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## **ANPI - Q2 2006 Angiotech Pharmaceuticals Earnings Conference Call**

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen and welcome to the Second Quarter 2006 Angiotech Pharmaceuticals Earnings Conference Call. My name is Maria and I will be your audio coordinator for today. [OPERATOR INSTRUCTIONS] At this time, I will now turn the presentation over to Ms. Janet Craig. Please proceed, ma'am.

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**Janet Craig** - *Angiotech Pharmaceuticals - Vice President, Investor Relations and Corporate Communications*

Thanks, Maria, and welcome everyone. Before I turn the call over to Bill, Tom and Rui, I want to point out our forward-looking statements on slide two. As well let me remind you that this presentation contains non-GAAP measures as described in slide three of this presentation. And finally I'd like to remind you that we're limiting callers to one question and a follow-up. At this time I'll turn the call over to Bill Hunter.

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**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

Thanks, Janet. And thank you to all of you for taking the time to listen to our Q2 earnings call. As you know we've been describing the acquisition of AMI as a transformational event for the company. I believe it truly has been. And this is the first combined quarter that we'll be presenting to you. It's a quarter that we're all very proud of both operationally and financially. And we believe that the strategy we've laid out over the years is really starting to come to fruition. We're going to show you some slides that will elaborate on that in greater detail and help you think of the combined business and the way that it's going to operate going forward. We had strong top and bottom line this quarter with record earnings and record top line obviously with 97.7 million in revenue. What used to be an annual revenue for us is now closing in on a quarterly revenue. Many of our product integration and activities with AMI are at or ahead of schedule. And again we'll focus on those and look at the business units in particular.

As we've been going through this process we haven't really taken our eye off the ball in the overall business plan. We continue to be active in the business development field, closing the acquisition of Quill, doing a couple of licensing deals and doing a major corporate partnership with Genzyme that we talked about on our last quarterly call. So I do feel that we have continued to execute on the business plan despite all the activities going on with the integration.

This is a slide I've showed you before and really it's designed to emphasize that the combination of the two businesses has really transformed us into a fully integrated company. One where for the first time we think we can actually control our own destiny by going right from our basic R&D and drug device combination research, which historically had been the basis of the business right through to manufacturing and sales with the addition of the AMI assets. And I really do think that this -- the fact that these two businesses really didn't have much in the way of overlap or expertise has let the companies go through a relatively painless and so far quite smooth integration process because the two business have fit together really quite nicely. And really I think this will be the last time we'll start talking about this as two businesses and start thinking about this as one business and that's where I'm going to focus the rest of my attention for the remainder of the conference call.

If we look at that 97.7 million in revenue, I think what's most impressive is what it's not. What it's not is 100% dependent on paclitaxel and the taxus stent. Taxus had a strong quarter. It's going to have another strong second quarter as you well know. Stent revenues have grown for three or four quarters now contrary to perception I would say. But despite the fact that taxus is actually growing, the rest of the business has now started to overtake that. And taxus now makes up less than 45% of our revenue. And the rest of the revenue is split among the five businesses. And to foreshadow Tom's part of the call for the first time we're going to break our those five businesses and give you an idea of what those revenues are and what the growth potential of those segments are. And I think you'll be pleasantly surprised as to how significant those businesses are and what they're capable of accomplishing.

As I mentioned in my introduction, we have really continued to execute on our business mall. We as you know have the three different ways that we take all this technology and try and commercialize it. We're obviously focusing a lot on value one, which is our own direct sales and building our own business and controlling our own destiny, as we have mentioned. But we still continue to do earlier technology partnerships. We still continue to do major corporate deals. We did one last quarter in Genzyme. I think you will see perhaps another before the end of the year. So we're not going to stop in that business model. But we have also now with the business becoming fully integrated, for the first time we can actually license in products and send them through our own manufacturing and distribution. This is a real departure for this business. It's a new way that we can grow the company, a way that we couldn't do before.

And really the collagen matrix technology, which gives us a filler technology in aesthetics and lipos, which is a fat transfer system that we'll use anesthetics. And Quill, which we'll use in both wound closure anesthetics are examples of that. Those are transactions that this company just couldn't have done at this time last year because we didn't have the infrastructure to manage it. Quill I think will be a major driver for us going forward. We're going to, at one of our future teach-ins and analyst days, we're going to actually let people play with this technology. I think you'd be presently surprised. It's quite a neat technology. It allows you to close wounds very, very effectively. The clinical results with this are really quite impressive. And you're able to do it all without

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knots. You get better tension across the suture line. You get better healing. Docs are able to close wounds that they just couldn't close before. And they're able to close very big wounds and very complex wounds much quicker and much more easily that you can with conventional suturing or quite frankly even staples.

Really nice technology. Quill -- completing the acquisition of Quill meant that we not only have the aesthetics rights, which of course we already had in the form of the contour thread and eliminated a royalty rate, which of course is significant from a financial point of view. But actually allowed us to acquire the rights in all the other fields. And over the last three months we've been aggressively looking at how we would use this technology in things like wound closure andoscopy. And even in the veterinary medicine, the response has been excellent and we will be launching this product formally in wound closure towards the end of this year.

When we completed the acquisition we talked about the business as two segments combined of surgical specialties, which was primarily surgical products, primarily anesthetics, ophthalmology and wound closure. And InterV, which was catheter-based products in interventional radiology and biopsy. I'd like to stop thinking of the business that way. I'd like you to stop thinking of the business that way.

I don't know that it really gives you any greater insight as to how this company actually functions. I think the better way to think of it is what commercial verticals the combined entity is now able to access. And those five verticals are aesthetics, biopsy, wound closure, vascular and ophthalmology. So basically three surgical verticals and two catheter-based verticals. This is really important to us. For those of you who know our basic technology platforms, they really are predicated on being able to access both the interventional and the OR suite. And this infrastructure is exactly what we we're looking for in terms of building out our business. These are five viable and growing business units and again Tom will come back to each one of those and give you an idea of the magnitude that each contributes. These are significant businesses in and of themselves and we have a strategy to grow each and everyone of them. Turning to that topic, I'd like to look at it that way and say, okay, here's the five verticals. What do we actually have going on in those five places.

So across the top line you'll see the product mix that goes for each. You'll see the synergy products and I'll delve into that a little bit, the pipeline and the business development efforts that are now specific to those five different areas. Aesthetics as you know is dominated by the Contour Thread platform. We have a variety of things we can do in what I would call near term synergy. And by that I mean applying bland coatings to the technology -- things like slip-coating needles and the like. And then we have other technologies that were within the Angiotech framework like pro-healing technologies, drug-loaded collagen, costasis. Products that we already had that could be sold into the aesthetics market. And then within the pipeline we have a few other things, which I will spend some time going on. In biopsy probably the big synergy product is going to be the echo-coated needle which I also will come back to. The Genzyme deal fits into that. Vertical because that's a direct oncology application. Wound closure is basically the sharp point suture line. But now added to that will be the Quill barb suture line.

We have other things in our pipeline like [sanalachrolades] and anti-effective coatings and the like that we think we can apply to that as well as some slip-coated technology into the needles themselves. Vascular of course is the interventional business right now. It's probably most important product is Ensnare but there are some other interesting products there. V+Pad, which is a hemostat and guidewire and catheter-based technology. All of these will benefit to some extent from either lubricious, meaning slip-coat or echo-coated, which are visible type coatings that will be coming out of the pipeline. But this of course is the vertical that will ultimately take on the Vascular Wrap and the CVC. So while this will not be next year's big growth driver because those products are probably a little bit further out. That's where you can look for the growth in kind of the 2008 time frame and beyond. And ophthalmology is a segment that includes primarily knives and micro sutures and the like. And again we can slip-coat those products going forward. I'll now just briefly go through each pipeline to give you a feel for what's actually out there.

The last slide gave you the two or three key products by vertical. This will give you an idea of what's coming over the next little while. In aesthetics, just before we acquired the company, they had launched a bi-directional barb suture, which was unique and remains unique in the space. We're currently working on a degradable suture so that we can do minimally invasive facelift

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procedures with a product that ultimately completely degrades and goes away. So if the patient requires additional procedures two, three, four years in the future, there'll be no residual thread left behind. It's something our customers have said that they'd like to see us do. It's not a big problem to have a non-degradable thread. Probably each and everyone of you on the line is walking around with some non-degradable suture in you from things that have occurred to you over the course of your life. But the degradable process is certainly one that will be a market differentiator. We are about to embark upon a couple of studies in breasts, a nipple lift study and a breast lift study.

This is something that we will probably spend a fair bit of time on our next conference call in September as those clinical trials kick off. But we believe we can use this technology to move into the breast aesthetics space where it will be possible to reposition and lift the breast but not have to use implant technology. We touched a little bit upon that at the analyst day and we think that's a tremendous opportunity for us. The in-license products that I talked about, the fat transfer system and the dermal filler, are working their way through the regulatory pathways. These are actually pretty near term. We expect that approval and launch of these products will happen in the first half of 2007. Moving to biopsy and oncology, this is another area we think we can grow quite rapidly. We are in the process of ramping up the echo-coated needles. These needles are approved now. The echo-coating on the InterV biopsy needle is an approved product by the FDA. What we have to do now is be able to manufacture that in bulk and gear that up for a full product launch which will happen in the first half of 2007.

We have another product that we talked about at analyst day which is Biosil. Essentially a biopsy product that leaves behind a palmer plug to provide sealing. Right now we're looking at that in lung to prevent [neomothorax] but there's other opportunities where we can use it for hemostasis and kidney biopsy and liver biopsy and the like. This product's now in pivotal trials. We're currently enrolling patients there. I don't have a launch date for you but again this is a product that is in a pivotal study. We will do a second indication in this technology. And as I mentioned the tumor resection product from Genzyme really would fit into this type of vertical because it is essentially local tumor management. Wound closure is really going to be bolstered by the addition of the barb suture. The wound closure market worldwide is a \$2 billion market.

We think that a knotless suture could really take a interesting percentage of that market and end up being a highly significant product for us. The barb suture for wound closure is FDA approved. It was approved just a little bit before we closed the Quill acquisition. And we are in the process of gearing up both the manufacturing and the sales to launch that product towards the end of this year. The technology can go into a variety of interesting areas including andoscopy and veterinary work. We're looking for the right type of partnership to do those. Those are not markets we will access directly ourselves. But look for news over the course of the rest of the year where we take that product and go into some other market opportunities for us in those two areas. We do have a [cyanolacrelade] and a drug-loaded suture coming. Those are earlier in the pipeline but something that we can use to bolster the wound closure business as we move out. Vascular is kind of an interesting bag for us. There's already some nice products in that bag from the InterV business. But we have a couple of things we can add to it in the very near term.

The Lifespan Graft product line is, of course, already approved but it's not widely sold in the U.S. Now that we have a sales force to do that, we expect to be able to launch a variety of Vascular Graft products in the first half of 2007. Costasis, which is a, as you know, is a sprayable hemostat that came out of the Cohesion acquisition of a couple of years ago, is a product that we think can be sold both into the Vascular and into the Aesthetic space. That's something that we will also ramp up and launch in early 2007. The Vascular Wrap will ultimately find its home in this area, along with the Lifespan Graft, as will the CVC, and we have some slip-coated, lubricious-coated products on the interventional side that you will start to see rollout over the next 18 months, as well.

Ophthalmology is primarily made up of a business based around both micro sutures and cataract knives. Both of these products will benefit from slip-coating in terms of being able to penetrate tissue more easily and with less resistance. Those are working their way through. These are 510(k) regulatory pathways in both cases and we think those products will launch in '07, as well. New Focus and Viasol are products that are in the pipeline. I'm not going to spend any time on those but as they get closer to rollout, we'll focus on them a little bit more but there is an endogenous pipeline in Ophthalmology, as well.

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So really, we're well positioned in five different markets. It is completely strategically consistent with what we've talked about over the years. These verticals are interesting for what they're not. We are not trying to compete in interventional cardiology, CRM, spine, or orthopedic hardware. These are the areas where the well-known and very effective big companies have critical mass. They are markets where you need enormous sales forces and broad product offerings to really compete. We're focusing in markets that we think we can actually effectively compete in and we're also focusing in markets where we do believe we can be truly disruptive. We have technologies that are in development or ready to be launched, in markets where innovation has traditionally been very low and/or limited, and that is really the way that we think we can start to take market share in a variety of different markets.

Typically, the companies that we're competing against, in many cases, are our size. They're smaller, they're fragmented markets, and they're ones that don't really have any type of technological edge. This is where we think we can really make hay. On the other hand, in the four big markets, we'll continue to partner. This is what Tom refers to as the category-killer markets. We'll continue to make drug-coated stents. We have next-generation stents that we think are as good, or better, than anything anybody else has out there. And those, again, will be partnership-based programs. And to the extent that we get into those other areas, as well, those will be areas where we'll partner and not where we'll really trying to go head to head.

Near term, I think you'll see most of the growth coming from Aesthetics and Biopsy. A little bit further out, I think you'll see more of that start to come from Vascular. I think the synergy products can really give us an opportunity not just for margin expansion but for true market expansion. In most of the markets that we serve, we're a secondary or tertiary player and the ability to have a technological leg up can really give us a chance to take market share and I think in most of these cases, the markets are significant and even 5, 10, 15% market share moves would have a truly impactful meaning in the bottom line of this business.

The pipeline and each vertical, I think, is significant and I hope you found those last five slides useful. It gives you a chance to actually see what's going on in each of the businesses and start to think of these business units and verticals as standalone units, if you will, within a much larger organization.

I know you're all interested in the Vascular Wrap, so I'm going to turn it over to Rui to give you the one-year audited data from there. Tom will then take you through the financial performance, and I'll round up the end of the call.

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**Rui Avelar** - *Angiotech Pharmaceuticals - Chief Medical Officer*

Thank you, Bill. I will highlight some of the events that are taking place with the Vascular Wrap, right now, and specifically speak to our activity with the FDA, give you an update on the Vascular Wrap European trial that you heard about first at the [Veet] Conference. And then, finally, bring you up to date on some of the pre-clinical activity that'll be upcoming.

So, firstly, we had our - we've obviously have been interacting with the FDA and we had our first significant meeting with them, live, where all of us showed up at the FDA door. And we had a meeting that would be best described as very cooperative. This was a pre-IND meeting and it was clear that they're also excited about the projects, such as we are. And the spirit of the interaction was very cooperative in the sense that all the comments that they had were constructive in trying to help us create the best IND package possible - sorry, IDE package possible.

This is - it makes sense because if you look at the space that we're going into and the trial for those who perhaps don't know about this - we're going into a trial where we're trying to fix AV graft dialysis access and this is a problem that's well recognized by the clinical community, by both physicians and patients, and the FDA. This event, when you take a piece of plastic and sew it into an artery and a vein to give these patients dialysis access, fails 50% of the time within one year and 75% of the those patients will fail within two years. And that adds tremendous cost to the system. It's over \$1 billion a year.

So, to supplement that, we are going to use our European data. The thought was if we can put together a nice European package in the United States, we would be able to accelerate our movement and go straight into a pivotal trial and that remains on track.

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Before you is a slide that outlines the data. If you remember, in November at the Veet Conference, we gave you some preliminary data - one year of above knee bypass surgery.

What you see, right now, is the complete audited data which includes both above me and below me. I'd just like to pick off a few different things. The first one, you'll see the death rates. This is a sign that these patients tend to be very ill and obviously it's favoring us. I don't know that we can attribute that to the Paclitaxel Wrap but it just basically speaks to the fact that these patients have a high propensity for disease throughout their entire system. And the same thing holds for the hemodialysis trial that you'll see upcoming. About 15 to 20% of those patients die within the first year. They're a sick population.

The second line speaks to thrombosis and graft declusion and I'd like to explain that. A number of you are versed in what happens in DES and the coronary system. The peripheral vasculature is a little different. If you look at what happens, pathophysiologically, there - what happens is you get scarred. And [inaudible] hyperplasia starts to come in and it's very well documented that within 2 to 24 months, a lot of the occlusions of thrombosis are directly related to scar formation. In other words, those occlusions, those clots, has a direct correlation with the formation of [inaudible]. That's well documented by Close, 1993, even the [TASK] documents which is arguably the most influential paper that vascular surgeons rely on.

The trial is a two-year trial, so what you're seeing here is a preliminary one-year data. And then, finally, if you look at the last line - the lower extremity amputation - you'll notice that there's a 50% difference between our treatment and control. And what we know from peripheral vascular surgery is if you can preserve patency for a while, the most consistent manifestation that that graft is working is actually salvation of the limb.

If you remember, in November, we showed you on the above knee, there was a dramatic difference between treatment and control and here with the entire data set fully audited with above and below knee, again, you see a 50% difference between these two.

Now, this is one-year data and what we have decided as a group here is we wanted to present to the FDA the most robust package possible. So what we're doing is we're going to wait an additional couple of months until we have the complete two-year data, which should be coming in by the end of September, beginning of October, and that'll be a complete audited two-year data packages. So, once we have that, we can present that to the FDA, and then of course, it was a wise thing to wait until we had the full two-year data to submit to the European authorities. So, effectively, that pushes our European launch in Europe back about three, perhaps six months. But we're pretty confident that we'll have all that data in by the end of September, beginning of October.

Finally, the other topic that we'd like to bring to your attention. We had mentioned some of the work that we had done in our pre-clinical work and we had a publication strategy around this where we were looking at the pre-clinical efficacy of the Paclitaxel Wrap in models, looking at AV shunts and AV grafts. The center that we used was the same center that tested a lot of the competitive offerings and they were quite excited about the results. So, we've kept it under wraps because we didn't want to spoil the publication strategy. That will be unveiled at a significant vascular surgery conference. It will be the Western Vascular Society Annual Meeting in California in September. And surrounding that will be a publication strategy. So, you should be able to see that presented in higher form. And effectively, that meeting - the Western Vascular Society - will initiate our launch of the introduction of the Paclitaxel Wrap to the vascular surgery community.

And with that, I will turn it over to Tom Bailey for the finances.

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**Tom Bailey** - Angiotech Pharmaceuticals - Chief Financial Officer

Thanks, Rui. I'll get through this relatively quickly so we can get to questions at the end. So as a quick kickoff but just to rehash a bit about our reporting and analysis framework of it. A few - I wouldn't call alterations to this, but as we get into the financials

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going forward and think about the segments of the business, you'll see some of this R&D and so I wanted to highlight this, quickly.

We're organizing our sales disclosure, essentially by value capture or by the areas of the business that Bill described. And the Pharmaceutical Technologies segment, what we're calling it, essentially represents our royalty business. Today, it's primarily DES, the Medical Products business is our device, drug and combination product revenue, the majority of which is direct-to-customer. There's some OEM business and manufacturing for third parties in there but the majority of that is direct-to-customer. So, as you'll see, our revenue reporting, going forward, it will be in those two segments, primarily.

So, quickly, on value drivers. I know I hit on this topic just about every quarter and I will probably continue on this soapbox for the foreseeable future, especially given some of the acquisition-related GAAP accounting items that we'll be dealing with, going forward. So these first items are revenue growth, and in particular, conversion of those dollars for cash are how we measure our performance internally and we believe are really the true drivers of shareholder value. At the end of the day, in particular, when you have an inquisitive company there are a lot of non-cash items that affect your GAAP earnings per share. And so, I think it's very important to think about top line and cash flow as important value drivers for the business. It's certainly how we evaluate the performance of our various businesses internally.

Our adjusted EPS is an attempt by us to report a single and easy number that accurately reflects or parallels our revenue, and free cash flow growth. So, we've talked about this a number of times. And I think that with the AMI acquisition, it becomes increasingly important to focus on these elements while thinking about the value of this business.

So, a quick summary of the quarter. This information is laid out in detail in our release so I won't belabor it but there are two key items here. I think that our revenue results were very, very solid. We hit the upper end of the outlook range that we talked about, back in May. And in addition, I think the other key highlight is that we've seen solid and stabilizing DES results from Boston Scientific. I think in spite of a lot of the rhetoric and a lot of the different opinions, I think that this market has and will continue to play out through the balance of 2006 and into 2007, pretty much in line with the way we've been discussing it, which is where you see this situation in the U.S. where you've got a fairly stable market situation. And even in Europe, I think, the market has been fairly well stabilized. And I think on the Boston Scientific call, it was highlighted that Boston Scientific's market share in Europe is still greater than all of the other stent competitors in Europe combined. So in spite of all of the discussion around the competitors entering in Europe, the franchise continues to be strong and we continue to benefit from that and from its stability.

If you look at some of the bottom line results - the results on the prior page contributed to some pretty solid cash flow and earnings results, again, at the upper end of our outlook range on both fronts. As noted, our GAAP earnings per share - and here, we present the \$0.03 number which is from continuing operations, we're impacted by a number of factors that have nothing to do with the actual cash generated by our business. So, it's very important to look through this and understand the relativity of the GAAP earnings per share to the adjusted earnings per share and the Deltas that have to do with non-cash items. In particular, now there are a lot of new, non-cash amortization expenses related to AMI. We had foreign exchange fluctuations again as we've talked about in prior quarters, that have nothing to do with product sales and overseas jurisdictions. It just has to do with locations of cash balances that we use to operate our various businesses and that we had some certain tax adjustments that we had to make in the quarter that were accrued but were non-cash. So there were a number of non-cash factors.

If you look at the adjusted earnings per share, we reported \$0.20. I think a couple of quick observations on that - that excludes litigation expense that would have had an impact of negative \$0.02. Now, one of the important points that I've made in prior quarters is that the reason we back out, or carve out, litigation expenses to make them visible is that they're highly fluctuating from quarter to quarter depending on activity. And if you look at our litigation expenses as compared to the same quarter last year, there's a significant difference in those two numbers. They're actually a lot less in this quarter than they were in the same quarter, prior year, in the prior year because last year we were in the EU conducting the opposition. So as I said, this will be a volatile number. It will depend on activity. That certainly isn't a recurring type of number in nature.

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The other point that I would make on our adjusted earnings per share is we had - we've got a number of cost saving initiatives that we currently have in place related to the AMI acquisition and attempting to focus our businesses on the verticals that Bill talked about. And if you would've included the impact of those cost savings, starting at the beginning of the quarter, that would've been an addition of a penny to our earnings per share of \$0.20, and those initiatives will continue into future quarters, as well, and so we'll continue to keep you folks updated on that. But, in general, I think we feel that \$0.20 is a solid number to think about at the upper end of our outlook range.

On the next slide, this is a quick overview. A lot of this information is in the press release. Most of the adjustments are very consistent with what we've done in past quarters. Stock-based compensation, acquisition-related amortization - those sorts of things. Again, our foreign currency fluctuations are not related to sales but residential cash balance is, and as I mentioned, we had a one-time accrual in our GAAP tax expense and our actual effective rate, if you look at it, is actually a bit lower than our original expectations. That should continue, going forward.

On the next slide, we have a quick look at the results on a contribution basis and all of these figures are essentially in line with the expectations that were originally laid out, last May, in terms of margins. So, again, to get to Bill's point that we think the integration is going smoothly and we're starting to get a good feel for the businesses, I think that our ability to predict and have some insight into this has been fairly solid based on these Q2 results.

On the EBITDA reconciliation, this is just a quick recap. This is also in our release of the adjusted EBITDA. This is the number that we are required to report for our lenders and so we like to provide a full outlay, both in the sides as well as in the press release. And as discussed, these results were also at the strong end of our expectations for the quarter. So I feel very good about our cash flow performance and the conversion of revenue dollars for cash - to cash for the quarter.

A quick summary of the balance sheet. The change in cash that you see at the top reflects our outlays to complete the Quill transaction, primarily and obviously, as we receive our revenues from Boston Scientific in the third quarter, that cash balance will replenish itself back up to about where it was in that top line. We also reduced debt by about \$27 million during the quarter, so you see the reduction from \$600, as well, to \$573 on short-and long-term debt in the balance sheet for the quarter.

So, a quick recap with respect to our outlook for the full year of 2006. The bottom line is our outlook remains the same as we discussed in May. We still feel very comfortable with what we laid out back at Analyst Day. The only change I would highlight is our tax-rate expectations are a few percentage points better than the original forecast. We were thinking we'd come in at 34 to 35. It looks more like 31 to 33. DES, as I mentioned, is stable, as expected. We've got three quarters essentially in the books now for 2006 so unless something radically unexpected comes up in the third quarter 2006, we should be pretty set and solid and right in line with what we had talked about back in May, in terms of expectations there.

And the following slide actually illustrates that, so if you look at the last four quarters - again, stability in this franchise is the theme we've been hitting on again and again and again. And the last four quarters have reflected exactly the trend that we expected. You saw the dip in Q4 related to fewer repeat procedures and then going forward, we expected growth to be in line with the market and that's exactly what's happening. So now you've got three consecutive quarters from Boston of growing - of slightly growing revenues in that franchise and that contributes to the stability here.

The following slide - again, this is just a recap of what we presented in May and the bottom line message here is that we still feel very comfortable with our prior outlook for the year as of today. We'd expect the September quarter to be a bit lighter as compared to the June and December quarters for a couple of reasons. One of those are seasonal and summer factors that do have an impact, in particular, in the month of August. And then there are also, as we noted in the last quarter, a few extra days in our June quarter due to the close of the acquisition on March 22nd versus at the end of the quarter.

So, in other words, if you annualized our June product sales, that would put our product sales number in excess of a \$200 million run rate. And what we talked about when we did the acquisition was we were thinking about \$195 on a pro forma basis would

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be a good number for our product sales, again, on a pro forma basis for a full 12 months. That would put our product revenues sort of in the high 40s or so, per quarter, which would be the most likely outcome that you would see in the upcoming quarters.

So the bottom line is our strong June quarter results position us well for the rest of the year. Some wild cards, or some spending that we may choose to do to expand some opportunities in our Aesthetics business, in our Biopsy business and some of the growth drivers Bill talked about. But bottom line is we feel very comfortable with the prospective that we laid out in June.

And as well, with respect to our balance sheet, we're ahead of schedule. In terms of our projected debt reduction, we expected to pay down 50 - have \$50 million of debt reduction by the end of the year. And at the end of the June quarter, we're already more than halfway there relative to that target.

So I'll wrap it up quickly with a few slides that build on some of the things that Bill was talking about and Bill foreshadowed just a little bit. I think what we wanted to do was to start to provide some perspectives with respect to each of our key product areas and to give some color on what we think the growth drivers would be by period. So we've got some broad sort of perspectives of this in this presentation. And as we move forward into future quarters, we'll drill down and get more specific as to what we think the revenue opportunities are in these various businesses and what are the contributors to growth in these various lines of business that we have.

So if you look at the Aesthetics business, in particular, we've got - and this is a theme that you'll see through these slides - the overall market in Aesthetics, depending on how you slice it into its different pieces, is in excess of \$4 billion. Right now, our current revenue estimates for 2006 in our business are between \$10 and \$15 million, primarily from the Contour Thread franchise, and we think this business should be one of our high-growth performers in the 2006-2008 timeframe. So, if you think about the growth drivers for the next couple of years, we would expect this business to definitely be one of those.

And if you look at our Biopsy business, in this particular business -- and we went through some of this in the summary fashion on Analyst Day as well -- you've got a business that's in excess of a \$250 million market in the U.S. alone, which we have revenues currently in our businesses of between 45 and 50 estimated for this year. This would also be an important growth driver for us in 2006 through 2008 with the introduction of the echo coded needle and some other technology.

In the wound closure space, this is really reflective of the Quill acquisition and the opportunity we think we have here. Our current revenues in this space, which is in excess of a \$2 billion space overall, are between \$70 and \$75 million. So we've got a relatively sizable position in the wound closure market already.

So this is one of the reasons why we feel confident that this could be a great growth driver and even potentially in excess of 20% top line in this segment in '06 through '08. Because with the introduction of the Quill technology we've now got a technology that we think could help lift the franchise of the rest of the business as well as give us some new product growth since the rest of the business is pretty much directly competitive with the existing products in the market.

So if you look at the vascular franchise, depending on how you cut this market and this is for the vascular franchise outside of interventional cardiology it's somewhere in the neighborhood of \$1 billion market of which our product lines currently represent about 35 to \$40 million in sales.

The growth target for the next couple of years is probably in this business in the 10-percentage point range. But when you look out into 2008 and 2010 and you think about the CVC and the vascular wrap product, obviously we've got a lot of confidence in those products. We're spending a lot of money on clinical development. And if those products are successful then this would be what we would expect to be a major growth driver for the business out in the latter half of a five-year plan.

And then finally to hit on ophthalmology quickly, I think this business is about a 20 to \$25 million business for us today. And I think our strategy here is a bit more steady state. We'd expect this to be a 5 to 10% grower over the next sort of two to three years. And our strategy here is really to just operate this business as a steady state. We don't have any major investments planned

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in this business. But it's a great cash flow contributor for us and a capacity utilizer in our facilities. And so we'll continue to run the business as it's been in a steady state and to try to compete around the edges of the largest players.

So as a wrap up, if you think about these various business segments, you look at wound closure, aesthetics, and biopsy, on the right hand side of this pie as being the 20% plus growers and really the major contributors to growth in the businesses in our medical products business over the next two years. And then if you look out a little bit further it'd really be the vascular business that you'd expect in the outer portions of the years to contribute the most significant portions of growth. Although we've also got a lot of product iterations going on in the other businesses as well that could contribute beyond the two to the three-year timeframe.

And then in the ophthalmology space, as we've said, that's 5 to 10% growth and as of right now, with the other investments that we have, our strategy in ophthalmology is to hold the line.

And so with that I'll turn it back over to Bill for some quick conclusions. And we'll go to Q&A.

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**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

Thanks very much, Tom. I'll be very brief in my summary. This is a version of the slide we showed you in Analyst Day. We talked about how a year ago our goal was to have taxes be less than 50% of our revenues by the end of 2007. We obviously accomplished that about seven quarters ahead of schedule. And what you're looking at is our first quarter of having done that. If you look at the breakdown we've been able to get taxes revenues into the mid 40s already.

So now our goal really towards the end of 2007 is to get taxes to 20% of our revenues. And just so that we can actually clarify the assumption, cause it was the most oft-asked question after Analyst Day, that's assuming that taxes runs at the rate it's running at for 2006. And we believe that from our current verticals, our current growth, the things that Tom laid out, we're going to make a significant dent into that all on its own.

We will continue to do things to grow the business as we always have. And we expect that new initiatives will probably contribute 20% to get us to that magic level. But we also feel that either unprojected endogenous growth or partnerships or some of the products we have in the pipeline may get us there all by itself. This will not be a business development dependent only philosophy. But certainly we're not going to stop trying to grow the business the way we have in the past because we believe it's been very successful so far.

It really was a landmark quarter in many, many ways. This is a significant integration process but it is going exceptionally well. The businesses are running well together. You can see that pipeline contributions both near term and long term are being made across all the different units.

Sales continue to do well. There's been no real interruption in that regard. And there's been no interruption in the business model of continuing to do partnerships and bring products into the bag. So in every way we can think of the business really ran exceptionally well over the last quarter. I'm particularly proud of the quarter.

And with that, I would like to it over to you for questions.

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## QUESTIONS AND ANSWERS

### Operator

[OPERATOR INSTRUCTIONS] Your first question comes from the line of Hari Sambasivam with Merrill Lynch. Please proceed.

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**Hari Sambasivam** - Merrill Lynch - Analyst

Yes, thank you. Bill, just two questions on -- well the first question is on the barb suture side, particularly on the aesthetic end of it. Could you maybe just give us a sense of what your sort of thoughts are at this point in time in terms of launching this product into the U.S.? In terms of particularly as you're thinking about distribution and structuring the sales force, what are the options that you have and where are you sort of leaning towards at this point in time?

Second question I have is on the wrap. And in the event that, say, for example the European agency does not accept your application for CE mark, could you just provide us with what your clinical strategy might be? Is it simply expanding the U.S. trial into Europe? Or would you have to do a separate trial with a different indication in Europe? Thank you.

**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

Sure. Thanks, Hari. With respect to Contour, we have really spent an awful, maybe even a disproportionate amount of time thinking about Contour since the acquisition. Remember, we only completed Quill probably a month ago. So we're still fairly early into the process. But I would say the early thoughts are this. We think this is a product that behaves quite differently depending on whether it's wound closure or whether it's aesthetics.

In the aesthetics market we believe it's more a push than a pull. And by that I mean we feel that the consumer needs to know that it's out there, needs to be aware that the product is available. And then that consumer probably seeks out the doctor and ultimately goes in to have the procedure done.

In that regard, what we're thinking of doing right now is to take a couple of markets and look at advertising directly in those markets and analyzing the data that we have from the business up to this point. It seems that the doctors who have advertised are the ones who have done the best within the clinicians currently providing this service.

So we're going to go into a couple of key markets, do some advertising. I think that's what Tom was alluding to in terms of perhaps spending a bit in third quarter to recognize the benefits in the fourth quarter. And seeing - and if that works out, if it looks like that is effective and sales grow in those regions then we'll roll that out a little bit more. As we go forward we're going to take a prudent approach until we learn what we're doing.

But that's the working hypothesis right now. A few test markets, see if it's good. If it's good, roll it out into more and more markets in a geographical basis. Use distributors in the rest of the world, which you've already seen. We signed one up in Japan. You'll see others coming in other big aesthetic areas, which include Southeast Asia. They include South America. These are actually all pretty decent aesthetics markets. And you'll see us use a distribution strategy there.

With respect to the vascular wrap, we have a plan that is somewhat independent of what the European regulators do. And by that I mean our plan is to go ahead and do an AV access trial in Europe regardless of how the below knee and above knee bypass data is interpreted. We've been working on that for quite some time. It's been done in parallel with the submissions that we're making to do a study in the U.S.

So I think you can expect to see a U.S. pivotal trial in AV access. I think you can expect an European trial in AV access. So should we get an unfavorable response from the Europeans, we will already be in another study in the indication that quite frankly we feel is the most important clinical indication going forward.

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**Rui Avelar** - *Angiotech Pharmaceuticals - Chief Medical Officer*

And Hari, I'd just like to add, and this is - I'm just going to add this because some of the comments after the Analyst Day. If you look at what we're doing with Contour Thread in aesthetics and specifically face lifts, clearly this is a non-invasive or minimally invasive approach to the facelift. And one of the questions that was asked of us is how will it compete with the regular face-lift that involves a big incision and the big pull up?

And what we're finding as we are speaking to our, a number of the key opinion leaders in the aesthetics world is that you actually don't have to cannibalize to benefit from the Contour Thread because if you want to go minimally invasive then the Contour Thread is a solution for that.

But what we're finding is even the individuals who are making the traditional facelift, the Contour Thread plays in very nicely with that because as you do your major dissections and cut the tissue planes, you needed a way to hold the tissues where you wanted them positioned. And it turns out that the Contour Thread and some of the biodegradable Contour Thread, which we have now and are approved, accelerate the procedure. They get a nicer result and a faster result.

Some of the guys -- in particular in New York and New Jersey area are getting the same facelift, open facelift procedure done in half the time because of the Contour Thread. So in fact it transcends both the traditional face-lift and it introduces a brand new concept, the minimally invasive face-lift.

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**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

And on the wound closure side this would be a traditional medtech launch. On there the buying decision's made by the physician when they choose the product that they want to use to close the wound.

We do think we'll get added bang for our buck because a lot of obviously facial wounds and the like are done by plastic surgeons, especially if they're significant. So if they have experience with the Contour Thread, converting them over to wound closure may be a little bit easier than if this was brand new to them.

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**Hari Sambasivam** - *Merrill Lynch - Analyst*

Great. Thank you.

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**Operator**

Your next question comes from the line of Doug Miehme with RBC Capital Markets. Please proceed.

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**Doug Miehme** - *RBC Capital Markets - Analyst*

Thank you. These questions are for Tom. Just in respect to the guidance that you've provided, Tom, specifically as it relates to cost of goods sold and SG&A. I'm just wondering if we're at 70 to 72 and 64 to 66. And if I just look at the numbers that you put out in Q2 and take some lower numbers, I still think we could be a bit higher, especially if you were to go out and do some advertising for the Contour Thread in Q3. Perhaps you could comment on that.

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**Tom Bailey** - Angiotech Pharmaceuticals - Chief Financial Officer

Yes, I'll make a couple of comments. As you recall that just mechanically in the second quarter we had those extra days because closed on the 22nd. So if you just kind of annualize the number, those numbers will be a little bit higher obviously because the sales were higher and the like as well in the second quarter.

With respect to the Contour Thread advertising or other activity that we might undertake, there's a possibility that that could have an impact on SG&A. I think that Bill laid out that our approach here is to not go a mile wide and an inch deep but to really focus our forces, as it were, on a couple of cities where we think we could have some success.

So there's a possibility there could be some incremental spending. I wouldn't expect it to be massive in terms of its overall magnitude. I think that to the extent that we did do some pilot type spending like that, I think in the next quarter when we report our results we'll be very explicit with you about what the incremental spending was over and above what we had originally planned.

And obviously as we move through this program, we would expect that to deliver topline results and to the extent that it wouldn't then we'd probably take a different tactic. So I think that there may be some increased spending in the third quarter to try and execute through a couple of these markets. But I think that it'll be spending that'll be prudent and that we would hope would generate a quick topline return and enhance our top line growth relatively quickly. That'll be the strategy there.

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**Doug Mieh**m - RBC Capital Markets - Analyst

Okay, so just as a follow-up then. On the cost of goods sold, you're still happy with 70 to 72? And then the tax rate this quarter was 24%, and you're talking about 30 to 31 on average. Do you still think that's high though? Are you going to get 24 into the next couple of quarters as well?

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**Tom Bailey** - Angiotech Pharmaceuticals - Chief Financial Officer

I think that in the next couple of quarters it'll be more consistent with what we've guided. I think that this particular quarter there were a few anomalies in the effective tax rate related to some tax opportunities we were able to take advantage of relative to the acquisition structure, how we allocated purchase price. So I think that in future quarters we'll see a little bit of a higher effective rate on average relative to this quarter.

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**Doug Mieh**m - RBC Capital Markets - Analyst

Perfect.

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**Operator**

Your next question comes from the line of Joe Walewicz with CIBC World Markets. Please proceed.

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**Joe Walewicz** - CIBC World Markets - Analyst

Yes, good morning, just a few quick questions. First of all following up on Doug's questions. It looked to me like the cost of sales, just harping back on that, it looks to me like your margins will be improving fairly substantially over the next two quarters. Just wondering if you could comment if that's related just to product mix or if there's some other things going on there?

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And then just thinking more broadly about the growth estimates you've given for the different divisions -- I guess it was slide in the late 30s here. Just looking at the growth here, How much of that do you see sort of coming from the internal synergy products And how much do you see building on that and bolting on some additional products? And then just finally I think Rui I heard you mention something about the biodegradable Contour Threads already being approved. Could you confirm that you said that? Thanks.

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**Rui Avelar** - *Angiotech Pharmaceuticals - Chief Medical Officer*

I'll go first. What I was talking about was actually a -- not the Contour Thread that you know in the configuration to do a facelift. The major facelifts are done with a longer thread, longer needles, and it's a certain configuration that's in a typical non-degradable form right now. What I was talking about was in the context of facelifts, the traditional facelift.

If you look at a traditional facelift as you peel back the skin then do your tissue dissections and pull the tissues into the place that you want, we now have a PDO that is a degradable configuration that actually breaks down. And the net effect is as you do these dissections and position the tissue where you want it in the traditional open facelift, instead of using the glue or using other types of anchors, you can just thread these smaller, biodegradable PDO versions, which effectively are used in wound closure to fixate that tissue. So that's what is approved today.

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**Joe Walewicz** - *CIBC World Markets - Analyst*

Great. Thanks on that.

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**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

So with respect to the cost of sales I think that there -- a couple of factors contribute to that. It's primarily; it's the combination of mix and also margin recapture as a result of the Quill transaction. So if you look at those two components, I think that the wild card in that cost of sales improvement is -- there are a couple of them I would say are the ultimate level of our sales and aesthetics is one potential wild card that will impact that. And then obviously our overall capacity utilization and what proportion of that represents our direct product sales versus sales to OEM customers would have an impact on that.

So I think the bottom line is that we feel confident given our current plan with the outlook for that margin on cost of sales. That that'll be something that we'll have to look at closely as we head through the coming quarters and we see how our Contour Thread franchise is growing. Since that's growing off a small base the other tends to be a little bit more volatility than something that's growing off a small base. But as of right now we feel fairly confident with that perspective.

And I think with respect to the growth and the contributors there. I think the growth rates that we laid out are all growth rates in those various segments we think we can achieve with the existing product mixes that we have, either in our pipeline or that we're currently selling.

So any business development that we would do relative to those product franchises would be incremental revenue on top of that growth opportunity. And I think that with respect to the franchises we're focusing on in the most significant way, I think you could expect absolutely that we would look at various business development activities in those verticals.

I think that the objective is go into these vertical markets with what we think is the right or the fullest product bag to be able to present to these various physicians. And so I think in particular in the areas of biopsy and vascular, those are areas where you could potentially see us try to do some things to enhance those franchises through business development. But the bottom line is we feel comfortable with those growth rates on an endogenous basis in those product franchises.

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**Joe Walewicz** - *CIBC World Markets - Analyst*

Great, thanks guys.

**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

Thanks.

**Operator**

Your next question comes from the line of Charley Jones with Next Generation Equity Research. Please proceed. Again your next question comes from the line of Charley Jones with Next Generation Equity.

**Charley Jones** - *Next Generation Equity Research - Analyst*

Sorry about that. Good morning and nice presentation. Have you identified the biomaterial that allows a smaller dose of paclitaxel to attach to ligaments for intra-articular paclitaxel? And if so, why is it that this has a longer development time?

**Rui Avelar** - *Angiotech Pharmaceuticals - Chief Medical Officer*

Well I'll just start in. We actually have three intra-articular programs, and two of them involve paclitaxel. One is a steroid. And in our last analysts' meeting we detailed kind of the three and prioritized them. We actually don't try to attach anything to ligaments. Intra-articular by definition is an injection that goes into the joint.

The first program, well one of the programs tries to stop contractures or fibrosis or scarring that takes place in the joint, which then doesn't allow your joint to move freely, which manifests as a joint that doesn't just go through the full range of motion. That's the anti-fibrosis project.

The other one that's known that we talked about was an intra-articular where you put the medicine into the joint that actually protects cartilage. That's a much more aggressive trial, much longer, much more expensive, that effectively goes after the osteoarthritis market.

And then the third one, which is the one that's moved to the top because of expense, design of trial and speed to market, is the intra-articular steroid program. And as a reminder, we did a deal with a company called CombinatoRx. And what they could do is take drugs and amplify the efficacy of the drugs by adding a relatively benign enhancer.

So in the context of joints, when you take a steroid and put it into a joint we do this all the time but we accept the fact that it also has negative side effects. It tends to be bad for the cartilage and bad for other structures within the joint.

So what CombinatoRx did was they were able to take a drug, give it the same amount of efficacy with only 1/20 or a fraction of the dose. And this is actually being put into humans three Phase II studies, all three of them showed positive results. So we're leveraging that technology and putting it into the joint.

So the proposition becomes if you need a steroid put into your joint because of the clinical issue that you have, we can now, or we're working on, a prototype, a product that would allow you to inject into the joint, get the same amount of efficacy yet only use a fraction of the dose of that steroid. And that's the highest priority that we have right now.

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**Charley Jones** - Next Generation Equity Research - Analyst

As far as your license products with the Baxter and [Coveda], can you give us an update on the timeline for these and as far as the drug loaded versions go? And I'm curious if any of them are particularly promising and even worth us thinking a whole lot about?

**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

The revenue that comes from the approved products, primarily CoStasis and CoSeal, is in the royalty revenue line. So basically if you take, if you back TAXUS out of the total royalty revenue, the remaining amount there is primarily the CoStasis and CoSeal number. The drug-loaded versions of those products are 100% owned by us. They do not belong to either Baxter or Coveda.

We look at those as a biomaterial for particular delivery systems. I think the most likely emergence of those as carrier systems for drugs will come through the Genzyme collaboration. And when we get further in that program we'll give you a little bit more color on where we're going with that.

**Charley Jones** - Next Generation Equity Research - Analyst

When do you think you'll have a little bit better timeline as far as products from the Genzyme partnership?

**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

We just struck the partnership last quarter. We're trying to zero in on the right clinical indication because the clinical indication will drive both the drug and the carrier. We're very close to doing that. The collaboration's working extremely well. We've had a few meetings together already. And I would expect you'd see something before the end of the year in terms of clarity as to where the program's going.

**Charley Jones** - Next Generation Equity Research - Analyst

And very quickly finally, do you have right to paclitaxel or rapamycin for other devices in vascular systems such as atherectomy catheters? Thanks, guys.

**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

We have a lot of different rights in a lot of different areas. We're not restricted to paclitaxel, but it's really indication dependent. And I'll just kind of leave it at that.

**Operator**

Your next question comes from the line of John Maletic with Scotia Capital. Please proceed.

**John Maletic** - Scotia Capital - Analyst

Good morning. I just wanted to touch back on the aesthetics market. The growth expectations you have for next year, is that primarily the Contour Thread as it stands now? Or does it include contributions from the dermal fillers and the reabsorbable

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Contour product? And if so, what kind of up take are you looking for, for the dermal fillers given the type of competition that is already out there in the market?

**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

We -- the growth that we laid out for you is primarily from Contour. We are, as indicated, in position to launch two other aesthetic products in the first half of next year. We have not modeled those yet. To the extent that they look like they're meaningful once we've launched them, we'll come back and give you some guidance on that. But I think it's safe to assume that the growth that we're modeling is Contour related.

**John Maletic** - *Scotia Capital - Analyst*

Okay. And the additional products, are they really just a means of rounding out the portfolio so that the sales reps have a more broader product range to go the docs with?

**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

Well the answer is yes and no. So yes, we think that primarily in aging and face-lift in general the problem isn't just one of lift. The problem is also one of volume. And so to participate in that space, you need both volume filler and the lift product that we obviously already have.

So yes it is to help fill out the bag and provide other opportunities to sell into that space. But no, it's not just a tagalong. We think both of these products can be very competitive. And we hope that they will exceed expectations.

**Rui Avelar** - *Angiotech Pharmaceuticals - Chief Medical Officer*

I'll just add a little bit more. When you look at a typical facelift, almost every one of the individuals who perform these add some sort of volume. And if you think about the aging individual, it's actually quite common for a person to lose 20 to 40ccs of volume out of their face just alone. So it just makes perfect sense. And we've introduced some twists that we'd like to put into the pillars. And we'll highlight that later on.

**John Maletic** - *Scotia Capital - Analyst*

Okay. Thanks.

**Operator**

Your next question comes from the line of Prakash Gowd with National Bank Financial. Please proceed.

**Prakash Gowd** - *National Bank Financial - Analyst*

Thank you and good morning. One question is on your growth strategy in the biopsy business. Can you just elaborate a little bit on that in terms of are you looking at new products introductions taking market share from the competition or are you looking at growing the business more through conversion of our current product to a higher price and higher margin product?

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**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

It's a bit of both. We believe in the biopsy space, which is more and more going to ultrasound guided procedures. More and more breast biopsies are being done with ultrasound guidance. Certainly more and more prostate biopsies are being done with ultrasound guidance.

The addition of PSA screening in men and mammography in women is identifying smaller and smaller masses, which are increasingly hard to access either through open biopsy, which is still half the procedures in breast in the U.S. incidentally or through traditional palpation and full core. And so we think that the addition of an echo-friendly, if you will, or an echo-guided needle, the echo-coated needle is something that could do both. It could be a product that could sell for a greater price.

The breast market in particular has shown that there is ability to up charge in the market if you have features that are differentiating. And we also think that we could take market share with the technology that allowed us to be more user friendly in a variety of procedures.

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**Prakash Gowd** - National Bank Financial - Analyst

Do you have a feel for how much of your growth will come from higher pricing versus taking share?

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**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

We haven't modeled that at all.

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**Tom Bailey** - Angiotech Pharmaceuticals - Chief Financial Officer

But we wouldn't comment on that in any case at this point because we've got a lot of obviously important competitive information relative to launches of new products. And so we'll comment as start to get out into the market more specifically.

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**Prakash Gowd** - National Bank Financial - Analyst

If I could just add a second one then for Rui. On the vascular wrap data, do you have the split between above the knee and below the knee and how does the data look if you do that analysis by above versus below?

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**Rui Avelar** - Angiotech Pharmaceuticals - Chief Medical Officer

So basically the data we presented at the V conference wasn't audited but fairly complicit with that. And that answer is it looks even more dramatic. And the reason is the below knee individuals that were put into the trial, there were 25 of them, a lot of them were effectively no-hopers. But because this was a safety trial, not really an efficacy trial, a number of the docs put in patients that were literally inappropriate.

We have an angiogram for example of a patient who had a piece of plastic sewn in all the way from his hip right down to a small tiny artery called the dorsal pedis on top of the foot. He's the definition of you can't get there from here. But that patient was put into the trial and obviously counted against us.

So the long short of it is the above knee data is even more dramatic. Off the top of my head I think there's almost a threefold difference in terms of amputation rates and same thing on the inclusion side. So it's more dramatic. But what we're tying to do is with the FDA we have the opportunity to go through this process a lot quicker by going straight into a pivotal trial.

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So we thought taking the high road with the FDA was absolutely the way to go. And I'll just remind you our head of clinic reg is a neurosurgeon by training. He's been doing this for a long time. And if the guy behind him an MD PhD who was at the FDA and he basically sat in biologics and on the oncology division. So their advice to us was let's just pool this all together, take that two-year data, and just pool it all together. And we can break it out for the FDA. And that was just sage advice from them.

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**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

But make no mistake, we're pretty excited about these trends. I mean it's easy to look at numbers on a page. It's another thing to go to a patient and say you have a 50% greater chance of salvaging your limb. If that was able to translate going forward that would be a stunning advancement, quite frankly. Now the numbers are low. But that is not trivial data that we're seeing so far.

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**Prakash Gowd** - *National Bank Financial - Analyst*

Okay. Thanks. I'll get back I queue.

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**Operator**

Your next question comes from the line of Maher Yaghi with Desjardins Securities. Please proceed.

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**Maher Yaghi** - *Desjardins Securities - Analyst*

Okay, thank you very much. That was all messed up. All right. That's Maher from Desjardins. My first question guys is for the tax rate. You mentioned that you expect a smaller than expected tax rate for the remainder of the year. Can you just let us know if that also applies for 2007 possibly?

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**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

Yes. We would expect that to be pretty consistent going forward, Maher.

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**Maher Yaghi** - *Desjardins Securities - Analyst*

Okay.

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**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

The low 30s.

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**Maher Yaghi** - *Desjardins Securities - Analyst*

Low 30s, okay, good. And I'm just trying to get a hold of the -- just get a handle on guidance for 2006. Now we have had now half of the year report and you mentioned that you might expect some seasonally weaker Q3. How much higher Q4? In your expectations is Q4 only seasonally -- you expect seasonal strength in Q4 or also some new product introductions that will get you up to the guidance of \$0.79 to \$0.81?

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**Tom Bailey** - Angiotech Pharmaceuticals - Chief Financial Officer

I think that Q4 -- I wouldn't call it based on or derived from new product introductions. The fourth quarter in these businesses always tends to be a bit stronger, particularly in the commodity product areas cause you've got a lot of, particularly in ophthalmology knives and low-end sutures and those are some things, a lot of product promotion goes on at the end of the year. This is the same across all of these businesses, Ethicon, Braun, et cetera.

So in general you have a little bit of a stronger fourth quarter just overall breadth of the product line than you would relative to the third quarter where you've got the month of August in there that tends to impact things, slow things down a little bit relative to the summer months.

So that's the majority of it. I wouldn't expect the difference to be - I wouldn't, to say it's not material wouldn't be a correct statement. But to say that it would be substantially material would also be incorrect. It's not going to be a huge delta between the two quarters. But there will be some -- the third quarter in general is lighter relative to the fourth. That's been a trend that has been pretty consistent in these businesses through the last few years.

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**Bill Hunter** - Angiotech Pharmaceuticals - President and Chief Executive Officer

In addition anything we spend on promotion of Contour will be realized in the fourth quarter. And secondly we will have the benefit of some wound closure launch from the core product in the fourth quarter as well. So there's a couple of other areas that can contribute.

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**Maher Yaghi** - Desjardins Securities - Analyst

Okay, thank you. I also wanted to touch base on the vascular wrap. Rui mentioned that we might see some three to six months push into the launch in Europe. Where does that lead us? In which quarter in '07 do you expect a possible launch in Europe if all the filings and the timelines are on track?

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**Rui Avelar** - Angiotech Pharmaceuticals - Chief Medical Officer

So basically the -- it's all going to be driven. We've made the decision that we're going to wait for the two-year data. And it's really clear that the one-year data is already starting to show some data that we're excited about -- I mean a 50% salvation rate in treatment versus control of your limbs is a big number.

But given that it's a matter of waiting another or month or two, because literally the audited two-year data should be in by the end of September beginning of October. So we're going to wait for that data. And then as soon as we get that we can complete the package and complete our IDE filing for the FDA and at the same time do our CE submission. So that can be filed relatively quickly cause everything else is in line to go -- we're just waiting for that data. And it'll be just a matter of how quickly the European authorities turn that over.

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**Maher Yaghi** - Desjardins Securities - Analyst

And are you still looking to mainly focus on above the knee? Or is the CE market really needs to be for all procedures? Can you just focus on your applications for above the knee to get an advantage?

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**Rui Avelar** - *Angiotech Pharmaceuticals - Chief Medical Officer*

Sure. So this trial obviously has enrolled above the knee and below the knee. And Bill has already let you know that the real indication that you want to look at is hemodialysis. It's an enormous market. There are a lot of people who have diabetes and the failure rate is astronomical, far in excess of what you see in above and below knee.

Just to remind you failure rate of PTFE in hemodialysis is over 50% within the first year, 75% of those patients fail within two years. And the reimbursement implications are in our favor because it costs literally \$1 billion a year to fix that problem and address that problem.

And what Bill has said is in parallel with what's going on in the United States with that clinical trial, we've already started motions in Europe to do a U.K. trial to -- primarily start in the U.K. and then probably branch into the rest of Europe, looking at that indication.

So we're not waiting just for it. Certainly the data, the pre-clinical data that we've seen and what we've seen out of Europe we've been very excited about. So we've started initiatives to start expanding those indications and doing other trials in Europe. And you'll see more visibility on that. We're taking up the primary endpoints right now on those studies.

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**Maher Yaghi** - *Desjardins Securities - Analyst*

Okay. And my last question is on AMI and the slides that you have in your presentations for the next couple of years of growth drivers for each of the businesses, the verticals that you have over there. Is the growth targets for example for biopsies of 20 to 30% growth target, is that a cumulative target growth or an annual growth, CAGR growth?

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**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

That would be an annualized type of growth rate, Maher. So we would expect that to be - the three businesses between wound closure, aesthetics and biopsy, yes, we'd hope that component of the business to be 20%-ish plus growth on an annualized basis out of those businesses. So those are the faster growing businesses on an annualized basis for the next two years relative to vascular and ophthalmology.

And then beyond 2008, '09, when we see the central venous catheter and vascular wrap, hopefully, you'll get an uptick in the growth of that business segment. And we would hope obviously for the growth in those other three business segments to continue beyond 2008.

And I think with some of the new product iterations we have, both in terms of adding drugs to those products, degradable products that could go beyond 2008. But I think the near-term growth drivers will be those three and that's on an annualized basis.

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**Maher Yaghi** - *Desjardins Securities - Analyst*

Okay. Thank you very much guys.

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**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

Thanks.

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**Operator**

[OPERATOR INSTRUCTIONS] Your next question comes from the line of Shameze Rampertab with Jennings Capital. Please proceed.

**Shameze Rampertab** - *Jennings Capital - Analyst*

Good afternoon. First question, what amount of your product revenue and cost of sales from AMI are really attributed to that last week of March that was not included in Q1 and you rolled it into Q2?

**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

Small amount, immaterial, which is why we were able to do that. And that's obviously something that our auditors have to opine on. But it's not significant. It'll have an impact on the quarter-over-quarter comparisons and we'll break that out at the end of the September quarter if it's meaningful. But it's not meaningful otherwise our auditors wouldn't have allowed us to do it that way.

**Shameze Rampertab** - *Jennings Capital - Analyst*

Okay. So you don't see that big push from your sales guys trying to meet quarter end quotas and push a lot of product out the door in the last week?

**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

I think we've got quarter end procedures like any other company in these product-oriented businesses. So you tend to see some increase at the end of the quarter relative to the quarter overall. But in a medical products business like this, this isn't the semiconductor industry. It's a little bit different. You have more of a smoothing out factor because people tend to get wounded when they get wounded, right? So there is some of that. There is some product promotion at the end of the year in some of these more commoditized product areas.

But it's not a situation where you'd have like 80% of your sales occurring in the last couple of weeks of the quarter. If that were the case then we would not have been able to take those eight days and put them into the June quarter. Our auditors would have had us put them into the March quarter.

**Shameze Rampertab** - *Jennings Capital - Analyst*

Okay, great. And a second question, in your commitment section you talk about the minimum commercialization expenditures on products you acquired from Quill. And in year 1 we're looking at \$7.85 million year 2, \$10 million, year 3, \$10 million. When would those amounts get paid? Are they smoothed out throughout the year? Or is there a lump sum at the end of the year? And how would you account for that in your expenses?

**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

So we don't actually pay those to anybody. Those are just what would be characterized as diligence requirements that are part of the contract. So there are some contingent payments that are based on revenue growth in that contract. And so one of the assurances they wanted was that we weren't just going to take the product and stick it on the shelf and not market it. And so those would show up as part of our SG&A expenses related to stent. And it incurred that the expenses that get counted against that diligence requirement are very, very broad, right?

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So it's all -- basically it's already, it's the sales and marketing expenditures that we're already incurring broadly in the surgical specialties business that will count against those numbers. So the bottom line is that those won't be incremental payments that we have to make on top of what we've already guided.

The numbers that we would incur in terms of those expenses are already in the guidance that we've already given. And that -- they would show up as just part of, as just generalized SG&A expenditures. It's just an accounting that we need to for the Quill shareholders is all it is.

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**Shameze Rampertab** - *Jennings Capital - Analyst*

Okay. Great. Thank you very much.

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**Tom Bailey** - *Angiotech Pharmaceuticals - Chief Financial Officer*

Thanks.

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**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

Basically if we execute on the plan we have right now, we easily clear those.

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**Operator**

At this time there are no more questions in queue. I will now turn the call back over to Dr. Bill Hunter.

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**Bill Hunter** - *Angiotech Pharmaceuticals - President and Chief Executive Officer*

Well thank you very much. I know Janet has scheduled some follow-up time. And all of us will be available through Janet to handle your questions. Thank you for your attention. And we look forward to following up with next quarter's call and giving more color on some of these initiatives, which as I said before we're quite excited about. Thanks very much.

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**Operator**

Thank you for your participation in today's conference, ladies and gentlemen. All parties may now disconnect. Enjoy your day.

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