
**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 September 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 000-30334

Angiotech Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in Its Charter)

British Columbia, Canada
(State or Other Jurisdiction of
Incorporation or Organization)

98-0226269
(I.R.S. Employer
Identification Number)

1618 Station Street
Vancouver, B.C. Canada
(Address of Principal Executive Offices)

V6A 1B6
(Zip Code)

Registrant's telephone number, including area code: (604) 221-7676

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 (as amended, the "Exchange Act") 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

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

85,121,983 Common Shares, no par value, as of November 5, 2008

ANGIOTECH PHARMACEUTICALS, INC.
QUARTERLY REPORT ON
FORM 10-Q

For the Quarterly Period Ended September 30, 2008

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(All amounts expressed in thousands of U.S. dollars)

| | September 30, 2008 | December 31, 2007 |
|---|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents <i>[note 6]</i> | \$ 56,951 | \$ 91,326 |
| Short-term investments <i>[note 7]</i> | 8,964 | 17,899 |
| Accounts receivable | 25,980 | 22,678 |
| Inventories <i>[note 8]</i> | 39,607 | 33,647 |
| Deferred income taxes, current portion | 5,394 | 5,964 |
| Prepaid expenses and other current assets | 6,078 | 7,070 |
| Total current assets | 142,974 | 178,584 |
| Long-term investments <i>[note 7]</i> | 6,560 | 6,557 |
| Property, plant and equipment <i>[note 9]</i> | 59,944 | 59,187 |
| Intangible assets <i>[note 10]</i> | 203,087 | 225,889 |
| Goodwill <i>[note 10]</i> | 55,990 | 659,511 |
| Deferred financing costs | 11,922 | 13,600 |
| Deferred income taxes | 3,553 | - |
| Other assets | 5,734 | 6,780 |
| Total assets | \$ 489,764 | \$ 1,150,108 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities <i>[note 11]</i> | \$ 52,791 | \$ 47,489 |
| Income taxes payable | 12,151 | 7,914 |
| Interest payable on long-term debt | 11,464 | 7,327 |
| Deferred revenue, current portion | 210 | 210 |
| Total current liabilities | 76,616 | 62,940 |
| Deferred revenue | 1,053 | 1,211 |
| Deferred leasehold inducement | 2,845 | 2,794 |
| Deferred income taxes | 49,548 | 59,368 |
| Other tax liabilities | 5,792 | 4,693 |
| Long-term debt <i>[note 12]</i> | 575,000 | 575,000 |
| Other liabilities | 1,681 | 2,030 |
| Total non-current liabilities | \$ 635,919 | \$ 645,096 |
| Commitments and contingencies <i>[note 17]</i> | | |
| Stockholders' (deficit) equity | | |
| Share capital <i>[note 14]</i> | | |
| Authorized: | | |
| 200,000,000 Common shares, without par value | | |
| 50,000,000 Class I Preference shares, without par value | | |
| Common shares issued and outstanding: | | |
| September 30, 2008 – 85,121,983 | | |
| December 31, 2007 – 85,073,983 | 472,739 | 472,618 |
| Additional paid-in capital | 31,650 | 29,669 |
| Accumulated deficit | (766,709) | (102,497) |
| Accumulated other comprehensive income | 39,549 | 42,282 |
| Total stockholders' (deficit) equity | (222,771) | 442,072 |
| Total liabilities and stockholders' (deficit) equity | \$ 489,764 | \$ 1,150,108 |

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(All amounts expressed in thousands of U.S. dollars, except share and per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|--------------------|------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| REVENUE | | | | |
| Royalty revenue | \$ 21,405 | \$ 26,622 | \$ 75,871 | \$ 89,500 |
| Product sales, net | 46,502 | 41,351 | 144,761 | 126,258 |
| License fees | 453 | 53 | 558 | 577 |
| | 68,360 | 68,026 | 221,190 | 216,335 |
| EXPENSES | | | | |
| License and royalty fees | 3,452 | 4,527 | 11,484 | 14,235 |
| Cost of products sold | 24,772 | 23,384 | 77,430 | 71,261 |
| Research and development | 10,658 | 13,188 | 45,468 | 40,407 |
| Selling, general and administration | 23,370 | 24,715 | 77,100 | 72,532 |
| Depreciation and amortization | 8,560 | 8,119 | 25,577 | 24,603 |
| In-process research and development <i>[note 15]</i> | - | - | 2,500 | 8,000 |
| | 70,812 | 73,933 | 239,559 | 231,038 |
| Operating loss | (2,452) | (5,907) | (18,369) | (14,703) |
| Other (expense) income: | | | | |
| Foreign exchange gain (loss) | 1,009 | (110) | 1,569 | (514) |
| Investment and other income | 187 | 2,073 | 1,630 | 9,881 |
| Interest expense on long-term debt | (10,790) | (13,280) | (33,851) | (38,975) |
| Write-down / loss on redemption of investments | (1,901) | - | (12,561) | (8,157) |
| Write-down and other deferred financing charges <i>[note 16]</i> | (13,544) | - | (13,544) | - |
| Write-down of goodwill <i>[note 10]</i> | (599,400) | - | (599,400) | - |
| Total other expenses | (624,439) | (11,317) | (656,157) | (37,765) |
| Loss from continuing operations before income taxes | (626,891) | (17,224) | (674,526) | (52,468) |
| Income tax recovery <i>[note 13]</i> | (4,513) | (6,392) | (10,314) | (19,920) |
| Loss from continuing operations | (622,378) | (10,832) | (664,212) | (32,548) |
| Loss from discontinued operations, net of income taxes <i>[note 4]</i> | - | (1,156) | - | (6,947) |
| Net loss | \$(622,378) | \$(11,988) | \$(664,212) | \$(39,495) |
| Basic and diluted net loss per common share <i>[note 20]</i>: | | | | |
| Continuing operations | \$(7.31) | \$(0.13) | \$(7.80) | \$(0.38) |
| Discontinued operations | - | (0.01) | - | (0.08) |
| Total | \$(7.31) | \$(0.14) | \$(7.80) | \$(0.46) |
| Basic and diluted weighted average number of common shares outstanding (in thousands) | 85,122 | 85,014 | 85,117 | 85,010 |

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(All amounts expressed in thousands of U.S. dollars, except share data)

(Unaudited)

| | Common Shares | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Comprehensive loss | Total stockholders' equity |
|--|-------------------|-------------------|----------------------------------|------------------------|--|-----------------------|----------------------------------|
| | Shares | Amount | | | | | |
| Balance at December 31, 2006 | 84,983,735 | \$472,390 | \$ 25,082 | \$ (34,893) | \$ 36,113 | | \$ 498,692 |
| Adjustment for the adoption of FASB Interpretation No. (FIN) 48 | | | | (1,664) | | | (1,664) |
| Exercise of stock options for cash | 30,248 | 79 | | | | | 79 |
| Stock-based compensation | | | 1,059 | | | | 1,059 |
| Net unrealized loss on available-for-sale securities, net of taxes | | | | | (3,253) | \$ (3,253) | (3,253) |
| Reclassification of net unrealized loss on available-for-sale securities, net of taxes | | | | | 3,097 | 3,097 | 3,097 |
| Cumulative translation adjustment | | | | | (241) | (241) | (241) |
| Net loss | | | | (12,292) | | (12,292) | (12,292) |
| Comprehensive loss | | | | | | \$ (12,689) | |
| Balance at March 31, 2007 | 85,013,983 | \$ 472,469 | \$ 26,141 | \$ (48,849) | \$ 35,716 | | \$ 485,477 |
| Stock-based compensation | | | 1,305 | | | | 1,305 |
| Net unrealized loss on available-for-sale securities, net of taxes | | | | | 932 | \$ 932 | 932 |
| Cumulative translation adjustment | | | | | 501 | 501 | 501 |
| Net loss | | | | (15,215) | | (15,215) | (15,215) |
| Comprehensive loss | | | | | | \$ (13,782) | |
| Balance at June 30, 2007 | 85,013,983 | \$472,469 | \$27,446 | \$ (64,064) | \$ 37,149 | | \$473,000 |
| Stock-based compensation | | | 1,353 | | | | 1,353 |
| Net unrealized loss on available-for-sale securities, net of taxes | | | | | 1,224 | \$1,224 | 1,224 |
| Cumulative translation adjustment | | | | | 756 | 756 | 756 |
| Net loss | | | | (11,988) | | (11,988) | (11,988) |
| Comprehensive loss | | | | | | \$ (10,008) | |
| Balance at September 30, 2007 | 85,013,983 | \$472,469 | \$28,799 | \$ (76,052) | \$ 39,129 | | \$464,345 |

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(All amounts expressed in thousands of U.S. dollars, except share data)
(Unaudited)

| | Common Shares | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Comprehensive loss | Total stockholders' equity (deficit) |
|--|-------------------|-------------------|----------------------------------|------------------------|---|-----------------------|--|
| | Shares | Amount | | | | | |
| Balance at December 31, 2007 | 85,073,983 | \$ 472,618 | \$ 29,669 | \$ (102,497) | \$ 42,282 | | \$ 442,072 |
| Exercise of stock options for cash | 48,000 | 121 | | | | | 121 |
| Stock-based compensation | | | 817 | | | | 817 |
| Net unrealized loss on available-for-sale securities, net of taxes | | | | | (4,133) | \$ (4,133) | (4,133) |
| Cumulative translation adjustment | | | | | 10,583 | 10,583 | 10,583 |
| Net loss | | | | (15,763) | | (15,763) | (15,763) |
| Comprehensive loss | | | | | | \$ (9,313) | |
| Balance at March 31, 2008 | 85,121,983 | \$ 472,739 | \$ 30,486 | \$ (118,260) | \$ 48,732 | | \$ 433,697 |
| Stock-based compensation | | | 608 | | | | 608 |
| Net unrealized loss on available-for-sale securities, net of taxes | | | | | (2,235) | (2,235) | (2,235) |
| Reclassification of net unrealized loss on available-for-sale securities, net of taxes | | | | | 10,656 | 10,656 | 10,656 |
| Cumulative translation adjustment | | | | | 9 | 9 | 9 |
| Net loss | | | | (26,071) | | (26,071) | (26,071) |
| Comprehensive loss | | | | | | \$(17,641) | |
| Balance at June 30, 2008 | 85,121,983 | \$ 472,739 | \$31,094 | \$ (144,331) | \$ 57,162 | | \$ 416,664 |
| Stock-based compensation | | | 556 | | | | 556 |
| Cumulative translation adjustment | | | | | (17,613) | \$(17,613) | (17,613) |
| Net loss | | | | (622,378) | | (622,378) | (622,378) |
| Comprehensive loss | | | | | | \$(639,991) | |
| Balance at September 30, 2008 | 85,121,983 | \$ 472,739 | \$31,650 | \$ (766,709) | \$39,549 | | \$(222,771) |

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts expressed in thousands of U.S. dollars)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| OPERATING ACTIVITIES | | | | |
| Net loss | \$(622,378) | \$ (11,988) | \$(664,212) | \$ (39,495) |
| Adjustments to reconcile net loss to cash provided by operating activities: | | | | |
| Depreciation and amortization | 9,680 | 9,199 | 28,808 | 27,974 |
| Loss on disposition of property and equipment | - | 98 | 12 | 378 |
| Write-down / loss on redemption of investments | 1,962 | - | 12,622 | 647 |
| Write-down and other deferred financing charges | 13,544 | - | 13,544 | - |
| Write-down of goodwill | 599,400 | - | 599,400 | - |
| Loss on disposal of intangible assets | 113 | 32 | 113 | 32 |
| Loss on disposal of assets held for sale | - | 1,156 | - | 1,156 |
| Impairment of assets from discontinued operations | - | - | - | 8,879 |
| Unrealized foreign exchange gain | 821 | - | 865 | - |
| Deferred income taxes | (7,134) | (8,315) | (12,499) | (28,325) |
| Stock-based compensation expense | 556 | 1,353 | 1,980 | 3,717 |
| Deferred revenue | (202) | (53) | (158) | (577) |
| Non-cash interest expense | 559 | 559 | 1,676 | 1,685 |
| In-process research and development | - | - | 2,500 | 8,000 |
| Other | (65) | (60) | (183) | 2,072 |
| Net change in non-cash working capital items relating to operations <i>[note 21]</i> | 1,545 | 1,632 | (4,496) | 11,035 |
| Cash used in operating activities | (1,599) | (6,387) | (20,028) | (2,822) |
| INVESTING ACTIVITIES | | | | |
| Proceeds from short-term investments | 605 | - | 605 | 9,396 |
| Purchase of long-term investments | - | (10,000) | - | (15,000) |
| Proceeds from long-term investments | - | - | - | 15,454 |
| Purchase of property, plant and equipment | (1,398) | (1,273) | (7,183) | (3,568) |
| Purchase of intangible assets | - | (750) | (1,000) | (6,017) |
| Proceeds from sale of assets held for sale | - | 4,832 | - | 4,832 |
| In-process research and development | - | - | (2,500) | (1,000) |
| Other | 143 | - | 447 | (101) |
| Cash (used in) provided by investing activities | (650) | (7,191) | (9,631) | 3,996 |
| FINANCING ACTIVITIES | | | | |
| Deferred financing charges and costs | (2,170) | - | (3,791) | (1,865) |
| Proceeds from stock options exercised | - | - | 121 | 79 |
| Cash used in financing activities | (2,170) | - | (3,670) | (1,786) |
| Effect of exchange rate changes on cash and cash equivalents | (1,545) | - | (1,046) | - |
| Net decrease in cash and cash equivalents | (5,964) | (13,578) | (34,375) | (612) |
| Cash and cash equivalents, beginning of period | 62,915 | 112,298 | 91,326 | 99,332 |
| Cash and cash equivalents, end of period | \$ 56,951 | \$ 98,720 | \$ 56,951 | \$ 98,720 |

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All tabular amounts expressed in thousands of U.S. dollars, except share and per share data)
(Unaudited)

Angiotech Pharmaceuticals, Inc. (the “Company”), is incorporated under the Business Corporations Act (British Columbia). The Company is a specialty pharmaceutical and medical device company that discovers, develops and markets innovative technologies and medical products primarily for local diseases or for complications associated with medical device implants, surgical interventions and acute injury.

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission for the presentation of interim financial information. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. These consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2007 included in the Company’s Annual Report filed with the appropriate securities commissions.

In the opinion of management, all adjustments (which include reclassification and normal recurring adjustments) necessary to present fairly the consolidated balance sheets, consolidated statements of operations, consolidated statements of stockholders’ (deficit) equity, and consolidated statements of cash flows at September 30, 2008 and for all periods presented, have been made. The results of operations for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results for the full year ending December 31, 2008.

All amounts herein are expressed in U.S. dollars unless otherwise noted. The year end balance sheet data was derived from audited financial statements but does not include all of the disclosures required under U.S. GAAP.

2. SIGNIFICANT ACCOUNTING POLICIES

Other than the changes in accounting policies described below in these interim consolidated financial statements, all accounting policies are the same as described in note 2 to the Company’s audited consolidated financial statements for the year ended December 31, 2007 included in the Company’s 2007 Annual Report filed with the appropriate securities commissions.

The Company’s preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reported periods. Estimates are used when accounting for the collectability of receivables, valuing deferred tax assets, provisions for inventory obsolescence, determining stock-based compensation expense and reviewing long-lived assets for impairment.

The Company is subject to risks common to companies in the pharmaceutical industries including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, dependence on key or sole source suppliers for materials, protection of proprietary technology and compliance with government regulations. In addition to these risks, the Company’s future cash flows are subject to numerous uncertainties including, but not limited to, delays in new product launches, changes in drug-eluting coronary stent markets, including the impact of new competitive entrants into such markets, and the sales achieved in such markets by the Company’s partner, Boston Scientific Corporation (“BSC”), the timing and success of product sales and marketing initiatives, the timing and success of our research, product development and clinical trial activities, the timing of completing certain operational initiatives including facility closures, the ability to effect reductions in certain aspects of its budgets in an efficient and timely manner, changes in interest rates and other unanticipated expenditures. Any unfavorable outcomes of the above uncertainties may result in a material reduction in cash flows and corresponding inability of the Company to fund its business operations.

In addition to the above, the Company may not be able to complete any restructuring, reorganization or strategic activities on terms that would be favourable for the Company’s shareholders. The Company will be required to raise additional capital to fund any additional expansion of the Company’s operations and/or acquire complementary businesses. The Company does not know whether it will be able to raise such additional capital on favourable terms. Capital markets conditions have deteriorated significantly during the third quarter of 2008, including a significant decline in the level of corporate lending activity, combined with a significant increase in the cost of any such lending. Current market conditions

may have a material impact on our ability to secure any alternative source of funding, our ability to secure interim financing or to complete any of the activities as described on favourable terms, if at all. If adequate capital is not available or is not available on acceptable terms, the Company's ability to fund its operations, further develop and expand its operations and distribution network, or otherwise respond to competitive pressures would be significantly limited.

Due to the numerous factors that may impact the Company's future cash position, working capital and liquidity noted above and the significant cash that will be necessary to continue to service the current level of debt obligations, there can be no assurance that the Company will have adequate liquidity and capital resources to satisfy its financial obligations in 2009 and beyond.

The Company's management and Board of Directors continue to believe a transaction alternative of significant size and scope is necessary to meaningfully address the working capital needs for the Company's business initiatives, as well as to address potential liquidity issues likely to arise in the near term relating to our current balance sheet structure, due to several factors that have impacted our business and cash flows from operations.

Recently adopted accounting policies:

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements or SFAS 157. SFAS 157 provides guidance for, among other things, the definition of fair value and the methods used to measure fair value. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. Adoption of SFAS 157 effective January 1, 2008 has not impacted the Company's financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS 159. The fair value option established by SFAS 159 permits, but does not require, all entities to choose to measure eligible items at fair value at specified election dates. An entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. As at September 30, 2008, the Company has not elected the fair value option for any items and as such, adoption of SFAS 159 effective January 1, 2008 has not impacted the Company's financial position and results of operations.

In June 2007, the Emerging Issues Task Force issued EITF Issue 07-03, Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development or EITF No. 07-03. EITF No. 07-03 addresses the diversity which exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under EITF No. 07-03, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF No. 07-03 is effective for fiscal years beginning after December 15, 2007 and interim periods within those years. Adoption of EITF No.07-03 effective January 1, 2008 on a prospective basis has not resulted in an adjustment to the Company's financial statements.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations, or SFAS No. 141R. SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until December 31, 2008. The Company expects SFAS No. 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time. The Company is still assessing the impact of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51, or SFAS No. 160. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company has not yet completed its evaluation of the potential impact, if any, of the adoption of SFAS No. 160.

In November 2007, the Emerging Issues Task Force issued EITF Issue 07-01, Accounting for Collaborative Arrangements or EITF No. 07-01. EITF No. 07-01 requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. Further, EITF No. 07-01 clarified that the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to Issue 01-9, Accounting for Consideration Given by a Vendor to a Customer. EITF No. 07-01 is effective for fiscal years beginning December 15, 2008. The Company has not yet completed its evaluation of EITF 07-01, but does not believe that it will have a material impact on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. It requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is still assessing the impact of this pronouncement.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is assessing the potential impact that the adoption of FSP FAS 142-3 may have on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles or SFAS No. 162. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not believe that implementation of this standard will have a material impact on its consolidated financial position, results of operations or cash flows.

4. DISCONTINUED OPERATIONS

In the third quarter of 2006, the Company determined that certain operating subsidiaries acquired through the American Medical Instruments Holdings, Inc. ("AMI"), acquisition were not aligned with the Company's current business strategy and, consequently, began actively looking to dispose of these operations. These operations were categorized as discontinued and include the following AMI subsidiaries: American Medical Instruments, Inc. located in Dartmouth, Massachusetts; Point Technologies, Inc. located in Boulder, Colorado; and Point Technologies S.A. located in Costa Rica. These operations were disposed of in the third quarter ended September 30, 2007 and no assets or liabilities related to these discontinued operations remained as of December 31, 2007. The net loss for these operations has been shown separately on the statements of operations. Included in long-term assets from discontinued operations prior to the disposition were intangible assets of \$5.6 million and goodwill of \$9.6 million relating to the medical products reportable segment. Management reviewed the carrying value of the discontinued operations and recorded impairment charge of \$8.9 million for the three month period ended March 31, 2007.

The operating results of discontinued operations were included in the Consolidated Statements of Operations as “Loss from discontinued operations, net of income taxes.” The amounts for the three and nine month periods ended September 30, 2007 is summarized as follows:

| | Three months ended September 30, 2007 | Nine months ended September 30, 2007 |
|---|---|--|
| Revenues | \$1,643 | \$7,580 |
| Operating loss | 256 | (548) |
| Impairment charge | - | (8,879) |
| Loss before income taxes | (1,819) | (11,502) |
| Income tax recovery | (663) | (4,555) |
| Loss from discontinued operations | \$(1,156) | \$(6,947) |
| Loss per common share: | | |
| Basic and diluted | \$(0.01) | \$(0.08) |
| Shares used in computing loss per share: | | |
| Basic and diluted | 85,014 | 85,010 |

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

For certain of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, and interest payable, the carrying amounts approximate fair value due to their short-term nature. The fair value of the short-term investments approximates \$8,964,000 as at September 30, 2008 (December 31, 2007 - \$17,899,000). The total fair value of the long term debt approximates \$376,156,000 as at September 30, 2008 (December 31, 2007 - \$516,906,000). The fair value of the short-term investments and long term debt is based primarily on quoted market prices at September 30, 2008 and December 31, 2007, and is not necessarily indicative of the amount that would be realized in a current market exchange.

Financial risk includes interest rate risk, exchange rate risk and credit risk. Interest rate risk arises due to the Company’s cash and cash equivalents and long term debt bearing fixed interest rates. Foreign exchange rate risk arises as a portion of the Company’s investments which finance operations and a portion of the Company’s expenses are denominated in other than U.S. dollars. Credit risk arises as the Company provides credit to its customers in the normal course of business. The Company carries out credit evaluations of its customers on a continuing basis. At September 30, 2008, accounts receivable is net of an allowance for uncollectible accounts of \$209,000 (December 31, 2007 - \$214,000). The Company does not use derivative instruments to hedge against any of these financial risks.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the following:

| | September 30, 2008 | December 31, 2007 |
|------------------|-----------------------|----------------------|
| U.S. dollars | \$ 27,519 | \$ 68,817 |
| Canadian dollars | 11,861 | 15,488 |
| Swiss franc | 2,362 | 3,870 |
| Euro | 7,880 | 1,395 |
| Danish krone | 4,749 | 1,756 |
| Other | 2,580 | - |
| | \$ 56,951 | \$ 91,326 |

7. SHORT AND LONG TERM INVESTMENTS

| September 30, 2008 | Cost | Gross Unrealized Losses | Carrying value |
|--------------------------------------|----------|----------------------------|----------------|
| <i>Short-term investments:</i> | | | |
| Available-for-sale equity securities | \$ 8,964 | \$ - | \$ 8,964 |
| <i>Long-term investments:</i> | | | |
| Investments recorded at cost | \$ 6,560 | \$ - | \$ 6,560 |

| December 31, 2007 | Cost | Gross Unrealized Losses | Carrying value |
|--------------------------------------|-------------|------------------------------------|-----------------------|
| <i>Short-term investments:</i> | | | |
| Available-for-sale equity securities | \$ 22,188 | \$ (4,289) | \$ 17,899 |
| <i>Long-term investments:</i> | | | |
| Investments recorded at cost | \$ 6,557 | \$ - | \$ 6,557 |

Short and long-term investments as at September 30, 2008 and December 31, 2007 include investments in biotechnology companies with which the Company has collaborative agreements. During the three month period ended September 30, 2008, the Company wrote-down two investments from a market value of \$11,532,000 at June 30, 2008 to the market value of \$8,964,000. These investments had been trading below cost for a prolonged period of time.

Subsequent to September 30, 2008, the fair market value of an equity security, classified as available-for-sale, was approximately 80% below its September 30, 2008 carrying value based on quoted market prices. During the period October 1, 2008 to October 15, 2008, the Company liquidated its remaining position in this security for a net loss of \$3.5 million.

8. INVENTORIES

| | September 30, 2008 | December 31, 2007 |
|-----------------|-------------------------------|------------------------------|
| Raw materials | \$ 9,086 | \$ 8,357 |
| Work in process | 14,275 | 12,772 |
| Finished goods | 16,246 | 12,518 |
| | \$ 39,607 | \$ 33,647 |

9. PROPERTY, PLANT AND EQUIPMENT

| September 30, 2008 | Cost | Accumulated Depreciation | Net book Value |
|--------------------------------|------------------|-------------------------------------|---------------------------|
| Land | \$ 10,721 | \$ - | \$ 10,721 |
| Buildings | 21,937 | 1,737 | 20,200 |
| Leasehold improvements | 12,213 | 4,872 | 7,341 |
| Manufacturing equipment | 21,651 | 6,843 | 14,808 |
| Research equipment | 7,415 | 4,169 | 3,246 |
| Office furniture and equipment | 3,817 | 2,437 | 1,380 |
| Computer equipment | 9,212 | 6,964 | 2,248 |
| | \$ 86,966 | \$ 27,022 | \$ 59,944 |

| December 31, 2007 | Cost | Accumulated depreciation | Net book Value |
|--------------------------------|------------------|-------------------------------------|---------------------------|
| Land | \$ 10,692 | \$ - | \$ 10,692 |
| Buildings | 19,783 | 1,441 | 18,342 |
| Leasehold improvements | 10,647 | 3,722 | 6,925 |
| Manufacturing equipment | 21,041 | 5,246 | 15,795 |
| Research equipment | 6,804 | 3,511 | 3,293 |
| Office furniture and equipment | 3,703 | 1,995 | 1,708 |
| Computer equipment | 8,342 | 5,910 | 2,432 |
| | \$ 81,012 | \$ 21,825 | \$ 59,187 |

Depreciation expense, including depreciation expense allocated to cost of goods sold, for the three and nine month periods ended September 30, 2008 amounted to \$2,092,000 and \$6,112,000 respectively (\$1,952,000 and \$5,689,000, respectively for the three and nine month periods ended September 30, 2007).

10. INTANGIBLE ASSETS AND GOODWILL

(a) Intangible assets

| September 30, 2008 | Cost | Accumulated amortization | Net book Value |
|---------------------------|-------------------|-------------------------------------|---------------------------|
| Acquired technologies | \$ 128,061 | \$ 49,206 | \$ 78,855 |
| Customer relationships | 110,373 | 29,833 | 80,540 |
| In-licensed technologies | 55,768 | 22,369 | 33,399 |
| Trade names and other | 14,362 | 4,069 | 10,293 |
| | \$ 308,564 | \$105,477 | \$203,087 |

| December 31, 2007 | Cost | Accumulated amortization | Net book Value |
|--------------------------|-------------------|-------------------------------------|---------------------------|
| Acquired technologies | \$ 127,316 | \$ 39,952 | \$ 87,364 |
| Customer relationships | 110,953 | 23,052 | 87,901 |
| In-licensed technologies | 56,042 | 17,341 | 38,701 |
| Trade names and other | 15,257 | 3,334 | 11,923 |
| | \$ 309,568 | \$ 83,679 | \$225,889 |

(b) Goodwill

The following table summarizes the changes in the carrying amount of goodwill for September 30, 2008 and December 31, 2007, in total and by reportable segment:

| | Pharmaceutical Technologies | Medical Products | Total |
|--|--|-----------------------------|--------------|
| Balance, December 31, 2006 | \$ 46,071 | \$ 592,284 | \$ 638,355 |
| Goodwill acquired upon milestone payment | - | 10,000 | 10,000 |
| Goodwill related to FIN 48 accrual | - | 1,173 | 1,173 |
| Goodwill transferred to Medical Products segment (i) | (22,578) | 22,578 | - |
| Foreign currency revaluation adjustments for goodwill denominated in foreign currencies | - | 9,983 | 9,983 |
| Balance, December 31, 2007 | \$ 23,493 | \$ 636,018 | \$ 659,511 |
| Foreign currency revaluation adjustments for goodwill denominated in foreign currencies | - | (4,121) | (4,121) |
| Impairment (ii) | - | (599,400) | (599,400) |
| Balance, September 30, 2008 | \$ 23,493 | \$32,497 | \$ 55,990 |

- (i) The Company reclassified goodwill related to certain technology programs, previously allocated in the pharmaceutical technologies segment, to the medical products segment in the fourth quarter of 2007.
- (ii) Goodwill is tested for possible impairment at least annually and whenever changes in circumstances occur that would indicate an impairment in the value of goodwill. When the carrying value of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Circumstances that could trigger an impairment include significant and sustained declines in a company's public market share price, adverse changes or outcomes in legal or regulatory matters, technological advances that impact market dynamics or competitive positions, decreases in anticipated demand for a company's products or business services and unanticipated competition. The Company estimates fair value based on a discounted projection of future cash flows which are subject to significant uncertainty and estimates. If future cash flows are less than those projected, an impairment charge may become necessary that could have a material impact on our financial position and results of operations.

As a result of the significant and sustained decline in our public share price and market capitalization, and the Company's announcement on September 22, 2008 that the Company may not be able to meet the closing conditions of the proposed financing transaction initially announced on July 7 with Ares Management and New Leaf Venture Partners, the Company performed an interim impairment test of goodwill and acquired intangible assets. As a result of such testing, the Company concluded that the carrying amounts of goodwill associated with the Medical Products segment were impaired and recorded an impairment charge of \$599.4 million in the third quarter of 2008. The goodwill impairment charge was determined by comparing the carrying value of goodwill assigned to the Medical Products reporting unit with the implied fair value of the goodwill. The Company utilized the income approach in determining the implied fair value of the goodwill, which requires estimates of future operating results and cash flows discounted using estimated discount rates.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | September 30, 2008 | December 31, 2007 |
|----------------------------------|--------------------|-------------------|
| Trade accounts payable | \$9,133 | \$ 7,130 |
| Accrued license and royalty fees | 1,395 | 5,697 |
| Employee-related accruals | 18,130 | 14,897 |
| Accrued professional fees | 14,818 | 8,530 |
| Accrued contract research | 1,412 | 834 |
| Other accrued liabilities | 7,903 | 10,401 |
| | <u>\$ 52,791</u> | <u>\$ 47,489</u> |

12. LONG-TERM DEBT

| | September 30, 2008 | December 31, 2007 |
|---------------------------------|--------------------|-------------------|
| Senior Floating Rate Notes | \$325,000 | \$325,000 |
| 7.75% Senior Subordinated Notes | 250,000 | 250,000 |
| | <u>\$575,000</u> | <u>\$575,000</u> |

13. INCOME TAXES

For the three and nine month periods ended September 30, 2008 we recorded an income tax recovery of \$4.5 million and \$10.3 million compared to an income tax recovery of \$6.4 million and \$19.9 million for the three and nine month periods ended September 30, 2007. The income tax recovery for the third quarter of 2008 is primarily due to a net loss from operations, the amortization of identifiable intangible assets, and a recovery of \$4.8 million relating to the goodwill impairment. The income tax recovery for the nine months ended September 30, 2008 also includes a charge of \$1.1 million related to an accrual under FIN 48 and a recovery of \$3.8 million relating to the settlement of an outstanding Quebec income tax reassessment.

The effective tax rate for the three and nine months period ended September 30, 2008 was 0.7% and 1.5% compared to an effective tax rate of 37.1% and 38.0% for the same period in 2007.

The effective tax rate for the current period is lower than the statutory Canadian tax rate of 31.0% and is primarily due to valuation allowances on net operating losses and the net effect of lower tax rates on earnings in foreign jurisdictions.

14. SHARE CAPITAL

During the three and nine month periods ended September 30, 2008, the Company issued nil and 48,000 common shares upon exercises of stock options respectively. The Company issues new shares to satisfy stock option exercises.

a) Stock Options

Angiotech Pharmaceuticals, Inc.

In September 2006, the stockholders approved the adoption of the 2006 Stock Incentive Plan ("2006 Plan") which superseded the previous stock option plans. The 2006 Plan incorporated all of the options granted under the previous stock option plan and, in total, provides for the issuance of non-transferable stock-based awards to purchase up to 13,937,756 common shares to employees, officers, directors of the Company, and persons providing ongoing management or consulting services to the Company. The Plan provides for, but does not require, the granting of tandem stock appreciation rights that at the option of the holder may be exercised instead of the underlying option. When the tandem stock appreciation right is exercised, the underlying option is cancelled. The optionee receives shares of common stock with a fair market value equal to the excess of the fair value of the shares subject to the option at the time of exercise (or the portion thereof so exercised) over the aggregate option price of the shares set forth in the option agreement. The exercise of tandem stock appreciation rights is treated as the exercise of the underlying option. The exercise price of the options is fixed by the Board of Directors, but will generally be at least equal to the market price of the common shares at the date of grant, and for options issued under the 2006 Plan and the 2004 Plan, the term may not exceed five years. For options grandfathered from the stock option plans prior to the 2004 Plan, the term did not exceed 10 years. Options granted generally vest monthly over varying terms from 2 to 4 years.

A summary of CDN dollar stock option transactions is as follows:

| | No. of optioned shares | Weighted average exercise price (in CDN\$) | Weighted average remaining contractual term (years) | Aggregate intrinsic value (in CDN\$) |
|--|------------------------------|--|--|---|
| Outstanding at December 31, 2007 | 7,675,944 | \$ 15.55 | 3.16 | \$ 177 |
| Exercised | 48,000 | 2.50 | | |
| Forfeited | 127,000 | 15.74 | | |
| Outstanding at March 31, 2008 | 7,500,944 | \$ 15.63 | 2.93 | \$ - |
| Exercisable at March 31, 2008 | 6,272,728 | \$ 16.60 | 2.75 | \$ - |
| Forfeited | 118,913 | 16.51 | | |
| Outstanding at June 30, 2008 | 7,382,031 | 15.61 | 2.69 | \$ 32 |
| Exercisable at June 30, 2008 | 6,321,522 | \$ 16.49 | 2.50 | \$ 32 |
| Forfeited | 578,888 | 18.38 | | |
| Outstanding at September 30, 2008 | 6,803,143 | 14.78 | 2.47 | \$ - |
| Exercisable at September 30, 2008 | 5,883,287 | \$ 15.87 | 2.25 | \$ - |

These options expire at various dates from January 21, 2009 to December 17, 2012.

A summary of U.S. dollar stock option transactions is as follows:

| | No. of optioned shares | Weighted average exercise price (in U.S.\$) | Weighted average remaining contractual term (years) | Aggregate intrinsic value (in U.S.\$) |
|--|------------------------------|---|--|--|
| Outstanding at December 31, 2007 | 1,051,218 | \$ 9.39 | 3.73 | \$ - |
| Forfeited | 240,000 | 11.35 | | |
| Outstanding at March 31, 2008 | 811,218 | \$ 8.81 | 3.62 | \$ - |
| Exercisable at March 31, 2008 | 272,315 | \$ 10.62 | 2.71 | \$ - |
| Forfeited | 50,094 | 8.36 | | |
| Outstanding at June 30, 2008 | 761,124 | 8.84 | 3.37 | \$ - |
| Exercisable at June 30, 2008 | 314,860 | \$ 10.40 | 2.46 | \$ - |
| Forfeited | 109,198 | 11.05 | | |
| Outstanding at September 30, 2008 | 651,926 | 8.47 | 3.19 | \$....- |
| Exercisable at September 30, 2008 | 293,929 | \$ 9.52 | 2.21 | \$ - |

These options expire at various dates from January 26, 2010 to November 30, 2012.

American Medical Instruments Holdings, Inc. ("AMI")

On March 9, 2006, AMI granted 304 stock options under AMI's 2003 Stock Option Plan which were subject to closing the acquisition of AMI by the Company. Each AMI stock option will convert into approximately 3,852 Angiotech shares upon exercise. All outstanding options and warrants granted prior to the March 9, 2006 grant were settled and cancelled upon acquisition. Under the AMI stock option plan, options to purchase common stock of AMI may be granted to certain employees and directors at an exercise price equal to the estimated fair market value of the underlying stock on the date of grant. All options have a term of ten years and vest over a six year graded vesting schedule with certain provisions for accelerated vesting. No further stock options will be granted out of AMI's 2003 Stock Option Plan. A total of 1,171,092 Angiotech shares were reserved to accommodate future exercises of the AMI options.

| | No. of optioned shares | Weighted average exercise price (in U.S.\$) | Weighted average remaining contractual term (years) | Aggregate intrinsic value (in U.S.\$) |
|--|------------------------------|---|--|--|
| Outstanding at December 31, 2007 and March 31, 2008 | 443,012 | \$ 15.44 | 7.94 | \$ - |
| Exercisable at March 31, 2008 | 55,378 | \$ 15.44 | 7.94 | \$ - |
| Forfeited | 31,781 | | | |
| Outstanding at June 30, 2008 | 411,231 | \$ 15.44 | 7.69 | \$ - |
| Exercisable at June 30, 2008 | 53,938 | \$ 15.44 | 7.69 | \$ - |
| Forfeited | 13,002 | | | |
| Outstanding at September 30, 2008 | 398,229 | \$ 15.44 | 7.44 | \$ - |
| Exercisable at September 30, 2008 | 51,044 | \$ 15.44 | 7.44 | \$ - |

These options expire on March 8, 2016.

b) Stock-based compensation expense

The Company recorded stock-based compensation expense of \$556,000 and \$1,981,000 for the three and nine month periods ended September 30, 2008 (\$1,353,000 and \$3,717,000 for the three and nine month periods ended September 30, 2007) relating to awards granted under its stock option plan, modified or settled subsequent to October 1, 2002.

There were no stock option granted in the three and nine month periods ended September 30, 2008. The weighted average fair value of stock options granted in the three and nine month periods ended September 30, 2007 were:

| | Three months ended September 30, 2007 | Nine months ended September 30, 2007 |
|---------------|--|---|
| Cdn\$ options | 2.64 | 2.98 |
| U.S. options | 2.05 | 2.32 |

A summary of the status of the Company's nonvested options as of September 30, 2008 and changes during the three and nine month periods ended September 30, 2008, is as follows:

| Nonvested CDN dollar options | No. of optioned Shares | Weighted average grant-date fair value (in CDN\$) |
|--|---------------------------------------|--|
| Nonvested at December 31, 2007 | 1,429,134 | \$4.53 |
| Vested | (135,283) | 5.90 |
| Forfeited | (65,635) | 4.95 |
| Nonvested at March 31, 2008 | 1,228,216 | \$3.62 |
| Vested | (125,951) | 5.92 |
| Forfeited | (41,756) | 5.02 |
| Nonvested at June 30, 2008 | 1,060,509 | \$3.53 |
| Vested | (118,045) | 5.86 |
| Forfeited | (22,608) | 4.36 |
| Nonvested at September 30, 2008 | 919,856 | \$3.47 |

| Nonvested U.S. dollar options | No. of optioned Shares | Weighted average grant-date fair value (in U.S.\$) |
|--|---------------------------------------|---|
| Nonvested at December 31, 2007 | 732,285 | \$2.68 |
| Vested | (62,549) | 2.92 |
| Forfeited | (130,833) | 2.86 |
| Nonvested at March 31, 2008 | 538,903 | \$2.46 |
| Vested | (51,399) | 2.90 |
| Forfeited | (41,240) | 2.66 |
| Nonvested at June 30, 2008 | 446,264 | \$2.41 |
| Vested | (44,830) | 2.88 |
| Forfeited | (43,437) | 2.53 |
| Nonvested at September 30, 2008 | 357,997 | \$2.36 |

| Nonvested AMI options | No. of optioned Shares | Weighted average grant-date fair value (in U.S.\$) |
|--|---------------------------------------|---|
| Nonvested at December 31, 2007 | 443,012 | \$6.51 |
| Vested | (55,378) | 6.51 |
| Nonvested at March 31, 2008 | 387,634 | \$6.51 |
| Forfeited | (30,341) | 6.51 |
| Nonvested at June 30, 2008 | 357,293 | \$6.51 |
| Vested | (7,219) | 6.51 |
| Forfeited | (2,889) | 6.51 |
| Nonvested at September 30, 2008 | 347,185 | \$6.51 |

As of September 30, 2008, there was \$2,952,000 of total unrecognized compensation cost related to nonvested stock options granted under the Angiotech Plan. These costs are expected to be recognized over a weighted average period of 1.49 years.

As of September 30, 2008, there was \$1,228,000 of total unrecognized compensation cost related to the nonvested AMI stock options. These costs are expected to be recognized over a period of 3.50 years on a straight-line basis as a charge to income. The total fair value of options vested during the three and nine month periods ended September 30, 2008 was \$nil and \$360,000 respectively.

During the three and nine month periods ended September 30, 2008 and 2007 the following activity occurred:

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Total intrinsic value of stock options exercised | | | | |
| CDN dollar options | \$ n/a | \$ n/a | \$ 33 | \$ 171 |
| U.S. dollar options | n/a | n/a | n/a | n/a |
| Total fair value of stock awards vested | \$ 448 | \$1,122 | \$ 2,017 | \$3,025 |

Cash received from stock option exercises for the three and nine month periods ended September 30, 2008 was \$nil and \$121,000 respectively.

15. IN-PROCESS RESEARCH AND DEVELOPMENT

The Company did not make any in-process research and development payments for the three month periods ended September 30, 2008 and 2007. The in-process research and development payments for the nine month periods ended September 30, 2008 and 2007 are as follows:

| | Nine months ended September 30, | |
|--------------------------|------------------------------------|---------|
| | 2008 | 2007 |
| CombinatoRx Incorporated | \$ - | \$7,000 |
| Rex Medical LP | 2,500 | 1,000 |
| Total | \$2,500 | \$8,000 |

16. WRITE-DOWN AND OTHER DEFERRED FINANCING CHARGES

On July 7, 2008, the Company entered into a note purchase agreement with certain investors under which they agreed to purchase between \$200 and \$300 million, at the Company's option, of convertible notes to be issued by the newly formed subsidiary of the Company. The transaction was subject to the approval of the Company's shareholders and other closing conditions.

On September 23, 2008, as a result of uncertainty regarding the opportunity to close the proposed transaction, the Company announced that it withdrew the tender offer for its outstanding Senior Floating Rate Notes Due 2013 and its outstanding 7.75% Senior Subordinated Notes Due 2014. The Company had incurred approximately \$13.5 million of expenses or potential expenses in connection with this proposed transaction, of which \$3.2 million were capitalized to other assets as at June 30, 2008. As a result of the uncertainties regarding the proposed transaction and withdrawn tender offer, the Company wrote-off these capitalized costs in the three month period ended September 30, 2008.

17. COMMITMENTS AND CONTINGENCIES

(a) Commitments

- i) The Company has entered into research and development collaboration agreements that involve joint research efforts. Certain collaboration costs and any eventual profits will be shared as per terms provided for in the agreements.

- ii) The Company may also be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as of September 30, 2008 due to the uncertainty over whether these milestones will be achieved. The Company's significant contingent milestone, royalty and other research and development commitments are as follows:

Quill Medical, Inc. ("Quill")

In connection with the acquisition of Quill in June 2006, the Company may be required to make additional contingent payments of up to \$150 million upon the achievement of certain revenue growth and development milestones. These payments are primarily contingent upon the achievement of significant incremental revenue growth over a five year period from July 1, 2006, subject to certain conditions. The Company is also committed to minimum commercialization expenditures, including sales and marketing, research and development and corporate support on the technology acquired of \$10.0 million between July 1, 2008 and June 30, 2009.

Afmedica, Inc. ("Afmedica")

In connection with the acquisition of Afmedica in October 2005, the Company may be required to make milestone payments totaling \$10.0 million to former Afmedica equity holders should the Company reach certain development and regulatory milestones with respect to any Afmedica product.

National Institute of Health ("NIH")

In November 1997, the Company entered into an exclusive license agreement with the Public Health Service of the United States, through the NIH whereby the Company was granted an exclusive, worldwide license to certain technologies of the NIH relating to the use of paclitaxel. Pursuant to this license agreement, the Company agreed to pay NIH milestone payments upon achievement of certain clinical and commercial development milestones and pay royalties on net Taxus sales by BSC. At September 30, 2008, the Company has no accrued royalties to NIH under this agreement.

Biopsy Sciences LLC ("Biopsy Sciences")

In connection with the acquisition of certain assets from Biopsy Sciences in January 2007, the Company may be required to make certain contingent payments of up to \$2.7 million upon the achievement of certain clinical and regulatory milestones and up to \$10.7 million for achieving certain commercialization milestones. As of September 30, 2008, the Company has paid \$0.7 million towards the successful completion of the US clinical trial enrollment for the Bio-Seal lung biopsy track plug.

Rex Medical LP ("Rex Medical")

In March 2008, the Company entered into an agreement with Rex Medical to manufacture and distribute the Option™ Vena Cava Filter. Under terms of this agreement, the Company may be required to make contingent payments of up to \$7.5 million upon achievement of certain regulatory and commercialization milestones. In addition, the Company has committed to making escalating royalty payments of 30% to 47.5% based on annual net sales of these products.

(b) Contingencies

- i) The Company may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies will not have a material adverse effect on the financial position of the Company. However, we are not able to predict the outcome of the pending legal proceedings listed below, or other legal proceedings, to which we may become subject in the normal course of business or estimate the amount or range of any possible loss we might incur if we do not prevail in the final, non-appealable determinations of such matters. Therefore, the Company has no current accruals for these potential contingencies. The Company cannot provide assurance that the legal proceedings listed here, or other legal proceedings not listed here, will not have a material adverse impact on our financial condition or results of operations.
- ii) Boston Scientific Corporation ("BSC"), a licensee, is often involved in legal proceedings (to which the Company is not a party) concerning challenges to its stent business. If a party opposing BSC is successful, royalty revenue would likely be significantly reduced. The ultimate outcome of any such proceedings is uncertain at this time.
- iii) On February 18, 2005, a claim was filed by Conor MedSystems Inc. ("Conor") in a court in the United Kingdom alleging that the Company's stent patent EP (UK) 0 706 376 patents is invalid and seeking to have the patent revoked. On February 24, 2006, a U.K. trial court ruled in favor of Conor's position, and on January 16, 2007, a U.K. Court of Appeal agreed with the decision of the trial court. The House of Lords decided to review the decisions of these lower courts, and to this end a hearing was held May 6 – 7, 2008. Conor has withdrawn from these proceedings, and its case was taken up by the UK Comptroller General of Patents, Designs and Trade Marks. The decision from the House of Lords was issued in Angiotech's favor on July 9, 2008.

- iv) On April 4, 2005, the Company together with BSC commenced a legal action in the Netherlands against Sahajanand Medical Technologies Pvt. Ltd. for patent infringement. On May 3, 2006, the Dutch trial court ruled in favor of Angiotech, finding that Angiotech's EP (NL) 0 706 376 patent was valid, and that SMT's Infinnium™ stent infringed the patent. On March 13, 2008, a Dutch Court of Appeal held a hearing to review the correctness of the trial court's decision, where the judgment of the Court of Appeal is expected to issue on December 16, 2008. The decision of the Court of Appeal is appealable to the Supreme Court of the Netherlands.
- v) On December 9, 2005, the Company together with BSC commenced a legal action in the Netherlands against Biosensors International Group Ltd. and six related companies including Occam International BV, requesting a preliminary injunction against the sale of the Axxion™ stent. In March 2006, a Dutch court ruled against Angiotech's request for a preliminary injunction. The Company is currently evaluating whether to pursue this matter.
- vi) On March 23, 2006, RoundTable Healthcare Partners, LP as Seller Representative, Angiotech as Buyer, and LaSalle Bank as Escrow Agent, executed an Escrow Agreement under which Angiotech deposited \$20 million with LaSalle. On April 4, 2007, LaSalle Bank received an Escrow Claim Notice issued by Angiotech, which directed LaSalle to remit the \$20 million to Angiotech as Buyer. On or about April 16, 2007, LaSalle received from RoundTable a Notice of Objection to Angiotech's Escrow Claim Notice. On July 3, 2007, LaSalle filed an action in the Circuit Court of Cook County, Illinois, asking the court to resolve this dispute. After various hearings and discussions, Angiotech executed a Joint Letter of Direction allowing the release of \$6,512,319 to RoundTable, thereby leaving the amount in dispute being approximately \$13.5 million. On March 21, 2008, this action was moved to the US District Court Southern District of New York.
- vii) In July 2004, Dr. Gregory Baran initiated legal action, alleging infringement by Medical Device Technologies ("MDT") of two U.S. patents owned by Dr. Baran. These patents allegedly cover MDT's BioPince™ automated biopsy device, which had 2005 sales of \$3.6 million. On September 25, 2007, the judge issued her decision pursuant to the Markman hearing of December 2005. We consider the decision to be largely favorable to Angiotech. We are now in the discovery phase of this litigation. No hearing date has yet been set by the court.
- viii) At the European Patent Office, various patents either owned or licensed by or to the Company are in opposition proceedings. In EP0774964 (which is licensed from MIT) the patent was revoked after a hearing held July 17, 2007, where this decision has been appealed. The EPO has set the appeal for hearing on February 5, 2009. In EP0784490 briefs are being exchanged. In EP0809515 (which is licensed from (and to) BSC), the EPO held an oral hearing on January 30, 2008, and thereafter revoked this patent. An appeal was filed on April 22, 2008. In EP0830110 (which is licensed from Edwards LifeSciences) an amended form of this patent was found valid after an oral hearing on September 28, 2006; however, the opponent has appealed the decision. In EP0876165 briefs are being exchanged. In EP0876166 the EPO held an oral hearing on September 24 2008, and thereafter revoked this patent. In EP0975340 (which is licensed from (and to) BSC), the EPO has set a hearing date of December 4, 2008. In EP1118325 (which is licensed from the NIH), the EPO has set a hearing date of April 7, 2009. In EP1155689 briefs are being exchanged. In EP1407786 (which is licensed from (and to) BSC), the EPO has set a hearing date of November 18, 2008. In EP1429664 briefs are being exchanged. In EP1159974 an opposition was filed in April 2008 and briefs are being exchanged. In EP1075843, a response to the Notice of Appeal was filed; we are awaiting further action from the EPO. In EP0991359, our response to the opposition is due January 15, 2009. In EP1322235, briefing has been filed and we are awaiting further action from the EPO. In EP1216042, an oral hearing has been scheduled for April 23, 2009.
- ix) The Company may incur fees and expenses in connection with the Ares and New Leaf transaction that are not dependent on the consummation of the transaction. Specifically, under certain conditions (i) the Company may be required to pay a commitment fee to Ares and New Leaf in the amount of \$3 million, and reimburse Ares and New Leaf for transaction-related expenses up to an additional \$3 million and (ii) if the Company agrees to an alternative transaction, as defined in the note purchase agreement, within 12 months of termination of the note purchase agreement, the Company may be required to pay Ares and New Leaf \$10 million plus reimburse Ares and New Leaf for transaction-related expenses of up to an additional \$4 million (less any commitment fee payable under clause (i)) at or prior to the time the Company agrees to such alternative transaction. In connection with certain types of alternative transactions, the Company may be required under the terms of agreements with certain advisors to pay fees to such advisors, whether or not such advisors participate in such alternative transaction.

18. SEGMENTED INFORMATION

The Company operates in two reportable segments: (i) Pharmaceutical Technologies and (ii) Medical Products.

The Pharmaceuticals Technologies segment includes royalty revenue generated from out-licensing technology related to the drug-eluting stent and other technologies.

The Medical Products segment includes revenue from single use, specialty medical devices including suture needles, biopsy needles / devices, micro surgical ophthalmic knives, drainage catheters, self-anchoring sutures, other specialty devices, biomaterials and other technologies.

The Company reports segmented information on each of these segments to the gross margin level. All other income and expenses are not allocated to segments as they are not considered in evaluating the segment's operating performance. The following tables represent reportable segment information for the three and nine month periods ended September 30, 2008 and 2007:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | | | | |
| Pharmaceutical Technologies | \$ 21,858 | \$ 26,675 | \$ 76,429 | \$ 90,077 |
| Medical Products | 46,502 | 41,351 | 144,761 | 126,258 |
| Total revenue | 68,360 | 68,026 | 221,190 | 216,335 |
| Licence and royalty fees – Pharmaceutical Technologies | 3,452 | 4,527 | 11,484 | 14,235 |
| Cost of products sold – Medical Products | 24,772 | 23,384 | 77,430 | 71,261 |
| Gross margin | | | | |
| Pharmaceutical Technologies | 18,406 | 22,148 | 64,945 | 75,842 |
| Medical Products | 21,730 | 17,967 | 67,331 | 54,997 |
| Total gross margin | 40,136 | 40,115 | 132,276 | 130,839 |
| Research and development | 10,658 | 13,188 | 45,468 | 40,407 |
| Selling, general and administration | 23,370 | 24,715 | 77,100 | 72,532 |
| Depreciation and amortization | 8,560 | 8,119 | 25,577 | 24,603 |
| In-process research and development | - | - | 2,500 | 8,000 |
| Operating loss | (2,452) | (5,907) | (18,369) | (14,703) |
| Other expenses | (624,439) | (11,317) | (656,157) | (37,765) |
| Loss from continuing operations before income taxes | \$(626,891) | \$ (17,224) | \$(674,526) | \$ (52,468) |

During the three and nine month periods ended September 30, 2008, revenue from one licensee represented approximately 28% and 32% respectively, of total revenue (35% and 37% respectively for the three and nine month periods ended September 30, 2007).

The following table represents total assets for each reportable segment at September 30, 2008 and December 31, 2007:

| | September 30, 2008 | December 31, 2007 |
|-----------------------------|-----------------------|----------------------|
| Total assets | | |
| Pharmaceutical Technologies | \$ 124,934 | \$ 214,030 |
| Medical Products | 364,830 | 936,078 |
| Total assets | \$ 489,764 | \$ 1,150,108 |

The following table represents capital expenditures for each reportable segment for the three and nine month periods ended at September 30, 2008 and 2007:

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Capital expenditures | | | | |
| Pharmaceutical Technologies | \$ 273 | \$ 650 | \$1,033 | \$ 1,072 |
| Medical Products | 1,178 | 623 | 6,865 | 2,496 |
| Total capital expenditures | \$1,451 | \$ 1,273 | \$7,898 | \$ 3,568 |

19. RESTRUCTURING CHARGES

During the three and nine month periods ended September 30, 2008, the Company recorded charges of \$0.8 million and \$3.8 million, respectively for plant closure and relocation activities associated with capacity rationalization and consolidation in the Medical Products segment. The restructuring charges during the three and nine month periods ended September 30, 2008 included \$0.2 million and \$1.7 million, respectively related to employee severance benefits at the Company's Syracuse location and \$0.6 and \$2.1 million, respectively related to various relocation activities at both the Company's Syracuse and Puerto Rico locations. Only expenses related to the Syracuse and Puerto Rico locations are recorded as restructuring charges.

The severance charges were recorded in accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires that a liability be recorded for a cost associated with an exit or disposal activity at its fair value in the period in which the liability is incurred. In connection with the restructuring plan, the Company plans to terminate approximately 150 employees from the Syracuse location representing approximately 10% of our workforce over the next three months. The estimated total severance obligation is \$5.0 million. The estimated total severance obligation was calculated using forecasted cash flows, discounted as prescribed by SFAS 146, using a credit-adjusted risk-free rate of 9%. The terms of the severance require that employees continue to provide services throughout the transition period in order to be eligible to receive the severance benefits. As the employees are required to continue to provide services in order to receive the severance, in June 2007, the Company accrued severance costs of \$1.3 million representing the minimum severance benefits the employees were legally entitled to receive at that time. The remaining estimated total severance obligation of \$3.7 million was recorded monthly over the estimated retention period being the 15 month period ending September 2008. The total monthly severance charge for the three and nine month periods ended September 30, 2008 were \$0.2 million and \$1.7 million, respectively (including accretion expense of \$0.2 million).

The charges related to relocation activities are being recorded as incurred.

The charges are recorded to selling, general and administration costs in the statement of operations. The Company expects to satisfy the severance obligations through salary continuance. The expense and accrual recorded in accordance with SFAS 146 require the Company to make significant estimates and assumptions. These estimates and assumptions will be evaluated and adjusted as appropriate on at least a quarterly basis for changes in circumstances. It is possible that such estimates could change in the future resulting in additional adjustments, and the effect of any such adjustments could be material.

Changes in the Company's accrual for restructuring charges were as follows:

| Severance Benefits | |
|-----------------------------|---------|
| Balance, December 31, 2006 | \$ - |
| Severances charged | 3,075 |
| Accretion expense | 152 |
| Balance, December 31, 2007 | 3,227 |
| Severances charged | 1,582 |
| Accretion expense | 156 |
| Severances paid | (110) |
| Balance, September 30, 2008 | \$4,855 |

20. LOSS PER SHARE

Loss per share was calculated as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Numerator: | | | | |
| Loss from continuing operations | \$(622,378) | \$(10,832) | \$(664,212) | \$(32,548) |
| Loss from discontinued operations, net of income taxes | - | (1,156) | - | (6,947) |
| Net loss | \$(622,378) | \$(11,988) | \$(664,212) | \$(39,495) |
| Denominator: | | | | |
| Basic and diluted weighted average common shares outstanding ⁽¹⁾ | 85,122 | 85,014 | 85,117 | 85,010 |
| Basic and diluted net loss per common share: | | | | |
| Continuing operations | \$(7.31) | \$(0.13) | \$(7.80) | \$(0.38) |
| Discontinued operations | - | (0.01) | - | (0.08) |
| Total | \$(7.31) | \$(0.14) | \$(7.80) | \$(0.46) |

⁽¹⁾ As the Company generated a net loss for all periods presented, there is no dilutive effect on basic weighted average common shares outstanding.

21. CHANGE IN NON-CASH WORKING CAPITAL ITEMS RELATING TO OPERATIONS AND SUPPLEMENTAL CASH FLOW INFORMATION

The change in non-cash working capital items relating to operations was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Accrued interest on short-term and long-term investments | \$ - | \$ - | \$ - | \$ (597) |
| Accounts receivable | 214 | 490 | (5,331) | 8,805 |
| Inventories | (3,758) | 1,407 | (5,895) | (1,308) |
| Prepaid expenses and other assets | (923) | (735) | 1,618 | 1,033 |
| Accounts payable and accrued liabilities | (6,832) | (4,949) | (3,517) | (2,850) |
| Income taxes payable | 7,966 | 10,199 | 4,493 | 10,035 |
| Interest payable | 4,878 | (4,780) | 4,136 | (4,083) |
| | \$ 1,545 | \$ 1,632 | \$ (4,496) | \$11,035 |

Supplemental disclosure:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------|-------------------------------------|------|------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Accrued milestone payment | \$ - | \$ - | \$ - | \$ 7,000 |

22. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation.

23. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL INFORMATION

The following presents the condensed consolidating guarantor financial information as of September 30, 2008 and December 31, 2007, and for the three and nine month periods ended September 30, 2008 and 2007 for the direct and indirect subsidiaries of the Company that serve as guarantors of the \$250 million 7.75% senior subordinated notes issued on March 23, 2006 due in 2014 and the \$325 million senior floating rate notes issued on December 11, 2006 due in 2013, and for the Company's subsidiaries that do not serve as guarantors. Non-guarantor subsidiaries include the Swiss subsidiaries and a Canadian Trust that cannot guarantee the debt of the Company. All of the Company's subsidiaries are 100% owned, and all guarantees are full and unconditional, joint and several.

Condensed Consolidating Balance Sheet
As at September 30, 2008
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|---|---|------------------------------------|--|--------------------------------------|-------------------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 23,887 | 2,993 | 30,071 | - | 56,951 |
| Short term investments | 8,964 | - | - | - | 8,964 |
| Accounts receivable | 408,567 | 75,683 | 319,961 | (778,231) | 25,980 |
| Inventories | - | 33,156 | 10,941 | (4,491) | 39,607 |
| Deferred income taxes, current portion | - | 5,394 | - | - | 5,394 |
| Prepaid expenses and other current assets | 854 | 4,855 | 369 | - | 6,078 |
| Total Current Assets | 442,272 | 122,081 | 361,342 | (782,722) | 142,974 |
| Long term investments | 5,824 | - | 736 | - | 6,560 |
| Investment in subsidiaries | (125,344) | 344,438 | - | (219,094) | - |
| Property, plant and equipment | 14,989 | 35,247 | 9,708 | - | 59,944 |
| Intangible assets | 15,817 | 164,029 | 23,241 | - | 203,087 |
| Goodwill | - | 38,152 | 17,838 | - | 55,990 |
| Deferred financing costs | 11,922 | - | - | - | 11,922 |
| Deferred income taxes | 3,553 | - | - | - | 3,553 |
| Other assets | 81 | 5,542 | 111 | - | 5,734 |
| Total Assets | 369,114 | 709,490 | 412,976 | (1,001,816) | 489,764 |
| LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | 16,270 | 698,330 | 116,452 | (778,261) | 52,791 |
| Income taxes payable | 2,315 | 7,267 | 2,569 | - | 12,151 |
| Interest payable on long-term debt | 11,464 | - | - | - | 11,464 |
| Deferred revenue, current portion | - | - | 210 | - | 210 |
| Total Current Liabilities | 30,049 | 705,597 | 119,231 | (778,261) | 76,616 |
| Deferred revenue | - | - | 1,053 | - | 1,053 |
| Deferred leasehold inducement | 2,833 | 12 | - | - | 2,845 |
| Deferred income taxes | - | 40,106 | 9,474 | (32) | 49,548 |
| Other tax liabilities | 3,512 | 2,280 | - | - | 5,792 |
| Long-term debt | 575,000 | - | - | - | 575,000 |
| Other liabilities | - | 359 | 1,322 | - | 1,681 |
| Total Non-current Liabilities | 581,345 | 42,757 | 11,849 | (32) | 635,919 |
| Stockholders' (Deficit) Equity | | | | | |
| Share capital | 472,739 | 651,995 | 262,209 | (914,204) | 472,739 |
| Additional paid in capital | 31,650 | 91,405 | 18,059 | (109,464) | 31,650 |
| Accumulated deficit | (766,709) | (780,493) | (17,896) | 798,389 | (766,709) |
| Accumulated other comprehensive income | 20,040 | (1,771) | 19,524 | 1,756 | 39,549 |
| Total Stockholders' (Deficit) Equity | (242,280) | (38,864) | 281,896 | (223,523) | (222,771) |
| Total Liabilities and Stockholders' (Deficit) Equity | 369,114 | 709,490 | 412,976 | (1,001,816) | 489,764 |

Condensed Consolidating Balance Sheet

As at December 31, 2007

USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|---|---|------------------------------------|--|--------------------------------------|-------------------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 23,790 | 20,334 | 47,202 | - | 91,326 |
| Short term investments | 17,899 | | | | 17,899 |
| Accounts receivable | 391,066 | 69,059 | 302,607 | (740,054) | 22,678 |
| Inventories | - | 26,563 | 7,821 | (737) | 33,647 |
| Deferred income taxes, current portion | - | 5,964 | - | - | 5,964 |
| Prepaid expenses and other current assets | 2,331 | 4,041 | 698 | - | 7,070 |
| Total Current Assets | 435,086 | 125,961 | 358,328 | (740,791) | 178,584 |
| Long term investments | 5,825 | - | 732 | - | 6,557 |
| Investment in subsidiaries | 518,304 | 438,673 | - | (956,977) | - |
| Property, plant and equipment | 15,464 | 35,168 | 8,555 | - | 59,187 |
| Intangible assets | 17,931 | 185,199 | 22,759 | - | 225,889 |
| Goodwill | - | 561,883 | 97,628 | - | 659,511 |
| Deferred financing costs | 13,600 | - | - | - | 13,600 |
| Other assets | 81 | 6,699 | - | - | 6,780 |
| Total Assets | 1,006,291 | 1,353,583 | 488,002 | (1,697,768) | 1,150,108 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | 15,939 | 675,801 | 95,795 | (740,046) | 47,489 |
| Income taxes payable | (15,242) | 7,232 | 15,924 | - | 7,914 |
| Interest payable on long-term debt | 7,327 | - | - | - | 7,327 |
| Deferred revenue, current portion | - | - | 210 | - | 210 |
| Total Current Liabilities | 8,024 | 683,033 | 111,929 | (740,046) | 62,940 |
| Deferred revenue | - | - | 1,211 | - | 1,211 |
| Deferred leasehold inducement | 2,782 | 12 | - | - | 2,794 |
| Deferred income taxes | 2,472 | 55,810 | 6,031 | (4,945) | 59,368 |
| Other tax liabilities | 2,472 | 2,221 | - | - | 4,693 |
| Long-term debt | 575,000 | - | - | - | 575,000 |
| Other liabilities | - | 609 | 1,421 | - | 2,030 |
| Total Non-current Liabilities | 582,726 | 58,652 | 8,663 | (4,945) | 645,096 |
| Stockholders' Equity | | | | | |
| Share capital | 472,618 | 651,995 | 262,208 | (914,203) | 472,618 |
| Additional paid in capital | 29,669 | 139,234 | 110,670 | (249,904) | 29,669 |
| Accumulated deficit | (102,497) | (200,391) | (9,183) | 209,574 | (102,497) |
| Accumulated other comprehensive income | 15,751 | 21,060 | 3,715 | 1,756 | 42,282 |
| Total Stockholders' Equity | 415,541 | 611,898 | 367,410 | (952,777) | 442,072 |
| Total Liabilities and Stockholders' Equity | 1,006,291 | 1,353,583 | 488,002 | (1,697,768) | 1,150,108 |

Condensed Consolidating Statement of Operations
Three months ended September 30, 2008
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| REVENUE | | | | | |
| Royalty revenue | 19,594 | 434 | 1,377 | - | 21,405 |
| Product sales, net | - | 36,433 | 22,333 | (12,264) | 46,502 |
| License fees | - | (25) | 478 | - | 453 |
| | <u>19,594</u> | <u>36,842</u> | <u>24,188</u> | <u>(12,264)</u> | <u>68,360</u> |
| EXPENSES | | | | | |
| License and royalty fees | 3,452 | - | - | - | 3,452 |
| Cost of products sold | - | 18,187 | 15,471 | (8,886) | 24,772 |
| Research & development | 5,943 | 4,397 | 318 | - | 10,658 |
| Intercompany R&D charges | 1,445 | (1,524) | 37 | 42 | - |
| Selling, general and administration | 5,690 | 13,268 | 4,412 | - | 23,370 |
| Depreciation and amortization | 1,213 | 6,208 | 1,139 | - | 8,560 |
| | <u>17,743</u> | <u>40,536</u> | <u>21,377</u> | <u>(8,844)</u> | <u>70,812</u> |
| Operating income (loss) | <u>1,851</u> | <u>(3,694)</u> | <u>2,811</u> | <u>(3,420)</u> | <u>(2,452)</u> |
| Other income (expense) | | | | | |
| Foreign exchange gain (loss) | (1,299) | (2,876) | 5,177 | 7 | 1,009 |
| Investment and other income | 91 | 13 | 83 | - | 187 |
| Interest expense on long-term debt | (10,790) | 340 | (340) | - | (10,790) |
| Write-down/loss on redemption of investments | (1,901) | - | - | - | (1,901) |
| Write-down and other deferred financing charges | (13,531) | - | (13) | - | (13,544) |
| Write-down of goodwill | - | (505,084) | (94,316) | - | (599,400) |
| Management fees | (671) | 633 | (4) | 42 | - |
| Total other expenses | <u>(28,101)</u> | <u>(506,974)</u> | <u>(89,413)</u> | <u>49</u> | <u>(624,439)</u> |
| Loss from continuing operations before income taxes | <u>(26,250)</u> | <u>(510,668)</u> | <u>(86,602)</u> | <u>(3,371)</u> | <u>(626,891)</u> |
| Income tax (recovery) expense | (967) | (6,147) | 2,633 | (32) | (4,513) |
| Loss from continuing operations | <u>(25,283)</u> | <u>(504,521)</u> | <u>(89,235)</u> | <u>(3,339)</u> | <u>(622,378)</u> |
| Equity in subsidiaries | (498,419) | 5,290 | - | 493,129 | - |
| Net loss | <u>(523,702)</u> | <u>(499,231)</u> | <u>(89,235)</u> | <u>489,790</u> | <u>(622,378)</u> |

Condensed Consolidating Statement of Operations
Nine months ended September 30, 2008
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| REVENUE | | | | | |
| Royalty revenue | 70,376 | 1,785 | 3,710 | - | 75,871 |
| Product sales, net | - | 102,573 | 57,751 | (15,563) | 144,761 |
| License fees | - | (70) | 628 | - | 558 |
| | <u>70,376</u> | <u>104,288</u> | <u>62,089</u> | <u>(15,563)</u> | <u>221,190</u> |
| EXPENSES | | | | | |
| License and royalty fees | 11,476 | 8 | - | - | 11,484 |
| Cost of products sold | - | 50,810 | 37,692 | (11,072) | 77,430 |
| Research & development | 27,443 | 17,056 | 969 | - | 45,468 |
| Intercompany R&D charges | 4,861 | (5,884) | 750 | 273 | - |
| Selling, general and administration | 19,217 | 44,249 | 13,634 | - | 77,100 |
| Depreciation and amortization | 3,596 | 18,506 | 3,475 | - | 25,577 |
| In-process research and development | - | 2,500 | - | - | 2,500 |
| | <u>66,593</u> | <u>127,245</u> | <u>56,520</u> | <u>(10,799)</u> | <u>239,559</u> |
| Operating income (loss) | <u>3,783</u> | <u>(22,957)</u> | <u>5,569</u> | <u>(4,764)</u> | <u>(18,369)</u> |
| Other income (expense) | | | | | |
| Foreign exchange gain (loss) | (1,149) | 883 | 1,835 | - | 1,569 |
| Investment and other income | 965 | 87 | 579 | - | 1,630 |
| Interest expense on long-term debt | (21,612) | (20,630) | 8,390 | - | (33,851) |
| Write-down/loss on redemption of investments | (12,557) | - | (4) | - | (12,561) |
| Write-down and other deferred financing charges | (13,531) | - | (13) | - | (13,544) |
| Write-down of goodwill | - | (505,084) | (94,316) | - | (599,400) |
| Management fees | (2,202) | 2,039 | (109) | 272 | - |
| Dividend income | 20,000 | - | - | (20,000) | - |
| Total other expenses | <u>(30,086)</u> | <u>(522,705)</u> | <u>(83,638)</u> | <u>(19,728)</u> | <u>(656,157)</u> |
| Loss from continuing operations before income taxes | <u>(26,303)</u> | <u>(545,662)</u> | <u>(78,069)</u> | <u>(24,492)</u> | <u>(674,526)</u> |
| Income tax (recovery) expense | (806) | (11,369) | 1,925 | (64) | (10,314) |
| Loss from continuing operations | <u>(25,497)</u> | <u>(534,293)</u> | <u>(79,994)</u> | <u>(24,428)</u> | <u>(664,212)</u> |
| Equity in subsidiaries | (536,346) | 2,477 | - | 533,869 | - |
| Net loss | <u>(561,843)</u> | <u>(531,816)</u> | <u>(79,994)</u> | <u>509,441</u> | <u>(664,212)</u> |

Condensed Consolidating Statement of Operations
Three months ended September 30, 2007
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| REVENUE | | | | | |
| Royalty revenue | 24,873 | 541 | 1,208 | - | 26,622 |
| Product sales, net | - | 29,282 | 12,069 | - | 41,351 |
| License fees | - | (26) | 79 | - | 53 |
| | <u>24,873</u> | <u>29,797</u> | <u>13,356</u> | <u>-</u> | <u>68,026</u> |
| EXPENSES | | | | | |
| License and royalty fees | 4,525 | 2 | - | - | 4,527 |
| Cost of products sold | 2 | 15,976 | 7,406 | - | 23,384 |
| Research & development | 8,349 | 4,724 | 115 | - | 13,188 |
| Intercompany R&D charges | 1,383 | (2,320) | 730 | 207 | - |
| Selling, general and administration | 8,650 | 13,964 | 2,101 | - | 24,715 |
| Depreciation and amortization | 1,179 | 5,681 | 995 | 264 | 8,119 |
| | <u>24,088</u> | <u>38,027</u> | <u>11,347</u> | <u>471</u> | <u>73,933</u> |
| Operating income (loss) | <u>785</u> | <u>(8,230)</u> | <u>2,009</u> | <u>(471)</u> | <u>(5,907)</u> |
| Other income (expense) | | | | | |
| Foreign exchange gain (loss) | 1,296 | 1,252 | (2,660) | 2 | (110) |
| Investment and other income | 1,395 | 260 | 418 | - | 2,073 |
| Interest expense on long-term debt | (13,280) | (6,044) | 6,044 | - | (13,280) |
| Management fees | (697) | 669 | (179) | 207 | - |
| Total other expenses | <u>(11,286)</u> | <u>(3,863)</u> | <u>3,623</u> | <u>209</u> | <u>(11,317)</u> |
| Loss from continuing operations before income taxes | <u>(10,501)</u> | <u>(12,093)</u> | <u>5,632</u> | <u>(262)</u> | <u>(17,224)</u> |
| Income tax (recovery) expense | (4,307) | (3,659) | 1,396 | 178 | (6,392) |
| Loss from continuing operations | <u>(6,194)</u> | <u>(8,434)</u> | <u>4,236</u> | <u>(440)</u> | <u>(10,832)</u> |
| Loss from discontinued operations, net of income taxes | - | (1,255) | 99 | - | (1,156) |
| Equity in subsidiaries | (4,409) | 8,339 | - | (3,930) | - |
| Net loss | <u>(10,603)</u> | <u>(1,350)</u> | <u>4,335</u> | <u>(4,370)</u> | <u>(11,988)</u> |

Condensed Consolidating Statement of Operations
Nine months ended September 30, 2007
USD (in '000s)

| | Parent Company Angiotech | | | | |
|--|-------------------------------------|------------------------------------|--|--------------------------------------|-------------------------------|
| | Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
| REVENUE | | | | | |
| Royalty revenue | 85,060 | 1,216 | 3,224 | - | 89,500 |
| Product sales, net | - | 88,638 | 37,620 | - | 126,258 |
| License fees | - | (111) | 688 | - | 577 |
| | <u>85,060</u> | <u>89,743</u> | <u>41,532</u> | <u>-</u> | <u>216,335</u> |
| EXPENSES | | | | | |
| License and royalty fees | 14,228 | 4 | 3 | - | 14,235 |
| Cost of products sold | 1 | 47,669 | 23,591 | - | 71,261 |
| Research & development | 24,281 | 15,197 | 929 | - | 40,407 |
| Intercompany R&D charges | 3,549 | (6,224) | 2,337 | 338 | - |
| Selling, general and administration | 25,887 | 39,900 | 6,745 | - | 72,532 |
| Depreciation and amortization | 3,539 | 17,397 | 2,874 | 793 | 24,603 |
| In-process research and development | 7,000 | 1,000 | - | - | 8,000 |
| | <u>78,485</u> | <u>114,943</u> | <u>36,479</u> | <u>1,131</u> | <u>231,038</u> |
| Operating income (loss) | <u>6,575</u> | <u>(25,200)</u> | <u>5,053</u> | <u>(1,131)</u> | <u>(14,703)</u> |
| Other income (expense) | | | | | |
| Foreign exchange gain (loss) | 4,690 | 1,198 | (6,402) | - | (514) |
| Investment and other income | 3,355 | 5,606 | 920 | - | 9,881 |
| Interest expense on long-term debt | (9,389) | (48,003) | 18,417 | - | (38,975) |
| Writedown/loss on redemption of investments | - | (8,353) | 1,396 | (1,200) | (8,157) |
| Management fees | (1,920) | 1,836 | (254) | 338 | - |
| Total other expenses | <u>(3,264)</u> | <u>(47,716)</u> | <u>14,077</u> | <u>(862)</u> | <u>(37,765)</u> |
| Loss from continuing operations before income taxes | 3,311 | (72,916) | 19,130 | (1,993) | (52,468) |
| Income tax (recovery) expense | (10,344) | (14,403) | 4,292 | 535 | (19,920) |
| Loss from continuing operations | 13,655 | (58,513) | 14,838 | (2,528) | (32,548) |
| Loss from discontinued operations, net of income taxes | - | (7,485) | 538 | - | (6,947) |
| Equity in subsidiaries | (48,167) | 25,431 | - | 22,736 | - |
| Net loss | <u>(34,512)</u> | <u>(40,567)</u> | <u>15,376</u> | <u>20,208</u> | <u>(39,495)</u> |

Condensed Consolidating Statement of Cash Flows
Three months ended September 30, 2008
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| OPERATING ACTIVITIES: | | | | | |
| Cash (used in) provided by operating activities | (8,119) | 964 | 5,556 | - | (1,599) |
| INVESTING ACTIVITIES: | | | | | |
| Proceeds from short-term investments | 605 | - | - | - | 605 |
| Purchase of property, plant and equipment | (86) | (1,235) | (77) | - | (1,398) |
| Other | 236 | (93) | - | - | 143 |
| Cash (used in) provided by investing activities | 755 | (1,328) | (77) | - | (650) |
| FINANCING ACTIVITIES: | | | | | |
| Deferred financing costs on long-term obligations | (2,170) | - | - | - | (2,170) |
| Intercompany notes payable/receivable | 1,165 | - | (1,165) | - | - |
| Cash (used in) provided by financing activities | (1,005) | - | (1,165) | - | (2,170) |
| Effect of exchange rate changes on cash and cash equivalents | - | (19) | (1,526) | - | (1,545) |
| Net increase (decrease) in cash and cash equivalents | (8,369) | (383) | 2,788 | - | (5,964) |
| Cash and cash equivalents, beginning of period | 32,256 | 3,376 | 27,283 | - | 62,915 |
| Cash and cash equivalents, end of period | 23,887 | 2,993 | 30,071 | - | 56,951 |

Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2008
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| OPERATING ACTIVITIES: | | | | | |
| Cash (used in) provided by operating activities | (16,221) | (10,617) | 26,810 | (20,000) | (20,028) |
| INVESTING ACTIVITIES: | | | | | |
| Proceeds from short-term investments | 605 | - | - | - | 605 |
| Purchase of property, plant and equipment | (1,005) | (5,238) | (940) | - | (7,183) |
| Purchase of intangible assets | - | (1,000) | - | - | (1,000) |
| In-process research and development | (2,500) | - | - | - | (2,500) |
| Other | (489) | 884 | 52 | - | 447 |
| Cash (used in) provided by investing activities | (3,389) | (5,354) | (888) | - | (9,631) |
| FINANCING ACTIVITIES: | | | | | |
| Deferred financing costs on long-term obligations | (3,777) | - | (14) | - | (3,791) |
| Dividends paid | - | - | (20,000) | 20,000 | - |
| Proceeds from stock options exercised | 121 | - | - | - | 121 |
| Intercompany notes payable/receivable | 23,363 | (1,352) | (22,011) | - | - |
| Cash (used in) provided by financing activities | 19,707 | (1,352) | (42,025) | 20,000 | (3,670) |
| Effect of exchange rate changes on cash and cash equivalents | - | (18) | (1,028) | - | (1,046) |
| Net increase (decrease) in cash and cash equivalents | 97 | (17,341) | (17,131) | - | (34,375) |
| Cash and cash equivalents, beginning of period | 23,790 | 20,334 | 47,202 | - | 91,326 |
| Cash and cash equivalents, end of period | 23,887 | 2,993 | 30,071 | - | 56,951 |

Condensed Consolidating Statement of Cash Flows
Three months ended September 30, 2007
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| OPERATING ACTIVITIES: | | | | | |
| Cash (used in) provided by operating activities | (9,287) | (9,030) | 11,930 | - | (6,387) |
| INVESTING ACTIVITIES: | | | | | |
| Purchase of long-term investments | - | (10,000) | - | - | (10,000) |
| Purchase of property, plant and equipment | (622) | (599) | (52) | - | (1,273) |
| Purchase of intangible assets | - | (750) | - | - | (750) |
| Proceeds from sale of assets held for sale | - | 4,832 | - | - | 4,832 |
| Cash (used in) provided by investing activities | (622) | (6,517) | (52) | - | (7,191) |
| FINANCING ACTIVITIES: | | | | | |
| Intercompany notes payable/receivable | (535) | (677) | 1,212 | - | - |
| Cash (used in) provided by financing activities | (535) | (677) | 1,212 | - | - |
| Net increase (decrease) in cash and cash equivalents | (10,444) | (16,224) | 13,090 | - | (13,578) |
| Cash and cash equivalents, beginning of period | 57,177 | 20,387 | 34,734 | - | 112,298 |
| Cash and cash equivalents, end of period | 46,733 | 4,163 | 47,824 | - | 98,720 |

Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2007
USD (in '000s)

| | Parent Company Angiotech Pharmaceuticals, Inc. | Guarantors Subsidiaries | Non Guarantors Subsidiaries | Consolidating Adjustments | Consolidated Total |
|--|---|------------------------------------|--|--------------------------------------|-------------------------------|
| OPERATING ACTIVITIES: | | | | | |
| Cash (used in) provided by operating activities | (4,957) | (30,723) | 32,858 | - | (2,822) |
| INVESTING ACTIVITIES: | | | | | |
| Proceeds from short-term investments | - | 9,396 | - | - | 9,396 |
| Purchase of long-term investments | (5,000) | - | - | (10,000) | (15,000) |
| Proceeds from long-term investments | - | 15,454 | - | - | 15,454 |
| Purchase of property, plant and equipment | (922) | 6,928 | (9,574) | - | (3,568) |
| Investment in subsidiaries | - | (10,000) | - | 10,000 | - |
| Purchase of intangible assets | - | (6,017) | - | - | (6,017) |
| Proceeds from sale of assets held for sale | - | 4,832 | - | - | 4,832 |
| In-process research and development | - | (1,000) | - | - | (1,000) |
| Other | 399 | (500) | - | - | (101) |
| Cash (used in) provided by investing activities | (5,523) | 19,093 | (9,574) | - | 3,996 |
| FINANCING ACTIVITIES: | | | | | |
| Deferred financing costs on long-term obligations | (1,865) | - | - | - | (1,865) |
| Proceeds from stock options exercised | 79 | - | - | - | 79 |
| Intercompany notes payable/receivable | (496) | 3,484 | (2,988) | - | - |
| Cash (used in) provided by financing activities | (2,282) | 3,484 | (2,988) | - | (1,786) |
| Net increase (decrease) in cash and cash equivalents | (12,762) | (8,146) | 20,296 | - | (612) |
| Cash and cash equivalents, beginning of period | 59,495 | 12,309 | 27,528 | - | 99,332 |
| Cash and cash equivalents, end of period | 46,733 | 4,163 | 47,824 | - | 98,720 |

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

ANGIOTECH PHARMACEUTICALS, INC.

For the three and nine month periods ended September 30, 2008

(All amounts following are expressed in U.S. dollars unless otherwise indicated.)

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A"), dated November 5, 2008, provides an update to the MD&A for the year ended December 31, 2007 and should be read in conjunction with our unaudited consolidated financial statements for the three and nine month periods ended September 30, 2008 and our audited consolidated financial statements for the year ended December 31, 2007, both of which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and the applicable rules and regulations of the United States Securities and Exchange Commission ("SEC") for the presentation of interim financial information. Additional information relating to our Company, including our 2007 audited consolidated financial statements and 2007 Annual Information Form ("AIF"), is available by accessing the SEDAR website at www.sedar.com or the EDGAR website at www.sec.gov/edgar.shtml.

Forward-Looking Statements and Cautionary Factors That May Affect Future Results

Statements contained in this report that are not based on historical fact, including without limitation statements containing the words "believes," "may," "plans," "will," "estimates," "continues," "anticipates," "intends," "expects" and similar expressions, constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and constitute "forward-looking information" within the meaning of applicable Canadian securities laws. All such statements are made pursuant to the "safe harbor" provisions of applicable securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for the fourth quarter of 2008 and beyond, our strategies or future actions, our targets, expectations for our financial condition and the results of, or outlook for, our operations, research and development and product and drug development. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements.

Many such known risks, uncertainties and other factors are taken into account as part of our assumptions underlying these forward-looking statements and include, among others, the following: general economic and business conditions, both nationally and in the regions in which we operate; market demand; technological changes that could impact our existing products or our ability to develop and commercialize future products; competition; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; availability of financial reimbursement coverage from governmental and third-party payers for products and related treatments; adverse results or unexpected delays in pre-clinical and clinical product development processes; adverse findings related to the safety and/or efficacy of our products or products sold by our partners; decisions, and the timing of decisions, made by health regulatory agencies regarding approval of our technology and products; the requirement for substantial funding to conduct research and development, to expand manufacturing and commercialization activities or consummate acquisitions; and any other factors that may affect our performance.

In addition, our business is subject to certain operating risks that may cause any results expressed or implied by the forward-looking statements in this report to differ materially from our actual results. These operating risks include: our ability to attract and retain qualified personnel; our ability to successfully complete preclinical and clinical development of our products; changes in business strategy or development plans; our failure to obtain patent protection for discoveries; loss of patent protection resulting from third-party challenges to our patents; commercialization limitations imposed by patents owned or controlled by third parties; our ability to obtain rights to technology from licensors; liability for patent claims and other claims asserted against us; our ability to obtain and enforce timely patent and other intellectual property protection for our technology and products; the ability to enter into, and to maintain, corporate alliances relating to the development and commercialization of our technology and products; market acceptance of our technology and products; our ability to successfully manufacture, market and sell our products; the continued availability of capital to finance our activities; our ability to continue to service our debt obligations; and any other factors referenced in our other filings with the applicable Canadian securities regulatory authorities or the SEC.

For a more thorough discussion of the risks associated with our business, see the section entitled “Risk Factors” in this report.

Given these uncertainties, assumptions and risk factors, readers are cautioned not to place undue reliance on such forward-looking statements. Except as required by law, we disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward looking statements contained in this report to reflect future results, events or developments.

This report contains forward-looking information that constitutes "financial outlooks" within the meaning of applicable Canadian securities laws. We have provided this information to give shareholders general guidance on management's current expectations of certain factors affecting our business, including our financial results. Given the uncertainties, assumptions and risk factors associated with this type of information, including those described above, readers are cautioned that the information may not be appropriate for other purposes.

Business Overview

We are a specialty pharmaceutical and medical device company that discovers, develops and markets innovative technologies primarily focused on acute and surgical applications. We generate our revenue through our sales of medical products and components, as well as from royalties derived from sales by our partners of products utilizing certain of our proprietary technologies. For the first nine months of 2008, we recorded \$144.8 million in sales of medical products and \$76.4 million in royalties and license fees received from our partners.

Our research and development efforts focus on understanding and characterizing biological conditions that often occur concurrent with medical device implantation, surgery or acute trauma, including scar formation and inflammation, cell proliferation, bleeding and coagulation, infection, and tumor tissue overgrowth. Our strategy is to utilize our various technologies in the areas of drugs, drug delivery, surface modification, biomaterials and medical devices to create and commercialize novel, proprietary medical products that reduce surgical procedure side effects, improve surgical outcomes, shorten hospital stays, or are easier or safer for a physician to use.

We develop our products using a proprietary and systematic discovery approach. We use our drug screening capabilities to identify new uses for known pharmaceutical compounds. We look for compounds that address the underlying biological causes of conditions that can occur with medical device implantation, surgery or acute trauma. Once appropriate drugs have been identified, we work to formulate the drug, or a combination of drugs, with our portfolio of drug, drug delivery and surface modification technologies and biomaterials to develop a novel surgical implant or medical device. We have patent protected, or have filed patent applications for, our technology and many of our products and potential product candidates.

We currently operate in two segments: Pharmaceutical Technologies and Medical Products.

Pharmaceutical Technologies

Our Pharmaceutical Technologies segment focuses primarily on establishing product development and marketing partnerships with major medical device, pharmaceutical or biomaterials companies and to date has derived the majority of its revenue from royalties due from partners that develop, market and sell products incorporating our technologies. Currently our principal revenues in this segment are from royalties derived from sales by Boston Scientific Corporation (“BSC”) of TAXUS® coronary stent systems incorporating the drug paclitaxel.

Medical Products

Our Medical Products segment manufactures and markets a wide range of single-use specialty medical products, primarily medical device products and medical device components. These products are sold directly to end users or other third party medical device manufacturers. This segment contains two specialized direct sales and distribution organizations as well as significant manufacturing capabilities. Many of our medical products are made using our proprietary manufacturing processes, or are protected by our intellectual property. Our Medical Products segment may apply certain of our proprietary technologies to its products to create novel, next generation medical products to market directly to end users or medical products distributors.

Significant Recent Developments

Financial and Strategic Alternatives Process. On July 7, 2008, we announced that our Board of Directors had authorized a transaction to create a new subsidiary, Angiotech Pharmaceutical Interventions Inc. (“API”), and that we would contribute certain business assets and intellectual property to API, which were to include primarily business assets of Angiotech other than

the intellectual property and royalty revenue related to TAXUS. Concurrently, we entered into a Note Purchase Agreement with Ares Management (“Ares”) and New Leaf Venture Partners (“New Leaf”), under which these investors would purchase between \$200 and \$300 million, at our option, of convertible notes issued by API that would be convertible into a significant minority equity interest in API. The net proceeds from the issuance of the convertible notes were to be used to refinance existing Angiotech debt through the consummation of a tender offer. The transaction was subject to shareholder approval.

On September 22, 2008, we announced that we would postpone the planned shareholder vote regarding the proposed transaction with Ares and New Leaf. As of that date, we advised Ares and New Leaf that, given the time required for more extended discussions with certain of our shareholders and bondholders and to therefore complete the transaction, and given various other factors impacting our business and cash position (including lower expected revenues derived from Boston Scientific Corporation), we did not believe we would be able to satisfy the condition in this Note Purchase Agreement with respect to the minimum level of cash and cash equivalents required to be held at the time of the transaction’s close.

As a result of the uncertainty regarding our proposed transaction with Ares and New Leaf, we also announced on September 22, 2008 that management and the Board of Directors would continue to explore and pursue alternatives to our balance sheet and current capital structure, including but not limited to whether we could consummate the previously announced transaction or other potential transaction alternatives with Ares and New Leaf. On September 23, 2008, we announced the termination of our previously announced cash tender offer for our outstanding Senior Floating Rate Notes due 2013 and our outstanding 7.75% Senior Subordinated Notes due 2014.

Our management and Board of Directors continue to believe a transaction alternative of significant size and scope is necessary to meaningfully address the working capital needs for our business initiatives, as well as to address potential liquidity issues likely to arise in the near term relating to our current balance sheet structure, due to several factors that have impacted our business and cash flows from operations. In particular, we continue to expect to receive lower revenues from Boston Scientific Corporation over the next several quarters, mainly due to the impact of new competitive entrants into the market for drug-eluting stents.

Reorganization and Cost Reduction Initiatives. On September 22, 2008, we announced, in connection with the update to our financial and strategic alternatives process as described above, that we would pursue various initiatives to reduce operating costs and further focus our business efforts, including:

- Postponement of the scheduled launch of our 5-fluorouracil-eluting central venous catheter (5-FU CVC);
- Closure of our research and manufacturing facility in Rochester, NY, and rationalization or elimination of office and laboratory space in Vancouver, BC, North Bend, WA and Herndon, VA.;
- Postponement of certain preclinical-stage research activities, pending the completion of partnering or other funding activities that would offset direct costs and personnel costs associated with such programs;
- Reduction of certain financial and personnel contributions relating to our joint venture with Genzyme Corporation;
- Potential amendment of and reduction in cash outlays related to our collaboration with Athersys, Inc.;
- Rationalization of selected pending and issued intellectual property;
- Elimination of certain expenses and reductions in personnel in all general and administrative departments;
- Selective reduction in certain sales and marketing investments and in medical affairs; and
- Postponement of selected planned capital expenditures.

Our remaining resources subsequent to these changes will be focused primarily on our existing medical device products business, with particular emphasis on our portfolio of Promoted Brands, and on selected new products that have recently launched or are expected to be launched in the near future, including Quill™ SRS, the HemoStream™ Chronic Dialysis Catheter, the Option™ Inferior Vena Cava Filter and the Bio-Seal™ Lung Biopsy System.

FDA Approval Received by our Partner BSC for TAXUS Liberte® and TAXUS Express Atom™ Stents. On October 10, 2008, we announced that BSC had received approval from the United States Food and Drug Administration (“FDA”) to market and sell the second generation TAXUS Liberte® Paclitaxel-Eluting Coronary Stent System in the U.S. On September 25, 2008, we announced that BSC had received approval from the FDA to market and sell the Taxus Express2 Atom™ Paclitaxel-Eluting Coronary Stent System in the U.S. We are entitled to receive royalties based on the commercial sale of these products by BSC, which BSC has stated, are currently expected to commercially launch before the end of 2008.

Enrollment Completed for TAXUS PERSEUS Clinical Trial. On October 8, 2008, we announced that BSC had completed enrollment in the PERSEUS clinical trial, designed to evaluate the third-generation TAXUS Element paclitaxel-eluting coronary stent. The PERSEUS clinical program has enrolled nearly 1,500 patients at 100 U.S. and international centers since July 2007,

and will compare the TAXUS Element Stent to the prior-generation TAXUS Express2 Stent marketed in the United States since 2004.

Clinical Trial Enrollment and CE Mark Filings Completed by our Partner Cook Medical for the Zilver® PTX Paclitaxel-Eluting Peripheral Stent Product Candidate. On September 10, 2008 we announced that Cook Medical (“Cook”), a multinational medical device manufacturer, had completed enrollment in the first international clinical trial of a drug-eluting stent designed to treat arterial blockages outside the coronary arteries. The 420 patients enrolled in Cook’s randomized trial of its Zilver PTX Drug-Eluting Peripheral Stent include peripheral artery disease (“PAD”) patients treated in Germany, the United States and Japan. Cook also already has enrolled 780 patients in the European Union, Canada and Korea in a clinical registry to evaluate the safety of the Zilver PTX device. Those data have been used for submission in Europe for CE Mark approval to market the device there, with additional regulatory submissions pending in additional markets.

CE Mark Approval Received of HemoStream™ Chronic Dialysis Catheter. On August 12, 2008, we announced that we had received CE Mark approval to market and sell our HemoStream™ chronic dialysis catheter in Europe. We have had FDA clearance to market and sell this product in the U.S. since August 2007.

Ongoing Clinical Programs

The following discussion describes our product candidates, or certain of our partners’ product candidates, that are being evaluated in ongoing human clinical trials and their stage of development:

- **TAXUS Element™ Platinum Chromium Paclitaxel-Eluting Coronary Stent System.** The TAXUS Element paclitaxel-eluting coronary stent system is the third generation BSC coronary stent platform that incorporates our research, technology and intellectual property related to the use of paclitaxel. The TAXUS Element stent features BSC’s proprietary Platinum Chromium Alloy, which is designed to enable thinner stent struts, increased flexibility and a lower stent profile while improving radial strength, recoil and radiopacity. In addition, the TAXUS Element stent platform incorporates new balloon technology intended to improve upon BSC’s market-leading Maverick® Balloon Catheter technology.

On July 19, 2007, BSC initiated the TAXUS PERSEUS Workhorse trial in the U.S., which will evaluate the safety and efficacy of the TAXUS Element stent compared to BSC’s first generation TAXUS Express2 stent. The study was expected to evaluate 1,264 patients with coronary lesions ranging from 2.75 to 4.0 millimeters. The primary endpoint of this study is target lesion failure (“TLF”) at 12 months, and its secondary endpoint is in-segment percent diameter stenosis at nine months.

On July 19, 2007, BSC initiated the TAXUS PERSEUS Small Vessel trial in the U.S., which will compare the TAXUS Element stent to a historic control (the TAXUS V de novo bare metal Express Coronary Stent System). This study was expected to include 224 patients with coronary lesions ranging from 2.25 to 2.75 millimeters. The primary endpoint is in-stent late loss at nine months, and the secondary endpoint is TLF at 12 months. The study’s success is dependent upon both endpoints.

On October 8, 2008, we announced that BSC had completed enrollment in the TAXUS PERSEUS clinical trials.

- **TAXUS Petal™ Bifurcation Paclitaxel-Eluting Coronary Stent System.** The TAXUS Petal bifurcation paclitaxel-eluting coronary stent system, which is under evaluation in clinical trials being conducted by BSC, represents a novel BSC coronary stent product candidate that incorporates our research, technology and intellectual property related to the use of paclitaxel. Conventional coronary stents were designed to treat tubular arteries, and are considered less than optimal for the y-shaped anatomy of a bifurcated area of the coronary arteries. The TAXUS Petal is a specialized coronary stent designed to treat both the main branch and the side branch of a bifurcation by incorporating an innovative side structure (the Petal strut) in the middle of the stent that opens into a side branch.

On July 18, 2007 BSC initiated the TAXUS PETAL I First Human Use (FHU) trial, which is expected to enroll a total of 45 patients in New Zealand, France and Germany. The trial is a non-randomized study with an initial assessment of acute performance and safety (including rates of death, myocardial infarction and target vessel revascularization) at 30 days and six months, with continued annual follow-up to occur for five years. Upon successful completion of this study, BSC has indicated that it intends to begin a pivotal trial which if successful would provide a basis for U.S. and international approvals for the commercialization of the TAXUS Petal stent.

- **ZILVER PTX Paclitaxel-Eluting Peripheral Vascular Stent System.** The ZILVER PTX paclitaxel-eluting peripheral vascular stent, which is under evaluation in clinical trials being conducted by our partner Cook, is a specialized stent

product incorporating our proprietary paclitaxel technology and is designed for placement in diseased arteries in the limbs to restore blood flow. Cook is a co-exclusive licensee, together with BSC, of our proprietary paclitaxel technology to reduce restenosis following stent placement in peripheral artery disease. The ZILVER PTX paclitaxel-eluting peripheral stent is designed to reduce restenosis following placement of a stent in PAD patients.

The ZILVER PTX is currently undergoing multiple human clinical trials in the U.S., Japan the EU and selected other countries to assess product safety and efficacy. In January 2007, Cook released nine-month data from its EU clinical study. The preliminary data presented by Cook on the first 60 patients in the randomized trial, which is examining the safety of using Cook's ZILVER PTX paclitaxel-eluting stent to treat blockages, or lesions, of the superficial femoral artery ("SFA") above the knee, indicated that the ZILVER PTX stent showed an equal adverse event rate to conventional angioplasty for treating SFA lesions. The ZILVER PTX stent also displayed a zero-percent fracture rate for 41 lesions at six months and 18 lesions at one year.

On June 11, 2008, Cook reported positive interim results from the registry arm of a clinical study designed to measure the efficacy of the Zilver PTX in treating PAD patients, specifically in the treatment of blockages in the femoropopliteal artery. The results were reported by trial investigators at the 2008 SVS Vascular Annual Meeting, and revealed clinical improvement, excellent durability and fracture resistance, high rates of event-free survival ("EFS") and freedom from target lesion revascularization ("TLR"). Interim data was compiled at six and 12 months using 435 patients and 200 patients, respectively. The corresponding EFS rates were 94 percent and 84 percent, and freedom from TLR was 96 percent and 88 percent. Evaluation of stent x-rays is ongoing, and currently suggests stent fractures in approximately one percent of cases at six months and less than two percent of cases at 12 months. In addition, the Zilver PTX stent exhibited no safety concerns and results were better than expected for TASC class C and D lesions, occlusions, in-stent restenosis and lesions greater than seven centimeters. Follow-up to the registry arm of the study will continue through two years.

On July 16, 2007 Cook announced that the first U.S. patients in a randomized pivotal human clinical trial of ZILVER PTX were treated at Tri-City Medical Center in Oceanside, California. The trial is designed to randomize patients to receive either the ZILVER PTX stent or balloon angioplasty. Data from this clinical trial is intended to be used to support submission to the FDA for approval in the U.S. to market the device. In addition, data collected on Japanese and U.S. patients is expected to be combined for the final evaluation of the device and used for regulatory submissions in both markets for approval.

On September 10, 2008 Cook announced it had completed enrollment in its pivotal human clinical trial for the Zilver PTX. The 420 patients enrolled in Cook's randomized trial include peripheral artery disease patients treated in Germany, the United States and Japan. Based on a release by Cook on September 10, 2008, Cook had enrolled an additional 780 patients in the European Union, Canada and Korea in a clinical registry to evaluate the safety of the Zilver PTX device. Those data have been used for submission in Europe for CE Mark approval to market the device there, with additional regulatory submissions pending in additional markets.

- **Bio-Seal™ Lung Biopsy System.** Our proprietary Bio-Seal™ Lung Biopsy System is under evaluation in a pivotal human clinical trial. Bio-Seal™ is a novel technology designed to prevent air leaks in patients having lung biopsies by plugging the biopsy track with an expanding hydrogel plug. On contact with moist tissue, the hydrogel plug absorbs fluids and expands to fill the void created by the biopsy needle puncture. The seal is airtight and the plug is absorbed into the body after healing of the puncture site has occurred.

Bio-Seal is currently undergoing a human clinical trial in the U.S. designed to assess the safety and efficacy of Bio-Seal, with the primary endpoint being reduction in rates of pneumothorax in patients undergoing lung biopsy procedures. The clinical trial is a prospective randomized multi-centered safety and efficacy evaluation. The trial enrolled its first patient in October 2005 and completed enrolment in June 2008. The study is designed to provide a basis for U.S. clearance for the commercialization of Bio-Seal. Data from this clinical trial study have been submitted to the FDA, and we currently expect to receive 510(k) clearance from the FDA to market Bio-Seal in the U.S. in the first half of 2009. Our intention is to present the complete data at the 2009 Society of Interventional Radiology in San Diego. The product has already received CE Mark approval.

- **Option™ Vena Cava Filter.** The Option™ Vena Cava Filter, which we licensed in March 2008 from our partner Rex Medical L.P., is under evaluation in a pivotal human clinical trial. The purpose of the U.S. multi-center prospective clinical trial is to evaluate the device's safety and efficacy in preventing pulmonary emboli, and to assess the ability to retrieve the device from the body up to 175 days following implantation. We expect that we will release the results of this 100 patient trial in the spring of 2009 at the annual Society of Interventional Radiology meeting in San Diego. Interim results of the

pivotal trial may be presented at the AIM/Veith Meeting in New York in November 2008, pending completion of final patient enrollment. This vena cava filter may have a number of potential benefits, which include unique filter apex and retention anchors, insertion through either the femoral or jugular route, and non-thrombogenic material. Upon completion of this clinical trial, we expect to submit a 510(k) application to the FDA in order to receive clearance to market and sell the Option™ Vena Cava Filter in the U.S.

- **MultiStem® Stem Cell Therapy.** The MultiStem stem cell therapy is under evaluation in clinical trials being conducted together with our partner Athersys, Inc. (“Athersys”) for the treatment of acute myocardial infarction. MultiStem stem cells are proprietary adult stem cells derived from bone marrow, which have demonstrated the ability in laboratory experiments to form a wide range of cell types. MultiStem may work through several mechanisms, but a primary mechanism appears to be the production of multiple therapeutic molecules produced in response to inflammation and tissue damage. We and Athersys believe that MultiStem may represent a unique “off the shelf” stem cell product candidate, based on its potential ability to be used without tissue matching or immunosuppression, and its potential capacity for large scale production. We entered an agreement with Athersys in May 2006 to co-develop and commercialize MultiStem for use in the indications of acute myocardial infarction and peripheral vascular disease. On December 20, 2007, we and Athersys announced we had received authorization from the FDA to commence a phase I human clinical trial to evaluate the safety of MultiStem in the treatment of acute myocardial infarction. Upon completion of a phase I human clinical trial currently being conducted by Athersys, we may assume lead responsibility for further clinical development. We currently own marketing and commercialization rights with respect to this product candidate. On September 22, 2008, as part of certain cost reduction initiatives, we announced a potential amendment of, and reduction in, cash outlays related to our collaboration with Athersys. The final terms of such amendment to our collaboration with Athersys may have an impact on our expected future expenditures for research and development of MultiStem, and the extent of our future financial and commercial commitments and rights relating to this product candidate.

Completed or Suspended Clinical Programs

- **5-FU-Eluting Central Venous Catheter.** Central venous catheters (“CVC”) are usually inserted into critically ill patients for extended periods of time to administer fluids, drugs, and nutrition, as well as facilitate frequent blood draws. Through our proprietary drug identification strategy, we have elected to evaluate 5-Fluorouracil (“5-FU”), a drug previously approved by the FDA for treatment of various types of cancer, as a compound that may help to prevent certain types of infection in patients receiving a CVC. We recently completed a human clinical trial in the U.S. designed to assess the safety and efficacy of our 5-FU-eluting CVC in preventing various types of catheter related infections. The study was a randomized, single-blind, 960-patient, 25-center study and was designed to evaluate whether our 5-FU-eluting CVC prevents bacterial colonization at least as well as the market leading anti-infective CVC. On July 10, 2007, we announced that we had completed enrolment of the study, and on October 9, 2007 we announced this study had met its primary statistical endpoint of non-inferiority as compared to the market leading anti-infective CVC (a chlorhexidine / silver sulfadiazine (CH-SS) coated CVC) and indicated an excellent safety profile. In March 2008, we presented the clinical trial data at the 28th International Symposium on Intensive Care and Emergency Medicine (ISICEM) in Brussels, Belgium. Based on the clinical trial data, the investigators concluded that our 5-FU CVC met the primary endpoint of the study, specifically that our 5-FU CVC product candidate was non-inferior in its ability to prevent bacterial colonization of the catheter tip when compared to catheters coated with CH-SS. There were no statistically significant differences in the rate of adverse events related to the study devices, or in the rates of catheter-related bloodstream infections. Additionally, there was no evidence for acquired resistance to 5-FU in clinical isolates exposed to the drug for a second time. Based on the positive results achieved in the study, in December 2007 we filed a request for 510(k) clearance from the FDA to market and sell the CVC in the U.S. and on April 17, 2008, we announced that we had received 510(k) clearance from the FDA to market our 5-FU CVC in the U.S.
- **TAXUS Liberté™ paclitaxel-eluting coronary stent system.** The TAXUS Liberté paclitaxel-eluting coronary stent system is BSC’s second generation coronary stent system platform that incorporates our research, technology and intellectual property related to the use of paclitaxel to prevent restenosis. The TAXUS Liberté stent system has been designed to further enhance coronary stent deliverability and blood vessel conformability, particularly in challenging coronary lesions. To date, BSC has only commenced sales of the TAXUS Liberté in countries outside of the U.S. On October 10, 2008, we announced that BSC had received approval from the FDA to market and sell the TAXUS Liberté in the U.S.
- **Vascular Wrap™.** Our paclitaxel-eluting mesh surgical implant, or Vascular Wrap, is designed to treat complications, including graft stenosis or restenosis, that may occur in connection with vascular graft implants in hemodialysis patients or in patients that have peripheral artery disease. Vascular grafts are implanted in patients in order to bypass diseased blood

vessels, or to provide access to the vascular system of kidney failure patients in order to facilitate the process of hemodialysis. In many cases, these vascular grafts fail due to proliferation of cells or scar into the graft (graft stenosis or restenosis), which can negatively impact blood flow through the vascular graft.

In April 2008, we elected to suspend enrollment in our U.S. and EU human clinical trials for our Vascular Wrap product candidate in patients undergoing surgery for hemodialysis access, pending a safety review to evaluate an imbalance of infections observed between the two study groups. As a result of these observations, we elected to notify physicians to suspend further enrollment in the trials, pending a full review of the potential cause of the implant site infections. There are currently no plans to resume enrollment in these clinical trials, and we are continuing to evaluate alternatives for this program, including potential collaborations, partnerships, divestitures or future clinical development initiatives.

Acquisitions

We did not complete any significant acquisitions during the first nine months of 2008. For a summary of significant acquisitions for the years ended December 31, 2007, 2006 and 2005, refer to our AIF for the year ended December 31, 2007.

Collaboration, License and Sales and Distribution Agreements

In connection with our research and development efforts, we have entered into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, regulatory approval, manufacturing, marketing and commercialization of our product candidates. Terms of the various license agreements may require us, or our collaborators, to make milestone payments upon achievement of certain product development and commercialization objectives and pay royalties on future sales of commercial products, if any, resulting from the collaborations. During the first nine months of 2008, we did not enter into any material collaboration, license or sales and distribution agreements.

On September 22, 2008, we announced a reduction of certain financial and personnel contributions relating to our collaboration with Genzyme Corporation, and a potential amendment of, and reduction in, cash outlays related to our collaboration with Athersys, Inc.

For a description of our most significant agreements for the years ended December 31, 2007, 2006 and 2005, refer to our AIF for the year ended December 31, 2007.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We believe that the estimates and assumptions upon which we rely are reasonable and are based upon information available to us at the time the estimates and assumptions were made. Actual results could differ materially from our estimates.

We believe the following policies to be critical to understanding our financial condition, results of operations, and our expectations for 2008 because these policies require management to make significant estimates, assumptions and judgments about matters that are inherently uncertain.

Revenue recognition

(i) Royalty revenue

We recognize royalty revenue when we have fulfilled the terms in accordance with the contractual agreement, have no future obligations, the amount of the royalty fee is determinable and collection is reasonably assured. We record royalty revenue from BSC on a cash basis due to our inability to accurately estimate the BSC royalty before we receive the reports and payments from BSC. This results in a one quarter lag between the time we record royalty revenue and the time the associated sales were recorded by BSC.

(ii) Product sales

We recognize revenue from product sales, including shipments to distributors, when the product is shipped from our facilities to the customer provided that we have not retained any significant risks of ownership or future obligations with respect to products shipped. We recognize revenue from product sales net of provisions for future returns. These provisions

are established in the same period as the related product sales are recorded and are based on estimates derived from historical experience.

We consider revenue to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectibility is reasonably assured. These criteria are generally met at the time of shipment when the risk of loss and title passes to the customer or distributor.

We record net product sales on a gross basis as it meets the principal criteria under EITF Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. This revenue is recorded on a gross basis since we incur credit risk from the customer, bear the risk of loss for incomplete shipments and do not receive a separate fee or commission for the transaction.

We include amounts billed to customers for shipping and handling in revenue. The corresponding costs for shipping and handling are included in cost of products sold.

(iii) License fees

License fees are comprised of initial fees and milestone payments derived from collaborative and other licensing arrangements. We recognize non-refundable milestone payments upon the achievement of specified milestones when the milestone payment is substantive in nature, the achievement of the milestone was not reasonably assured at the inception of the agreement and we have no further significant involvement or obligation to perform under the arrangement. Initial fees and non-refundable milestone payments received which require our ongoing involvement are deferred and amortized into income over the period of our ongoing involvement.

Income tax expense

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the differences between the financial statement and income tax bases of assets and liabilities, and for operating losses and tax credit carry forwards. The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions to realize the value of these assets. Management evaluates the realizability of the deferred tax assets and assesses the need for any valuation allowance adjustment. A valuation allowance is provided for the portion of deferred tax assets that is more likely than not to be unrealized. Deferred tax assets and liabilities are measured using the enacted tax rates and laws.

Significant estimates are required in determining our provision for income taxes including, but are not limited to, accruals for tax contingencies and valuation allowances for deferred income tax assets. Some of these estimates are based on interpretations of existing tax laws or regulations. Our effective tax rate may change from period to period based on the mix of income among the different foreign jurisdictions in which we operate, changes in tax laws in these jurisdictions, and changes in the amount of valuation allowance recorded.

Effective January 1, 2007, we adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 is designed to reduce diversity and provide consistent accounting practices and criteria for how companies should recognize, measure, present, and disclose in their financial statements all significant uncertain tax positions.

Stock-based compensation

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards Board (“SFAS”) 123(R) Share-Based Payment, a revision to SFAS 123, Accounting for Stock-Based Compensation. SFAS 123(R) requires us to recognize the grant date fair value of share-based compensation awards granted to employees over the requisite service period. We use the Black-Scholes option pricing model to calculate stock option values, which requires certain assumptions including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model (such as the binomial model), could produce a different fair value for stock-based compensation, which could have a material impact on our earnings.

Cash equivalents, short and long-term investments

We invest our excess cash balances in short-term securities, principally investment grade commercial debt and government agency notes. At September 30, 2008, substantially all of our securities were classified as available-for-sale, and accordingly, were recorded at fair market value with unrealized gains and losses included in other comprehensive income (loss) in shareholders' equity. Realized gains and losses, and any declines in value that are judged to be other-than-temporary, are reported in other income and expenses.

As part of our strategic product development efforts, we also invest in equity securities of certain companies with which we have collaborative agreements. The equity securities of some of these companies are not publicly traded and so fair value is not readily available. These investments are recorded using the cost method of accounting and are tested for impairment by reference to anticipated undiscounted cash flows expected to result from the investment, the results of operations and financial position of the investee, and other evidence supporting the net realizable value of the investment.

Goodwill

We test goodwill for possible impairment at least annually and whenever changes in circumstances occur that would indicate an impairment in the value of goodwill. When the carrying value of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Circumstances that could trigger an impairment include adverse changes or outcomes in legal or regulatory matters, technological advances, decreases in anticipated demand, unanticipated competition, and significant declines in our share price. We estimate fair value based on a discounted projection of future cash flows which are subject to significant uncertainty and estimates. If future cash flows are less than those projected, an impairment charge may become necessary that could have a material impact on our financial position and results of operations. We tested our goodwill for impairment as at September 30, 2008 and determined that due to a significant and sustained decline in our public stock market capitalization our goodwill was impaired and as a consequence recorded an impairment charge of \$548.9 million during the three months ended September 30, 2008.

Intangible assets

Our identifiable intangible assets are primarily comprised of technologies acquired through our business combinations. Intangible assets also include in-licensed proven medical technologies. We amortize intangible assets on a straight-line basis over the estimated life of the technologies, which range from two to twelve years depending on the circumstances and the intended use of the technology. We determine the estimated useful lives for intangible assets based on a number of factors such as legal, regulatory or contractual limitations; known technological advances; anticipated demand for our products; and the existence or absence of competition. We review the carrying value of our intangible assets for impairment indicators at least annually and whenever there has been a significant change in any of these factors listed above. A significant change in these factors may warrant a revision of the expected remaining useful life of the intangible asset, resulting in accelerated amortization or an impairment charge, which would impact earnings. We tested our intangible assets for impairment as at September 30, 2008 and determined that there was no impairment.

Results of Operations

Overview

The following discussion and analysis of results from our operations excludes the financial results from our discontinued operations (see "Results of Operations - Discontinued Operations") during the comparative periods of 2007, unless otherwise noted.

| (in thousands of US\$ except per share data) | Three months ended | | Nine months ended | |
|---|---------------------------|----------------------|--------------------------|----------------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | | | | |
| Pharmaceutical Technologies | \$21,858 | \$26,675 | \$76,429 | \$90,077 |
| Medical Products | 46,502 | 41,351 | 144,761 | 126,258 |
| Total revenue | 68,360 | 68,026 | 221,190 | 216,335 |
| Operating loss | (2,452) | (5,907) | (18,369) | (14,703) |
| Other expenses | (624,439) | (11,317) | (656,157) | (37,765) |
| Loss from continuing operations before income taxes | (626,891) | (17,224) | (674,576) | (52,468) |

| | | | | |
|--|-------------|------------|-------------|------------|
| Income tax recovery | (4,513) | (6,392) | (10,314) | (19,920) |
| Net loss from continuing operations | \$(622,378) | \$(10,832) | \$(664,212) | \$(32,548) |
| Basic and diluted net loss per common share, continuing operations | (7.31) | (0.13) | (7.80) | (0.38) |

For the third quarter of 2008, we recorded a net loss from continuing operations of \$622.4 million (\$7.31 basic net loss per share), compared to a net loss from continuing operations of \$10.8 million (\$0.13 basic net loss per share) for the third quarter of 2007.

The increase in the loss of \$611.5 million is due primarily to the write-down of \$599.4 million of goodwill that we recorded in the third quarter of 2008 due to a sustained deterioration in our market capitalization and our September 22, 2008 announcement that we may not meet certain closing conditions with respect to the announced financing transaction with Ares and New Leaf. Also increasing the net loss were a reduction of \$5.3 million in royalty revenue, as BSC's sales of paclitaxel-eluting coronary stent systems declined in Europe and North America, an \$13.5 million write-off of certain transaction costs related to the proposed financing transaction with Ares and New Leaf, a \$1.9 million write down of two available-for-sale equity securities that are currently trading below their cost and a decrease of \$2.3 million in our income tax recovery as we have recorded an increased valuation allowance against the benefits arising from losses in certain jurisdictions. Partially offsetting the increase in loss were a \$3.8 million increase in gross profit relating to higher medical products sales, a \$2.6 million decrease in research and development expenditures as certain of our various human clinical trial activities were completed or suspended, a \$1.4 million decrease in general and administrative costs due to reduced staffing and legal costs and a \$2.5 million reduction in interest expense as the interest rate applied to our Senior Floating Rate Notes due 2013 declined.

For the first nine months of 2008, we recorded a net loss from continuing operations of \$664.2 million (\$7.80 basic net loss per share), compared to a net loss from continuing operations of \$32.5 million (\$0.38 basic net loss per share) for the same period of 2007. The increase in the loss of \$631.7 million is primarily due to the factors described above, and also reflects a \$2.5 million payment for in-process research and development expense made during the first quarter of 2008 as compared to \$8.0 million in the second quarter of 2007, and a \$10.7 million write down of two available-for-sale equity securities in the second quarter of 2008.

Revenues

| (in thousands of U.S.\$) | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| <i>Pharmaceutical Technologies:</i> | | | | |
| Royalty revenue – paclitaxel-eluting stents | \$19,594 | \$24,872 | \$70,376 | \$85,059 |
| Royalty revenue – other | 1,811 | 1,749 | 5,495 | 4,441 |
| License fees | 453 | 53 | 558 | 577 |
| | 21,858 | 26,674 | 76,429 | 90,077 |
| <i>Medical Products:</i> | | | | |
| Product sales | 46,502 | 41,352 | 144,761 | 126,258 |
| Total revenues | \$68,360 | \$68,026 | \$221,190 | \$216,335 |

We operate in two reportable segments:

Pharmaceutical Technologies

Our Pharmaceutical Technologies segment includes royalty revenue generated from licensing our proprietary paclitaxel technology to various partners, as well as revenue derived from the licensing of certain of our biomaterials and other technologies.

Royalty revenue derived from sales of paclitaxel-eluting coronary stent systems by BSC for the third quarter of 2008 decreased by 21% as compared to the same period in 2007. The decrease in royalty revenues was primarily the result of lower sales of paclitaxel-eluting stents by BSC. Royalty revenue for the third quarter of 2008 was based on BSC's net sales for the period April 1, 2008 to June 30, 2008 of \$298 million, of which \$144 million was in the U.S., compared to net sales of \$376 million, of which \$223 million was in the U.S., for the same period in the prior year. The average gross royalty rate earned in the third quarter of 2008 on BSC's net sales was 6.9% for sales in the U.S. and 6.0% for sales in other countries, compared to an average rate of 7.5% for sales in the U.S. and 5.4% for sales in other countries for the same period in the prior year.

The average gross royalty rate for countries other than the U.S. improved in the third quarter of 2008 due to the contribution of royalty revenue from Japan during the period, where the average gross royalty rate we receive is higher, as compared to the comparative quarter in 2007. The TAXUS paclitaxel-eluting coronary stent system was launched in Japan by BSC during the second quarter of 2007.

Royalty revenue derived from sales of paclitaxel-eluting coronary stent systems by BSC for the first nine months of 2008 decreased by 17% as compared to the same period in 2007. The decrease in royalty revenues was a result of lower sales of paclitaxel-eluting stents by BSC. Royalty revenue for the first nine months of 2008 was based on BSC's net sales for the period October 1, 2007 to June 30, 2008 of \$1.0 billion, of which \$539 million was in the U.S., compared to net sales of \$1.2 billion, of which \$779 million was in the U.S., for the same period in the prior year. The average gross royalty rate earned in the first nine months of 2008 on BSC's net sales was 7.1% for sales in the U.S. and 6.0% for sales in other countries, compared to an average rate of 7.6% for sales in the U.S. and 5.5% for sales in other countries for the same period in the prior year.

The average gross royalty rate for countries other than the U.S. improved in the first nine months of 2008 due to the contribution of royalty revenue from Japan during the period, where the average gross royalty rate we receive is higher, as compared to minimal royalty revenue received relating to sales in Japan in the comparable period in the prior year.

We expect revenues in our Pharmaceutical Technologies segment will decrease during the remainder of 2008 as compared to 2007 and the first nine months of 2008, as a result of the entry of new competitors, including Medtronic, Inc. and Abbott Laboratories, Inc., into the drug-eluting coronary stent market in the United States in the second and third quarters of 2008. We expect the impact on our royalty revenue relating to these factors to be realized most significantly in the fourth quarter of 2008 and thereafter, as we receive royalty revenue one quarter after our partner BSC records sales of paclitaxel-eluting stent systems.

Medical Products

Our Medical Products segment manufactures and markets a range of single use, specialty medical devices. The Medical Products segment also manufactures finished medical devices and medical device components for third party medical device manufacturers and marketers.

Revenue from our Medical Products segment for the third quarter of 2008 was \$46.5 million, an increase of 12% over the \$41.4 million recorded during the same period of 2007. The increase was related to several factors, including increased sales of various of our Interventional product lines, increased sales of certain of our Surgical product lines, the impact of certain new product launches where there were no sales recorded in the prior year period, and the continued improvement of sales of medical devices and device components to other third party medical device manufacturers.

Revenue from our Medical Products segment for the first nine months of 2008 was \$144.8 million, an increase of 15% over the \$126.3 million for the same period of 2007. The increase was due to the factors described above and the effect of the one-time \$3.0 million charge against revenue in the second quarter of 2007 for the Contour Threads brand discontinuation. Excluding the impact of the \$3.0 million charge in the second quarter of 2007 relating to the Contour Threads brand discontinuation, revenue growth as compared to the first nine months of 2007 was 12%.

We expect that revenues in our Medical Products segment may continue to increase during the remainder of 2008 as compared to 2007, reflecting the potential for growth of certain existing and newly launched product lines and our marketing strategies to increase promotion and branding activities around certain of our most promising proprietary product lines.

Expenditures

| (in thousands of U.S.\$) | Three months ended | | Nine months ended | |
|-------------------------------------|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| License and royalty fees | \$3,452 | \$4,527 | \$11,484 | \$14,235 |
| Cost of products sold | 24,772 | 23,384 | 77,430 | 71,261 |
| Research and development | 10,658 | 13,188 | 45,468 | 40,407 |
| Selling, general and administrative | 23,370 | 24,715 | 77,100 | 72,532 |
| Depreciation and amortization | 8,560 | 8,119 | 25,577 | 24,603 |
| In-process research and development | - | - | 2,500 | 8,000 |
| | \$70,812 | \$73,933 | \$239,559 | \$231,038 |

License and royalty fees on royalty revenue

License and royalty fee expenses include license and royalty payments due to certain of our licensors, primarily relating to paclitaxel-eluting coronary stent system royalty revenue received from BSC. The decrease in this expense in the third quarter and first nine months of 2008, when compared to the same periods in the prior year, reflects the reduction in our royalty revenue. We expect license and royalty fee expense to continue to be a significant cost in the fourth quarter of 2008, commensurate with the amount of royalty revenue we earn.

Cost of products sold

Cost of products sold is comprised of costs and expenses related to the production of our various medical device, device component and biomaterial products and technologies, including direct labor, raw materials, depreciation and certain fixed overhead costs related to our various manufacturing facilities and operations.

Cost of products sold increased by \$1.4 million to \$24.8 million for the third quarter of 2008 compared to \$23.4 million for the same period of the prior year. Gross margins for our product sales were 46.7% for the third quarter of 2008 compared to 43.5% for the third quarter of 2007.

Gross margins, as described above, in the third quarter of 2008 compared to the same period in 2007 were positively impacted by product sales mix reflecting increased sales of certain higher margin product lines, the impact of sales of certain new higher margin product lines of which we recorded no material sales in the comparable prior year period, and the affect of higher sales volumes on the absorption of fixed overhead and labour costs.

Cost of products sold increased by \$6.2 million to \$77.4 million for the first nine months of 2008 compared to \$71.3 million for the same period of the prior year. Gross margins for our product sales were 46.5% for the first nine months of 2008 compared to 43.6% for the first nine months of 2007. Gross margins in the first nine months of 2008 compared to the same period in 2007 were impacted by the factors described above.

We expect that cost of products sold will continue to be significant, and that gross margins may continue to improve during the fourth quarter of 2008, primarily as a result of improved sales mix, including potential increases in sales of selected product lines that provide higher relative contribution margins, the impact of anticipated higher levels of product sales on the absorption of fixed overhead costs, and the reduction in fixed overhead and labor costs relative to certain product sales in the remainder of 2008 due to the completion of the consolidation of our Syracuse, NY operations.

Research and development

Our research and development expense is comprised of costs incurred in performing research and development activities, including salaries and benefits, clinical trial and related clinical manufacturing costs, contract research costs, patent procurement costs, materials and supplies, and operating and occupancy costs. Our research and development activities occur in two main areas:

(i) Discovery and preclinical research - Our discovery and preclinical research efforts are divided into several distinct areas of activity, including screening and preclinical evaluation of pharmaceuticals and various biomaterials and drug delivery technologies, evaluation of mechanism of action of pharmaceuticals, mechanical engineering and pursuing patent protection for our discoveries.

(ii) Clinical research and development - Clinical research and development refers to internal and external activities associated with clinical studies of product candidates in humans, and advancing clinical product candidates towards a goal of obtaining regulatory approval to manufacture and market these product candidates in various geographies.

Research and development expenses, organized by significant project, for the periods indicated were as follows:

| (in thousands of U.S.\$) | Three months ended | | Nine months ended | |
|--|--------------------|-----------------|-------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Discovery and pre-clinical research | \$6,261 | \$6,396 | \$22,435 | \$18,451 |
| Ongoing clinical programs | 671 | - | 2,627 | - |
| Completed or Suspended clinical programs: | | | | |
| Vascular Wrap™ Paclitaxel-Eluting Mesh | 1,232 | 1,863 | 11,546 | 7,613 |
| Anti-infective Central Venous Catheter | 720 | 2,093 | 3,009 | 5,810 |
| Other clinical programs | 24 | 51 | 196 | 151 |
| | 1,976 | 4,007 | 14,751 | 13,574 |
| Medical products | 1,918 | 2,796 | 6,127 | 8,510 |
| Stock-based compensation | 169 | 542 | 670 | 1,515 |
| Less: Depreciation, amortization and inter-company charges allocated to projects above | (337) | (553) | (1,142) | (1,643) |
| Total research and development | \$10,658 | \$13,188 | \$45,468 | \$40,407 |

Research and development program expenses include all direct costs, as well as certain indirect expenses based on time allocated by certain research, clinical and administrative staff to each program.

Research and development expenditures decreased by \$2.5 million to \$10.7 million for the third quarter of 2008 as compared to \$13.2 million for the same period of 2007. The decrease was primarily due to a \$0.6 million decrease in clinical trial costs for our suspended Vascular Wrap clinical program, and a \$1.4 million reduction related to our completed 5-FU CVC clinical program (for which significant clinical trial activities materially concluded in mid 2007). Ongoing programs, including our BioSeal program and certain medical device product related engineering initiatives, added \$0.7 million in costs as compared to the same period in 2007. Also adding research and development expenditures in the third quarter of 2008 were severance costs of \$1.6 million, due to a significant reduction in staffing within our clinical and research departments completed during the quarter.

Research and development expenditures increased by \$5.1 million to \$45.5 million for the first nine months of 2008 as compared to \$40.4 million for the same period of 2007. The increase was primarily due to increased costs in the first half of 2008 related to our Vascular Wrap clinical program and severance of \$1.9 million due to a significant reduction in staffing within our clinical and research departments.

We currently expect our research and development expenditures may decrease through the remainder of the year as compared to the prior quarters of 2008, reflecting the suspension of enrolment in our Vascular Wrap clinical trial and the reduction or elimination of staffing and other direct costs in the third quarter of 2008 relating to certain other research programs and activities. Even after these expected declines, we anticipate we will continue to incur significant research and development expenditures in the fourth quarter of 2008, relating primarily to various medical device improvement and product line expansion initiatives and the completion of human clinical trials, data analysis and regulatory submissions related to our BioSeal program.

Selling, general and administrative expenses

Our selling, general and administrative expenses are comprised of direct selling and marketing costs related to the sale of our various medical products, including salaries, benefits and sales commissions, and our various management and administrative support functions, including salaries, commissions, benefits and other operating and occupancy costs.

Selling, general and administrative expenditures for the third quarter of 2008 decreased by \$1.3 million to \$23.4 million, compared to \$24.7 million for the same period of 2007. The reduction in expenditures is primarily due to a significant decrease in legal litigation costs as compared to the prior year period due primarily to reaching agreement in the third quarter of 2007 with Conor MedSystems, Inc. (“Conor”) and its parent company Johnson & Johnson to settle all outstanding patent litigation with respect to Conor’s CoStar® paclitaxel-eluting stent. Also included in the third quarter 2008 selling, general and administrative expenses are \$0.6 million in severance costs relating to a reduction in staff across all departments, and \$0.8 million in severance and other charges related to the announced plan to close and consolidate our Syracuse, NY manufacturing facility.

Selling, general and administrative expenditures for the first nine months of 2008 increased by \$4.6 million to \$77.1 million, compared to \$72.5 million for the comparative period of 2007. The higher expenditures were primarily due to an increase of \$6.3 million in salaries, benefits and related costs associated with the increase in direct sales and marketing support personnel implemented in the U.S. and Europe during the second half of 2007, an increase of \$1.4 million in severance and other charges related to the announced plan to close and consolidate our Syracuse, NY manufacturing facility, a \$1.4 million increase in severance costs for staff reductions in selling, general and administrative departments completed in the first and third quarters of 2008, and a \$1.2 million increase in accounting and tax consulting fees. Litigation costs decreased \$2.4 million as compared to the prior year period, due primarily to reaching agreement with Conor as described above.

During the fourth quarter of 2008, we expect that selling, general and administrative expenses may be slightly lower than prior quarters in 2008 due to cost savings from staff reductions implemented primarily in the third quarter of 2008. Expenditures could fluctuate depending on product sales levels, the timing of launch of certain new products and growth of new product sales, or as a result of litigation or other legal expenses that may be incurred to support and defend our intellectual property portfolio or other aspects of our business.

Depreciation and amortization

Depreciation and amortization expense was \$8.6 million for the third quarter of 2008, compared to \$8.1 million for the same period of 2007, and is comprised of amortization of licensed technologies and identifiable intangible assets purchased through business combinations of \$7.4 million and \$7.2 million, respectively, and depreciation of property, plant and equipment of \$1.2 million and \$0.9 million, respectively.

Depreciation and amortization expense was \$25.6 million for the first nine months of 2008, compared to \$24.6 million for the same period of 2007, and is comprised of amortization of licensed technologies and identifiable intangible assets purchased through business combinations of \$22.6 million and \$21.9 million, respectively, and depreciation of property, plant and equipment of \$3.0 million and \$2.7 million, respectively.

We expect depreciation and amortization expense to remain consistent in the fourth quarter of 2008.

In-process research and development ("IPR&D")

We record IPR&D expense relating to acquired or in-licensed technologies that are at an early stage of development and have no alternative future use.

In the third quarters of 2008 and 2007, we did not record any IPR&D expense. In the first quarter of 2008, we recorded IPR&D expense of \$2.5 million for an initial license payment made to Rex Medical to obtain the marketing rights for the Option inferior vena cava filter. In the second quarter of 2007, we recorded IPR&D expense of \$8.0 million, of which \$7.0 million relates to the extension of our collaboration with CombinatoRx and \$1.0 million relates to another collaboration agreement with Rex Medical Inc.

We may incur further IPR&D expenditures in future periods in the event we in-license or acquire additional early stage technologies.

Other Income (Expense)

| (in thousands of U.S.\$) | Three months ended | | Nine months ended | |
|---|--------------------|-------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Foreign exchange gain (loss) | \$1,009 | \$(110) | \$1,569 | \$(514) |
| Investment and other income | 187 | 2,073 | 1,630 | 9,881 |
| Interest expense on long term-debt | (10,790) | (13,280) | (33,851) | (38,975) |
| Write-down or net loss on redemption of investments | (1,901) | - | (12,561) | (8,157) |
| Write-down and other deferred financing charges | (13,544) | - | (13,544) | - |
| Write-down of goodwill | (599,400) | - | (599,400) | - |
| | \$ (624,439) | \$ (11,317) | \$ (656,157) | \$ (37,765) |

Net foreign exchange gains were primarily the result of changes in the relationship of the U.S. to Canadian dollar and other foreign currency exchange rates when translating our foreign currency denominated cash and cash equivalents to U.S. dollars

for reporting purposes at period end. We continue to hold foreign currency denominated cash and cash equivalents to meet our anticipated operating and capital expenditure needs in future periods in jurisdictions outside of the U.S. We do not normally use derivatives to hedge against exposures to foreign currency arising from our balance sheet financial instruments and therefore are exposed to future fluctuations in the U.S. dollar to foreign currency exchange rates.

Investment and other income for the third quarter of 2008 decreased by \$1.9 million to \$0.2 million when compared to the same period in 2007. We earned lower interest income in the third quarter of 2008 due primarily to lower cash balances available to invest and because the 2007 comparative period included \$0.7 million received on an income tax receivable balance.

Investment and other income for the first nine months of 2008 decreased by \$8.3 million to \$1.6 million when compared to the same period in 2007. In addition to the factors described above, the primary reason for the decrease was that the 2007 comparative period included a gain of \$7.5 million realized on the recovery of investments owned by Cohesion Technologies, Inc. which we acquired in 2003.

Interest expense on our outstanding long-term debt obligations for the third quarter of 2008 was \$10.8 million, as compared to \$13.3 million in the same period of 2007. The decrease of \$2.5 million has resulted from a decline, during the first quarter of 2008, in the interest rate on our Senior Floating Rate Notes due 2013. The interest rate decline resulted in an average interest rate of 7.3% for the third quarter of 2008 as compared to 9.1% in the comparative period of 2007. Interest expense in each of the third quarters of 2008 and 2007 includes \$0.6 million for amortization of deferred financing costs.

Interest expense on our outstanding long-term debt obligations for the first nine months of 2008 was \$33.9 million, as compared to \$39.0 million in the same period of 2007. The decrease of \$5.1 million has resulted from the interest rate decline described above. Interest expense in each of the first nine months of 2008 and 2007 includes \$1.8 million of deferred financing cost amortization.

We recorded a write-down in the third and second quarters of 2008 of \$1.9 million and \$10.7 million, respectively, on two available-for-sale equity securities that had been trading below carrying value for approximately eight months and for which management does not intend to hold for a sufficient period of time to reasonably expect a recovery to carrying value.

We recognized a net loss on redemption of available-for-sale equity securities for the first quarter of 2007 of \$8.2 million, which was comprised of a loss of \$9.6 million realized on the sale of our common stock holdings in Orthovita, Inc., partially offset by a gain of \$1.4 million realized on the sale of our common stock holdings in NuVasive, Inc.

In the third quarter of 2008, we recognized costs of \$13.5 million related to our exploration of proposed financing and strategic alternatives, described above under "Significant Recent Developments", of which \$3.1 million had been capitalized to Other Assets on our balance sheet at the end of the second quarter of 2008.

As a result of the significant and sustained decline in our public market capitalization, and our announcement on September 22, 2008 that we may not be able to meet the closing conditions of the proposed transaction with Ares and New Leaf, we performed an interim impairment test of goodwill and acquired intangible assets. Upon conclusion of such testing, we determined that the carrying amounts of goodwill associated with our Medical Products segment were impaired and we recorded an impairment charge of \$599.4 million in the third quarter of 2008. The goodwill impairment charge was determined by comparing the carrying value of goodwill assigned to our Medical Products reporting unit with the implied fair value of the goodwill. We utilized the income approach in determining the implied fair value of the goodwill, which requires estimates of future operating results and cash flows discounted using estimated discount rates.

Income Tax

For the third quarter and first nine months of 2008, we recorded an income tax recovery of \$4.5 million and \$10.3 million, respectively. The income tax recovery for the third quarter of 2008 is primarily due to a net loss from operations, the amortization of identifiable intangible assets, and a recovery of \$4.8 million related to the goodwill impairment charge. The first nine months of 2008 also includes a recovery of \$3.8 million relating to the settlement of an outstanding Quebec income tax reassessment and a charge of \$1.1 million related to an accrual under FIN 48.

The effective tax rate for the third quarter of 2008 was 0.7% compared to an effective tax rate of 37.1% for the same period in 2007. The effective tax rate for the first nine months of 2008 was 1.5% compared to an effective tax rate of 38.0% for the same period in 2007. The effective tax rates for the current periods are lower than the statutory Canadian tax rate of 31.0%, primarily due to valuation allowances on net operating losses, the goodwill impairment charge recorded in the third quarter, and the net effect of lower tax rates on earnings in foreign jurisdictions.

Discontinued Operations

In September 2006, we determined that certain operating subsidiaries acquired through the AMI acquisition were not aligned with our current business strategy and we began actively looking to dispose of these subsidiaries. These operations were categorized as discontinued and the net loss for these operations has been shown separately on the statements of operations. On July 31, 2007, we completed the sale of 100% of the issued and outstanding shares of Point Technologies, Inc. and its subsidiary Point Technologies S.A. for proceeds of \$2.6 million. On August 30, 2007, we sold all of the assets and liabilities of American Medical Instruments, Inc. for proceeds of \$2.2 million.

The operating results of discontinued operations are summarized as follows:

| | Three months ended September 30, 2007 | Nine months ended September 30, 2007 |
|---------------------------------------|--|---|
| <hr/> (in thousands of U.S.\$) <hr/> | | |
| Revenues | \$1,643 | \$7,580 |
| Operating income (loss) | 256 | (548) |
| Other income (expense) | (2,075) | (2,075) |
| Impairment charge | - | (8,879) |
| Loss before income taxes | (1,819) | (11,502) |
| Income tax recovery | (663) | (4,555) |
| Net loss from discontinued operations | \$(1,156) | \$(6,947) |

Liquidity and Capital Resources

On March 23, 2006 we completed an offering of \$250.0 million in aggregate principal amount of 7.75% Senior Subordinated Notes due in 2014 in a private placement transaction, and entered into a \$425.0 million senior secured credit facility consisting of a \$350.0 million senior term loan facility maturing in 2013 and a \$75.0 million senior secured revolving credit facility maturing in 2011. None of the \$75.0 million revolving credit facility was drawn. The net proceeds from the sale of the \$250.0 million 7.75% Senior Subordinated Notes due 2014 and the \$350.0 million term loan, as well as cash on hand, were used to finance the acquisition of AMI. In December 2006, we repaid the term loan with the proceeds from the issuance of Senior Floating Rate Notes due 2013 in the aggregate principal amount of \$325.0 million and cash on hand. We also terminated the revolving credit facility.

The significant terms relating to our senior subordinated notes and senior floating rate notes are described below (see Senior Floating Rate Notes and Senior Subordinated Notes).

At September 30, 2008, we had working capital of \$68.0 million and cash resources of \$57.0 million, consisting of cash and cash equivalents. In aggregate, our working capital decreased by \$47.6 million as compared to December 31, 2007, primarily relating to our increased expenditures in research and development and sales and marketing, and the decline in our royalty revenues derived from sales of paclitaxel-eluting coronary stent systems by BSC as described previously. These cash resources, in addition to cash generated from operations, are used to support our continuing clinical studies, research and development initiatives, sales and marketing initiatives, working capital requirements, debt servicing requirements and for general corporate purposes. We may also use our cash resources to fund acquisitions of, or investments in, businesses, products or technologies that expand, complement or are otherwise related to our business.

Due to numerous factors that may impact our future cash position, working capital and liquidity as discussed below and the significant cash that will be necessary to continue to service our current level of debt obligations, there can be no assurance that we will have adequate liquidity and capital resources to satisfy our financial obligations in 2009 and beyond.

Our cash inflows and the amounts of expenditures that will be necessary to execute our business plan are subject to numerous uncertainties, including but not limited to, changes in drug-eluting coronary stent markets, including the impact of new competitive entrants into such markets, and the sales achieved in such markets by our partner BSC, the timing and success of product sales and marketing initiatives and new product launches, the timing and success of our research, product development and clinical trial activities, the timing of completing certain operational initiatives including facility closures, our ability to effect reductions in certain aspects of our budgets in an efficient and timely manner, and changes in interest rates. These and other uncertainties may adversely affect our liquidity and capital resources to a significant extent and may force us to further reduce our expenditures on research and development or on our various new product and sales and marketing initiatives in order for us to continue to service our debt obligations. Such further reductions in our budgeted expenditures may have an adverse

effect on our new product development and sales growth initiatives and reduce our ability to achieve the revenue growth targets, product launch or new product development timelines in our current operating plan. There can also be no assurance that such reductions in expenditures will be adequate to provide enough cash flow to continue to service our current level of debt obligations.

In particular, should our royalties received from BSC decline more significantly than we expect in future periods as a result of new competitive entrants into the U.S. drug-eluting stent market from Abbott Laboratories, Inc. and Medtronic, Inc., our liquidity may be adversely affected, and we may be forced to explore alternative funding sources through debt, equity or other public or private securities offerings, or to pursue certain reorganization, restructuring or other strategic alternatives. There can be no assurance that if we pursue such financing activities that alternative sources of funding would be available to us on attractive terms, if at all. In addition, we may not be able to complete any restructuring, reorganization or strategic activities on terms that would be favourable for our shareholders. Capital markets conditions have deteriorated significantly during the third quarter of 2008, including a significant and material decline in the level of corporate lending activity, combined with a significant increase in the cost of any such lending. Current market conditions may have a material impact on our ability to secure any alternative source of funding, our ability to secure interim financing or to complete any of the activities as described on favourable terms, if at all.

As a result of uncertainty and volatility relating to the market and competitive environment for drug-eluting stents, we commenced the exploration of a broad range strategic and financial alternatives in the second half of 2007, with the goal of securing and executing a financial or strategic alternative that could provide for a substantive reduction or elimination of our debt obligations that bear interest payments in cash, in advance of any potential reduction or volatility in royalty revenue received from BSC that may occur late in 2008 or thereafter. In March of 2008, we engaged Goldman Sachs & Co. to work with management and the Board of Directors to evaluate various strategic and financial alternatives, with the primary objectives of reducing or eliminating our debt obligations and to reduce risk and protect and improve shareholder value. Subsequent to such engagement, after reviewing various potential courses of action, we evaluated and pursued strategic and financial alternatives with numerous large private equity firms, with the objective of raising significant proceeds to reduce our existing debt while minimizing the potential dilutive impact of such financing. We also sought to maintain as much of the long-term value potential of our operating businesses for our shareholders as practicable.

As described above under “Significant Recent Developments”, in July 2008, we announced a proposed financing transaction with Ares and New Leaf in order to significantly reduce our existing cash pay indebtedness. In September 2008 we announced, due to the time that had been required to conclude discussions with certain shareholders and therefore the time necessary to complete the transaction, and given other factors impacting our business and cash position over that time (including lower than expected royalty revenues derived from BSC sales) that we may not meet certain conditions to close the proposed transaction with Ares and New Leaf. As such, we announced that we were implementing certain cost reduction initiatives, and that we would explore various additional financial and strategic alternatives for the company, including determining whether we could complete a transaction with Ares and New Leaf, and that we terminated the outstanding tender offer for our existing debt that had represented the use of proceeds from the transaction with Ares and New Leaf. As a result, the entire principal amount of our existing cash pay debt remains outstanding. At the present time, we are evaluating alternative transactions, and even if any transaction is consummated, we may have to undertake significant additional cost reduction measures that could be detrimental to our business. There can also be no assurance that such reductions in expenditures will be adequate, in the absence of any refinancing or other transaction that reduced or eliminated our existing debt obligations, to provide enough cash flow to continue to service our current level of debt obligations.

Our management and Board of Directors continue to believe a transaction alternative of significant size and scope is necessary to meaningfully address the working capital needs for our business initiatives, as well as to address potential liquidity issues likely to arise in the near term relating to our current balance sheet structure, due to several factors that have impacted our business and cash flows from operations. In particular, we continue to expect to receive lower revenues from Boston Scientific Corporation over the next several quarters, mainly due to the impact of new competitive entrants into the market for drug-eluting stents.

Cash Flow Highlights

| (in thousands of U.S.\$) | Three months ended | | Nine months ended | |
|---|--------------------|-----------|-------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash and cash equivalents, beginning of period | \$62,915 | \$112,298 | \$91,326 | \$99,332 |
| Net loss excluding non-cash items | (3,144) | (8,019) | (15,532) | (13,857) |
| Working capital requirements | 1,545 | 1,632 | (4,496) | 11,035 |
| Cash used in operating activities | (1,599) | (6,387) | (20,028) | (2,822) |
| Cash (used in) provided by investing activities | (650) | (7,191) | (9,631) | 3,996 |
| Cash used in financing activities | (2,170) | - | (3,670) | (1,786) |
| Effect of exchange rate changes on cash | (1,545) | - | (1,046) | - |
| Net decrease in cash and cash equivalents | (5,964) | (13,578) | (34,375) | (612) |
| Cash and cash equivalents, end of period | \$56,951 | \$98,720 | \$56,951 | \$98,720 |

Cash Flows used in Operating Activities

Cash used in operating activities for the third quarter of 2008 was \$1.6 million compared to cash used of \$6.4 million for the comparative period in 2007. Net loss for the current quarter, excluding non-cash items, resulted in cash outflows of \$3.1 million compared to cash outflows of \$8.0 million for the same quarter of 2007. The decrease in cash used in operating activities was due to factors consistent with those that impacted net loss, as described above under “Results of Operations – Overview”. Working capital requirements resulted in net cash inflows of \$1.5 million for the third quarter of 2008 compared to net cash inflows of \$1.6 million for the same quarter of 2007. The working capital-related net cash inflows in the third quarter of 2008 primarily resulted from an increase of \$8.0 million in income taxes payable compared to June 30, 2008 due to the timing of tax instalments in certain jurisdictions and an increase of \$4.9 million in interest payable during the quarter due to the timing of interest payments on our 7.75% Senior Subordinated Notes due 2014 and Senior Floating Rate Notes due 2013. Largely offsetting these factors was an increase of \$3.8 million during the period of inventory balances built in order to meet increased demand for certain of our medical products in the U.S. and Europe, a \$6.8 million decrease during the quarter in accounts payable and accrued liabilities, as a decline in spending from certain of our cost reduction initiatives more than offset additional accruals related to employee termination costs, and a \$0.9 million increase in prepaid expenses as insurance policy payments more than offset the normal amortization of prepaid insurance costs.

Cash used in operating activities for the first nine months of 2008 was \$20.0 million compared to cash used of \$2.8 million for the comparative period in 2007. Net loss for the first nine months of 2008, excluding non-cash items, resulted in cash outflows of \$15.5 million compared to cash outflows of \$13.9 million for the same period of 2007. The increase in cash used in operating activities was due to factors consistent with those that impacted net loss, as described above under “Results of Operations – Overview”. Working capital requirements resulted in net cash outflows of \$4.5 million for the first nine months of 2008 compared to net cash inflows of \$11.0 million for the same period of 2007. The net cash outflows in the first nine months of 2008 primarily resulted from a \$5.3 million increase during the period in trade accounts receivable, due to an increase in medical product sales as compared to the fourth quarter of 2007, an increase of \$5.9 million during the period of inventory balances built in order to meet increased demand for certain of our medical products in the U.S. and Europe and a decrease of \$3.5 million in accounts payable and accrual liabilities due to lower spending. Partially offsetting these factors were an increase of \$4.5 million in income taxes payable compared to December 31, 2007 due to the timing of tax instalments in certain jurisdictions, an increase of \$4.1 million in interest payable due to the timing of interest payments on our 7.75% Senior Subordinated Notes due 2014 and Senior Floating Rate Notes due 2013 offset by a lower interest rate on our Senior Floating Rate Notes due 2013, and a decrease in prepaid assets during the period of \$1.6 million due to the regular amortization of prepaid insurance, rent and other costs.

Cash Flows used in Investing Activities

Net cash used in investing activities for the third quarter of 2008 was \$0.7 million compared to net cash used of \$7.2 million for the same quarter in 2007. For the third quarter of 2008, net cash used in investing activities was primarily for capital expenditures of \$1.4 million mainly related to the expansion of our Puerto Rico manufacturing facility. We also received \$0.6 million proceeds on the sales of certain long-term investments.

Net cash used in investing activities for the first nine months of 2008 was \$9.6 million compared to net cash provided of \$4.0 million for the same period in 2007. For the first nine months of 2008, the net cash used in investing activities was primarily for capital expenditures of \$7.2 million, including \$1.8 million for lab equipment and the expansion of our R&D facilities, and \$5.3

million for manufacturing equipment, mainly for the expansion of our Puerto Rico manufacturing facility. We also paid a \$0.8 million licensing milestone to a partner upon our successful completion of enrolment in our BioSeal human clinical trial and invested \$2.5 million in IPR&D for an initial license payment to Rex Medical.

We invest our excess cash balances in short-term marketable securities, principally investment grade commercial debt and government agency notes. The primary objectives of our marketable securities portfolio are liquidity and safety of principal. Investments are made with the objective of achieving the highest rate of return while meeting our two primary objectives. Our investment policy limits investments to certain types of instruments issued by institutions with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer. At September 30, 2008, we were not holding any short-term marketable securities.

At September 30, 2008 and December 31, 2007, we retained the following cash and cash equivalents denominated in foreign currencies in order to meet our anticipated foreign operating and capital expenditures in future periods.

| <u>(in thousands of U.S.\$)</u> | September 30, 2008 | December 31, 2007 |
|---------------------------------|-------------------------------|------------------------------|
| Canadian dollars | \$11,861 | \$15,488 |
| Swiss franc | 2,362 | 3,870 |
| Euro | 7,880 | 1,395 |
| Danish krone | 4,749 | 1,756 |
| Other | 2,580 | - |

Cash Flows used in Financing Activities

Net cash used in financing activities for the third quarter of 2008 was \$2.2 million for expenditures related to the proposed financing transaction with Ares and New Leaf as announced on July 7, 2008. These costs had been capitalized as part of deferred financing costs related to the transaction but were written-off in the third quarter of 2008 based upon our September 22, 2008 announcement that we may not be able to satisfy certain closing conditions.

Net cash used in financing activities for the first nine months of 2008 was \$3.7 million comprised of costs related to the financing transaction as described previously, offset with a small amount of cash received on the exercise of employee stock options. Net cash used in financing activities for the first nine months of 2007 of \$1.8 million is related to long-term debt financing costs.

Senior Floating Rate Notes

On December 11, 2006, we issued Senior Floating Rate Notes due 2013 in the aggregate principal amount of \$325 million. The senior floating rate notes bear interest at an annual rate of LIBOR (London Interbank Offered Rate) plus 3.75%, which is reset quarterly. Interest is payable quarterly in arrears on March 1, June 1, September 1, and December 1 of each year through to maturity. The senior floating rate notes are unsecured senior obligations, are guaranteed by certain of our subsidiaries and rank equally in right of payment to all of our existing and future senior indebtedness. At September 30, 2008, the interest rate on these notes was 6.6%. We may redeem all or a part of the notes at specified redemption prices.

Senior Subordinated Notes

On March 23, 2006, we issued \$250.0 million aggregate principal amount of 7.75% Senior Subordinated Notes due 2014. Interest is payable semi-annually in arrears on April 1 and October 1 of each year through to maturity beginning October 1, 2006. The senior subordinated notes and related note guarantees provided by us and certain of our subsidiaries are subordinated to our senior floating rate notes described above.

Prior to April 1, 2009, we may redeem at a specified redemption price up to 35% of the aggregate principal amount of the notes using net proceeds from certain equity and convertible debt offerings or we may redeem all, or a portion, of the aggregate principal amount of the notes at any time by paying a make-whole redemption price. On or after April 1, 2009, we may redeem all or a part of the notes at specified redemption prices.

Debt Covenants

The terms of the indentures governing our senior floating rate notes and our senior subordinated notes include various covenants that impose restrictions on the operation of our business and the business of our subsidiaries, including the incurrence of certain liens and other indebtedness. As of November 5, 2008, we are in material compliance with all covenants and are not in breach of any provision of the indentures governing the senior subordinated notes and senior floating rate notes that would cause an event of default to occur.

Contractual Obligations

During the third quarter of 2008, there have been no significant changes in our payments due under contractual obligations, as disclosed in our MD&A for the year ended December 31, 2007.

Contingencies

We are party to various legal proceedings, including patent infringement litigation and other matters. See Note 17(b) "Contingencies", in the Notes to the Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q for more information.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable securities regulators in Canada and the U.S. at November 5, 2008 that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. To achieve our objectives, we maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality. As of September 30, 2008 we had cash and cash equivalents of \$57.0 million.

Interest Rate Risk

As the issuer of the Senior Floating Rate Notes due 2013, we are exposed to interest rate risk. The interest rate on our Senior Floating Rate Notes due 2013 is reset quarterly to 3-month LIBOR plus 3.75%. The Floating Rate Notes currently bear interest at a rate of approximately 6.6% (December 31, 2007 – 8.9%). Based upon the average floating rate debt levels of the Company during the quarter ended September 30, 2008, a 100 basis point increase in interest rates would have impacted our interest expense by approximately \$0.8 million for the quarter. We do not use derivatives to hedge against interest rate risk.

Foreign Currency Risk

We operate internationally and enter into transactions denominated in foreign currencies. As such, our financial results are subject to the variability that arises from exchange rate movements in relation to the U.S. dollar. Our foreign currency exposures are primarily limited to the Canadian dollar, the Swiss franc, the Danish kroner, the Euro and the U.K. pound sterling. We incurred net transaction gains of \$1.0 million for the third quarter of 2008 primarily as a result of changes in the relationship of the U.S. to Canadian dollar and other foreign currency exchange rates when translating our foreign currency-denominated cash and cash equivalents to U.S. dollars for reporting purposes at period end.

We do not hedge our exposure to changes in foreign currency exchange rates, and as a result, we are subject to foreign currency transaction and translation gains and losses. We purchase goods and services in U.S. and Canadian dollars, Swiss francs, Danish kroner, the Euro and U.K. pound sterling, and earn a significant portion of our license and milestone revenues in U.S. dollars. Foreign exchange risk is managed primarily by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency.

Since we operate internationally and approximately 15% of our net revenue for the third quarter of 2008 was generated in other than the United States dollar, foreign currency exchange rate fluctuations could significantly impact our financial position, results of operations, cash flows and competitive position.

For purposes of specific risk analysis, we used a sensitivity analysis to measure the potential impact to our consolidated financial statements for a hypothetical 10% strengthening of the U.S. dollar compared with the Canadian dollar, the Swiss franc, the Danish kroner, the Euro and the U.K. pound sterling for the third quarter of 2008. Assuming a 10% strengthening of the U.S. dollar, our product net revenue would have been negatively impacted by approximately \$0.9 million on an annual basis.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

As reported in our Annual Report on Form 40-F, for the year ended December 31, 2007, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements” (attached thereto as Exhibit 2), during Management’s evaluation of the effectiveness of our disclosure controls and procedures as at December 31, 2007, we identified a material weakness in our internal control over financial reporting as at December 31, 2007. Specifically, we reported that as of December 31, 2007 we did not maintain effective controls over the accounting for income taxes, including the determination and reporting of current income taxes payable, deferred tax assets and related income tax provisions, and that we did not have sufficient personnel to enable us to properly consider and apply generally accepted accounting principles for income tax purposes, review and monitor the accuracy and completeness of certain components of the income tax provision calculations and the related deferred taxes and current income taxes payable and ensure that the rationale for certain tax positions was appropriate.

During the first half of 2008, we made a number of changes to our internal control systems related to tax to remediate the above noted material weakness that had existed in our internal control over tax related financial reporting, so as to provide reasonable assurance that errors and control deficiencies of this type will not recur. Specifically, we engaged a large public accounting firm to provide additional resources and assistance with the preparation of the quarterly tax provisions for the first, second and third quarters of 2008 and, with their assistance, increased the level of technical review and analysis of significant tax issues and increased and improved the level of supporting documentation concerning such issues. It is our intention to continue to use this large accounting firm to support the preparation of our tax provision. We will continue to monitor the effectiveness of these procedures and will make any changes that we deem appropriate.

As of September 30, 2008 management believes it has taken adequate steps to remediate the material control weakness discussed above. It is anticipated that continued testing of tax-related internal control systems will continue through the balance of 2008.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On February 18, 2005, a claim was filed by Conor MedSystems in a court in the United Kingdom alleging that the Company's stent patent EP (UK) 0 706 376 is invalid and seeking to have the patent revoked. On February 24, 2006, a U.K. trial court ruled in favor of Conor's position and, on January 16, 2007, a U.K. Court of Appeal agreed with the decision of the trial court. The House of Lords decided to review the decisions of these lower courts, and to this end a hearing was held May 6 – 7, 2008. Conor has withdrawn from these proceedings, and its case was taken up by the UK Comptroller General of Patents, Designs and Trade Marks. The decision of the House of Lords issued on July 9, 2008, and was favorable to Angiotech. This litigation is now concluded, and Angiotech's UK patent on paclitaxel-eluting stent is confirmed as valid.

On April 4, 2005, the Company together with BSC commenced a legal action in the Netherlands against Sahajanand Medical Technologies Pvt. Ltd. for patent infringement. On May 3, 2006, the Dutch trial court ruled in favor of Angiotech, finding that Angiotech's EP (NL) 0 706 376 patent was valid, and that SMT's Infinnium™ stent infringed the patent. On March 13, 2008, a Dutch Court of Appeal held a hearing to review the correctness of the trial court's decision, where the judgment of the Court of Appeal is expected to issue on December 16, 2008. The decision of the Court of Appeal is appealable to the Supreme Court of the Netherlands.

On December 9, 2005, the Company together with BSC commenced a legal action in the Netherlands against Biosensors International Group Ltd. and six related companies including Occam International BV, requesting a preliminary injunction against the sale of the Axxion™ stent. In March 2006, a Dutch court ruled against Angiotech's request for a preliminary injunction. The Company is currently evaluating whether to pursue this matter.

On March 23, 2006, RoundTable Healthcare Partners, LP as Seller Representative, Angiotech as Buyer, and LaSalle Bank as Escrow Agent, executed an Escrow Agreement under which Angiotech deposited \$20 million with LaSalle. On April 4, 2007, LaSalle Bank received an Escrow Claim Notice issued by Angiotech, which directed LaSalle to remit the \$20 million to Angiotech as Buyer. On or about April 16, 2007, LaSalle received from RoundTable a Notice of Objection to Angiotech's Escrow Claim Notice. On July 3, 2007, LaSalle filed an action in the Circuit Court of Cook County, Illinois, asking the court to resolve this dispute. After various hearings and discussions, Angiotech executed a Joint Letter of Direction allowing the release of \$6,512,319 to RoundTable, thereby leaving the amount in dispute being approximately \$13.5 million. On March 21, 2008, this action was moved to the US District Court Southern District of New York.

In July 2004, Dr. Gregory Baran initiated legal action, alleging infringement by Medical Device Technologies ("MDT") of two U.S. patents owned by Dr. Baran. These patents allegedly cover MDT's BioPince™ automated biopsy device, which had 2005 sales of \$3.6 million. On September 25, 2007, the judge issued her decision pursuant to the Markman hearing of December 2005. We consider the decision to be largely favorable to Angiotech. We are now in the discovery phase of this litigation. No hearing date has yet been set by the court.

At the European Patent Office, various patents either owned or licensed by or to the Company are in opposition proceedings. In EP0774964 (which is licensed from MIT) the patent was revoked after a hearing held July 17, 2007, where this decision has been appealed. In EP0784490 briefs are being exchanged. In EP0809515 (which is licensed from (and to) BSC), the EPO held an oral hearing on January 30, 2008, and thereafter revoked this patent. An appeal was filed on April 22, 2008. In EP0830110 (which is licensed from Edwards LifeSciences) an amended form of this patent was found valid after an oral hearing on September 28, 2006; however, the opponent has appealed the decision. In EP0876165 briefs are being exchanged. In EP0876166 the patent was revoked after the oral hearing of September 24, 2008. In EP0975340 (which is licensed from (and to) BSC), the EPO has set a hearing date of December 4, 2008. In EP1118325 (which is licensed from the NIH), the EPO has set a hearing date of April 7, 2009. In EP1155689 briefs are being exchanged. In EP1407786 (which is licensed from (and to) BSC), the EPO has set a hearing date of November 18, 2008. In EP1429664 briefs are being exchanged. In EP1159974 an opposition was filed on April 16, 2008, and briefs are being exchanged.

Item 1A. Risk Factors

You should consider carefully the following information about these risks, together with all of the other information contained within this document. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could be harmed.

Risks Related to Our Business

We were not profitable for the quarter ended September 30, 2008 and for the year ended December 31, 2007 and may not be able to regain and maintain profitability.

We began operations in 1992 and have incurred a loss from operations in each of the years of our existence except for fiscal years 2004 and 2006. As of September 30, 2008, our accumulated deficit was \$715.0 million. Our ability to become profitable again will depend on, among other things, the amounts of royalty revenue we receive from our corporate partners; our ability to maintain and improve sales of our existing product lines; our ability to successfully market and sell certain new products and technologies; our ability to research, develop and successfully launch new products and technologies; our ability to improve our gross profit margins through realization of lower manufacturing costs and efficiencies or improved product sales mix; our ability to effectively control our various operating costs; and foreign currency fluctuations.

Our working capital and funding needs may vary significantly depending upon a number of factors including, but not limited to, the level of royalty revenue we receive from corporate partners; our levels of sales and gross profit; costs associated with our manufacturing operations, including capital expenditures, labour and raw materials costs, and our ability to realize manufacturing efficiencies from our various operations; fluctuations in certain working capital items, including inventory and accounts receivable, that may be necessary to support the growth of our business or new product introductions; progress of our research and development programs and costs associated with completing clinical studies and the regulatory process; collaborative and license arrangements with third parties; the cost of filing, prosecuting and enforcing our patent claims and other intellectual property rights; expenses associated with litigation; opportunities to in-license complementary technologies or potential acquisitions; potential milestone or other payments we may make to licensors or corporate partners; and technological and market developments that impact our royalty revenue, sales levels or competitive position in the marketplace. Consequently, we may need to raise additional funds to satisfy the funding requirements of our commercial operations, our research and development programs, to satisfy certain contractual obligations, for other operating and capital requirements, for potential acquisitions or in-licensing of technologies, to satisfy milestone or other payment obligations due to licensors or corporate partners, or to repay or refinance our indebtedness. Additional financing may not be available, and even if available, may not be available on attractive or acceptable terms.

In July 2008, we announced a proposed transaction with Ares and New Leaf in order to significantly reduce our existing cash pay indebtedness. In September 2008, due to our expected inability to meet certain conditions to close such transaction, we announced that we were implementing certain cost reduction initiatives and that we would explore various financial and strategic alternatives for the company, including a potential transaction with Ares and New Leaf, and that we terminated the outstanding tender offer for our existing debt that had represented the use of proceeds from the transaction with Ares and New Leaf. As a result, the entire principal amount of our existing cash pay debt remains outstanding. At the present time, we are evaluating alternative transactions, and even if any transaction is consummated, we may have to undertake significant additional cost-cutting measures that could be detrimental to our business. Additionally, we have already incurred and may incur additional fees and expenses.

The outstanding aggregate principal amounts of our Senior Floating Rate Notes due 2013 (the "Floating Rate Notes") and 7.75% Senior Subordinated Notes due 2014 (the "Subordinated Notes") are \$325 million and \$250 million, respectively. Consequently, we have a continuing obligation to pay cash interest on these notes. Using current interest rates, the annual combined cash interest cost of our outstanding notes is \$43.2 million. We presently are evaluating other strategic or financial alternatives that could serve to reduce or eliminate our existing outstanding debt obligations. We may be unable to consummate any such alternative transaction, and even if we do consummate any such alternative transaction, we still may be required to further reduce expenditures that we believe are necessary to support the growth of our business.

We may incur fees and expenses in connection with the Ares and New Leaf transaction that are not dependent on the consummation of the transaction. Specifically, under certain conditions (i) we may be required to pay a commitment fee to Ares and New Leaf in the amount of \$3 million, and reimburse Ares and New Leaf for transaction-related expenses up to an additional \$3 million and (ii) if we agree to an alternative transaction, as defined in the note purchase agreement, within 12 months of termination of the note purchase agreement, we may be required to pay Ares and New Leaf \$10 million plus reimburse Ares and New Leaf for transaction-related expenses of up to an additional \$4 million (less any commitment fee payable under clause (i)) at

or prior to the time we agree to such alternative transaction. In connection with certain types of alternative transactions, we may be required under the terms of agreements with certain of our advisors to pay fees to such advisors, whether or not such advisors participate in such alternative transaction. If we incur any of the above-described fees and expenses, but are not able to consummate the alternative transaction, such fees and expenses could have an adverse affect on our business, financial and working capital position.

We are undertaking certain cost reductions with the goal of achieving positive consolidated free cash flow (after the incurrence of net interest expense) during the fourth quarter of 2008. These efforts may not be sufficient to achieve our goal. If further cost reductions beyond those that are currently scheduled become necessary, our future prospects may be adversely impacted.

In September 2008 we announced that we were pursuing various initiatives to reduce operating costs and focus our business efforts on our most promising near term product opportunities. We believe certain cost reduction measures, in addition to a potential financial or strategic transaction of significant magnitude, are concurrently necessary to address potential liquidity issues likely to arise in the near term relating to our current balance sheet structure.

We have implemented, and we expect to continue to implement, operating cost reductions across all functions in the company, including in research and development and general and administrative functions, with more limited reduction initiatives in sales and marketing. The cost reduction efforts are designed to reduce certain expenses while maintaining support for the sales our existing marketed product lines. Our remaining resources subsequent to these changes will be focused primarily on our existing medical device products business, and on selected new products that have recently launched or are expected to be launched in the near future, including Quill SRS, the HemoStream™ Chronic Dialysis Catheter, the Option™ Inferior Vena Cava Filter and the Bio-Seal™ Lung Biopsy System. Selected actions that have been taken, or that we expect to take, with respect to the reorganization include postponement of the scheduled launch of our 5-fluorouracil-eluting central venous catheter (5-FU CVC); closure of our research and manufacturing facility in Rochester, New York. Reductions in certain research and development personnel have been made, and closure is expected to be scheduled for December of 2009, after which any remaining manufacturing activities are expected to be transferred to another of our facilities; postponement of certain preclinical-stage research activities, pending the completion of partnering or other funding activities that would offset direct costs and personnel costs associated with such programs; reduction of certain financial and personnel contributions relating to our joint venture with Genzyme Corporation; potential amendment of and reduction in cash outlays related to our collaboration with Athersys, Inc.; rationalization or elimination of office and laboratory space in Vancouver, British Columbia, North Bend, Washington and Hearndon, Virginia; rationalization of selected pending and issued intellectual property; elimination of certain expenses and reductions in personnel in all general and administrative departments; selective reduction in certain sales and marketing investments and in medical affairs; and postponement of selected planned capital expenditures.

Failure to achieve cost reductions through the above or other measures at the rate or levels we expect could adversely affect our ability to achieve our previously stated goal of achieving positive consolidated free cash flow (after the incurrence of net interest expense) during the fourth quarter of 2008. If we are required to make additional cuts to our expense levels, our future business prospects may be adversely impacted.

We depend on BSC for a significant amount of our future revenues and development of TAXUS.

Although the acquisition of our Medical Products segment has diversified our revenue, we anticipate that a significant amount of our revenue for the next few years will be derived from and dependent upon royalty revenues from BSC. We do not have control over the sales and marketing efforts, stent pricing, production volumes, distribution or regulatory environment related to BSC's paclitaxel-eluting coronary stent program. Our involvement is limited to the terms of our 1997 License Agreement (as amended) with BSC and Cook, which provides for the receipt of royalty revenue based on the net sales of TAXUS and specifies the applicable royalty rates.

Royalty revenue from BSC for the quarter ended September 30, 2008 decreased by 21% from the same period in 2007, which BSC has attributed to a decline in the number of angioplasty procedures in the U.S. If BSC is impaired in its ability to market and distribute TAXUS, whether for this reason or due to a failure to comply with applicable regulatory requirements, discovery of a defect in the device, increased incidence of adverse events or identification of other safety issues, or previously-unknown problems with the manufacturing operations for TAXUS (any of which could, under certain circumstances, result in a manufacturing injunction), our revenues could be further significantly reduced. BSC's failure to resolve these issues in a timely manner and to the satisfaction of the FDA and other regulatory authorities, or the occurrence of similar problems in the future, could delay the launch of TAXUS Liberté in the United States and could have a significant impact on our royalty revenue from sales of TAXUS.

Additionally, BSC may terminate our 1997 License Agreement under certain circumstances, including, if BSC is unable to acquire a supply of paclitaxel at a commercially reasonable price, if BSC reasonably determines that the paclitaxel-eluting coronary stent is no longer commercially viable, or if our license agreement with the National Institutes of Health (“NIH”), certain of which rights are sublicensed to BSC, terminates. During the quarter ended September 30, 2008, revenue from BSC represented approximately 28% of our total revenue from continuing operations, compared to 37% for the quarter ended September 30, 2007.

The amounts payable by BSC to us vary from 1% to 9% of net sales depending on various factors, including volume of sales from time to time and patent protection laws in the country of sale. From these amounts, we must pay certain royalties to our licensors, including the NIH and the University of British Columbia (“UBC”), under license agreements. For the quarter ended September 30, 2008, the average gross royalty rate earned was 6.9% for sales in the U.S. and 6.0% for sales in other countries. For the quarter ended September 30, 2007, the average gross royalty rate earned was 7.5% for sales in the U.S. and 5.4% for sales in other countries. There is no guarantee that royalty payments under our 1997 License Agreement will continue, and demand for BSC’s paclitaxel-eluting coronary stent products could continue to decline as a result of the factors stated above, as well as competition, technological change, reimbursement or other factors. Also, the royalty rate payable by BSC could decline if and when patent protection expires, or no longer exists as defined by our 1997 License Agreement, in certain jurisdictions.

Boston Scientific may be enjoined from the selling, or otherwise become subject to limitations applicable to its ability to sell, TAXUS in the U.S.

Our royalty revenue derived from the sale of paclitaxel-eluting coronary stents depends on BSC’s ability to continue to sell its TAXUS Express 2™ stent and to launch next generation paclitaxel-eluting stents, including the TAXUS Liberté™ stent, in the U.S. Historically, stent manufacture and sale is the subject of a substantial amount of U.S. patent litigation, and we anticipate that our licensees, including BSC and others, may be involved in material legal proceedings related to paclitaxel-eluting stents.

Many of the products we are depending on to grow our business are not yet ready for sale or have only recently been introduced for sale.

Many of the products we are depending on to drive future growth are not yet ready for sale or have only recently been introduced for sale. For example, our Option IVC filter has not yet been approved for sale, our 5-FU CVC and our HemoStream Chronic Dialysis Catheter have been approved for sale but have not yet been commercially launched, and our Quill SRS product has only recently become available for sale. If any of these or our other products are not approved for sale or do not achieve market acceptance, our ability to generate revenues will be adversely affected.

If our products are alleged to be harmful, we may not be able to sell them, we may be subject to product liability claims not covered by insurance and our reputation could be damaged.

The nature of our business exposes us to potential liability risks inherent in the testing, manufacturing and marketing of pharmaceutical products and medical devices. Using our drug candidates or devices in clinical trials may expose us to product liability claims. These risks will expand with respect to drugs or devices, if any, that receive regulatory approval for commercial sale. In addition, some of the products we manufacture and sell are designed to be implanted in the human body for varying periods of time. Even if a drug or device were approved for commercial use by an appropriate governmental agency, there can be no assurance that users will not claim that effects other than those intended may have resulted from our products. Component failures, manufacturing flaws, quality system failures, design defects, inadequate disclosure of product-related risks or product-related information or other safety issues with respect to these or other products we manufacture or sell could result in an unsafe condition or injury to, or death of, a patient.

In the event that anyone alleges that any of our products are harmful, we may experience reduced consumer demand for our products or our products may be recalled from the market. In addition, we may be forced to defend individual or class action lawsuits and, if unsuccessful, to pay a substantial amount in damages. A recall of some of our products could result in exposure to additional product liability claims, lost sales and significant expense to perform the recall. The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, including not only actual damages, but also punitive damages. The magnitude of the potential loss relating to these types of lawsuits may remain unknown for substantial periods of time. In addition, the cost to defend against any future litigation may be significant.

We do not have insurance covering our costs and losses as a result of any recall of products or devices incorporating our technologies whether such recall is instituted by a device manufacturer or us as required by a regulatory agency. Insurance to cover costs and losses associated with product recalls is expensive. If we seek insurance covering product recalls in the future it

may not be available on acceptable terms. Even if obtained, insurance may not fully protect us against potential liability or cover our losses. Some manufacturers that suffered such claims in the past have been forced to cease operations or even to declare bankruptcy.

We do have insurance covering product liability. However, our insurance may not fully protect us from potential product liability claims. If a product liability claim or a series of claims is brought against us in excess of our insurance coverage, our business could suffer. Some manufacturers that suffered such claims in the past have been forced to cease operations or even to declare bankruptcy.

Our success depends on the successful commercialization of our technology.

The successful commercialization of our technology is crucial for our success. Successful product development in the pharmaceutical industry is highly uncertain and very few research and development projects produce a commercial product. Medical devices, pharmaceutical applications and surgical implants utilizing our technology are in various stages of clinical and commercial development and face a variety of risks and uncertainties. Principally, these risks and uncertainties include the following:

- Future clinical trial results may show that some or all of our technology, or the technology of our strategic collaborators that incorporate our technology, is not safe or effective.
- Even if our technology is shown to be safe and effective, we and our strategic collaborators may face significant or unforeseen difficulties in manufacturing our medical devices or the medical devices and surgical implants that use our technology. These difficulties may become apparent when we or our strategic collaborators manufacture the medical devices or surgical implants on a small scale for clinical trials and regulatory approval or may only become apparent when scaling-up the manufacturing to commercial scale.
- Even if our technology-based products are successfully developed, receive all necessary regulatory approvals and are commercially produced, there is no guarantee that there will be market acceptance of them or that they will not cause unanticipated side effects in patients. For example, if drug-eluting stents are found to cause, or are perceived to be the cause of, blood clots in patients, then sales of our drug-eluting stent products may be adversely affected. Royalty revenue from BSC for the quarter ended September 30, 2008 decreased by 21% from the same period of 2007, which BSC has attributed to a decline in the number of angioplasty procedures in the U.S. During the quarter ended September 30, 2008, revenue from BSC represented approximately 29% of our total revenue from continuing operations, compared to 37% for the same period in 2007. In addition, there is no guarantee that there will be market acceptance of our products. Our ability to achieve market acceptance for any of our products will depend on a number of factors, including whether or not competitors may develop technologies which are superior to or less costly than our technology-based products, and whether governmental and private third-party payers provide adequate coverage and reimbursement for our products, with the result that our technology-based products, even if they are successfully developed, manufactured and approved, may not generate significant revenues.

If we are unsuccessful in dealing with any of these risks, or if we are unable to successfully commercialize our technology for some other reason, it would likely seriously harm our ability to generate revenue.

We depend on our strategic collaborators for the development, regulatory approval, testing, manufacturing and the potential commercialization of our products.

Historically, our strategy has been to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, regulatory approval, manufacturing, marketing and commercialization of our product candidates. For instance, we collaborate with BSC and Cook to develop and market paclitaxel-eluting coronary and peripheral stents, and with Baxter to manufacture and market our CoSeal® product for use as both a sealant and adhesion prevention product. Strategic collaborators, both existing (particularly BSC) and those that we may collaborate with in the future, are or may be essential to the development of our technology and potential revenue and we have little control over or access to information regarding our collaborators' activities with respect to our products.

Our strategic collaborators may fail to successfully develop or commercialize our technology to which they have rights for a number of reasons, including:

- failure of a strategic collaborator to continue, or delays in, its funding, research, development and commercialization activities;

- the pursuit or development by a strategic collaborator of alternative technologies, either on its own or with others, including our competitors, as a means for developing treatments for the diseases targeted by our programs;
- the preclusion of a strategic collaborator from developing or commercializing any product, through, for example, litigation or other legal action; and
- the failure of a strategic collaborator to make required milestone payments, meet contractual milestone obligations or exercise options which may result in our terminating applicable licensing arrangements.

We have and we expect that we will continue to enter into licensing agreements with third parties to give us access to technologies that we may use to develop products through our strategic collaboration and partnership arrangements. The technologies governed by these license agreements may be critical to our ability to maintain our competitive advantage in our existing products and to develop future products. For example, through licenses with NIH and UBC, we have been granted access to technologies that have contributed to the development of the TAXUS paclitaxel-eluting coronary stent.

Pursuant to terms of existing license agreements, licensors will have the ability under certain specified circumstances to terminate the license. Events which may allow licensors to exercise these termination provisions include our bankruptcy, sub-licensing without the licensor's consent, a transaction which results in our change of control, our failure to use the required level of diligence efforts to develop, market and sell products based on the licensed technology, our inability to maintain adequate levels of insurance with respect to the licensed technologies or other acts or omissions that may constitute a breach by us of our license agreement. In addition, any failure to continue to have access to these technologies may materially affect the benefits that we currently derive from the collaboration and partnership arrangements and may negatively impact our results and operations.

If our process related to product development does not result in an approved and commercially successful product, our business could be adversely affected.

We focus our research and development activities on areas in which we have particular strengths. The outcome of any development program is highly uncertain, notwithstanding how promising a particular program may seem. Success in pre-clinical and early-stage clinical trials may not necessarily translate into success in large scale clinical trials. Further, to be successful in clinical trials, increased investment will be necessary, which will adversely affect our short-term profitability.

In addition, we will need to obtain and maintain regulatory approval in order to market new products. Notwithstanding the outcome of clinical trials for new products, regulatory approval may not be achieved. The results of clinical trials are susceptible to varying interpretations that may delay, limit or prevent approval or result in the need for post-marketing studies. In addition, changes in regulatory policy for product approval during the period of product development and review by regulators of a new application may cause delays or rejection. Even if we receive regulatory approval, this approval may include limitations on the indications for which we can market the product. There is no guarantee that we will be able to satisfy the applicable regulatory requirements, and we may suffer a significant variation from planned revenue as a result.

Our current and planned clinical trials may not begin on time, or at all, and may not be completed on schedule, or at all.

The commencement or completion of any of our clinical trials may be delayed or halted for numerous reasons, including, but not limited to, the following:

- the FDA or other regulatory authorities do not approve a clinical trial protocol or a clinical trial, or place a clinical trial on hold;
- the data and safety monitoring committee of a clinical trial recommends that a trial be placed on hold or suspended;
- patients do not enrol in clinical trials at the rate we expect;
- patients are not followed-up at the rate we expect;
- patients experience adverse side effects or events related to our products;
- patients die or suffer adverse medical effects during a clinical trial for a variety of reasons, including the advanced stage of their disease and medical problems, which may or may not be related to our product candidates;
- regulatory inspections of our clinical trials or manufacturing facilities, which may, among other things, require us to undertake corrective action or suspend or terminate our clinical trials if investigators find us not to be in compliance with regulatory requirements;
- the failure of our manufacturing process to produce finished products which conform to design and performance specifications;
- changes in governmental regulations or administrative actions;
- the interim results of the clinical trial are inconclusive or negative;
- pre-clinical or clinical data is interpreted by third parties in different ways;

- our clinical trial expenditures are constrained by our budgetary considerations; or
- our trial design, although approved, is inadequate to demonstrate safety and/or efficacy.

Clinical trials may require the enrolment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Patient enrolment in clinical trials and completion of patient follow-up in clinical trials depend on many factors, including the size of the patient population, the nature of the trial protocol, the proximity of patients to clinical sites and the eligibility criteria for the study and patient compliance. For example, patients may be discouraged from enrolling in our clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures to assess the safety and effectiveness of our products, or they may be persuaded to participate in contemporaneous trials of competitive products. Delays in patient enrolment or failure of patients to continue to participate in a study may cause an increase in costs and delays or result in the failure of the trial.

Our clinical trial costs will increase if we have material delays in our clinical trials or if we need to perform more or larger clinical trials than planned. Adverse events during a clinical trial could cause us to repeat a trial, terminate a trial or cancel the entire program.

Pre-clinical development is a long, expensive and uncertain process, and we may terminate one or more of our pre-clinical development programs.

We may determine that certain pre-clinical product candidates or programs do not have sufficient potential to warrant the allocation of resources. Accordingly, we may elect to terminate our programs for such product candidates. If we terminate a pre-clinical program in which we have invested significant resources, our prospects will suffer, as we will have expended resources on a program that will not provide a return on our investment and will have missed the opportunity to have allocated those resources to potentially more productive uses.

We may not be able to protect our intellectual property or obtain necessary intellectual property rights from third parties, which could adversely affect our business.

Our success depends, in part, on ensuring that our intellectual property rights are covered by valid and enforceable patents or effectively maintained as trade secrets and our ability to detect violations of our intellectual property rights and enforce such rights against others.

The validity of our patent claims depends, in part, on whether prior art references described or rendered obvious our inventions as of the filing date of our patent applications. We may not have identified all prior art, such as U.S. and foreign patents or published applications or published scientific literature, that could adversely affect the validity of our issued patents or the patentability of our pending patent applications. For example, patent applications in the United States are maintained in confidence for up to 18 months after their filing. In some cases, however, patent applications remain confidential in the U.S. Patent and Trademark Office, which we refer to as the U.S. Patent Office, for the entire time prior to issuance as a U.S. patent. Patent applications filed in countries outside the United States are not typically published until at least 18 months from their first filing date. Similarly, publication of discoveries in scientific or patent literature often lags behind actual discoveries. Therefore, we cannot be certain that we were the first to invent, or the first to file patent applications related to, our technology. In the event that a third party has also filed a U.S. patent application covering a similar invention, we may have to participate in an adversarial proceeding, known as an interference, declared by the U.S. Patent Office to determine priority of invention in the United States. It is possible that we may be unsuccessful in the interference, resulting in a loss of some portion or all of our U.S. patent positions. The laws in some foreign jurisdictions do not protect intellectual property rights to the same extent as in the United States, and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. If we encounter such difficulties or we are otherwise precluded from effectively protecting our intellectual property rights in foreign jurisdictions, our business prospects could be substantially harmed.

We frequently seek patents to protect our intellectual property. It should be recognized that we may not be able to obtain patent protection for key elements of our technology, as the patent positions of pharmaceutical, biotechnology and medical device companies are uncertain and involve complex legal and factual questions for which important legal issues are largely unresolved. For example, no consistent policy has emerged regarding the scope of health-related patent claims that are granted by the U.S. Patent Office or enforced by the U.S. federal courts. Rights under any of our issued patents may not provide us with commercially meaningful protection for our products or afford us a commercial advantage against our competitors or their competitive products or processes. In addition, even if a patent is issued, the coverage claimed in a patent application may be significantly reduced in the patent as granted.

There can be no assurance that:

- patent applications will result in the issuance of patents;
- additional proprietary products developed will be patentable;
- licenses we have obtained from third parties that we use in connection with our technology will not be terminated;
- patents issued will provide adequate protection or any competitive advantages;
- patents will not be successfully challenged by any third parties; or
- the patents of others will not impede our or our collaborators' ability to commercialize our technology.

For example, the drug paclitaxel is itself not covered by composition of matter patents. Therefore, although we are developing an intellectual property portfolio around the use of paclitaxel for intended commercial applications, others may be able to engage in off-label use of paclitaxel for the same indications, causing us to lose potential revenue. Furthermore, others may independently develop similar products or technologies or, if patents are issued to us, design around any patented technology developed by us, which could affect our potential to generate revenues and harm our results of operations.

Patent protection for our technology may not be available based on prior art. The publication of discoveries in scientific or patent literature often lags behind actual discoveries. As a consequence, there may be uncertainty as to whether we or a third party were the first creator of inventions covered by issued patents or pending patent applications or that we or a third party were the first to file patent applications for such inventions. Moreover, we might have to participate in interference proceedings declared by the U.S. Patent Office, or other proceedings outside the United States, including oppositions, to determine priority of invention or patentability, which could result in substantial cost to us even if the outcome were favorable. An unfavorable outcome in an interference or opposition proceeding could preclude us, our collaborators and our licensees from making, using or selling products using the technology or require us to obtain license rights from prevailing third parties. We do not know whether any prevailing party would offer us a license on commercially acceptable terms, if at all. We may also be forced to pay damages or royalties for our past use of such intellectual property rights, as well as royalties for any continued usage.

As part of our patent strategy, we have filed a variety of patent applications internationally. Oppositions have been filed against various granted patents that we either own or license and which are related to certain of our technologies. For example, at the European Patent Office, various patents either owned or licensed by or to the Company are in opposition proceedings. In EP0774964 (which is licensed from MIT) the patent was revoked after a hearing held July 17, 2007, where this decision has been appealed. In EP0784490 briefs are being exchanged. In EP0809515 (which is licensed from (and to) BSC), the EPO held an oral hearing on January 30, 2008, and thereafter revoked this patent. An appeal was filed on April 22, 2008. In EP0830110 (which is licensed from Edwards LifeSciences) an amended form of this patent was found valid after an oral hearing on September 28, 2006; however, the opponent has appealed the decision. In EP0876165 briefs are being exchanged. In EP0876166 the patent was revoked after the oral hearing of September 24, 2008. In EP0975340 (which is licensed from (and to) BSC), the EPO has set a hearing date of December 4, 2008. In EP1118325 (which is licensed from the NIH), the EPO has set a hearing date of April 7, 2009. In EP1155689 briefs are being exchanged. In EP1407786 (which is licensed from (and to) BSC), the EPO has set a hearing date of November 18, 2008. In EP1429664 briefs are being exchanged. In EP1159974 an opposition was filed on April 16, 2008, and briefs are being exchanged.

Our future success and competitive position depend in part on our ability to obtain and maintain certain proprietary intellectual property rights used in our approved products and principal product candidates. Any such success depends in part on effectively prosecuting claims against others who we believe are infringing our rights and by effectively defending claims of intellectual property infringement brought by our competitors and others. The stent-related markets have experienced rapid technological change and obsolescence in the recent past, and our competitors have strong incentives to attempt to stop or delay us from introducing new products and technologies. See “—We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.”

We do not know whether the patents that we have received or licensed, or may be able to obtain or license in the future, would be held valid or enforceable by a court or whether a competitor's technology or product would be found to infringe such patents. Further, we have no assurance that third parties will not properly or improperly modify or terminate any license they have granted to us.

We have obtained licenses from third parties with respect to their intellectual property that we use in connection with our technology. However, we may need to obtain additional licenses for the development of our current or future products. Licenses may not be available on satisfactory terms or at all. If available, these licenses may obligate us to exercise diligence in bringing our technology to market and may obligate us to make minimum guarantee or milestone payments. These diligence and milestone payments may be costly and could seriously harm our business. We may also be obligated to make royalty payments

on the sales, if any, of products resulting from licensed technology and may be responsible for the costs of filing and prosecuting patent applications. These costs could affect our results of operations and decrease our earnings.

Certain of our key technology include trade secrets and know-how that may not be protected by patents. There can be no assurance that we will be able to protect our trade secrets. To help protect our rights, we undertake to require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that all employees, consultants, advisors and collaborators have signed such agreements, or that these agreements will adequately protect our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Furthermore, any confidentiality agreements in existence may be breached and we may not have adequate remedies for any such breach. Any disclosure of confidential data into the public domain or to third parties could allow our competitors to learn our trade secrets and use the information in competition against us.

We have significantly increased our levels of research and development and the size of our sales force in anticipation of the growth of our business, resulting in increased expenses. Therefore, if sales fail to grow according to our plans, these increased expenses may adversely affect our financial condition and results of operations.

We have recently increased our levels of research and development and the size of our sales force in the U.S., Europe and other parts of the world in order to further develop our product pipeline and to better commercialize our existing and future products. As a result, we have incurred significant expenses related to these cost centers of our business, which we expect to continue at their new higher levels in the future. If our development efforts fail to generate new products or we are unable to effectively commercialize our existing and future products, the revenues generated by our products may not offset these costs, which could adversely affect our financial condition or results of operations.

If certain single-source suppliers fail to deliver key product components in a timely manner, our manufacturing ability would be impaired and our product sales could suffer.

We depend on certain single-source suppliers that supply components used in the manufacture of certain of our products, including our Quill SRS product. If we need alternative sources for key component parts for any reason, these component parts may not be immediately available to us. If alternative suppliers are not immediately available, we will have to identify and qualify alternative suppliers, and production of these components may be delayed. We may not be able to find an adequate alternative supplier in a reasonable time period or on commercially acceptable terms, if at all. Shipments of affected products have been limited or delayed as a result of such problems in the past, and similar problems could occur in the future. Our inability to obtain our key source supplies for the manufacture of our products may require us to delay shipments of products, harm customer relationships or force us to curtail or cease operations.

If physicians do not recommend and endorse our products or products that use our technology, or if our working relationships with physicians deteriorate, our products or products that use our technology may not be accepted in the marketplace, which could adversely affect our sales and royalty revenues.

In order for us to sell our products or continue to receive royalty revenues from the sale of products that use our technologies, physicians must recommend and endorse them. We believe that recommendations and endorsements by physicians will be essential for market acceptance of our products, and we do not know whether we will obtain the necessary recommendations or endorsements from physicians. Acceptance of our products or of products that use our technology depends on educating the medical community as to the distinctive characteristics, perceived benefits, safety, clinical efficacy and cost-effectiveness of these products compared to products of competitors, and on training physicians in the proper application of these products. If we are not successful in obtaining the recommendations or endorsements of physicians for our products or our collaborators are not successful in doing the same for their products that use our technology, our sales and royalty revenues may not increase or may decline.

In addition, if we fail to maintain our working relationships with physicians, many of our products may not be developed and marketed in line with the needs and expectations of professionals who use and support our products. The research, development, marketing and sales of many of our new and improved products is dependent upon our maintaining working relationships with physicians. We rely on these professionals to provide us with considerable knowledge and experience regarding our products and the marketing of our products. Physicians assist us as researchers, marketing consultants, product consultants, inventors and as public speakers. If we are unable to maintain our strong relationships with these professionals and continue to receive their advice and input, the development and marketing of our products could suffer, which could adversely affect the acceptance of our products in the marketplace and our sales.

If we are unable to license new technologies to utilize in the development of products, our ability to maintain our competitive advantage in our existing products and to develop future products may be adversely affected.

We have entered into, and we expect that we will continue to enter into, licensing agreements with third parties to give us access to technologies that we may use to develop products through our strategic collaboration and partnership arrangements. The technologies governed by these license agreements may be critical to our ability to maintain our competitive advantage in our existing products and to develop future products. For example, through licenses with Harvard University, the National Institutes of Health and the University of British Columbia, we have been granted access to technologies that have contributed to the developments of the Vascular Wrap component of our VaxSys Synergy™ product.

Pursuant to terms of our existing license agreements, licensors have the right under certain specified circumstances to terminate their respective licenses. Events that may allow licensors to exercise these termination provisions include:

- our bankruptcy;
- sub-licensing without the licensor's consent;
- a transaction which results in a change of control of us;
- our failure to use the required level of diligence to develop, market and sell products based on the licensed technology;
- our failure to maintain adequate levels of insurance with respect to the licensed technologies; or
- other acts or omissions that may constitute a breach by us of our license agreement.

In addition, any failure to continue to have access to these technologies may materially adversely affect the benefits that we currently derive from our collaboration and partnership arrangements and may adversely affect our results and operations.

Compulsory licensing and/or generic competition may affect our business in certain countries.

In a number of countries, governmental authorities and other groups have suggested that companies which manufacture medical products (i.e., pharmaceuticals and medical devices) should make products available at a low cost. In some cases, governmental authorities have held that where a pharmaceutical or medical device company does not do so, their patents might not be enforceable to prevent generic competition. Alternatively, some governmental authorities could require that we grant compulsory licenses to allow competitors to manufacture and sell their own versions of our products, thereby reducing our sales or the sales of our licensee(s). In all of these situations, the results of our operations in these countries could be adversely affected.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

In connection with maintaining the value of our various intellectual property and exclusivity rights, we regularly evaluate the activities of others worldwide. Our success will depend, in part, on our ability to obtain patents, or licenses to patents, maintain trade secret protection and enforce our rights against others. Should it become necessary to protect those rights, we intend to pursue all cost-efficient strategies, including, when appropriate, negotiation or litigation in any relevant jurisdiction. For a summary of certain of our current legal proceedings, see "Legal Proceedings" elsewhere in this report.

We intend to pursue and to defend vigorously any and all actions of third parties related to our extensive patent portfolio and pioneering technology. Any failure to obtain and protect intellectual property could adversely affect our business and our ability to operate could be hindered by the proprietary rights of others.

Our involvement in intellectual property litigation could result in significant expense, adversely affecting the development of product candidates or sales of the challenged product or intellectual property and diverting the efforts of our technical and management personnel, whether or not such litigation is resolved in our favor. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources and intellectual property litigation may be used against us as a means of gaining a competitive advantage. Competing parties frequently file multiple suits to leverage patent portfolios across product lines, technologies and geographies and to balance risk and exposure between the parties. Uncertainties resulting from the initiation and continuation of any litigation could affect our ability to continue our operations. In the event of an adverse outcome as a defendant in any such litigation, we may, among other things, be required to:

- pay substantial damages or back royalties;
- cease the development, manufacture, use or sale of product candidates or products that infringe upon the intellectual property of others;

- expend significant resources to design around a patent or to develop or acquire non-infringing intellectual property;
- discontinue processes incorporating infringing technology; or
- obtain licenses to the infringed intellectual property.

We cannot be assured that we will be successful in developing or acquiring non-infringing intellectual property or that necessary licenses will be available upon reasonable terms, if at all. Any such development, acquisition or license could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results. If we cannot develop or acquire such intellectual property or obtain such licenses, we could encounter delays in any introduction of products or could find that the development, manufacture or sale of products requiring such licenses could be prohibited.

If third parties file patent applications, or are issued patents claiming technology also claimed by us in pending applications, we may be required to participate in interference proceedings with the U.S. Patent Office, or other proceedings outside the United States, including oppositions, to determine priority of invention or patentability, which could result in substantial cost to us even if the eventual outcome were favorable.

Our ability to operate could be hindered by the proprietary rights of others.

A number of pharmaceutical, biotechnology and medical device companies as well as research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to our business. Some of these technologies, applications or patents may conflict with or adversely affect our technologies or intellectual property rights, including those that we license from others. We are aware of other parties holding intellectual property rights that may represent prior art or other potentially conflicting intellectual property, including stents coated with agents intended to reduce restenosis. Any conflicts with the intellectual property of others could limit the scope of the patents, if any, that we may be able to obtain or result in the denial of our current or future patent applications altogether.

If patents that cover our activities are issued to other persons or companies, we could be charged with infringement. In the event that other parties' patents cover any portion of our activities, we may be forced to develop alternatives or negotiate a license for such technology. We do not know whether we would be successful in either developing alternative technologies or acquiring licenses upon reasonable terms, if at all. Obtaining any such licenses could require the expenditure of substantial time and other resources and could harm our business and decrease our earnings. If we do not obtain such licenses, we could encounter delays in the introduction of our products or could find that the development, manufacture or sale of products requiring such licenses is prohibited.

Technological advances and evolving industry standards could reduce our future product sales, which could cause our revenues to grow more slowly or decline.

The markets for our products are characterized by rapidly changing technology, changing customer needs, evolving industry standards and frequent new product introductions and enhancements. The emergence of new industry standards in related fields may adversely affect the demand for our products. This could happen, for example, if new standards and technologies emerged that were incompatible with customer deployments of our applications. In addition, any compounds, products or processes that we develop may become obsolete or uneconomical before we recover any of the expenses incurred in connection with their development. We cannot assure you that we will succeed in developing and marketing product enhancements or new products that respond to technological change, new industry standards, changed customer requirements or competitive products on a timely and cost-effective basis. Additionally, even if we are able to develop new products and product enhancements, we cannot assure you that they will achieve market acceptance.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no such claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain product candidates, which could severely harm our business.

We may incur significant costs complying with environmental laws and regulations.

Our research and development processes and manufacturing operations involve the use of hazardous materials. We are subject to federal, state, provincial, local and other laws and regulations in the countries in which we operate or sell our products, which govern the use, manufacture, storage, handling and disposal of such materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of an accident or the discovery of pre-existing contamination at one or more of our facilities, we could be held liable for any damages that result and any such liability could exceed our resources. We may not be specifically insured with respect to this liability, and we do not know whether we will be required to incur significant costs to comply with environmental laws and regulations in the future, or whether our operations, business or assets will be harmed by current or future environmental laws or regulations.

We face and will continue to face significant competition.

Competition from pharmaceutical companies, medical device companies, biotechnology companies and academic and research institutions is intense and is expected to increase. Many of our competitors and potential competitors have substantially greater product development capabilities, experience conducting clinical trials and financial, scientific, manufacturing, sales and marketing resources and experience than our company. Some of these competitors include JNJ, Guidant Corporation, Genzyme Corporation, Baxter, Abbott Laboratories, BSC, Medtronic, Inc., Wyeth, Inc., Novartis AG, C.R. Bard, the Allegiance division of Cardinal Health, Inc., Bausch & Lomb, and Covidien Ltd., among others. We also face competition from non-medical device companies, such as pharmaceutical companies, which may offer non-surgical alternative therapies for disease states which are currently or intended to be treated using our products. Other companies may:

- develop and obtain patent protection for products earlier than us;
- design around patented technology developed by us;
- obtain regulatory approvals for such products more rapidly;
- have greater manufacturing capabilities and other resources;
- have larger or more experienced sales forces;
- develop more effective or less expensive products; or
- have greater success in obtaining adequate third-party payer coverage and reimbursement for their competing products.

While we intend to expand our technological capabilities in order to remain competitive, there is a risk that:

- research and development by others will render our technology or product candidates obsolete or non-competitive;
- treatments or cures developed by others will be superior to any therapy developed by us; and
- any therapy developed by us will not be preferred to any existing or newly-developed technologies.

The commercial potential of our products and product candidates will be significantly limited if we are not able to obtain adequate levels of reimbursement or market acceptance for them.

Our ability to commercialize human therapeutic products and product candidates successfully will depend in part on the extent to which coverage and reimbursement for such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payers or supported by the market for these products. There can be no assurance that third-party payers' coverage and reimbursement will be available or sufficient for the products we might develop.

Third party payers are increasingly challenging the price of medical products and services and instituting cost containment measures to control or significantly influence the purchase of medical products and services. These cost containment measures, if instituted in a manner affecting the coverage of or payment for our products, could have a material adverse effect on our ability to operate profitably. In some countries in the E.U. and in the U.S., significant uncertainty exists as to the reimbursement status of newly-approved healthcare products, and we do not know whether adequate third-party coverage and reimbursement will be available for us to realize an appropriate return on our investment in product development, which could seriously harm our business. In the U.S., while reimbursement amounts previously approved appear to have provided a reasonable rate of return, there can be no assurance that our products will continue to be reimbursed at current rates or that third-party payers will continue to consider our products cost-effective and provide coverage and reimbursement for our products, in whole or in part.

We cannot be certain that our products will gain commercial acceptance among physicians, patients and third party payers, even if necessary international and U.S. marketing approvals are maintained. We believe that recommendations and endorsements by physicians will be essential for market acceptance of our products, and we do not know whether these recommendations or endorsements will be obtained. We also believe that surgeons will not use these products unless they determine, based on

clinical data and other factors, that the clinical benefits to patients and cost savings achieved through use of these products outweigh their cost. Acceptance among physicians may also depend upon the ability to train surgeons and other potential users of our products and the willingness of such users to learn these relatively new techniques.

Future legislation or regulatory changes to, or consolidation in, the healthcare system may affect our ability to sell our product profitably.

There have been, and we expect there will continue to be, a number of legislative and regulatory proposals to change the healthcare system, and some could involve changes that could significantly affect our business. Efforts by governmental and third-party payers to reduce health care costs or the announcement of legislative proposals or reforms to implement government controls could cause a reduction in sales or in the selling price of our products, which would seriously harm our business. Additionally, initiatives to reduce the cost of healthcare have resulted in a consolidation trend in the healthcare industry, including hospitals. This in turn has resulted in greater pricing pressures and the exclusion of certain suppliers from certain market segments as consolidated groups such as group purchasing organizations, independent delivery networks and large single accounts continue to consolidate purchasing decisions for some of our hospital customers. We expect that market demand, government regulation, and third-party reimbursement policies will continue to change the worldwide healthcare industry, resulting in further business consolidations and alliances among our customers and competitors, which may reduce competition, exert further downward pressure on the prices of our products and may adversely impact our business, financial condition or results of operations.

We must receive regulatory approval for each of our product candidates before they can be sold commercially in Canada, the U.S. or internationally, which can take significant time and be very costly.

The development, manufacture and sale of medical devices and human therapeutic products in Canada, the U.S. and internationally is governed by a variety of statutes and regulations. These laws require, among other things:

- regulatory approval of manufacturing facilities and practices;
- adequate and well-controlled research and testing of products in pre-clinical and clinical trials;
- review and approval of submissions containing manufacturing, pre-clinical and clinical data in order to obtain marketing approval based on establishing the safety and efficacy of the product for each use sought, including adherence to good manufacturing practices during production and storage; and
- control of marketing activities, including advertising and labelling.

The product candidates currently under development by us or our collaborators will require significant research, development, pre-clinical and clinical testing, pre-market review and approval, and investment of significant funds prior to their commercialization. We are dependent on our collaborators for regulatory approval and compliance, and have little or no control over these matters. The process of completing clinical testing and obtaining such approvals is likely to take many years and require the expenditure of substantial resources, and we do not know whether any clinical studies by us or our collaborators will be successful, that regulatory approvals will be received, or that regulatory approvals will be obtained in a timely manner. Despite the time and resources expended by us, regulatory approval is never guaranteed. Even if regulatory approval is obtained, regulatory agencies may limit the approval to certain diseases, conditions or categories of patients who can use them.

If any of our development programs are not successfully completed in a timely fashion, required regulatory approvals are not obtained in a timely fashion, or products for which approvals are obtained are not commercially successful, it could seriously harm our business.

Our products and manufacturing facilities that have, or may receive, regulatory approval, are or will be subject to ongoing regulation. In addition, we have little or no control over the manufacturing facilities of our collaborators in which our products are manufactured.

Our products and manufacturing operations are subject to extensive regulation in the U.S. by the FDA and by similar regulatory agencies abroad. Ongoing regulation includes compliance with an array of manufacturing and design controls and testing, quality control, storage and documentation procedures. Regulatory agencies may also require expensive post-approval studies. Any adverse events associated with our products must also be reported to regulatory authorities. If deficiencies in our or our collaborators' manufacturing and laboratory facilities are discovered, or we or our collaborators fail to comply with applicable post-market regulatory requirements, a regulatory agency may close the facility or suspend manufacturing.

With respect to products manufactured by third-party contractors, we are, and we expect to continue to be, dependent on our collaborators for continuing regulatory compliance and we may have little or no control over these matters. Our ability to control

third-party compliance with FDA and other regulatory requirements will be limited to contractual remedies and rights of inspection. Our failure or the failure of third-party manufacturers to comply with regulatory requirements applicable to our products may result in legal or regulatory action by those regulatory authorities. There can be no assurance that our or our collaborators' manufacturing processes will satisfy regulatory, cGMP or International Standards Organization ("ISO") requirements.

In addition, there may be uncertainty as to whether or not we or others who are involved in the manufacturing process will be able to make the transition to commercial production of some of our newly developed products. A failure to achieve regulatory approval for manufacturing facilities or a failure to make the transition to commercial production for our products will adversely affect our prospects, business, financial condition and results of operations.

If we are unable to fully comply with federal and state "fraud and abuse laws", we could face substantial penalties, which may adversely affect our business, financial condition and results of operations.

We are subject to various laws pertaining to health care fraud and abuse, including the federal Anti-Kickback Statute, physician self-referral laws, the federal False Claims Act, the federal Health Insurance Portability and Accountability Act of 1996, the federal False Statements Statute, and state law equivalents to these federal laws, which may not be limited to government-reimbursed items and may not contain identical exceptions. Violations of these laws are punishable by criminal and civil sanctions, including, in some instances, civil and criminal penalties, damages, fines, exclusion from participation in federal and state healthcare programs, including Medicare and Medicaid, and the curtailment or restructuring of operations. Any action against us for violation of these laws could have a significant impact on our business. In addition, we are subject to the U.S. Foreign Corrupt Practices Act. We have a network of approximately 160 distributors. Any action against us for violation by us or our distributors of this act could have a significant impact on our business.

We may be unsuccessful in marketing, selling and distributing certain of our products.

We distribute a number of our products worldwide. In order to achieve commercial success for our approved products, we have been expanding our sales and marketing force in the U.S., Europe and other parts of the world. If our distribution personnel or methods are not sufficient to ensure we have supply to meet demand for our products or if there is a quality control failure with our products, it could harm our prospects, business, financial condition and results of operations.

To the extent that we enter into co-promotion or other marketing and sales arrangements with other companies, any revenues received will be dependent on the efforts of others, and we do not know whether these efforts will be successful. Failure to develop a direct sales and marketing force or enter into appropriate arrangements with other companies to market and sell our products will reduce our ability to generate revenues.

We may encounter unanticipated costs or loss of business associated with terminating or relocating facilities and operations.

We are currently consolidating our Syracuse, NY and existing Puerto Rico manufacturing facilities into a single location in Puerto Rico. There is a risk that the costs associated with this consolidation may be greater than anticipated, particularly if the process takes longer than planned. There is also a risk that during the consolidation of plants, we may be unable to meet customer demand on a time line that is suitable to them or that the quality of the product we produce fails to meet customer standards which could have a negative impact on our business.

Consolidation in the healthcare industry could have an adverse effect on our revenues and results of operations.

Many healthcare industry companies, including medical device companies, are consolidating to create new companies with greater market power. As the healthcare industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by us. If we are forced to reduce our prices because of consolidation in the healthcare industry, our revenues would decrease and our consolidated earnings, financial condition or cash flows would suffer.

We may incur losses associated with foreign currency fluctuations.

Effective January 1, 2004, we commenced reporting our operating results and financial position in U.S. dollars in order to more accurately represent the currency of the economic environment in which we operate.

Our operations are in some instances conducted in currencies other than the U.S. dollar and fluctuations in the value of foreign currencies relative to the U.S. dollar could cause us to incur currency exchange losses. In addition to the U.S. dollar, we currently conduct operations in Canadian dollars, Euro, Swiss francs, Danish krone, and U.K. pound sterling. Exchange rate fluctuations may reduce our future operating results. In the quarter ended September 30, 2008, we reported \$1.0 million of net foreign exchange gains due to foreign currency fluctuations. In the year ended December 31, 2007, we reported \$0.3 million of foreign exchange losses compared to \$0.5 million of foreign exchange gains for the year ended December 31, 2006 and \$1.1 million of foreign exchange gains for the year ended December 31, 2005.

We have not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk, and therefore we are subject to foreign currency transaction and translation gains and losses. We purchase goods and services in U.S. and Canadian dollars, Swiss francs, Danish krone, and U.K. pound sterling, and earn a significant portion of our license and milestone revenues in U.S. dollars. Foreign exchange risk is managed primarily by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency.

Acquisition of companies or technologies may result in disruptions to our business.

As part of our business strategy, we may acquire additional assets and businesses principally relating to or complementary to our current operations. Any acquisitions or mergers by us will be accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among other things, higher than anticipated acquisition costs and expenses, the difficulty and expense of integrating the operations and personnel of the companies and the loss of key employees and customers as a result of changes in management.

In addition, geographic distances may make integration of acquired businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions.

If significant acquisitions are made for cash consideration, we may be required to use a substantial portion of our available cash, cash equivalents and short-term investments. Future acquisitions by us may cause large one-time expenses or create goodwill or other intangible assets that could result in significant asset impairment charges in the future. Acquisition financing may not be available on acceptable terms, if at all.

We may not generate sufficient cash flow from any of our future permitted acquisitions to service our indebtedness.

In any acquisition, we expect to benefit from cost savings through, for example, the reduction of overhead or the acquisition of products and from revenue enhancements resulting from the acquisition. However, there can be no assurance that we will be able to generate sufficient cash flow from any future permitted acquisitions to service any indebtedness incurred to finance such acquisitions or realize any other anticipated benefits. Nor can there be any assurance that our profitability will be improved by any one or more acquisitions. Any acquisition may involve operating risks, such as:

- the difficulty of assimilating and integrating the acquired operations and personnel into our current business;
- the potential disruption of our ongoing business;
- the diversion of management's attention and other resources;
- the possible inability of management to maintain uniform standards, controls, procedures and policies;
- the risks of entering markets in which we have little or no experience;
- the potential impairment of relationships with employees;
- the possibility that any liabilities we may incur or assume may prove to be more burdensome than anticipated; and
- the possibility that the acquired business or products do not perform as expected.

If we fail to hire and retain key management, scientific and technical personnel, we may be unable to successfully implement our business plan.

We are highly dependent on our senior management and scientific and technical personnel. The competition for qualified personnel in the healthcare field is intense, and we rely heavily on our ability to attract and retain qualified managerial, scientific and technical personnel. Our ability to manage growth effectively will require continued implementation and improvement of our management systems and the ability to recruit and train new employees. We may not be able to successfully attract and retain skilled and experienced personnel, which could harm our ability to develop our product candidates and generate revenues.

Risks Relating to our Indebtedness, Shares, and Organization and Structure

Our existing and future permitted debt could adversely affect our operations.

As of September 30, 2008, we had outstanding \$575 million of indebtedness, excluding accrued interest. We are currently considering other facilities to replace the revolving portion of the credit facility that was terminated in connection with the issuance of the Floating Rate Notes, but there can be no assurance that we will be able to obtain such a facility. Excluding intercompany transactions, our subsidiaries that are not guarantors of the Floating Rate Notes or Subordinated Notes accounted for approximately \$53 million or 18% of our total revenues from continuing operations for the year ended December 31, 2007, and approximately \$488 million or 42% of our total assets and approximately \$116 million or 16% of our total liabilities as of December 31, 2007. The Floating Rate Notes and the Subordinated Notes are guaranteed by the same group of our subsidiaries.

The amount and terms of our indebtedness and other financial obligations could have important consequences for our operations. For example, it:

- could increase our vulnerability to general adverse economic and industry conditions;
- could limit our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;
- will require us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for operations and any future business opportunities, including acquisitions permitted by our Subordinated Notes and Floating Rate Notes;
- will limit our planning flexibility for, or ability to react to, changes in our business and the industry; and
- could place us at a competitive disadvantage with competitors who may have less indebtedness and other obligations or greater access to financing.

The Floating Rate Notes bear interest at rates that fluctuate with changes in certain prevailing benchmarks. If interest rates increase, we may be unable to meet our debt service obligations under the Floating Rate Notes and Subordinated Notes and other indebtedness.

We and our subsidiaries are permitted to incur substantially more debt, which could further exacerbate the risks associated with our leverage.

The terms of the indentures governing the Floating Rate Notes and Subordinated Notes expressly permit the incurrence of additional amounts of debt for specified purposes. For example, if we decide to seek and are successful in obtaining commitments for a new revolving credit facility, all borrowings under that facility will rank senior to the Floating Rate Notes and Subordinated Notes and the guarantees, to the extent of the value of the assets securing such borrowings. Moreover, the indentures governing the Floating Rate Notes and Subordinated Notes do not impose any limitation on our incurrence of liabilities that are not defined as “Indebtedness” under such indentures (such as trade payables). If new debt or other liabilities are added to our and our subsidiaries’ current levels of debt, the related risks that we and they now face could be exacerbated.

If our cash flows prove inadequate to service our debt and provide for our other obligations, we may be required to refinance all or a portion of our existing debt or future debt at terms unfavorable to us.

Our ability to make payments on and refinance our debt, including the Floating Rate Notes, the Subordinated Notes and other financial obligations, and to fund our capital expenditures and acquisitions will depend on our ability to generate substantial operating cash flow. This will depend on our future performance, which will be subject to prevailing economic conditions and to financial, business and other factors beyond our control. If our cash flows were to prove inadequate to meet our debt service and other obligations in the future, we may be required to refinance all or a portion of our existing or future debt, including the Floating Rate Notes and Subordinated Notes, on or before maturity, to sell assets or to obtain additional financing. We cannot assure you that we will be able to refinance any of our indebtedness, including the Floating Rate Notes and Subordinated Notes, sell any such assets or obtain such additional financing on commercially reasonable terms or at all. Additionally, because the indentures governing the Floating Rate Notes and Subordinated Notes require that, upon the occurrence of a “change of control,” as defined in the indentures, we must make an offer to repurchase the Floating Rate Notes and Subordinated Notes, respectively, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. In the event that we were required to repurchase the Floating Rate Notes and Subordinated Notes pursuant to our offer, such repurchase could result in the use of a significant amount of our available cash.

The indentures governing the Floating Rate Notes and Subordinated Notes contain covenants that may limit our ability to take advantage of certain business opportunities advantageous to us that may arise.

The indentures governing the Floating Rate Notes and Subordinated Notes contain certain covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to:

- incur, assume or guarantee additional indebtedness or issue preferred stock;
- pay dividends or make other equity distributions to our shareholders;
- purchase or redeem our capital stock;
- make certain investments;
- create liens;
- sell or otherwise dispose of assets;
- engage in transactions with our affiliates; and
- merge or consolidate with another entity or transfer all or substantially all of our assets.

These restrictions could limit our ability to obtain future financing, make acquisitions or needed capital expenditures, withstand economic downturns in our business, industry or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise.

Although the indentures for the Floating Rate Notes and Subordinated Notes contain a fixed charge coverage test that limits our ability to incur indebtedness, this limitation is subject to a number of significant exceptions and qualifications. Moreover, the indentures do not impose any limitation on our incurrence of liabilities that are not considered “Indebtedness” under the indentures (such as operating leases), nor do they impose any limitation on the amount of liabilities incurred by subsidiaries, if any, that might be designated as “Unrestricted Subsidiaries” under the indentures. Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks associated with our leverage. Also, although the indentures limit our ability to make restricted payments, these restrictions are subject to significant exceptions and qualifications.

Our stock price has been volatile, is likely to continue to be volatile and could decline substantially.

Our common shares have been, and are likely to continue to be, highly volatile. For example, in the twelve months ending December 31, 2007, shares of our common stock traded on the NASDAQ and the Toronto Stock Exchange have closed at a high of \$9.18 and CDN\$10.81, respectively, and at a low of \$3.10 and CDN\$3.12, respectively, and traded at a low of \$0.40 during the first nine months of 2008. Our share price could fluctuate significantly in the future for various reasons, including the following:

- future announcements concerning us or our competitors;
- quarterly variations in operating results;
- the introduction of new products or changes in product pricing policies by us or our competitors;
- an acquisition or loss of significant customers, distributors and suppliers;
- changes in earnings estimates by analysts;
- changes in third-party reimbursement practices;
- regulatory developments;
- intellectual property developments;
- reports of results of clinical trials;
- the commencement of material litigation against us or our collaborators; or
- fluctuations in the economy or general market conditions.

In addition, stock markets in general, and the market for shares of biopharmaceutical and life science companies in particular, have experienced extreme price and volume fluctuations in recent years that may be unrelated to the operating performance of the affected companies. These broad market fluctuations may cause the market price for our common shares to decline. The market price of our common shares could decline below its current price and may fluctuate significantly in the future. These fluctuations may or may not be related to our performance or prospects.

In the past, market investors have often instituted securities class action litigation after periods of volatility in the market price of a company’s securities. If one of our shareholders files a securities class action suit, we could incur substantial legal fees and our management’s attention and resources could be diverted from operating our business in order to respond to the litigation.

U.S. investors may not be able to obtain enforcement of civil liabilities against us.

We were formed under the laws of British Columbia, Canada. A substantial portion of our assets are located outside the U.S. In addition, a majority of the members of our board of directors and our officers are residents of countries other than the U.S. As a result, it may be impossible for U.S. investors to affect service of process within the U.S. upon us or these persons or to enforce against us or these persons any judgments in civil and commercial matters, including judgments under U.S. federal or state securities laws. In addition, a Canadian court may not permit U.S. investors to bring an original action in Canada or to enforce in Canada a judgment of a state or federal court in the U.S.

Laws and provisions in our notice of articles and articles and shareholder rights plan could delay or deter a change in control.

Our notice of articles and articles allow for the issuance of preference shares. The board of directors may set the rights and preferences of any series of preference shares in its sole discretion without the approval of the holders of our common shares. The rights and preferences of the preference shares may be superior to those of the common shares. Accordingly, the issuance of preference shares also could have the effect of delaying or preventing a change of control of our company. In addition, under the Business Corporations Act (British Columbia), some business combinations, including a merger or reorganization or the sale, lease or other disposition of all or a substantial part of our assets, must be approved by at least three-quarters of the votes cast by our shareholders in aggregate or, in some cases, approved by at least three-quarters of the votes cast by holders of each class of shares. In some cases, a business combination must be approved by a court. Shareholders may also have a right to dissent from the transaction, in which case, we would be required to pay dissenting shareholders the fair value of their common shares provided they have followed the required procedures. There are, at present, no preference shares outstanding.

In addition, our shareholders adopted a shareholder rights plan which provides for substantial dilution to an acquiror unless either the acquiror makes a bid to all shareholders, which, among other things, is held open for at least 60 days and is accepted by independent shareholders holding at least 50% of the outstanding common shares, or the bid is otherwise approved by our board of directors. This shareholder rights plan was amended and restated on September 9, 2005, and has a term of nine years, subject to reconfirmation by the shareholders at the annual general meetings in 2008 and 2011.

Furthermore, all of our executive officers have contractual rights under employment agreements to have their stock options vest immediately and obtain 12 to 24 months severance pay in the event of a change of control of our company.

Limitations on the ability to acquire and hold our common shares may be imposed by the Competition Act (Canada). This legislation permits the Commissioner of Competition to review any acquisition of a significant interest in our company. This legislation grants the Commissioner jurisdiction to challenge such an acquisition before the Competition Tribunal if the Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada. The Investment Canada Act (Canada) subjects an acquisition of control of a company by a non-Canadian to government review if the value of our assets as calculated pursuant to the legislation exceeds a threshold amount which, for an investor from a World Trade Organization member country, is CDN\$295 million in 2008. A reviewable acquisition may not proceed unless the relevant minister is satisfied or is deemed to be satisfied that there is likely to be a net benefit to Canada from the transaction.

Each of these matters could delay or deter a change in control that would be attractive to, and provide liquidity for, shareholders, and could limit the price that investors are willing to pay in the future for our common shares.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

(a) On October 30, 2008, the Company held its 2008 annual and special general meeting of shareholders.

(b) Proxies were solicited by the Company's management pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended. Those directors nominated (Proposal 1) in the proxy statement are shown under (c) below. There was no solicitation opposing management's nominees for directors and all such nominees were elected pursuant to the vote of the shareholders.

(c) Those matters voted upon and the results were as follows:

- (1) Fixing the size of the Board of Directors at seven and the election of directors (Proposal 1);
- (2) Appointment of auditors for the ensuing year and the authorization of the directors to fix the remuneration to be paid to the auditors (Proposal 2);
- (3) Reconfirmation of the Company's Shareholder Rights Plan with minor technical amendments (Proposal 3); and
- (4) Amendment of the Company's articles to increase the quorum for meetings of shareholders to comply with NASDAQ's quorum requirements (Proposal 4).

| Proposal | For | Against | Withheld | Abstentions | Broker Non-Votes |
|------------------------|------------|-----------|------------|-------------|------------------|
| Proposal 1 | 53,939,257 | 1,105,027 | 0 | 0 | 1 |
| William L. Hunter | 53,893,391 | 0 | 1,150,892 | 0 | 2 |
| David T. Howard | 53,406,923 | 0 | 1,637,360 | 0 | 2 |
| Hartley T. Richardson | 33,196,622 | 0 | 21,822,518 | 0 | 2 |
| Edward M. Brown | 53,907,578 | 0 | 1,136,705 | 0 | 2 |
| Arthur H. Willms | 53,918,873 | 0 | 1,125,410 | 0 | 2 |
| Laura Brege | 53,880,741 | 0 | 1,163,542 | 0 | 2 |
| Henry A. McKinnell Jr. | 53,919,391 | 0 | 1,124,892 | 0 | 2 |
| Proposal 2 | 54,920,220 | 0 | 124,064 | 0 | 1 |
| Proposal 3 | 30,978,013 | 961,921 | 0 | 0 | 23,104,351 |
| Proposal 4 | 53,775,536 | 1,268,748 | 0 | 0 | 1 |

Item 5. Other Information

None.

Item 6. Exhibits

The following Exhibits are filed as a part of this report:

| Exhibit Number | Description |
|----------------|---|
| 31.1 | Certification of CEO Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of CFO Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, William L. Hunter, M.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Angiotech Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

/s/ William L. Hunter

 William L. Hunter, M.D.
 Chief Executive Officer

**Certification of CFO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, K. Thomas Bailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Angiotech Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

/s/ K. Thomas Bailey
K. Thomas Bailey
Chief Financial Officer

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Executive Officer and the Chief Financial Officer of Angiotech Pharmaceuticals, Inc. (the “Company”), each hereby certifies that to his knowledge on the date hereof:

(a) The Form 10-Q of the Company for the quarter ended September 30, 2008, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2008

/s/ William L. Hunter
William L. Hunter, M.D.
Chief Executive Officer

Date: November 5, 2008

/s/ K. Thomas Bailey
K. Thomas Bailey
Chief Financial Officer