1	0.5
Earnings from continuing operations	5.9	2.9

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Earnings from discontinued operation, net of income tax provision		2.4
	<u>                    </u>	<u>                    </u>
NET EARNINGS	5.9%	5.3%
	<u>                    </u>	<u>                    </u>



## Continuing Operations

Operating results for the current period were favorably affected by increased sales and improved gross profit, partially offset by increased operating expenses. Results for the current six months included \$135,000 pre-tax, or \$.01 per basic share, and the comparable period of last year included \$1,425,000 pre-tax, or \$.09 per basic share, in plant closing and operational restructuring costs incurred in moving our powder-based barium production to our manufacturing facility in Montreal, Canada.

Net sales for the six months ended December 3, 2005 increased 37%, or \$18,754,000, compared to the six months ended November 27, 2004, due to sales growth, of which we estimate from \$8,500,000 to \$9,200,000 was attributable to the liquid barium product recall by our principal competitor, Mallinckrodt, and the additional week in the current reporting period. The increase in net sales attributable to the Mallinckrodt recall affected both CT imaging and X-ray fluoroscopy product categories. Price increases accounted for less than 1% of net sales for the current period, as a significant portion of our domestic products are sold under long-term group purchasing organization contracts. On a product line basis, the net sales increase resulted from increased sales of CT imaging contrast products, particularly our CT Smoothie lines, and CT injector systems, totaling \$10,346,000, X-ray fluoroscopy products of \$4,413,000 and all other products of \$3,995,000.

Net sales in international markets, including direct exports from the U.S., increased 24%, or \$4,192,000, for the current period from the comparable prior year period due to increased sales of defense decontaminants of \$1,543,000, X-ray fluoroscopy products of \$1,029,000, CT imaging products of \$684,000, virtual colonoscopy products of \$362,000, contract manufacturing products of \$348,000 and all other products of \$226,000.

The following table sets forth net sales by product category for the six months ended December 3, 2005 and November 27, 2004:

	2005		2004	
	\$	%	\$	%
(dollars in thousands)				
CT Imaging Contrast	\$ 19,258	27.9	\$ 11,414	22.7
CT Injector Systems	10,833	15.7	8,331	16.6
Total CT Imaging	30,091	43.6	19,745	39.3
X-Ray Fluoroscopy	23,880	34.6	19,467	38.8
Contract Manufacturing	4,135	6.0	2,655	5.3
Accessory Medical Devices	2,744	4.0	2,667	5.3
Gastroenterology	2,538	3.7	2,273	4.5
Virtual Colonoscopy	1,907	2.8	1,753	3.5
Defense Decontaminants	1,814	2.6	241	0.5
Other	1,879	2.7	1,433	2.8
	\$ 68,988	100.0	\$ 50,234	100.0

Gross profit, expressed as a percentage of net sales, improved to 45% for the current period from 44% for the comparable period of the prior year due primarily to favorable changes in sales product mix, increased production throughput and sales price increases, including the effects of lower distributor rebates as a percentage of sales, partially offset by raw material cost increases. Favorable changes in sales product mix can be

attributed, in part, to the increased sales resulting from the Mallinckrodt recall.

S&A expenses were \$21,815,000 for the six months ended December 3, 2005 compared to \$17,269,000 for the six months ended November 27, 2004. This increase of \$4,546,000, or 26%, was due, in large part, to: i) increased compensation costs, including fringe benefits, of \$1,659,000; ii) additional infrastructure to support our defense decontaminants business of \$1,118,000; iii) costs of \$442,000 associated with our participation in the Radiological Society of North America convention (this convention occurred in the last month of our current fiscal quarter and the first month of our third fiscal quarter of the prior year); and iv) outside consulting and auditing costs of \$207,000 for Sarbanes-Oxley Act Section 404 compliance. The comparable period of the prior year included a non-cash compensation charge of \$385,000 resulting from the modification of certain stock options previously granted to one of our former directors.

R&D expenditures increased 10% for the current period to \$2,755,000, or 4% of net sales, from \$2,498,000, or 5% of net sales, for the comparable period of the prior year due primarily to increased spending relating to X-ray fluoroscopy and CT imaging projects of \$378,000 and increased general regulatory costs of \$225,000, partially offset by decreased spending relating to virtual colonoscopy projects of \$172,000 and gastroenterology projects of \$158,000. Of the R&D expenditures for the current period, approximately 55% related to X-ray fluoroscopy and CT imaging projects, 33% to general regulatory costs, 9% to gastroenterology projects and 3% to other projects.

Other income and expenses totaled \$254,000 of expense for the current period compared to \$1,008,000 of income for the comparable period of last year. The comparable period of last year included gains of \$1,406,000 on the sales of a non-core equity security.

For the six months ended December 3, 2005, our effective tax rate of 35% differed from the Federal statutory tax rate of 34% due primarily to non-deductible expenses, partially offset by tax-exempt income. For the six months ended November 27, 2004, our effective tax rate of 14% differed from the Federal statutory tax rate of 34% due primarily to the reversal of a valuation allowance relating to an impairment of a non-core equity security, partially offset by non-deductible expenses, including stock option compensation costs of \$377,000.

#### **Discontinued Operations**

We have consolidated the financial statements of AngioDynamics and reported its results as a discontinued operation in an amount equal to our percentage of equity ownership through October 30, 2004, the date on which our spin-off of AngioDynamics was completed. Since the spin-off occurred in the second quarter of our prior fiscal year, the results for the discontinued operation were excluded from the accompanying consolidated statement of earnings for the current period.

Summarized results of operations for AngioDynamics, including minority interest, as reported in earnings from discontinued operation in the accompanying consolidated statement of earnings for the twenty-two weeks ended October 30, 2004 are as follows (amounts in thousands):

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Net sales	
From unaffiliated customers	\$ 22,342
From affiliates	420
	<hr/>
Total net sales	\$ 22,762
	<hr/>
Earnings before income taxes and minority interest	\$ 2,628
Income tax provision	1,103
	<hr/>
Earnings before minority interest	1,525
Minority interest	297
	<hr/>
Earnings from discontinued operation	\$ 1,228
	<hr/>

**Liquidity and Capital Resources**

For the six months ended December 3, 2005, operations and capital expenditures were funded by working capital and cash reserves. Our policy has generally been to fund operations and capital requirements without incurring significant debt. As of December 3, 2005, debt (notes payable, current maturities of long-term debt and long-term debt) was \$330,000, as compared to \$531,000 at May 28, 2005. We have available \$1,723,000 under a bank line of credit, of which no amounts were outstanding at December 3, 2005.

Our contractual obligations and their effect on liquidity and cash flows as of December 3, 2005 are set forth in the table below. We have no variable interest entities or other off-balance sheet obligations.

**Payments Due By Period as of December 3, 2005**

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
(in thousands)					
Contractual Obligations:					
Long-term debt	\$ 123	\$ 88	\$ 35		
Notes payable	207	207			
Operating leases (1)	7,960	1,766	3,375	\$ 2,754	\$ 65
Purchase obligations (1)	2,097	2,097			
Employment contract (1)	680	680			
Consulting contracts (1)	46	42	4		
Other long-term liabilities reflected on the consolidated balance sheet					
Deferred compensation (2)	2,767	19	43	55	2,650
Asset acquisition	1,400	700	700		
License arrangement	1,300	650	650		
Accrued retirement benefits	163	40		62	61
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 16,743	\$ 6,289	\$ 4,807	\$ 2,871	\$ 2,776
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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The non-cancelable operating leases, purchase obligations, and employment and consulting contracts are not reflected on the consolidated balance sheet under accounting principles generally accepted in the United States of America. The purchase obligations consist primarily of finished good product and component parts.

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- (2) Deferred compensation costs covering active employees are assumed payable after five years, although certain circumstances, such as termination, would require earlier payment.

At December 3, 2005, approximately \$27,096,000, or 24%, of our assets consisted of cash and cash equivalents and short-term debt and equity securities. The current ratio was 5.37 to 1, with net working capital of \$66,331,000, at December 3, 2005, compared to the current ratio of 4.81 to 1, with net working capital of \$59,612,000, at May 28, 2005. The increase in working capital is due, in large part, to increased inventory of \$4,638,000, to support our increased business, and increased accounts receivable of \$4,421,000, resulting from increased sales. We believe that our cash reserves, cash provided from continuing operations and existing bank line of credit will provide sufficient liquidity to meet our current obligations for the next 12 months.

In March 2003, the Board of Directors authorized the repurchase of up to 300,000 shares of our common stock at an aggregate purchase price of up to \$3,000,000. During the six months ended December 3, 2005, no shares were repurchased under this program. In aggregate, we have repurchased 74,234 shares of common stock for approximately \$716,000 under this program.

In June 2004, our Board of Directors declared a cash dividend of \$.30 per outstanding share of our common stock. The dividend, which aggregated \$3,220,000, was distributed on July 1, 2004 to shareholders of record as of June 15, 2004. Future dividends are subject to our Board of Directors' review of operations and financial and other conditions then prevailing.

### **Critical Accounting Policies**

Our significant accounting policies are summarized in Note A to the Consolidated Financial Statements included in our Annual Report on Form 10-K for our fiscal year ended May 28, 2005. While all these significant accounting policies affect the reporting of our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require us to use a greater degree of judgment and/or estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgment or estimate methodologies would cause a material effect on our 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**

We recognize revenues in accordance with generally accepted accounting principles as outlined in Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements, which requires that four basic criteria be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) the price is fixed or determinable; (3) collectibility is reasonably assured; and (4) product delivery has occurred or services have been rendered. Decisions relative to criterion (3) regarding collectibility are based upon our judgments, as discussed under Accounts Receivable below, and should conditions change in the future and cause us to determine this criterion is not met, our results of operations may be affected. We recognize revenue on the date the product is shipped,

which is when title passes to the customer. Shipping and credit terms are negotiated on a customer-by-customer basis. Products are shipped primarily to distributors at an agreed upon list price. The distributor then resells the products primarily to hospitals and, depending upon contracts between us, the distributor and the hospital, the distributor may be entitled to a rebate. We deduct all rebates from sales and have a provision for rebates based on historical information for all rebates that have not yet been submitted to us by the distributors.

Changes in our rebate allowance for the six months ended December 3, 2005 are as follows (amounts in thousands):

Beginning balance	\$ 1,397
Provision for rebates	12,835
Rebate credits issued	(12,424)
	<hr/>
Ending balance	\$ 1,808
	<hr/>

The rebate allowance is comprised of three components:

actual rebate requests received from distributors prior to the closing of our financial statements;

an estimate, compiled by distributor, of rebate requests not yet received based on historical submissions, adjusted for any material changes in purchasing patterns or market conditions; and

an estimate of distributors' inventory-on-hand available for future sale pursuant to a group purchasing organization ( GPO ) contract. We do not have visibility as to the specific inventory levels held by our distributors. However, based on discussions with our customers, who uniformly attempt to maintain a just-in-time purchasing program, and our knowledge of their ordering patterns, we estimate a one-week wholesale inventory level. Since most of our product sales are subject to GPO contracts, most distributor inventory-on-hand will be subject to rebate. This portion of the rebate estimate is derived by first determining the total quantity of each product sold by us during the last week of the fiscal period multiplied by two factors, (a) and (b), where (a) is the percentage of each product rebated during the prior six-month period based on historical sales and (b) is the average rebate paid on that product during this period.

All product returns must be pre-approved by us and may be subject to a 20% restocking charge. To be accepted, a returned product must be unadulterated, undamaged and must have at least 12 months remaining on its stated expiration date.

We record revenue on warranties and extended warranties on a straight-line basis over the term of the related warranty contracts, which generally cover one year. Deferred revenues related to warranties and extended warranties were \$519,000 and \$505,000 at December 3, 2005 and May 28, 2005, respectively. Service costs are expensed as incurred.

#### Accounts Receivable

Accounts receivable are generally due within 30 to 90 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. We perform ongoing credit evaluations and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined

by a review of their current credit information. We continuously monitor aging reports, collections and payments from customers, and maintain a provision for estimated credit losses based upon historical experience and any specific customer collection issues we identify. While such credit losses have historically been within expectations and the provisions established, we cannot guarantee the same credit loss rates will be experienced in the future. We write off accounts receivable when they become uncollectible. At December 3, 2005 and May 28, 2005, our allowance for doubtful accounts was \$879,000 and \$869,000, respectively. Concentration risk exists relative to our accounts receivable, as 37% of our total accounts receivable balance at December 3, 2005 is concentrated in one distributor. While the accounts receivable related to this distributor are significant, we do not believe the credit risk to be significant given the distributor's consistent payment history.

Changes in our allowance for doubtful accounts for the six months ended December 3, 2005 are as follows (amounts in thousands):

Beginning balance	\$ 869
Provision for doubtful accounts	19
Write-offs	(9)
	<hr/>
Ending balance	\$ 879
	<hr/>

### Income Taxes

In preparing our financial statements, income tax expense is calculated for each jurisdiction in which we operate. This involves estimating actual current taxes due plus assessing temporary differences arising from differing treatment for tax and accounting purposes that are recorded as deferred tax assets and liabilities. Deferred tax assets are periodically evaluated to determine their recoverability, based primarily on our ability to generate future taxable income. Where their recovery is not likely, we establish a valuation allowance and record a corresponding additional tax expense in our statement of earnings. If actual results differ from our estimates due to changes in assumptions, the provision for income taxes could be materially affected.

### Inventories

We value inventories at the lower of cost (on the first-in, first-out method) or market. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product expiration dating and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. At December 3, 2005 and May 28, 2005, our reserve for excess and obsolete inventory was \$1,910,000 and \$1,902,000, respectively.

### Property, Plant and Equipment

We state property, plant and equipment at cost, less accumulated depreciation, and depreciate principally using the straight-line method over their estimated useful lives. We determine this based on our estimates of the period over which the asset will generate revenue. Any change in condition that would cause us to change our estimate of the useful lives of a

group or class of assets may significantly affect depreciation expense on a prospective basis.

**Effects of Recently Issued Accounting Pronouncements**

In March 2004, the Financial Accounting Standards Board ( FASB ) Emerging Issues Task Force ( EITF ) released Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 provides guidance for determining whether impairment for certain debt and equity investments is other-than-temporary and the measurement of an impaired loss. Certain disclosure requirements of EITF 03-1 were adopted in fiscal 2004 and we have complied with the new disclosure requirements in our consolidated financial statements. The recognition and measurement requirements of EITF 03-1 were initially effective for reporting periods beginning after June 15, 2004. In September 2004, the FASB Staff issued FASB Staff Position ( FSP ) EITF 03-1-1 that delayed the effective date for certain measurement and recognition guidance contained in EITF 03-1. The FSP requires that entities continue to apply previously existing other-than-temporary guidance until a final consensus is reached. We do not anticipate that the issuance of a final consensus will materially impact our financial condition or results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 151, Inventory Costs , an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 will improve financial reporting by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 24, 2004. The adoption of this statement is not expected to have a material impact on our financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (R), Share-Based Payment , which revises SFAS No. 123, Accounting for Stock-Based Compensation and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS No. 123 (R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123 (R), only certain pro forma disclosures of fair value were required. In April 2005, the Securities and Exchange Commission adopted a new rule that amended the compliance dates of SFAS No. 123 (R) to require the implementation no later than the beginning of the first annual reporting period beginning after June 15, 2005. The adoption of this statement may have a material impact on our financial condition or results of operations commencing with the fiscal quarter ending September 2, 2006.

On December 31, 2004, the FASB issued FASB Staff Position No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004, ( FSP No. 109-2 ). This staff position provides accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 ( AJCA ) that was signed into law on October 22, 2004. FSP No. 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for



reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. We are investigating the repatriation provision to determine whether we might repatriate extraordinary dividends, as defined in the AJCA. We are currently evaluating all available U.S. Treasury guidance.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements. We do not believe the adoption of SFAS No. 154 will have a material impact on our financial condition or results of operations.

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

We are 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 our results of operations and financial position. We do not currently engage in any hedging or market risk management tools. There have been no material changes with respect to market risk previously disclosed in our Annual Report on Form 10-K for our 2005 fiscal year.

**Foreign Currency Exchange Rate Risk**

The financial reporting of our international subsidiaries is denominated in currencies other than the U.S. dollar. Since the functional currency of our international subsidiaries is the local currency, foreign currency translation adjustments are accumulated as a component of accumulated other comprehensive income in stockholders' equity. Assuming a hypothetical aggregate change in the exchange rates of foreign currencies versus the U.S. dollar of 10% at December 3, 2005, our assets and liabilities would increase or decrease by \$4,162,000 and \$681,000, respectively, and our net sales and net earnings would increase or decrease by \$2,930,000 and \$376,000, respectively, on an annual basis.

We also maintain 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 exchange rates of foreign currencies versus the U.S. dollar of 10% at December 3, 2005, our pre-tax earnings would be favorably or unfavorably impacted by approximately \$852,000 on an annual basis.

**Interest Rate Risk**

Our excess cash is invested in highly liquid, short-term, investment grade securities with maturities of less than one year. These investments are not held for speculative or trading purposes. Changes in interest rates may affect the investment income we earn on cash, cash equivalents and debt

securities and therefore affect our cash flows and results of operations. As of December 3, 2005, we were exposed to interest rate change market risk with respect to our investments in tax-free municipal bonds in the amount of \$18,500,000. The bonds bear interest at a floating rate established between seven and 35 days. For the six months ended December 3, 2005, the after-tax interest rate on the bonds approximated 2.5%. Each 100 basis point (or 1%) fluctuation in interest rates will increase or decrease interest income on the bonds by approximately \$185,000 on an annual basis.

As our principal amount of fixed interest rate financing approximated \$330,000 at December 3, 2005, a change in interest rates would not materially impact results of operations or financial position. At December 3, 2005, we did not maintain any variable interest rate financing.

As of December 3, 2005, we have available \$1,723,000 under a working capital bank line of credit. Advances under this line of credit will bear interest at an annual rate indexed to prime. We will thus be exposed to interest rate risk with respect to this credit facility to the extent that interest rates rise when there are amounts outstanding under this facility.

Item 4. **Controls and Procedures**  
**Evaluation of Disclosure Controls and Procedures**

As required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 3, 2005. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 3, 2005, to provide reasonable assurance that information required to be disclosed in the reports that are filed under the Exchange Act is recorded, processed, summarized and reported in a timely manner 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 during the quarter ended December 3, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**E-Z-EM, Inc. and Subsidiaries**

**Part II: Other Information**

Item 1. **Legal Proceedings**

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended May 28, 2005.

Item 1A. **Risk Factors**

Not applicable.

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

On November 1, 2005, we issued 1,750 shares of common stock to our Chairman of the Board, Paul S. Echenberg, and 1,000 shares of common stock to each of the following directors: Robert J. Beckman, James L. Katz, David P. Meyers, John T. Preston, Howard S. Stern and George P. Ward. All such shares were issued in consideration for services rendered as directors and were issued pursuant to Section 4(2) of the Securities Act of 1933. The basis upon which the exemption is claimed is that the shares were issued only to our directors in transactions not involving any public offering.

Item 3. **Defaults Upon Senior Securities**

None.

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

At the Annual Meeting of Shareholders held on October 19, 2005, the following persons were elected as directors of the Company:

**Class III Directors:** (until the 2008 Annual Meeting)

David P. Meyers  
Howard S. Stern  
George P. Ward

In this election, 7,923,849, 7,921,149 and 8,055,177 votes were cast for Mr. Meyers, Mr. Stern and Mr. Ward, respectively, and 330,913, 333,613 and 199,585 shares were withheld from voting for Mr. Meyers, Mr. Stern and Mr. Ward, respectively.

The action of the Board of Directors in appointing Grant Thornton LLP as our independent registered public accounting firm for our fiscal year ending June 3, 2006 was ratified by a vote of 8,250,947 in favor, 1,736 against and 2,079 shares abstaining.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

<u>No.</u>	<u>Description</u>	<u>Page</u>
3.1	Restated Certificate of Incorporation of the Registrant, as Amended	(a)
3.2	Amended and Restated Bylaws of the Registrant	(b)
10.1	Agreement for Purchase and Sale dated November 30, 2005 by and between E-Z-EM, Inc. and B&R Machine Tool Corp.	(c)
<u>31.1</u>	<u>Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Anthony A. Lombardo)</u>	39
<u>31.2</u>	<u>Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Dennis J. Curtin)</u>	41
<u>32.1</u>	<u>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)</u>	43
<u>32.2</u>	<u>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)</u>	44
(a)	Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A filed with the Commission on April 8, 2005.	
(b)	Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Commission on January 21, 2005.	
(c)	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on December 5, 2005.	

**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.

E-Z-EM, Inc.

\_\_\_\_\_  
(Registrant)

Date January 12, 2006

/s/ Anthony A. Lombardo

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

Date January 12, 2006

/s/ Dennis J. Curtin

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