

# DIOMED Holdings, Inc.

## 2006 Annual Report

*EVLT® non-surgical endovenous laser treatment*  
*Uniquely committed to advancing vein care*





## Uniquely committed to advancing vein care:

*Diomed develops and commercializes minimally invasive medical procedures that employ our laser technologies and associated disposable products. Using our proprietary technology, including our exclusive rights to U.S. Patent No. 6,398,777, we currently focus on endovenous laser treatment (EVLT®) of varicose veins. We also develop and market lasers and disposable products for photodynamic therapy (PDT) cancer procedures and products for other clinical applications, including dental and general surgical procedures.*

*In developing and marketing our clinical solutions, we use proprietary technology and aim to secure strong commercial advantages over competitors by obtaining exclusive commercial arrangements, gaining governmental approvals in advance of others, and developing and offering innovative practice enhancement programs including physician training and promotional materials. To optimize revenues, we focus on clinical procedures that generate revenues from both capital equipment and disposable products such as procedure kits and optical fibers.*

*Our high power semiconductor diode lasers combine clinical efficacy, operational efficiency and cost effectiveness in a versatile, compact, lightweight, easy-to-use and easy-to-maintain system. Along with lasers and single-use procedure kits for EVLT®, we provide our customers with state of the art physician training and practice development support.*



# DIOMED Holdings, Inc.

## 2006 Annual Report

*More: Technology*   *More: Training*   *More: Patients*

### Table of Contents

Overview of Our Business .....	3
Business Strategy .....	5
Risk Factors .....	19
Legal Proceedings .....	34
Market for Common Equity and Related Stockholder Matters .....	37
Management's Discussion and Analysis .....	40
Directors and Executive Officers .....	63
Financial Statements .....	F-I

# To Our Shareholders:

Diomed delivered another record-setting year in 2006 – record revenues and a record number of procedures performed - driven by the growing demand for EVLT® products. Since 2002, the Company's revenue has grown at a remarkable 40% compounded annual growth rate.

Diomed has reinforced its position as the market leader in the field of endovenous laser treatment of varicose veins in the United States and our talented professional team is making substantial inroads in targeted international markets with particular emphasis on the European and Latin American markets. Our direct sales forces in England and Northern Latin America have made notable progress, and we expect to see our rate of growth accelerate in our global EVLT® business in 2007 and beyond.

Importantly, the Company continued to strengthen its leadership position in the highly competitive field of endovenous laser treatment of varicose veins with its pioneering EVLT® product line. Our business continues to be driven by strong clinical, financial and market fundamentals. In combination, they provide a unique opportunity for the Company and its investors. Specifically EVLT® provides:

- **Significant Market Opportunity** --- Of the 25 to 40 million Americans with superficial venous disease, Diomed estimates that between 12 and 15 million suffer from chronic varicose veins. Moreover, gender, lifestyle and population demographics provide a constantly renewing

target patient population. Endovenous laser treatment for varicose veins expanded its market share vs. both surgical stripping and radio frequency alternatives,; and today is clearly the procedure of choice for both physicians and patients alike in the United States.

- **Recurring Revenue Model** --- Diomed's EVLT® product line is marketed as a complete clinical solution, including a laser and a disposable kit plus other complementary products that support our basic strategy to assist physicians in responding to the demand for minimally invasive treatment of varicose veins. The Company produces a recurring revenue stream in a "razor-razorblade" model through the sale of single-use disposable kits. In 2005, Diomed launched a "closed" laser system which limits the use of its laser platform to Diomed disposable kits, assuring full capture of disposable product sales.

Closed systems represented 95% of our laser sales in 2006, up from 70% in 2005, bringing the total number of closed laser systems to nearly 50% of our installed EVLT® laser base.



- **Attractive Physician Economics** --- The rapid adoption of the EVLT® procedure has been greatly enhanced by Medicare/Medicaid reimbursement, starting in January 2005. Today, over 200 million patients are covered for the procedure under Medicare/Medicaid or private insurers. At an unadjusted Medicare/Medicaid rate of nearly \$1,900 for the basic procedure, over \$1,000 for reimbursement of recommended evaluation and follow-up visits, and with private insurers typically paying a 30% to 50% premium over Medicare reimbursement levels, EVLT® represents a significant revenue opportunity for the physician-office based practice.
- **Superior Efficacy** --- While early EVLT® clinical studies utilizing an outdated "pulsed laser" mode resulted in efficacy rates as low as 93%, clinical studies using the current continuous mode demonstrate efficacy rates up to 98% over five years. Driven by this exceptional efficacy rate and



unusually

low complication rates, Diomed has established an installed laser system base of more than 1,100 physicians who have successfully performed more than 100,000 procedures using Diomed's disposable products.

Although the purpose of this communication is to update you on 2006, it is extremely important that each stockholder to appreciate the very positive outcome regarding our long-standing patent infringement battle. Our case against AngioDynamics and Vascular Solutions went to trial on March 12, 2007. After a two-week trial, the jury found AngioDynamics and Vascular Solutions each liable for both inducing infringement and contributory infringement of Diomed's U.S. Patent No. 6,398,777 and awarded Diomed damages of \$12.5 million. This decision followed a ruling of the Court in Summary Judgment in August 2006 that this patent was both valid and enforceable.

As you may remember, in January 2004, Diomed commenced legal action in the U.S. District Court for the District of Massachusetts against AngioDynamics seeking injunctive relief and damages for infringement of Diomed's pioneering U.S. Patent Number 6,398,777 which covers the endovascular laser treatment of varicose veins. Diomed acquired exclusive rights to the patent from the five inventors of the procedure in

September 2003. Diomed initiated

similar actions against Vascular Solutions and two smaller competitors later in 2004. The latter two cases are still pending and we expect resolution later this year.



The decision significantly alters the competitive landscape in the treatment of venous disease and is expected to have a positive impact on our financial performance going forward. At existing growth rates, sales by the infringers' in this market segment represent approximately \$20 to \$25 million in annual customer demand, and we plan to maximize our share of that business.

Although both infringers have indicated that they plan to appeal the verdict and will introduce "work-around" disposable devices, Diomed remains confident that the jury decision will be upheld and that any attempt to work around the patent will be successfully dealt with through the marketplace as well as through appropriate legal channels. We will, of course, keep our shareholders apprised of further developments in these legal proceedings.



Diomed's integrated medical solutions strategy combining the EVLT® laser enabling platform and disposable procedure products with intensive physician training, practice building and patient communication programs, and complementary procedure technology and products has clearly differentiated us from competition. Importantly, we have strengthened this basic medical solutions strategy in 2006 by creating market focused partnerships with leaders in supporting technologies such as SonoSite in the field of portable ultra sound, BDN-Jobst in the field of compression therapy and Luminetx in near-infrared imaging technology.

You can readily understand why the management of Diomed sees an exceptionally bright future. In closing, I want to thank all of our employees, our customers and our shareholders for their continued support and contributions to our success in 2006.

Sincerely yours,

James A. Wylie  
Chief Executive Officer  
Diomed Holdings, Inc.



# General Corporate Information

## CORPORATE OFFICERS

James A Wylie  
President and  
Chief Executive Officer

David B Swank  
Chief Financial Officer

William Allen  
General Manager  
Diomed Ltd., UK

Cary M Paulette  
Vice President  
North America Sales

John J Welch  
Vice President  
North America Marketing

Christopher J Geberth  
Vice President – Finance

## DIRECTORS

Geoffrey Jenkins  
Vice President  
Worldwide Operations  
Inverness Medical

James A Wylie  
President and  
Chief Executive Officer  
Diomed Holdings, Inc.

David B Swank  
Chief Financial Officer  
Diomed Holdings, Inc.

Sidney Braginsky  
Executive Chairman  
Digilab Corp.

Gary Brooks  
Chairman and Chief Executive Officer  
Allomet Partners, Ltd.

A Kim Campbell  
Former Prime Minister Canada

Joseph L Harris  
Partner  
Trillium Lakefront Partners, III

Peter Klein  
President and Chief Executive Officer  
Enefco International, Inc

Edwin Snape, PhD  
Principal  
New England Partners

## CORPORATE HEADQUARTERS

Diomed Holdings, Inc.  
One Dundee Park  
PO Box 97  
Andover, MA 01810  
877 434 6633

## STOCK EXCHANGE LISTING

Symbol: DIO  
Diomed Holdings common stock is listed  
on the American Stock Exchange

## ANNUAL MEETING

The 2007 Annual Meeting of  
Shareholders will be held on  
May 22, 2007 at 9:00am EST at:  
McGuireWoods, LLP  
1345 Avenue of the Americas 7th floor  
New York , NY 10105

## STOCK TRANSFER AGENT

Continental Stock Transfer & Trust  
Company  
17 Battery Place  
New York, NY 10004

## INDEPENDENT ACCOUNTANTS

BDO Seidman, LLP  
150 Federal Street  
Boston, MA 02109

## LEGAL COUNSEL

McGuireWoods, LLP  
1345 Avenue of the Americas 7th floor  
New York , NY 10105

## PATENT COUNSEL

Wolf Greenfield & Sacs, PC  
600 Atlantic Avenue  
Boston, MA 02210

## INVESTOR RELATIONS

Burns McClellan, Inc.  
257 Park Avenue South  
15th Floor  
New York, NY 10016

## ANNUAL REPORT

A copy of the company's Annual Report Form 10-KSB for the year ended December 31, 2006, filed with the Securities and Exchange Commission may be obtained without charge by writing to:

Diomed Holdings, Inc.  
Investor Relations  
One Dundee Park  
PO Box 97  
Andover, MA 01810

A copy of the company's 2006 Annual Report Form 10-KSB and other filings with the Securities and Exchange Commission may be obtained from the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov)



# Diomed Distributors

## AMERICAS

### **Sigmacon Health Products Corporation**

436 Limestone Crescent  
North York  
Ontario, Canada M3J 2S4  
**Jay Herman**  
Tel: 416 665 6616  
Fax: 416 665 8395

### **Michel Duchesne**

Business Director, Latin American  
Diomed Holdings, Inc.  
One Dundee Park  
Andover, MA 01810  
Tel: 978-475-7771  
Cell: 203- 915-9853

## MIDDLE EAST

### **AMI Technologies**

Hanagar 22 st'  
Neve-Neeman  
Hod Hasharon 45105  
Israel  
**Moti Merromy**  
**moti@ami.co.ill**  
Tel: +97297760300  
Fax: +97297760303

### **Tamer Group**

PO Box 150  
Jeddah  
21411 Saudi Arabia  
**Talaat El-Alfy**  
**talaatalalfy@tamergroup.com**  
Tel: +96 2644 0099

## EUROPE/AFRICA

### **AngioCare**

Watermanstraat 68  
Apeldoorm  
7324 AK  
Netherlands  
**John Visscher**  
**jo.visscher@planet.nl**  
Tel: +31553684460  
Fax: +31553684466

### **Beneficium Euro Ltd**

Vancurova Str. 1548  
CZ-27201 Kladno  
Czech Republic  
**Tomas Hadrbolec**  
**beneficium@post.cz**  
Tel: +420 602 643241  
Fax: +420 312 269041

### **Comercial Medico Quirurgica**

Oficinas Exposicion  
Cartagena 299-301  
Barcelona 08025  
Spain  
**Sara Perez Escorihuela**  
**cmq@telefonica.net**  
Tel: +34 956891843  
Fax: +34 956895895

### **IIC --International Import Company**

2 Abo state St. from Goseiph  
Teto (Sendebad St.)  
El-Nozha,  
El Gadida,Cairo  
Egypt  
**Dr. Hakem Gamal**  
**hakemlaser@hotmail.com**  
Tel : +202 62 46978  
Fax: +202 62 46543

### **Instituto Galenico, SA**

Av Dra Laura 'Ayres  
No 44 A 2740-048  
Porto Salvo  
Portugal  
**Miguel Raposo**  
**mraposo@institutogalenico.pt**  
Tel: +351 423 5342  
Fax: +351 214 235 349

### **KRAUTH medical KG (GmbH & Co.)**

Wandsbeker Königstraße 27-29  
22041 Hamburg  
Germany  
**Henrike Koenig**  
**henrike.koenig@krauth.de**  
Tel: +49 40 6588 494  
Fax: +49 40 6588 1238

### **Medicare Group SRL**

No.16 Copilulul Street  
012178 Sector 1  
Bucharest  
Romania  
**Andrei Bombita**  
**andrei@medicare.ro**  
Tel: +40 21 222 6774  
Fax: +40 21 222 6714

### **MOSS Srl**

Via all'Erno 5  
Les 28040  
Italy  
**Franco Papa**  
**fpapa@moss.info.it**  
Tel: +39 0322 77747  
Fax: +39 0322 292768

### **Pharma Invest**

Engelbrektsgatan 4  
72216 Vasreras  
Sweden  
**Mikael Thidell**  
**tidell.m@telia.com**  
Tel: +46 0 708 555010

### **SAGA Spz o o**

Ul. Fulmana 7  
20-492 Lublin  
Poland  
**Piotr Gloskowski**  
**piotrgloskowski@hfsaga.com.pl**  
Tel: +48 817490090  
Fax: +48 817490091

### **Systemed Medical Products**

Lampraki Ave  
187 57 Keratsini  
Athens 417  
Greece  
**Dimitri Dodoussis**  
**info@systemed.gr**  
Tel: +30 210 4001725  
Fax: +30 210 4000409

### **Techno-Path (Distribution) Ltd**

Rosse Centre  
Holland Road  
National Technological Park  
Plassey  
Limerick  
Ireland  
**David Sullivan**  
**ds@techno-path.com**  
Tel: +353 61 335844

### **UNIMED Tibbi Ve Analitik**

**Cihazlar San Ve Tic Ltd**  
Millet Caddesi No.78  
Alev Apt Kat.3 D.4 Findikzade  
Istanbul 34093  
Turkey  
**Enver Atali**  
**enveratali@unimedltd.com**  
Tel: +902126219090  
Fax: +902126217890

## ASIA PACIFIC

### **AZ Marketing Pvt Ltd**

3,80 Feet Road, IV Block  
4th Block  
Kormangala Bangalore 560095  
India  
**Aslam Nawab**  
**info@amarketingindia.com**  
Tel. +91 8025522618

### **Chi-Fu Trading**

Room 901  
No 142, MinQuan E Road, Sec 3  
Taipei  
Taiwan  
**Robert Hsu**  
Tel: +886 2 27168633  
Fax: +886 2 27168465

### **Global Vision**

Rm 825-830, No 1 Building, Guo  
Ying Yuan  
Xizhimen Nan Xiao Jie, Xi  
Cheng District  
Beijing 100035  
China  
**Gao Tieta**  
Tel: +86 10 58561065  
Fax: +86 10 58561062

### **Inmex Corporation**

304 Se-eun B/D  
909 Hwajeongdong  
Deokyanggu  
Goyangshi  
Kyeonggido  
Korea  
**Ki Sang Chung**  
Tel: +82 31 9689011  
Fax: +82 31 9689012

### **Mandarin Opto-Medic Co Pte Ltd**

30 Kaki Bukit Crescent  
Kaki Bukit Techpark I 416261  
Singapore  
**Ooi Cheng Tean**  
**chengtean\_ooi@mandarinopto-  
tomedic.com**  
Tel: +6567478777  
Fax: +6567479444

### **New Zealand Medical & Scientific Ltd**

2A Fisher Crescent  
Mt Wellington  
Auckland  
New Zealand  
**Richard Plowright**  
**rplowright@nzms.co.nz**  
Phone: +64 9 259 4062  
Fax: + 64 9 259 4067  
Postal Address:  
PO Box 24 – 138  
Royal Oak  
Auckland  
New Zealand

### **Olympus Corporation**

Hinode Plant  
34-3 Hirai, Hinode-machi  
Nishitama-gun  
Tokyo 101-0182  
Japan  
**M Yoshihara**  
Tel: +81 42 597 7115  
Fax: +81 42 597 7126

### **PDT Med (H.K) Holding Co. Ltd**

Room 4 & 5,7/F Welland  
Commercial Building  
368 Queen's Road Central  
Hong Kong  
**Zhao Zhong Guo**  
**zzq@pdt-med.com**  
Tel: +852 28152699  
Fax: +852 28152691

### **Shin Han Systek Co Ltd**

4F Dong Heung Bldg #78-1  
Samsung  
Kangnam-Ku  
Seoul  
Korea  
Tel: 0082 2 556 4031  
Fax: 0082 2 543 5214

### **Sole Health Care Products**

51 Crannock Court  
Forestdale (4118)  
Brisbane  
Australia  
**Paul Nielsen**  
**pnielsen@solehealth.com.au**  
Tel: +61 7 38067866  
Fax: +61 7 38005989





**EVL**T<sup>®</sup> non-surgical  
endovenous  
laser treatment  
The Greatest Experience in Eliminating Varicose Veins<sup>™</sup>

Diomed Holdings, Inc.  
One Dundee Park  
PO Box 97  
Andover, MA 01810

Tel: 877 434 6633

Fax: 978 475 8488

Email: [www.diomedinc.com](http://www.diomedinc.com)



DIOMED

Diomed and EVLT are registered trademarks of DIOMED, Inc.  
©2007 DIOMED Holdings, Inc. All rights reserved.