

BofA Finance LLC
Form 424B2

August 30, 2018

Pricing Supplement

(To Prospectus dated November 4, 2016,

Series A Prospectus Supplement dated November 4, 2016 and

Product Supplement EQUITY-1 dated January 24, 2017)

Dated August 28, 2018

Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-213265

\$1,763,000

BofA Finance LLC

Contingent Income Auto-Callable Notes Linked to the Least Performing of the S&P 500® Index and the Russell 2000® Index, due August 29, 2025

Fully and Unconditionally Guaranteed by Bank of America Corporation

The CUSIP number for the notes is **09709TFW6**.

The notes are senior unsecured obligations issued by BofA Finance LLC (“BofA Finance”), a direct, wholly-owned subsidiary of Bank of America Corporation (“BAC” or the “Guarantor”), which are fully and unconditionally guaranteed by the Guarantor. Any payments due on the notes, including any repayment of principal, will be subject to the credit risk of BofA Finance, as issuer of the notes, and the credit risk of BAC, as guarantor of the notes.

The notes do not guarantee a full return of your principal at maturity, and you could lose up to 100% of the principal amount at maturity.

The notes will mature on August 29, 2025, unless previously called.

Payments on the notes will depend on the individual performance of the S&P 500® Index (the “SPX”) and the Russell 2000® Index (Bloomberg ticker: “RTY”) (each, an “Underlying,” and collectively, the “Underlyings”).

If, on any quarterly Observation Date, the Observation Value of each Underlying is greater than or equal to its Threshold Value, we will pay a Contingent Coupon Payment of \$15.00 per \$1,000 in principal amount (a rate of 1.50% per quarter, or 6.00% per annum) on the applicable Contingent Payment Date (each as defined below).

Prior to the maturity date, if the Observation Value of **each** Underlying is greater than or equal to its Starting Value on any Observation Date on or after August 26, 2019 but before the final Observation Date, the notes will be automatically redeemed, in whole but not in part, at 100% of the principal amount, together with the Contingent Coupon Payment with respect to that Observation Date. No further amounts will be payable following an early redemption.

At maturity, the amount you will be entitled to receive per \$1,000 in principal amount of the notes (the “Redemption Amount”) will depend on the performance of the Least Performing Underlying (as defined below). If the notes are not automatically redeemed prior to maturity, the Redemption Amount will be determined as follows:

a) If the Ending Value (as defined below) of the Least Performing Underlying is greater than or equal to its Threshold Value, the Redemption Amount will equal the principal amount plus the final Contingent Coupon Payment.

b) If the Ending Value of the Least Performing Underlying is less than its Threshold Value, you will be subject to 1-1 downside exposure to any decrease in the level of the Least Performing Underlying from its Starting Value. In that case, the Redemption Amount will be less than 75% of the principal amount and could be zero.

The “Threshold Value” with respect to each Underlying is 75% of its Starting Value.

The “Least Performing Underlying” will be the Underlying with the lowest Underlying Return (as defined below).

The notes will not be listed on any securities exchange.

The notes will be issued in denominations of \$1,000 and whole multiples of \$1,000.

The initial estimated value of the notes is less than the public offering price. The initial estimated value of the notes as of August 28, 2018 (the “pricing date”) is \$957.20 per \$1,000 in principal amount. See “Summary” beginning on page PS-3 of this pricing supplement, “Risk Factors” beginning on page PS-8 of this pricing supplement and “Structuring the Notes” on page PS-22 of this pricing supplement for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

The notes and the related guarantee:

Are Note Not Bank Public Granteed Insured	May Lose Value
Per Note	Total
\$1,000.00	\$1,763,000.00
Underwriting Discount	\$ 70,520.00
Proceeds (before expenses) to	\$1,692,480.00
BofA Finance	

*The notes and the related guarantee of the notes by the Guarantor are unsecured and are not savings accounts, deposits, or other obligations of a bank. The notes are not guaranteed by Bank of America, N.A. or any other bank, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and involve investment risks. Potential purchasers of the notes should consider the information in “Risk Factors” beginning on page PS-8 of this pricing supplement, page PS-5 of the accompanying product supplement, page S-4 of the accompanying prospectus supplement, and page 7 of the accompanying prospectus. **You may lose some or all of your principal amount in the notes.***

None of the Securities and Exchange Commission (the “SEC”), any state securities commission, or any other regulatory body has approved or disapproved of these notes or the guarantee, or passed upon the adequacy or accuracy of this pricing supplement, or the accompanying product supplement, prospectus supplement or prospectus. Any representation to the contrary is a criminal offense.

We will deliver the notes in book-entry form only through The Depository Trust Company on August 31, 2018 against payment in immediately available funds.

BofA Merrill Lynch

Selling Agent

TABLE OF CONTENTS

Page

SUMMARY	pS-3
RISK FACTORS	pS-8
DESCRIPTION OF THE NOTES	pS-12
THE UNDERLYINGS	pS-14
SUPPLEMENTAL PLAN OF DISTRIBUTION; rOLE OF MLPF&s AND CONFLICTS OF INTEREST	pS-21
STRUCTURING THE NOTES	pS-22
VALIDITY OF THE NOTES	pS-22
U.S. FEDERAL INCOME TAX SUMMARY	pS-23

SUMMARY

The Contingent Income Auto-Callable Notes Linked to the Least Performing of the S&P 500[®] Index and the Russell 2000[®] Index, due August 29, 2025 (the “notes”) are our senior debt securities. Any payments on the notes are fully and unconditionally guaranteed by BAC. The notes and the related guarantee are not insured by the Federal Deposit Insurance Corporation or secured by collateral. **The notes will rank equally with all of our other senior unsecured debt, and the related guarantee will rank equally with all of BAC’s other senior unsecured debt. Any payments due on the notes, including any repayment of the principal amount, will be subject to the credit risk of BofA Finance, as issuer, and BAC, as guarantor.** Unless earlier called, the notes will mature on August 29, 2025.

If, on any quarterly Observation Date, the Observation Value of **each** Underlying is greater than or equal to its Threshold Value, we will pay a Contingent Coupon Payment of \$15.00 per \$1,000 in principal amount (a rate of 1.50% per quarter, or 6.00% per annum) on the applicable Contingent Payment Date. Prior to the maturity date, if the Observation Value of **each** Underlying is greater than or equal to its Starting Value on any Observation Date on or after August 26, 2019 (other than the final Observation Date), the notes will be automatically redeemed, in whole but not in part, at 100% of the principal amount, together with the relevant Contingent Coupon Payment. No further amounts will be payable following an early redemption. If the notes are not called prior to maturity, and if the Ending Value of the Least Performing Underlying is greater than or equal to its Threshold Value, at maturity you will receive the principal amount plus the final Contingent Coupon Payment. If the Ending Value of the Least Performing Underlying is less than its Threshold Value, you will be subject to 1-1 downside exposure to any decrease in the value of the Least Performing Underlying from its Starting Value. In that case, the Redemption Amount will be less than 75% of the principal amount. The notes are not traditional debt securities and it is possible that the notes will not pay any Contingent Coupon Payments, and you may lose some or all of your principal amount at maturity.

Any payments on the notes, including any Contingent Coupon Payments, depend on the credit risk of BofA Finance and BAC and on the performance of each of the Underlyings. The economic terms of the notes are based on BAC’s internal funding rate, which is the rate it would pay to borrow funds through the issuance of market-linked notes, and the economic terms of certain related hedging arrangements it enters into. BAC’s internal funding rate is typically lower than the rate it would pay when it issues conventional fixed or floating rate debt securities. This difference in funding rate, as well as the underwriting discount and the hedging related charges described below, reduced the economic terms of the notes to you and the initial estimated value of the notes. Due to these factors, the public offering price you pay to purchase the notes is greater than the initial estimated value of the notes as of the pricing date.

On the cover page of this pricing supplement, we have provided the initial estimated value for the notes. For more information about the initial estimated value and the structuring of the notes, see “Risk Factors” beginning on page PS-8 and “Structuring the Notes” on page PS-22.

Issuer: BofA Finance LLC (“BofA Finance”)
Guarantor: Bank of America Corporation (“BAC”)
Term: Approximately 7 years, if not previously called.
Pricing Date: August 28, 2018
Issue Date: August 31, 2018
Maturity Date: August 29, 2025
Underlyings: The S&P 500[®] Index (Bloomberg ticker: “SPX”) and the Russell 2000[®] Index (Bloomberg ticker: “RTY”). All (but not less than all) of the notes will be automatically called if the Observation Value of **each** Underlying is greater than or equal to its Starting Value on any Observation Date on or after August 26, 2019 (other than the final Observation Date). If the notes are automatically called, the Early Redemption Payment will be paid on the applicable Contingent Payment Date.

PS-3

Observation Dates:	Quarterly, on the 26th of each February, May, August and November during the term of the notes, commencing on November 26, 2018. The Observation Dates are subject to postponement as set forth in “Description of the Notes—Certain Terms of the Notes—Events Relating to Observation Dates” on page PS-19 of product supplement EQUITY-1.
Early Redemption Payment:	The sum of the principal amount plus the Contingent Coupon Payment with respect to the applicable Observation Date.
Contingent Coupon Payment:	If, on any Observation Date, the Observation Value of each Underlying is greater than or equal to its Threshold Value, we will pay a Contingent Coupon Payment of \$15.00 per \$1,000 in principal amount (a rate of 1.50% per quarter or 6.00% per annum) on the applicable Contingent Payment Date.
Contingent Payment Dates:	The third business day after the relevant Observation Date, provided that the final Contingent Payment Date is the maturity date. If the notes have not been automatically called prior to maturity, the Redemption Amount per note will be:
	a) If the Ending Value of the Least Performing Underlying is greater than or equal to its Threshold Value:
Redemption Amount:	\$1,000 + the final Contingent Coupon Payment
	b) If the Ending Value of the Least Performing Underlying is less than its Threshold Value:
	\$1,000 + (\$1,000 x Underlying Return of the Least Performing Underlying)
	In that case, the Redemption Amount will be less than 75% of the principal amount and could be zero. SPX: 2,897.52
Starting Value:	RTY: 1,728.422 SPX: 2,173.14, which is 75% of its Starting Value.
Threshold Value:	RTY: 1,296.317, which is 75% of its Starting Value (rounded to three decimal places).
Observation Value:	With respect to each Underlying, its closing level on the applicable Observation Date.
Ending Value:	With respect to each Underlying, its Observation Value on the final Observation Date.
Least Performing Underlying:	The Underlying with the lowest Underlying Return. With respect to each Underlying, <u>(Ending Value – Starting Value)</u>
Underlying Return:	Starting Value
Calculation Agent:	Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), an affiliate of BofA Finance.
Selling Agent:	MLPF&S
PS-4	

You should read carefully this entire pricing supplement, product supplement, prospectus supplement, and prospectus to understand fully the terms of the notes, as well as the tax and other considerations important to you in making a decision about whether to invest in the notes. In particular, you should review carefully the section in this pricing supplement entitled “Risk Factors,” which highlights a number of risks of an investment in the notes, to determine whether an investment in the notes is appropriate for you. If information in this pricing supplement is inconsistent with the product supplement, prospectus supplement or prospectus, this pricing supplement will supersede those documents. You are urged to consult with your own attorneys and business and tax advisors before making a decision to purchase any of the notes.

The information in this “Summary” section is qualified in its entirety by the more detailed explanation set forth elsewhere in this pricing supplement and the accompanying product supplement, prospectus supplement and prospectus. You should rely only on the information contained in this pricing supplement and the accompanying product supplement, prospectus supplement and prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. None of us, the Guarantor or MLPF&S is making an offer to sell these notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this pricing supplement, the accompanying product supplement, prospectus supplement, and prospectus is accurate only as of the date on their respective front covers.

Capitalized terms used but not defined in this pricing supplement have the meanings set forth in the accompanying product supplement, prospectus supplement and prospectus. Unless otherwise indicated or unless the context requires otherwise, all references in this pricing supplement to “we,” “us,” “our,” or similar references are to BofA Finance, and not to BAC (or any other affiliate of BofA Finance).

The above documents may be accessed at the following links:

Product supplement EQUITY-1 dated January 24, 2017:

<https://www.sec.gov/Archives/edgar/data/70858/000119312517016445/d331325d424b5.htm>

Series A MTN prospectus supplement dated November 4, 2016 and prospectus dated November 4, 2016:

<https://www.sec.gov/Archives/edgar/data/70858/000119312516760144/d266649d424b3.htm>

PS-5

Hypothetical Payments on the Notes

The following table is for purposes of illustration only. It assumes that the notes have not been called by the issuer prior to maturity and is based on **hypothetical** values and show **hypothetical** returns on the notes. It illustrates the calculation of the Redemption Amount and return on the notes based on a hypothetical Starting Value of 100 and a hypothetical Threshold Value of 75 for the Least Performing Underlying, the Contingent Coupon Payment of \$15.00 per \$1,000 in principal amount, and a range of hypothetical Ending Values of the Least Performing Underlying. **The actual amount you receive and the resulting total rate of return will depend on the actual Starting Values, Threshold Values, Observation Values and Ending Values of the Underlyings, whether the notes are called prior to maturity, and whether you hold the notes to maturity.** The numbers appearing in the table below have been rounded for ease of analysis, and do not take into account any tax consequences from investing in the notes.

For recent actual levels of the Underlyings, see “The Underlyings” section below. The Ending Value of each Underlying will not include any income generated by dividends paid on the securities represented by that Underlying, which you would otherwise be entitled to receive if you invested in those securities directly. In addition, all payments on the notes are subject to issuer credit risk.

Ending Value of the Least Performing Underlying	Underlying Return of the Least Performing Underlying	Redemption Amount per Note	Return on the Notes ⁽¹⁾
0.00	-100.00%	\$0.00	-100.000%
10.00	-90.00%	\$100.00	-90.000%
20.00	-80.00%	\$200.00	-80.000%
30.00	-70.00%	\$300.00	-70.000%
40.00	-60.00%	\$400.00	-60.000%
50.00	-50.00%	\$500.00	-50.000%
60.00	-40.00%	\$600.00	-40.000%
70.00	-30.00%	\$700.00	-30.000%
74.99	-25.01%	\$749.90	-25.010%
75.00⁽²⁾	-25.00%	\$1,015.00⁽³⁾	1.500%
80.00	-20.00%	\$1,015.00	1.500%
90.00	-10.00%	\$1,015.00	1.500%
100.00⁽⁴⁾	0.00%	\$1,015.00	1.500%
110.00	10.00%	\$1,015.00	1.500%
120.00	20.00%	\$1,015.00	1.500%
140.00	40.00%	\$1,015.00	1.500%
160.00	60.00%	\$1,015.00	1.500%
180.00	80.00%	\$1,015.00	1.500%
200.00	100.00%	\$1,015.00	1.500%

The “Return on the Notes” is calculated based on the Redemption Amount, not including any Contingent Coupon Payments paid prior to maturity.

2) This is the **hypothetical** Threshold Value of the Least Performing Underlying.

3) This amount represents the sum of the principal amount and the final Contingent Coupon Payment.

4) The **hypothetical** Starting Value of 100 used in the table above has been chosen for illustrative purposes only. The actual Starting Value of the SPX is 2,897.52, and the actual Starting Value of the RTY is 1,728.422.

Total Contingent Coupon Payments

The table below illustrates the hypothetical total Contingent Coupon Payments per \$1,000 in principal amount over the term of the notes, based on the Contingent Coupon Payment of \$15.00 per note, depending on how many Contingent Coupon Payments are payable prior to early redemption or maturity. Depending on the performance of the Underlyings, you may not receive any Contingent Coupon Payments during the term of the notes.

Number of Contingent Coupon Payments	Total Contingent Coupon Payments
0	\$0.000
1	\$15.00
5	\$75.00
10	\$150.00
15	\$225.00
20	\$300.00
25	\$375.00
28	\$420.00

PS-7

RISK FACTORS

Your investment in the notes entails significant risks, many of which differ from those of a conventional debt security. Your decision to purchase the notes should be made only after carefully considering the risks of an investment in the notes, including those discussed below, with your advisors in light of your particular circumstances. The notes are not an appropriate investment for you if you are not knowledgeable about significant elements of the notes or financial matters in general.

Your investment may result in a loss; there is no guaranteed return of principal. The notes are not principal protected. There is no fixed principal repayment amount on the notes at maturity. If the notes are not called and the Ending Value of any Underlying is less than its Threshold Value, you will lose 1% of the principal amount for each 1% that the Ending Value of the Least Performing Underlying is less than its Starting Value. In that case, you will lose all or a substantial portion of your principal.

Your return on the notes is limited to the return represented by the Contingent Coupon Payments, if any, over the term of the notes. Your return on the notes is limited to the Contingent Coupon Payments paid over the term of the notes, regardless of the extent to which the Ending Value of any Underlying exceeds its Starting Value. Similarly, the amount payable at maturity or upon a call will never exceed the sum of the principal amount and the applicable Contingent Coupon Payment, regardless of the extent to which the Observation Value of any Underlying exceeds its Starting Value.

In contrast, a direct investment in the securities included in one or more of the Underlyings would allow you to receive the benefit of any appreciation in their values. Thus, any return on the notes will not reflect the return you would realize if you actually owned those securities and received the dividends paid or distributions made on them.

The notes are subject to a potential automatic early redemption, which would limit your ability to receive the Contingent Coupon Payments over the full term of the notes. The notes are subject to a potential automatic early redemption. Prior to maturity, the notes will be automatically called on any Observation Date on or after August 26, 2019 (other than the final Observation Date) if the Observation Value of each Underlying is greater than or equal to its Starting Value. If the notes are redeemed prior to the maturity date, you will be entitled to receive the principal amount and the Contingent Coupon Payments with respect to the applicable Observation Date. In this case, you will lose the opportunity to continue to receive Contingent Coupon Payments after the date of early redemption. If the notes are redeemed prior to the maturity date, you may be unable to invest in other securities with a similar level of risk that could provide a return that is similar to the notes.

You may not receive any Contingent Coupon Payments. Investors in the notes will not necessarily receive Contingent Coupon Payments on the notes. If the Observation Value of either Underlying is less than its Threshold Value on an Observation Date, you will not receive the Contingent Coupon Payment applicable to that Observation Date. If the Observation Value of either Underlying is less than its Threshold Value on all the Observation Dates during the term of the notes, you will not receive any Contingent Coupon Payment during the term of the notes, and will not receive a positive return on the notes.

Your return on the notes may be less than the yield on a conventional debt security of comparable maturity. Any return that you receive on the notes, which could be negative, may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in the notes may not reflect the full opportunity cost to you when you consider factors, such as inflation, that affect the time value of money.

Any payment on the notes is subject to our credit risk and the credit risk of the Guarantor, and actual or perceived changes in our or the Guarantor's creditworthiness are expected to affect the value of the notes. The

notes are our senior unsecured debt securities. Any payment on the notes will be fully and unconditionally guaranteed by the Guarantor. The notes are not guaranteed by any entity other than the Guarantor. As a result, your receipt of all payments on the notes will be dependent upon our ability and the ability of the Guarantor to repay our obligations under the notes on the applicable payment date, regardless of the Observation Value of any Underlying as compared to its Threshold Value or Starting Value. No assurance can be given as to what our financial condition or the financial condition of the Guarantor will be at any time during the term of the notes. If we and the Guarantor become unable to meet our respective financial obligations as they become due, you may not receive the amounts payable under the terms of the notes.

In addition, our credit ratings and the credit ratings of the Guarantor are assessments by ratings agencies of our respective abilities to pay our obligations. Consequently, our or the Guarantor's perceived creditworthiness and actual or anticipated decreases in our or the Guarantor's credit ratings or increases

PS-8

in the spread between the yield on our respective securities and the yield on U.S. Treasury securities (the “credit spread”) prior to the maturity date may adversely affect the market value of the notes. However, because your return on the notes depends upon factors in addition to our ability and the ability of the Guarantor to pay our respective obligations, such as the values of the Underlyings, an improvement in our or the Guarantor’s credit ratings will not reduce the other investment risks related to the notes.

We are a finance subsidiary and, as such, will have limited assets and operations. We are a finance subsidiary of BAC and will have no assets, operations or revenues other than those related to the issuance, administration and repayment of our debt securities that are guaranteed by the Guarantor. As a finance subsidiary, to meet our obligations under the notes, we are dependent upon payment or contribution of funds and/or repayment of outstanding loans from the Guarantor and/or its other subsidiaries. Therefore, our ability to make payments on the notes may be limited. In addition, we will have no independent assets available for distributions to holders of the notes if they make claims in respect of the notes in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders may be limited to those available under the related guarantee by the Guarantor, and that guarantee will rank equally with all other senior unsecured obligations of the Guarantor.

The public offering price you pay for the notes exceeds the initial estimated value. The estimated value that is provided on the cover page of this pricing supplement is an estimate only, determined as of the pricing date by reference to our and our affiliates’ pricing models. These pricing models consider certain assumptions and variables, including our credit spreads and those of the Guarantor, the Guarantor’s internal funding rate, mid-market terms on hedging transactions, expectations on interest rates, dividends and volatility, price-sensitivity analysis, and the expected term of the notes. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect.

The initial estimated value does not represent a minimum or maximum price at which we, the Guarantor, MLPF&S or any of our other affiliates would be willing to purchase your notes in any secondary market (if any exists) at any time. The value of your notes at any time after the pricing date will vary based on many factors that cannot be predicted with accuracy, including our and the Guarantor’s creditworthiness and changes in market conditions.

If you attempt to sell the notes prior to maturity, their market value may be lower than the price you paid for them and lower than their initial estimated value. This is due to, among other things, changes in the values of the Underlyings, the Guarantor’s internal funding rate, and the inclusion in the public offering price of the underwriting discount and the hedging related charges, all as further described in “Structuring the Notes” below. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways.

We cannot assure you that a trading market for your notes will ever develop or be maintained. We will not list the notes on any securities exchange. We cannot predict how the notes will trade in any secondary market or whether that market will be liquid or illiquid.

The development of a trading market for the notes will depend on the Guarantor’s financial performance and other factors, including changes in the values of the Underlyings. The number of potential buyers of your notes in any secondary market may be limited. We anticipate that MLPF&S will act as a market-maker for the notes, but none of us, the Guarantor or MLPF&S is required to do so. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market. MLPF&S may discontinue its market-making activities as to the notes at any time. To the extent that MLPF&S engages in any market-making activities, it may bid for or offer the notes. Any price at which MLPF&S may bid for, offer, purchase, or sell any notes may differ from the values determined by pricing models that it may use, whether as a result of dealer discounts, mark-ups, or other transaction costs. These bids, offers, or completed transactions may affect the prices, if any, at which the notes might otherwise

trade in the market.

In addition, if at any time MLPF&S were to cease acting as a market-maker as to the notes, it is likely that there would be significantly less liquidity in the secondary market. In such a case, the price at which the notes could be sold likely would be lower than if an active market existed.

The payments on the notes will not reflect changes in the values of the Underlyings other than on the Observation Dates. Changes in the values of the Underlyings during the term of the notes other than on the Observation Dates will not affect payments on the notes. The calculation agent will determine whether each Contingent Coupon Payment is payable, and calculate the Redemption Amount, by comparing only the Starting Value or the Threshold Value, as applicable, to the Observation Value or

PS-9

the Ending Value for each Underlying. No other values of the Underlyings will be taken into account. As a result, if the notes are not called prior to maturity, you will receive less than the principal amount at maturity even if the value of each Underlying has increased at certain times during the term of the notes before the Least Performing Underlying decreases to a value that is less than its Threshold Value as of the final Observation Date.

The notes are subject to risks associated with small-size capitalization companies. The stocks composing the RTY are issued by companies with small-sized market capitalization. The stock prices of small-size companies may be more volatile than stock prices of large capitalization companies. Small-size capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small-size capitalization companies may also be more susceptible to adverse developments related to their products or services.

Because the notes are linked to the least performing (and not the average performance) of the two Underlyings, you may not receive any return on the notes and may lose some or all of your principal amount even if the Observation Value of one or more Underlyings is always greater than or equal to its Threshold Value. Your notes are linked to the least performing of two Underlyings, and a change in the value of one Underlying may not correlate with changes in the value of the other Underlying. The notes are not linked to a basket composed of the Underlyings, where the depreciation in the value of one Underlying could be offset to some extent by the appreciation in the value of the other Underlying. In the case of the notes that we are offering, the individual performance of each Underlying would not be combined, and the depreciation in the value of one Underlying would not be offset by any appreciation in the value of the other Underlying. Even if the Observation Values of one Underlying is at or above its respective Threshold Value on an Observation Date, you will not receive the Contingent Coupon Payment with respect to that Observation Date if the Observation Value of the other Underlying is below its Threshold Value on that day. In addition, even if the Ending Values of one Underlying is at or above its respective Threshold Value, you will lose at least 25% of your principal if the Ending Value of the other Underlying is below its Threshold Value.

Trading and hedging activities by us, the Guarantor and any of our other affiliates may affect your return on the notes and their market value. We, the Guarantor and our other affiliates, including MLPF&S, may buy or sell the securities held by or included in an Underlying, or futures or options contracts on an Underlying or those securities, or other listed or over-the-counter derivative instruments linked to an Underlying or those securities. We, the Guarantor and any of our other affiliates, including MLPF&S, may execute such purchases or sales for our own or their own accounts, for business reasons, or in connection with hedging our obligations under the notes. These transactions could affect the value of an Underlying in a manner that could be adverse to your investment in the notes. On or before the pricing date, any purchases or sales by us, the Guarantor or our other affiliates, including MLPF&S or others on its behalf (including for the purpose of hedging anticipated exposures), have affected the value of an Underlying. Consequently, the value of an Underlying may change subsequent to the pricing date, adversely affecting the market value of the notes.

We, the Guarantor or one or more of our other affiliates, including MLPF&S, have engaged in hedging activities that have affected the value of an Underlying on the pricing date. In addition, these activities may decrease the market value of your notes prior to maturity, and may affect the amounts to be paid on the notes. We, the Guarantor or one or more of our other affiliates, including MLPF&S, may purchase or otherwise acquire a long or short position in the notes and may hold or resell the notes. For example, MLPF&S may enter into these transactions in connection with any market making activities in which it engages. We cannot assure you that these activities will not adversely affect the value of an Underlying, the market value of your notes prior to maturity or the amounts payable on the notes.

Our trading, hedging and other business activities may create conflicts of interest with you. We, the Guarantor or one or more of our other affiliates, including MLPF&S, may engage in trading activities related to the Underlyings or the securities represented by the Underlyings that are not for your account or on your behalf. We, the Guarantor or one or more of our other affiliates, including MLPF&S, also may issue or underwrite other financial instruments with returns based upon the Underlyings. These trading and other business activities may present a conflict of interest

between your interest in the notes and the interests we, the Guarantor and our other affiliates, including MLPF&S, may have in our proprietary accounts, in facilitating transactions, including block trades, for our or their other customers, and in accounts under our or their management. These trading and other business activities, if they influence the values of the Underlyings or secondary trading in your notes, could be adverse to your interests as a beneficial owner of the notes.

We expect to enter into arrangements or adjust or close out existing transactions to hedge our obligations under the notes. We, the Guarantor or our other affiliates, including MLPF&S, also may enter

PS-10

into hedging transactions relating to other notes or instruments, some of which may have returns calculated in a manner related to that of the notes offered hereby. We may enter into such hedging arrangements with one of our affiliates. Our affiliates may enter into additional hedging transactions with other parties relating to the notes and the Underlyings. This hedging activity is expected to result in a profit to those engaging in the hedging activity, which could be more or less than initially expected, or the hedging activity could also result in a loss. We and our affiliates will price these hedging transactions with the intent to realize a profit, regardless of whether the value of the notes increases or decreases. Any profit in connection with such hedging activities will be in addition to any other compensation that we, the Guarantor and our other affiliates, including MLPF&S, receive for the sale of the notes, which creates an additional incentive to sell the notes to you.

There may be potential conflicts of interest involving the calculation agent, which is an affiliate of ours. We have the right to appoint and remove the calculation agent. One of our affiliates will be the calculation agent for the notes and, as such, will make a variety of determinations relating to the notes, including the amounts that will be paid on the notes. Under some circumstances, these duties could result in a conflict of interest between its status as our affiliate and its responsibilities as calculation agent. These conflicts could occur, for instance, in connection with the calculation agent's determination as to whether a Market Disruption Event (as defined in the product supplement) has occurred. The calculation agent will be required to carry out its duties in good faith and use its reasonable judgment. However, because we expect that the Guarantor will control the calculation agent, potential conflicts of interest could arise.

The U.S. federal income tax consequences of an investment in the notes are uncertain, and may be adverse to a holder of the notes. No statutory, judicial, or administrative authority directly addresses the characterization of the notes or securities similar to the notes for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the notes are not certain. Under the terms of the notes, you will have agreed with us to treat the notes as contingent income bearing single financial contracts, as described under "U.S. Federal Income Tax Summary—General." If the Internal Revenue Service (the "IRS") were successful in asserting an alternative characterization for the notes, the timing and character of income, gain or loss with respect to the notes may differ. No ruling will be requested from the IRS with respect to the notes and no assurance can be given that the IRS will agree with the statements made in the section entitled "U.S. Federal Income Tax Summary." **You are urged to consult with your own tax advisor regarding all aspects of the U.S. federal income tax consequences of investing in the notes.**

* * *

Investors in the notes should review the additional risk factors set forth beginning on page PS-5 of the product supplement prior to making an investment decision.

PS-11

DESCRIPTION OF THE NOTES

General

The notes will be part of a series of medium-term notes entitled “Senior Medium-Term Notes, Series A” issued under the senior indenture, as amended and supplemented from time to time, among us, the Guarantor and The Bank of New York Mellon Trust Company N.A., as trustee. The senior indenture is more fully described in the prospectus supplement and prospectus. The following description of the notes supplements the description of the general terms and provisions of the notes and debt securities set forth under the headings “Description of the Notes” in the prospectus supplement and “Description of Debt Securities” in the prospectus. These documents should be read in connection with this pricing supplement.

Our payment obligations on the notes are fully and unconditionally guaranteed by the Guarantor. The notes will rank equally with all of our other senior unsecured debt from time to time outstanding. The guarantee of the notes will rank equally with all other senior unsecured obligations of the Guarantor. Any payments due on the notes, including any repayment of principal, are subject to our credit risk, as issuer, and the credit risk of BAC, as guarantor.

The notes will be issued in denominations of \$1,000 and whole multiples of \$1,000. You may transfer the notes only in whole multiples of \$1,000.

Prior to maturity, the notes are not repayable at our option or at your option.

If any scheduled Contingent Payment Date, including the maturity date, is not a business day, the payment will be postponed to the next business day, and no interest will be payable as a result of that postponement.

Contingent Coupon Payment

If, on any quarterly Observation Date, the Observation Value of each Underlying is greater than or equal to its Threshold Value, we will pay the Contingent Coupon Payment on the applicable Contingent Payment Date.

The “Contingent Coupon Payment” will be \$15.00 per \$1,000 in principal amount (a rate of 1.50% per quarter or 6.00% per annum).

The “Threshold Value” for each Underlying (which is 75% of its Starting Value) is set forth on page PS-4 above.

For so long as the notes are held in book-entry only form, we will pay the Contingent Coupon Payment to the persons in whose names the notes are registered at the close of business one business day prior to each Contingent Payment Date. If the notes are not held in book-entry only form, the record dates will be the fifteenth calendar day preceding the applicable payment date, whether or not that date is a business day.

Notwithstanding the foregoing, the Redemption Amount, including the final Contingent Coupon Payment with respect to the final Observation Date, if payable, will be paid to the persons in whose names the notes are registered on the maturity date.

Automatic Early Redemption

The notes will be automatically called in whole, but not in part, prior to maturity if the Observation Value of each Underlying on any Observation Date on or after August 26, 2019 (other than the final Observation Date) is greater

than or equal to its Starting Value. Upon an early redemption, you will receive the Early Redemption Payment on the applicable Contingent Payment Date. You will not receive any additional payments on the notes after the early redemption date.

The “Early Redemption Payment” will be the principal amount of your notes, plus the Contingent Coupon Payment with respect to the applicable Observation Date.

Redemption Amount

If your notes are not called prior to maturity, then at maturity, subject to our credit risk as issuer of the notes and the credit risk of the Guarantor as guarantor of the notes, you will receive the Redemption Amount per note that you hold, denominated in U.S. dollars. The Redemption Amount per

PS-12

note will be calculated as follows:

If the Ending Value of **each** Underlying is greater than or equal to its Threshold Value, the Redemption Amount will equal the principal amount plus the Contingent Coupon Payment with respect to the final Observation Date.

If the Ending Value of **any Underlying** is less than its Threshold Value, the Redemption Amount per note will equal: $\$1,000 + (\$1,000 \times \text{the Underlying Return of the Least Performing Underlying})$

In this case, the Redemption Amount will be less than or equal to 75% of the principal amount of the notes, and you will lose 25% to 100% of your principal.

With respect to each Underlying, its “Underlying Return” will equal:

Ending Value – Starting Value

Starting Value

Determining the Starting Value, the Observation Value and the Ending Value of Each Underlying

With respect to each Underlying, the “Starting Value” is set forth on page PS-4 above.

With respect to each Underlying, the “Observation Value” will be its closing level on the applicable Observation Date.

With respect to each Underlying, the “Ending Value” will be its Observation Value on the final Observation Date.

The Observation Dates are subject to postponement as set forth in the product supplement, in the section “Description of the Notes—Certain Terms of the Notes—Events Relating to Observation Dates.”

Events of Default and Acceleration

If an Event of Default, as defined in the senior indenture and in the section entitled “Events of Default and Rights of Acceleration” beginning on page 35 of the accompanying prospectus, with respect to the notes occurs and is continuing, the amount payable to a holder of the notes upon any acceleration permitted under the senior indenture will be equal to the amount described under the caption “—Redemption Amount,” calculated as though the date of acceleration were the maturity date of the notes and as though the final Observation Date were the third trading day prior to the date of acceleration. We will also determine whether the final Contingent Coupon Payment is payable based upon the prices of the Underlyings on the deemed final Observation Date; any such final Contingent Coupon Payment will be prorated by the calculation agent to reflect the length of the final contingent payment period. In case of a default in the payment of the notes, whether at their maturity or upon acceleration, the notes will not bear a default interest rate.

PS-13

THE UNDERLYINGS

All disclosures contained in this pricing supplement regarding the Underlyings, including, without limitation, their make-up, method of calculation, and changes in their components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by each of S&P Dow Jones Indices LLC (“SPDJI”), the sponsor of the SPX, and FTSE Russell, the sponsor of the RTY. We refer to SPDJI and FTSE Russell as the “Underlying Sponsors.”

The S&P 500® Index

The SPX includes a representative sample of 500 companies in leading industries of the U.S. economy. The SPX is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the SPX is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

Eleven main groups of companies constitute the SPX, with the approximate percentage of the market capitalization of the SPX included in each group as of July 31, 2018 indicated in parentheses: Information Technology (25.6%); Health Care (14.5%); Financials (14.1%); Consumer Discretionary (12.7%); Industrials (9.9%); Consumer Staples (6.9%); Energy (6.2%); Utilities (2.9%); Real Estate (2.8%) Materials (2.6%); and Telecommunication Services (1.9%). The Underlying Sponsor may from time to time, in its sole discretion, add companies to, or delete companies from, the SPX to achieve the objectives stated above.

Effective March 10, 2017, company additions to the S&P 500® Index must have an unadjusted company market capitalization of \$6.1 billion or more (an increase from the previous requirement of an unadjusted company market capitalization of \$5.3 billion or more).

The Underlying Sponsor calculates the SPX by reference to the prices of the constituent stocks of the SPX without taking account of the value of dividends paid on those stocks. As a result, the return on the notes will not reflect the return you would realize if you actually owned the SPX constituent stocks and received the dividends paid on those stocks. Additional information is available on the following websites: us.spindices.com/indices/equity/sp-500 and spdji.com/. We are not incorporating by reference the websites or any material they include in this pricing supplement.

Computation of the SPX

While the Underlying Sponsor currently employs the following methodology to calculate the SPX, no assurance can be given that the Underlying Sponsor will not modify or change this methodology in a manner that may affect the Redemption Amount.

Historically, the market value of any component stock of the SPX was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, the Underlying Sponsor began shifting the SPX halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the SPX to full float adjustment on September 16, 2005. The Underlying Sponsor’s criteria for selecting stocks for the SPX did not change with the shift to float adjustment. However, the adjustment affects each company’s weight in the SPX.

Under float adjustment, the share counts used in calculating the SPX reflect only those shares that are available to investors, not all of a company’s outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock's outstanding shares, other than holdings by "block owners," were removed from the float for purposes of calculating the SPX. Generally, these "control holders" will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, ESOPs, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all levels (other than government retirement/pension funds) and any individual person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depository banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, restricted shares, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depository shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block. If a company has multiple classes of stock outstanding, shares in an unlisted or non-traded class are treated as a control block.

PS-14

For each stock, an investable weight factor (“IWF”) is calculated by dividing the available float shares by the total shares outstanding. Available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company’s officers and directors hold 3% of the company’s shares, and no other control group holds 5% of the company’s shares, the Underlying Sponsor would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company’s officers and directors hold 3% of the company’s shares and another control group holds 20% of the company’s shares, the Underlying Sponsor would assign an IWF of 0.77, reflecting the fact that 23% of the company’s outstanding shares are considered to be held for control. As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the SPX. Constituents of the SPX prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the SPX. If a constituent company of the Index reorganizes into a multiple share class line structure, that company will remain in the SPX at the discretion of the S&P Index Committee in order to minimize turnover.

The SPX is calculated using a base-weighted aggregate methodology. The level of the SPX reflects the total market value of all component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to work with and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941- 43 = 10. In practice, the daily calculation of the SPX is computed by dividing the total market value of the component stocks by the “index divisor.” By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the SPX, it serves as a link to the original base period level of the SPX. The index divisor keeps the SPX comparable over time and is the manipulation point for all adjustments to the SPX, which is index maintenance.

Index Maintenance

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructuring or spinoffs. Some corporate actions, such as stock splits and stock dividends, require changes in the common shares outstanding and the stock prices of the companies in the SPX, and do not require index divisor adjustments.

To prevent the level of the SPX from changing due to corporate actions, corporate actions which affect the total market value of the SPX require an index divisor adjustment. By adjusting the index divisor for the change in market value, the level of the SPX remains constant and does not reflect the corporate actions of individual companies in the SPX. Index divisor adjustments are made after the close of trading and after the calculation of the SPX closing level.

Changes in a company’s shares outstanding and IWF due to its acquisition of another public company are made as soon as reasonably possible. At the index sponsor’s discretion, *de minimis* merger and acquisition share changes are accumulated and implemented with the quarterly share rebalancing.

All other changes of less than 5% are accumulated and made quarterly on the third Friday of March, June, September, and December.

Changes in a company’s total shares outstanding of 5% or more due to public offerings are made as soon as reasonably possible. Other changes of 5% or more (for example, due to tender offers, Dutch auctions, voluntary exchange offers, company stock repurchases, private placements, acquisitions of private companies or non-index companies that do not trade on a major exchange, redemptions, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participations, at-the-market stock offerings or other recapitalizations) are made weekly, and are generally announced on Fridays for implementation after the close of trading the following Friday (one week later). If a 5% or more share change causes a company’s IWF to change by five percentage points or more, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by-case

basis.

Changes in IWFs of more than five percentage points caused by corporate actions (such as merger and acquisition activity, restructurings, or spinoffs) will be made as soon as reasonably possible. Other changes in IWFs will be made annually when IWFs are reviewed.

PS-15

The following graph sets forth the daily historical performance of the SPX in the period from January 1, 2008 through the pricing date. This historical data on the SPX is not necessarily indicative of its future performance or what the value of the notes may be. Any historical upward or downward trend in the level of the SPX during any period set forth below is not an indication that the level of the SPX is more or less likely to increase or decrease at any time over the term of the notes. The horizontal line in the graph represents the Threshold Value of 2,173.14, which is 75% of its Starting Value of 2,897.52.

Before investing in the notes, you should consult publicly available sources for the levels of the SPX.

PS-16

License Agreement

S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks have been licensed for use by S&P Dow Jones Indices LLC. "Standard & Poor's", "S&P 500" and "S&P" are trademarks of S&P. These trademarks have been sublicensed for certain purposes by our affiliate, MLPF&S. The SPX is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by MLPF&S.

The notes are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P or any of their respective affiliates (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices make no representation or warranty, express or implied, to the holders of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes particularly or the ability of the SPX to track general market performance. S&P Dow Jones Indices' only relationship to MLPF&S with respect to the SPX is the licensing of the SPX and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its third party licensors. The SPX is determined, composed and calculated by S&P Dow Jones Indices without regard to us, MLPF&S, or the notes. S&P Dow Jones Indices have no obligation to take our needs or the needs of MLPF&S or holders of the notes into consideration in determining, composing or calculating the SPX. S&P Dow Jones Indices are not responsible for and have not participated in the determination of the prices, and amount of the notes or the timing of the issuance or sale of the notes or in the determination or calculation of the equation by which the notes are to be converted into cash. S&P Dow Jones Indices have no obligation or liability in connection with the administration, marketing or trading of the notes. There is no assurance that investment products based on the SPX will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC and its subsidiaries are not investment advisors. Inclusion of a security or futures contract within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security or futures contract, nor is it considered to be investment advice. Notwithstanding the foregoing, CME Group Inc. and its affiliates may independently issue and/or sponsor financial products unrelated to the notes currently being issued by us, but which may be similar to and competitive with the notes. In addition, CME Group Inc. and its affiliates may trade financial products which are linked to the performance of the SPX. It is possible that this trading activity will affect the value of the notes.

S&P DOW JONES INDICES DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE SPX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY US, BAC, MLPF&S, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE SPX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND MLPF&S, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

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In neurosurgery, we develop, design and manufacture precision-engineered, microsurgical instruments. In addition, we believe we are the premier manufacturer of bipolar electro-surgical systems for use in neurosurgery. Our neurosurgical bipolar electro-surgical systems compete against the Valleylab division of Covidien Ltd. (formerly Tyco Healthcare Group), Kirwan Surgical Products, Inc., Erbe Elektromedizin GmbH and Aesculap including Aesculap Inc., USA and Aesculap GmbH, divisions of B. Braun Medical Inc. Our Omni[®] ultrasonic aspirator competes against Integra Life Sciences Holdings, Corp., the manufacturer of the CUSA[™] and the Selector[™] ultrasonic systems. Our neurosurgical instruments and disposables compete against manufacturers of similar products, including those sold by Integra NeuroSciences. Also, we compete with smaller and larger specialized companies that do not otherwise focus on neurosurgery. Our products also compete with other technologies, such as lasers, handheld instruments and a variety of tissue removal systems designed for removing skull-based tumors. In the future, aggressive pharmaceutical intervention may preclude the use of our surgical products.

OEM Markets

The Company has OEM marketing partner relationships with Codman, Stryker Corporation (Stryker) and Iridex. The loss of a majority of all revenues associated with the Codman relationship would have a significant adverse effect on the Company in the immediate future following such an event.

In the neurosurgical market, the bipolar electro-surgical system manufactured by Valley Forge prior to the merger has been marketed for over 25 years through a series of distribution agreements with Codman. On April 2, 2009, the Company executed a new, three-year distribution agreement with Codman for the continued distribution by Codman of the third generation electro-surgical generator, certain other generators, related disposables, accessories and other options. In addition, the Company entered into a new, three-year license agreement, which provides for the continued licensing of the Company's Malf[®] trademark to Codman for use with certain Codman products, including those covered by the distribution agreement. Both agreements expire on December 31, 2011. Sales to Codman in the fiscal year ended July 31, 2009 comprised approximately 10.1 percent of sales.

The Company supplies a lesion generator used for minimally invasive pain treatment to Stryker pursuant to a supply and distribution agreement dated as of October 25, 2004. The original term of the agreement was for slightly over five years, commencing on November 11, 2004 and ending on December 31, 2009. On August 1, 2007, the Company negotiated a one-year extension to the agreement and increased the minimum purchase obligation to 300 units per year for the remaining contract period. The agreement covers the manufacture and supply of the lesion generator unit together with certain accessories. The pain control unit can be utilized for facet denervation, rhizotomy, percutaneous cordotomy, dorsal root entry zone lesions, peripheral neuralgia, trigeminal neuralgia and ramus communications. Pain relief is achieved by the controlled heating of the area surrounding the electrode tip. A thermosensor in the probe is used to control tissue temperature. Impedance values are displayed to guard against unsafe conditions. The system provides an electrical stimulator for nerve localization and various coagulating outputs that are selectable based on the procedures undertaken. The generator is configured for bipolar output to minimize current spread, as well as monopolar operation. The agreement also provides Stryker the right of first refusal for the distribution of certain other products in the pain control; orthopedic; ear, nose and throat (ENT); craniomaxillofacial; and head and neck surgery markets.

In addition, the Company manufactures directional laser probes for Iridex. In October 2005, Iridex filed a lawsuit against the Company for infringement of its Patent No. 5,085,492 entitled Optical Fiber with Electrical

Table of Contents

Encoding. Pursuant to a settlement of the lawsuit in 2007, the parties entered into a manufacture and supply agreement in which the Company obtained the right to manufacture and supply various laser probes to Iridex. This agreement expires in April of 2012.

Operations

Manufacturing and Supplies

We design, manufacture and assemble the majority of our ophthalmic and certain of our neurosurgical products in our facility in O Fallon, Missouri. The bipolar electrosurgical generators (including the neurosurgical, pain control and other generator units) are manufactured in our facility in King of Prussia, Pennsylvania. The Omni[®] ultrasonic aspirator, the Vitra[™] and Supra[™] laser units and the Volk lenses and Optiflex[™] systems are manufactured by the respective manufacturers. Our products are assembled from raw materials and components supplied to us by third parties. Most of the raw materials and components we use in the manufacture of our products are available from more than one supplier. For some components, there are relatively few alternate sources of supply. However, we rely upon single source suppliers or contract manufacturers for a small portion of our disposable product line, for the production of our Omni[®] console and handpieces and for several key components of our Photon[™] light sources and our electrosurgical generators. Our profit margins and our ability to develop and deliver products on a timely basis may be adversely affected by the lack of alternative supply in the required timeframe.

The Company continues to introduce lean manufacturing processes into the production environment. During the fiscal year ended July 31, 2009, four product families were introduced to the lean manufacturing methodology with cost savings of approximately 36 percent and floor space reductions of approximately 25 percent. We plan to continue to apply the lean philosophy to our product families one value stream at a time and complete this implementation throughout our disposable product lines during fiscal year 2010. We will also be applying this philosophy to other departments in our organization, including purchasing, accounting and administration. In addition, the Company's most recent acquisition, Medimold, Inc., is producing components which were previously supplied by outside vendors. We continue to introduce our higher volume plastic components to this lower cost process. Our annual savings from the continued introduction of new production parts to the injection molding process is projected to be over \$200,000 for fiscal year 2010.

During fiscal year 2009, the Company formed a Supply Chain Management department which merged the production planning department, the warehouse function and customer service department together. The Supply Chain Manager is responsible for the utilization of MRP within the information system. This reorganization and the use of MRP resulted in a reduction in the days of inventory on hand from 218 days for the three month period ending July 31, 2008 (annualized), to 201 days for the three month period ending July 31, 2009 (annualized). In addition, our service level on our A products (those products which provide over 80 percent of our sales) increased to 1.55 days, representing the average time between the receipt of an order for an A product and its shipping date. In addition, our backorder decreased from approximately \$750,000 at July 31, 2008, to approximately \$40,000 at July 31, 2009.

In October 2005, we completed a 27,000 square foot addition to our 33,000 square foot manufacturing facility and headquarters in O Fallon, Missouri. In July 2005, Valley Forge moved its Philadelphia manufacturing, engineering and assembly facility and the Oaks, Pennsylvania selling, general and administrative offices into a new facility located in King of Prussia, Pennsylvania. Effective May 1, 2005, Valley Forge entered into a combination sublease and lease agreement for this facility of approximately 13,500 square feet of office, engineering and manufacturing space for a term of four and one-half years, which expires October 31, 2009. In November of 2008, this lease was extended through October 31, 2012. In August 2007, we leased approximately 10,000 square feet of additional space adjacent to our headquarters in O Fallon, Missouri for a term of five years. In addition, effective June of 2008, we purchased Medimold, Inc., a St. Peters, Missouri-based injection molding company that leases approximately 1,500 square feet

of manufacturing space on a month-to-month basis.

Table of Contents

Government Regulations

Medical devices manufactured by the Company are subject to extensive regulation by governmental authorities, including federal, state and non-U.S. governmental agencies. The principal regulator in the United States is the Food and Drug Administration (the FDA).

FDA regulations are wide ranging and govern the production and marketing of new medical devices, the observance of certain standards with respect to the design, manufacture, testing, labeling and promotion of devices, the maintenance and retention of certain records, the ability to track devices in distribution, the reporting of potential product defects and patient incidents, the export of devices and other matters.

All medical devices introduced into the market since 1976, which include substantially all of our products, are required by the FDA as a condition of sale and marketing to secure either a 510(k) Premarket Notification clearance or an approved Premarket Approval Application (PMA). A Premarket Notification clearance indicates FDA agreement with an applicant's determination that the product for which clearance has been sought is substantially equivalent to another medical device that was on the market before 1976 or that has received 510(k) Premarket Notification clearance since that time. The process of obtaining a Premarket Notification clearance can take several months or years and may require the submission of limited clinical data and supporting information. The PMA process typically requires the submission of significant quantities of clinical data and manufacturing information and involves significant review costs.

Under FDA regulations, after a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in the intended use of the device, technology, materials or packaging, requires a new 510(k) clearance. The FDA requires a manufacturer to make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees, it can require a manufacturer to obtain a new 510(k) clearance or it can seek enforcement action against the manufacturer.

We are also required to register with the FDA as a device manufacturer and to maintain compliance with the FDA's Quality System Regulations (QSRs). The QSRs incorporate the requirements of Good Manufacturing Practice as well as other regulatory requirements of the FDA, which mandate detailed quality assurance and record-keeping procedures and subject manufacturers to unscheduled periodic quality system inspections. We conduct internal quality assurance audits throughout the manufacturing process and believe the Company is in material compliance with all applicable government regulations.

We may not promote or advertise our products for uses not within the scope of our clearances or approvals or make unsupported safety or effectiveness claims. Further, we are required to comply with various FDA regulations for labeling and promotion. The Medical Device Reporting regulations require that we provide information to the FDA whenever there is evidence to reasonably suggest that one of our devices may have caused or contributed to a death or serious injury. In addition, the FDA prohibits us from promoting a medical device before marketing clearance has been received or promoting a cleared device for unapproved indications. Noncompliance with applicable regulatory requirements can result in enforcement action, which is more fully described in Part 1, Item 1A, Risk Factors section of this Form 10-K.

Medical device regulations also are in effect in many of the countries outside the United States in which our products are sold. These laws range from comprehensive device approval and quality system requirements for some or all of our medical device products to simpler requests for product data or certifications. The number and scope of these requirements are increasing. In June 1998, the European Union Medical Device Directive became effective, and all medical devices sold in the European common market must meet the Medical Device Directive standards. The Company sells its products in the European medical device market; as such, we have voluntarily chosen to subject

ourselves to the audits established by the European Union through which we have obtained CE marking for many of our products. The Company is subjected to annual audits at both of our manufacturing facilities for compliance to the quality system standards established by the International Standards Organization (ISO) and Medical Device Directives established by European law. The Company is certified to ISO 13485:2003, the international standard for quality systems as applied to medical devices. Failure to correct deficiencies discovered during an audit could result in the removal of the CE mark on our products, which would effectively bar the sale of the Company's products in the European market. Such a result would have a significant and material negative impact on the Company and its business. In addition, there are several other countries that require additional regulatory clearances.

Table of Contents

Management believes that we are in material compliance with the government regulations governing our business.

Safety Approvals

The majority of our capital equipment products also require electrical safety testing, and in some cases electromagnetic compatibility testing, either as a product registration requirement and/or to gain market acceptance.

Research and Development

Our R&D primarily focuses on developing new products based on our proprietary Malis[®] electrosurgical generator/DualWave[™] technology, our Omni[®] system and Photon[™] technology and our expertise in vitreoretinal surgery and neurosurgery. We are continually engineering new products and instrumentation, as well as enhancements to existing products, to meet the needs of surgeons in ophthalmology and neurosurgery disciplines. We have entered into consultation arrangements with leading ophthalmic surgeons, all of whom specialize in vitreoretinal procedures. In neurosurgery, we have worked closely with leading neurosurgeons to develop ultrasonic tips used with our Omni[®] system and microsurgical instruments.

The Company has historically invested in leading edge R&D projects. In fiscal 2010, we expect continued development of Malis[®] electrosurgical generators and supporting accessories; the second generation ultrasonic aspirator and supporting accessories; 25, 23 and 20 gauge precision instruments; endoillumination and laser probes; Photon[™] supporting disposables; and other products used in conjunction with minimally invasive surgical procedures.

For 2009, 2008 and 2007 fiscal years, the Company expended approximately \$3.0 million, \$2.7 million and \$2.6 million, respectively, for R&D, which represented 5.7 percent, 5.3 percent and 5.6 percent of net sales. We anticipate that we will continue to incur greater R&D costs in connection with the development of our products. In July 2009, the Company completed a reorganization of its R&D resources in O'Fallon, Missouri by aligning resources along three different development categories, including an advanced technology group which works on longer-term, highly complex R&D initiatives, an instrument group which works on strategically targeted hand-held instrumentation and a manufacturing engineering group which works on product line extensions. The instrument group has been relocated next to ophthalmic marketing and manufacturing engineering. The realignment of R&D will allow greater flexibility to meet the ever-changing needs of our customers as well as allowing the Company to focus on those products and technologies that fit within our strategic plan. In addition, the Company has an electrosurgery-focused R&D department in King of Prussia, Pennsylvania.

In order to focus new product development resources on the highest priority projects, in October 2008, the Company completed a thorough review and prioritization of its R&D efforts leading to a reduction in the number of active, major projects in the R&D pipeline to 36. In addition, the Company developed a uniform policies and procedures manual for its R&D initiatives, which included a measurement of the potential return on investment at various stages in the development life cycle. At July 31, 2009, the Company's development pipeline included 39 major projects in various stages of completion. The Company expects to invest in R&D at rates of 4 to 6 percent of net sales each fiscal year. Substantially all of our R&D is conducted internally. In the 2010 fiscal year, we anticipate that we will fund all of our R&D with current assets and cash flows from operations. We continuously review our R&D initiatives to ensure that they remain consistent with and supportive of our strategic growth initiatives.

During fiscal 2009, the Company's R&D efforts produced 18 new catalogue items. New products, which management defines as products introduced within the prior 24-month period, accounted for approximately \$3.6 million, or 6.8 percent, of total sales for the Company for fiscal 2009. For fiscal 2008, new products accounted for approximately

17.2 percent of total sales for the Company, or \$8.6 million.

Intellectual Property

Our ability to effectively compete in our product markets depends in part on developing, improving, and maintaining proprietary aspects of our technology platforms. To maintain the proprietary nature of our technology, we rely on patents and patent applications, trade secrets, trademarks and know how. Patented and patent pending

Table of Contents

technology is used in most of our product lines, including our Malis® line of bipolar electro-surgical generators and accessories, our Photon™ and Lumen™ lines of illumination technology with complimentary accessories, our Omni® line of ultrasonic bone cutting tips, and various other reusable and disposable instruments.

Currently, the Company owns 41 unexpired United States patents, the oldest of which was issued in 1994, and none of which will expire before 2012. We do not believe that the expiration of any one patent, or the expiration over time of all of our currently unexpired patents, will have a material, adverse effect on our business. The Company also has multiple pending U.S. patent applications, which we believe will, in due course, issue as patents. However, other companies and entities have filed patent applications or have obtained issued patents relating to instruments, laser probes, endoillumination, light sources, monopolar and bipolar electro-surgical methods and devices, any of which may impact our ability to obtain patents in the future. When deemed appropriate for our business success, we will enforce and defend our patent rights.

We generally seek patent protection in the U.S. on technological advancements used or likely to be used in our products and product improvements, and may seek patent protection on such technology in select non-U.S. countries. We do not, however, rely exclusively on our patents to provide us with competitive advantages with respect to our existing product lines. We also rely upon trade secrets, know-how, continuing technological innovations and superior engineering to develop and maintain our competitive advantage.

In an effort to protect our trade secrets, we generally require our consultants, advisors and employees to execute confidentiality agreements and, when appropriate, invention assignment agreements upon commencement of employment, or a consulting or advising relationship with us. These agreements typically provide that all confidential information developed or made known to the subject person during the course of that person's relationship with us must be kept confidential and cannot be used, except in specified circumstances. When appropriate, these agreements also contain provisions requiring these individuals to assign to us, without additional consideration, any inventions conceived or reduced to practice by the subject person while employed or retained by the Company, subject to customary exceptions.

The Malis, Omni, Bi-Safe, Gentle Gel, Finest Energy Source Available for Surgery and Bident are our registered trademarks. Synergetics, Photon, Photon I, Photon II, P1, P2, DualWave, COAG, Advantage, Burst, Microserrated, Mircofiber, Solution, TruMicro, DDMS, Kryptonite, Diamond Black, Bullseye, Claw, Micro Claw, Open Angle Micro Claw, One-Step, Barracuda, aXcess, Flexx, Lumen, Lumenators, Veritas and Vivid product names are our trademarks. All other trademarks or tradenames appearing in this Form 10-K are the property of their respective owners.

Employees

In October 2009, we had approximately 380 employees. From time to time, we retain part-time employees, engineering consultants, scientists and other consultants. All full-time employees are eligible to participate in our health benefit plan. None of our employees are represented by a union or covered by a collective bargaining agreement. We consider our relationship with our employees to be satisfactory.

Executive Officers of the Registrant

The following table sets forth certain information, as of the date of this annual report on Form 10-K, with respect to the executive officers of the Company.

Name	Age	Position(s) with the Company
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David M. Hable	54	President, Chief Executive Officer & Director
Kurt W. Gampp, Jr.	49	Executive Vice President, Chief Operating Officer & Director
Jerry L. Malis	77	Executive Vice President, Chief Scientific Officer & Director
Pamela G. Boone	46	Executive Vice President, Chief Financial Officer, Treasurer & Secretary

Table of Contents

David M. Hable joined the Company as its President and CEO in January 2009. Prior to joining the Company, Mr. Hable served as President and CEO of Afferent Corporation, a venture capital backed medical device company focused on neuro stimulation therapies. Previously, he was Chairman of the Board of ONI Medical Systems, Inc., a developer and marketer of magnetic resonance imaging equipment for extremity applications in non-hospital settings. Mr. Hable also spent over 20 years with Codman, which develops and markets a wide range of diagnostic and therapeutic products for the treatment of central nervous system disorders. Mr. Hable was engaged at Codman in several sales and marketing positions. From 1998 to 2003, Mr. Hable served as Codman's Worldwide President leading all functions in the company, both domestically and internationally. Mr. Hable has overall responsibility for the management of the Company.

Kurt W. Gampp, Jr. is the Company's Executive Vice President and Chief Operating Officer and has served in these positions and as a director since 2005. Immediately prior to the merger with Valley Forge, Mr. Gampp served as the Executive Vice President and Chief Operating Officer of Synergetics and had served in this position since Synergetics was founded in 1991. Mr. Gampp coordinates and supervises the manufacturing of the Company's products and is in charge of the daily production operations of the Company.

Jerry L. Malis is the Company's Executive Vice President and Chief Scientific Officer and has served in these positions and as director since 2005. Immediately prior to the consummation of the merger with Valley Forge, Dr. Malis served as Valley Forge's Chief Executive Officer, President and Chairman of the Board of Valley Forge. He has published over 50 articles in the biological science, electronics and engineering fields, and has been issued ten United States patents. Dr. Malis coordinates and supervises the scientific developments of the Company.

Pamela G. Boone joined the Company as its Chief Financial Officer in May 2005. Prior to this, Ms. Boone served as Vice President and Chief Financial Officer of Maverick Tube Corporation from 2001 until January 2005 and as Vice President, Treasurer and acting Chief Financial Officer until May 2005. Maverick Tube Corporation, a Missouri-based company (Maverick), was a leading North American producer of welded tubular steel products used in energy and industrial applications. From 1997 to 2001, Ms. Boone served as Maverick's Corporate Controller. Ms. Boone coordinates and supervises the financial, accounting, human resources, information technology, legal and quality aspects of the Company.

Available Information

We make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished as required by Section 13(a) or 15(d) of the Exchange Acts, through our internet website at www.synergeticsusa.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. You should carefully consider the risks described below before making an investment decision.

We are exposed to risks associated with world-wide economic slowdowns and related political uncertainties.

We are subject to macro-economic fluctuations in the United States economy. Concerns about consumer and investor confidence, volatile corporate profits and reduced capital spending, international conflicts, terrorist and military activity, civil unrest and pandemic illness could cause a slowdown in customer orders or cause customer order cancellations. In addition, political and social turmoil related to international conflicts and terrorist acts may put

further pressure on economic conditions in the United States and abroad.

Recent macro-economic issues involving the broad financial markets, including the housing and credit system and general liquidity issues in the securities markets have negatively impacted the economy and may have negatively affected our growth, and such issues may continue to affect growth in the future. In addition, weak economic conditions and declines in consumer spending and consumption may harm our operating results.

Table of Contents

Although purchases of our products are not often discretionary, the lack of health care insurance may cause some procedures to be delayed or postponed as long as possible. If the economic climate deteriorates further, some follow-on effects could impact our business, including insolvency of key suppliers resulting in product delays, delays in customer payments of outstanding accounts receivable and customer insolvencies, counterparty failures negatively impacting our operations and increased expense or inability to obtain future financing. In addition, these issues have impacted the sales of our capital equipment during the fiscal year.

In addition, recent public policy decisions with respect to health care reform and a medical device manufacturer fee proposal or new proposal could increase our cost of operations and reduce our net income.

If any of our single source suppliers were to cease providing components, we may not be able to produce our products.

The manufacture of Synergetics Photo^{fl} light sources depends on single sources for several key components. If any of these suppliers become unwilling or unable to provide products or components in the required volumes and quality levels or in a timely manner, we would be required to locate and contract with substitute suppliers. Although we believe that alternative sources for many of these components and raw materials are available, we could have difficulty identifying a substitute supplier in a timely manner or on commercially reasonable terms and may have to pay higher prices to obtain the necessary materials. Any supply interruption could harm our ability to manufacture our products until a new source of supply is identified and qualified.

The medical device industry is highly competitive, and we may be unable to compete effectively with other companies.

The medical technology industry is characterized by intense competition. We compete with established medical technology companies and early stage companies that have alternative solutions for the markets we serve or intend to serve. Many of our competitors have access to greater financial, technical, R&D, marketing, manufacturing, sales, distribution services and other resources than we do. Furthermore, our competitors may be more effective at implementing their technologies to develop commercial products. Certain of the medical indications that can be treated by our devices can also be treated by other medical devices or by medical practices that do not include a device. The medical community widely accepts many alternative treatments and certain of these other treatments have a long history of use.

Our competitive position depends on our ability to achieve market acceptance for our products, develop new products, implement production and marketing plans, secure regulatory approval for products under development and protect our intellectual property. We may need to develop new applications for our products to remain competitive. Technological advances, including pharmacology, by one or more of our current or future competitors could render our present or future products obsolete or uneconomical. Our future success depends upon our ability to compete effectively against current technology, as well as respond effectively to technological advances, and upon our ability to successfully implement our marketing strategies and execute our R&D plan.

Our future results are dependent, in part, upon the successful transition of our neurosurgical products to our marketing partners.

During July 2009, the Company completed a reduction in personnel of approximately 10 percent of our workforce including most of our direct neurosurgical sales force. The distribution of our neurosurgical products will continue through a combination of our existing marketing partners and potentially new, marketing partners or indirect distributors. The successful distribution will be dependent in part by:

their acceptance by our marketing partners;

their acceptance by the surgeon;

our ability to respond to our marketing partners needs; and

the reaction of our marketing partners competitors in this market.

Table of Contents

Our industry is experiencing greater scrutiny and regulation by governmental authorities, which may lead to greater governmental regulation in the future.

Medical device companies are subject to rigorous regulation, including by the FDA and numerous other federal, state and foreign governmental authorities. These authorities and members of Congress have been increasing their scrutiny of our industry. In addition, certain states have recently passed or are considering legislation restricting our interactions with health care providers and requiring disclosure of many payments to them. Also, while recent case law has clarified that the FDA's authority over medical devices preempts state tort laws, legislation has been introduced at the Federal level to allow state intervention. We anticipate that the government will continue to closely scrutinize our industry, and additional regulation by governmental authorities may increase compliance costs, exposure to litigation and other adverse effects to our operations.

A significant part of our neurosurgical products sales comes from a single customer, which makes us vulnerable to the loss of that customer.

Codman currently accounts for most of our total revenue from sales of our bipolar electro-surgical generators. During the fiscal year ended July 2009, revenue from sales of our bipolar electro-surgical generators, cord tubing sets and royalty payments from Codman represented approximately 10.1 percent of the Company's total net sales. Under our existing agreement with Codman, Codman distributes the third generation generator trademarked as the CMC™ III on an exclusive basis. Our existing agreement with Codman will expire by its own terms on December 31, 2011, unless extended by mutual agreement of the parties. In order to continue to be a marketing partner to Codman, we are designing new generators for its distribution. These new generators will require electrical safety testing before we begin manufacturing these new units. Our efforts to maintain a continuous supply to Codman may not be sufficient depending on our unit sales of the CMC™ III and the time required for redesign and subsequent approval.

Our products may not be accepted in the market.

We cannot be certain that our current products or any other products we may develop or market will achieve or maintain market acceptance. We cannot be certain that our devices and the procedures they perform will be able to replace established treatments or that either physicians or the medical community in general will accept and utilize our devices or any other medical products that we may develop. For example, we cannot be certain that the medical community will accept our multifunctional, electro-surgical generators and related instruments over traditional monopolar and existing bipolar electro-surgical generators and instruments.

Market acceptance of our products depends on many factors, including our ability to:

convince third-party distributors and customers that our technology is an attractive alternative to other technologies;

manufacture products in sufficient quantities and at acceptable costs; and

supply and service sufficient quantities of our products directly or through marketing alliances.

If we do not introduce new commercially successful products in a timely manner, our products may become obsolete over time, thereby decreasing our revenue and profitability.

Demand for our products may change because of evolving customer needs, the introduction of new products and technologies, the discovery of cures for certain medical problems, including pharmacology, evolving surgical

practices and evolving industry standards. Without the timely introduction of new commercially successful products and enhancements, our products may become obsolete over time causing our sales and operating results to suffer. The success of our new products will depend on several factors, including our ability to:

properly identify and anticipate customer needs;

commercialize new products in a cost-effective and timely manner;

manufacture and deliver products in sufficient volumes on time;

Table of Contents

obtain regulatory approval for new products;

differentiate our products from those of our competitors;

achieve positive clinical outcomes;

satisfy the increased demands by health care payors, providers and patients for lower-cost procedures and shorter hospital stays and recovery times;

innovate and develop new materials, product designs and surgical techniques; and

provide adequate medical and/or customer education relating to new products and attract key surgeons to advocate these new products.

New products and enhancements usually require a substantial investment in R&D before we can determine the viability of the product, and we may not have the financial resources necessary to fund this R&D. Moreover, new products and enhancements may not produce revenues in excess of the R&D costs, and they may become obsolete by changing customer preferences or the introduction by our competitors of new technologies or features. Failure to develop our manufacturing capability may mean that even if we develop promising new products, we may not be able to produce them profitably, as a result of delays and additional capital investment costs.

Quality problems with our processes, goods and services could harm our reputation for producing high quality products and erode our competitive advantage.

Quality is extremely important to us and our customers due to the serious and costly consequences of product failure. Our quality certifications are critical to the marketing success of our goods and services. If we fail to meet these standards, our reputation could be damaged, we could lose customers and our revenue could decline. Aside from specific customer standards, our success depends generally on our ability to manufacture to exact tolerances precision engineered components, sub-assemblies and finished devices from multiple materials. If our components fail to meet these standards or fail to adapt to evolving standards, our reputation as a manufacturer of high quality components will be harmed, our competitive advantage could be damaged and we could lose customers and market share.

Our operating results may fluctuate.

Our operating results have fluctuated in the past and can be expected to fluctuate from time to time in the future. Some of the factors that may cause these fluctuations include, but are not limited to:

the introduction of new product lines;

product modifications;

the level of market acceptance of new products;

the timing of R&D and other expenditures;

timing of the receipt of orders from, and product shipments to, distributors and customers;

timing of customer capital availability and other selling and general expenditures;

changes in the distribution arrangements for our products;
manufacturing or supply delays;
the time needed to educate and train additional sales personnel;
costs associated with product introductions;
costs associated with defending our intellectual property;
product returns; and
receipt of necessary regulatory approvals.

Table of Contents

Changes in the health care industry may require us to decrease the selling price for our products or could result in a reduction in the size of the market for our products, each of which could have a negative impact on our financial performance.

Trends toward managed care, health care cost containment and other changes in government and private sector initiatives in the United States and other countries in which we do business are placing increased emphasis on the delivery of more cost-effective medical therapies that could adversely affect the sale or the prices of our products.

For example:

There has been a consolidation among health care facilities and purchasers of medical devices in the United States who prefer to limit the number of suppliers from whom they purchase medical products and these entities may decide to stop purchasing their products or demand discounts on our prices;

Major third-party payors of hospital services, including Medicare, Medicaid and private health care insurers, could substantially revise their payment methodologies or could impose reimbursement cutbacks that could create downward price pressure on our products;

Recently, there has been an FDA-provided incentive for surgeons to move certain procedures from hospitals to ambulatory surgical centers, which may impact the demand for and distribution of our surgical products;

Numerous legislative proposals have been considered that, if adopted, would result in major reforms in the United States health care system that could have an adverse effect on our business;

There is economic pressure to contain health care costs in international markets; and

There have been initiatives by third-party payors to challenge the prices charged for medical products that could affect our ability to sell products on a competitive basis.

Both the pressures to reduce prices for our products in response to these trends and the decrease in the size of the market as a result of these trends could adversely affect our levels of revenues and profitability of our sales.

Delays in the receipt or failure to receive clearances or approvals, the loss of previously received clearances or approvals, or failure to comply with existing or future regulatory requirements could have a material adverse effect on our business, financial condition, results of operations and future growth prospects.

Our R&D activities and the manufacturing, labeling, distribution and marketing of our existing and future products are subject to regulation by governmental agencies in the United States and in other countries. The FDA and comparable agencies in other countries impose mandatory procedures and standards for the conduct of clinical trials and the production and marketing of products for diagnostic and human therapeutic use.

Products we have under development are subject to FDA approval or clearance before marketing for commercial use. The process of obtaining necessary FDA approvals or clearances can take years, is expensive and the outcome may be uncertain. Our inability to obtain required regulatory approval or clearance on a timely or acceptable basis could harm our business. Further, approval or clearance may place substantial restrictions on the indications for which the product may be marketed or to whom it may be marketed. Additional studies may be required to gain approval or clearance for the use of a product for clinical indications other than those for which the product was initially approved or cleared or for significant changes to the product.

Furthermore, another risk relates to the regulatory classification of new products or proposed new uses for existing products. In the filing of each application, we are required to make a judgment about the appropriate form and content of the application. If the FDA disagrees with our judgment in any particular case and, for example, requires us to file a PMA rather than allowing us to market for approved uses while we seek broader approvals or requires extensive additional clinical data, the time and expense required to obtain the approval might be significantly increased or approval might not be granted. Approved and cleared products are subject to continuing FDA requirements relating to quality control and quality assurance, maintenance of records, reporting of adverse events and product recalls, documentation and labeling and promotion of medical devices.

Table of Contents

There can be no assurance that we will be able to obtain necessary clearances or approvals to market any other products, or existing products for new intended uses, on a timely basis, if at all.

We may be subject to penalties and may be precluded from marketing our products if we fail to comply with extensive governmental regulations.

The FDA and non-U.S. regulatory authorities require that our products be manufactured according to rigorous standards. These regulatory requirements may significantly increase our production costs and may even prevent us from making our products in amounts sufficient to meet market demand. If we change our approved manufacturing process, the FDA may need to review the process before it may be used. Failure to comply with applicable regulatory requirements discussed throughout this annual report on Form 10-K could subject us to enforcement actions, including:

warning letters;

fines, injunctions and civil penalties against us;

recall or seizure of our products;

operating restrictions, partial suspension or total shutdown of our production;

refusing our requests for premarket clearance or approval of new products;

withdrawing product approvals already granted; and

criminal prosecution.

Federal, state and non-U.S. regulations, regarding the manufacture and sale of medical devices are subject to future changes. The complexity, timeframes and costs associated with obtaining marketing clearances are unknown. Although we cannot predict the impact, if any, these changes might have on our business, the impact could be material.

We may be unable to maintain our ISO certification or CE mark which allows us to sell our products in the European medical market.

Pursuant to the Medical Device Directive, the Company is audited annually. A negative audit could result in the removal of the CE marking on our products, which would effectively bar the sale of the Company's products in the European market. Such a result would have a significant and material negative impact on the Company and its business. In addition, there are several other countries that require additional regulatory clearances.

We will first need to obtain electrical safety approval to market our applicable products under development.

The majority of our capital equipment products require electrical safety testing, and in some cases, electromagnetic compatibility testing, as either a product registration or to gain market acceptance. The electrical safety testing and electromagnetic compatibility testing requirements may change and require us to redesign and retest our products. The complexity, timeframes and costs associated with potential redesign and retesting are unknown. Required redesign and retesting could have a material adverse effect on our business and results of operations.

Our intellectual property rights may not provide meaningful commercial protection for our products, which could adversely affect our ability to compete in the market.

Our ability to compete effectively depends, in part, on our ability to maintain the proprietary nature of our technologies and manufacturing processes, which includes the ability to obtain, protect and enforce patents on our technology and to protect our trade secrets. We own patents that cover significant aspects of our products. Certain patents of ours have expired and others will expire in the future. In addition, challenges may be made to our patents and, as a result, our patents could be narrowed, invalidated or rendered unenforceable. Competitors may develop products similar to ours that our patents do not cover. In addition, our current and future patent applications may not result in the issuance of patents in the United States or non-U.S. countries. Further, there is a substantial backlog of

Table of Contents

patent applications in the U.S. PTO, and the approval or rejection of patent applications may take several years. We may become subject to patent infringement claims or litigation or interference proceedings declared by the U.S. PTO to determine the priority of invention.

Our competitive position depends, in part, upon unpatented trade secrets, which can be difficult to protect. Others may independently develop substantially equivalent proprietary information and techniques or gain access to our trade secrets. In an effort to protect our trade secrets, we require consultants, advisors and most of our employees to execute confidentiality agreements and certain of them to sign invention assignment agreements upon commencement of employment or a consulting relationship with us. These agreements typically provide that, except in specified circumstances, all confidential information developed or made known to the individual during the course of his or her relationship with us must be kept confidential. They typically contain provisions requiring these individuals to assign to us, without additional consideration, any inventions conceived or reduced to practice by them while employed or retained by us, subject to customary exceptions. Some jurisdictions limit the enforceability and scope of these agreements and these agreements may not provide meaningful protection for our trade secrets or other proprietary information in the event of the unauthorized use or disclosure of confidential information.

The medical device industry is characterized by frequent litigation regarding patent and other intellectual property rights. Companies in the medical device industry have employed intellectual property litigation to gain a competitive advantage. Numerous patents are held by others, including academic institutions and our competitors. Until recently, patent applications were maintained in secrecy in the United States until after the time the patent had been issued. Patent applications, filed in the United States after November 2000 generally will be published 18 months after the filing date. However, since patent applications continue to be maintained in secrecy for at least some period of time, we cannot assure you that our technology does not infringe any patents, patent applications held by third parties or prior patents. We have, from time to time, been notified of, or have otherwise been made aware of, claims that we are infringing upon patents or other proprietary intellectual property owned by others. If it appears necessary or desirable, we may seek licenses under such patents or proprietary intellectual property. Although patent holders may offer such licenses, licenses under such patents or intellectual property may not be offered or the terms of any offered licenses may not be reasonable.

Any infringement claims, with or without merit, and regardless of whether we are successful on the merits, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause shipment delays or require us to develop non-infringing technology or enter into royalty or licensing agreements. An adverse determination could prevent us from manufacturing or selling our products, which could have a material adverse effect on our business, results of operations and financial condition.

We may have product liability claims, and our insurance may not cover all claims.

The development, manufacture, sale and use of medical products entail significant risk of product liability claims. We maintain product liability coverage at levels we have determined are reasonable. We cannot assure you that such coverage limits are adequate to protect us from any liabilities we might incur in connection with the development, manufacture, sale or use of our products. In addition, we may require increased product liability coverage as our sales increase in their current applications and new applications. Product liability insurance is expensive and in the future may not be available on acceptable terms, if at all. A successful product liability claim or series of claims brought against us in excess of our insurance coverage could adversely affect our business.

The loss of key personnel could harm our business.

Our future success depends upon the continued service of key management, technical sales and other critical personnel, including Messrs. Hable, Gampp and Malis and Ms. Boone, our Chief Executive Officer, our Chief

Operating Officer, our Chief Scientific Officer and our Chief Financial Officer, respectively. We maintain key person life insurance for Messrs. Hable, Gampp and Malis. With the exception of Ms. Boone, our officers and other key personnel are employees-at-will, and we cannot assure you that we will be able to retain them. The loss of any key employee could result in a disruption to our operations and could materially harm our business. In addition, the integration of replacement personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful.

Table of Contents

If we are unable to hire, train and retain additional sales, marketing, manufacturing, engineering and finance personnel, our growth could be impaired.

To grow our business successfully and maintain a high level of quality, we will need to recruit, retain and motivate highly-skilled sales, marketing, engineering, manufacturing and finance personnel. If we are not able to hire, train, and retain a sufficient number of qualified employees, our growth may be impaired. In particular, we will need to expand our sales and marketing organizations in order to increase market awareness of our products and to increase revenues. In addition, as a company focused on the development of complex products, we will need to hire additional engineering staff of various experience levels in order to meet our product development strategy. Competition for skilled employees is intense.

We plan to expand our international sales and distribution operations, and the success of our international expansion is subject to significant uncertainties.

We believe that we must expand our international sales and distribution operations to have continued growth. In fiscal 2009, our sales to countries outside the U.S. represent approximately 32 percent of our total sales. In addition, we believe a similar proportion of products sold to marketing partners in the U.S. are distributed by these partners to their non-U.S. affiliates. We expect to sell an increasing portion of our products to customers overseas. In attempting to conduct and expand business internationally, we are exposed to various risks that could adversely affect our international operations and, consequently, our operating results, including:

difficulties and costs of staffing and managing international operations;

fluctuations in currency exchange rates;

unexpected changes in international or local market regulatory requirements, including imposition of currency exchange controls;

longer accounts receivable collection cycles;

import or export licensing requirements;

potentially adverse tax consequences;

political and economic instability;

obtaining regulatory approval for our products;

end-market and/or regional competition that may have competitive advantages;

potentially reduced protection for intellectual property rights; and

subjectivity of non-U.S. laws.

We have international suppliers of various products.

We have suppliers that are located outside the United States, subjecting us to risks generally associated with contracting with non-U.S. suppliers, including quality concerns, adverse changes in non-U.S. economic conditions, import regulations, duties, tariffs, quotas, economic and political instability, burdens of complying with a wide variety

of non-U.S. laws and embargoes. Our reliance on international suppliers may cause us to experience problems in the timeliness and the adequacy or quality of product deliveries. Specifically in regard to the Omni[®] console and handpieces, there is an additional risk as our contract with the equipment manufacturer is year-to-year. In addition, we continue to sell the Quantel lasers under an expired distribution agreement.

Our cash is maintained with a regional bank which given the current financial crisis may not be fully insured.

We maintain significant amounts of cash and cash equivalents at a financial institution that is in excess of federally insured limits. Given the current instability of financial institutions, we cannot be assured that we will not experience losses on these deposits.

Table of Contents

The market price of our stock may be highly volatile.

The market price of our common stock could fluctuate substantially due to a variety of factors, including:

our ability to successfully commercialize our products;

the execution of new agreements and material changes in our relationships with companies with whom we contract;

quarterly fluctuations in results of operations;

announcements regarding technological innovations or new commercial products by us or our competitors or the results of regulatory filings;

market reaction to trends in sales, marketing and R&D and reaction to acquisitions;

sales of common stock by existing shareholders;

changes in key personnel;

economic and political condition, including worldwide geopolitical events; and

fluctuations in the United States financial markets.

Synergetics USA has anti-takeover defenses that could delay or prevent an acquisition and could adversely affect the price of its common stock.

Provisions of our certificate of incorporation, bylaws and Delaware law may have the effect of deterring hostile takeovers or delaying or preventing changes in the control of the Company, including transactions in which our shareholders might otherwise receive a premium for their shares over then current market prices. In addition, these provisions may limit the ability of our shareholders to approve transactions that they may deem to be in their best interest. Also, our Board of Directors is divided into three classes, as nearly equal in size as practicable, with three-year staggered terms. This provision may deter a potential acquirer from engaging in a transaction with us because it will be unable to gain control of our Board of Directors until at least two annual meetings have been held in which directors are elected by our shareholders.

Material increases in interest rates could potentially be a detriment to sales.

Many of our products are sold to non-U.S. distributorships which purchase our products via funds secured through assorted financing arrangements with third party financial institutions, including credit facilities and short-term loans. Increased interest rates would ultimately increase the overall cost of owning our products for the end user and, thereby, reduce product demand.

Because we do not require training for users of our products, there exists an increased potential for misuse of our products, which could harm our reputation and our business.

Our products may be purchased or operated by physicians with varying levels of training. Outside the United States, many jurisdictions do not require specific qualifications or training for purchasers or operators of our products. We do not supervise the procedures performed with our products, nor do we require that direct medical supervision occur.

We, and our distributors, generally offer but do not require purchasers or operators of our products to attend training sessions. In addition, we sometimes sell our systems to companies that rent our systems to third parties and that provide a technician to perform the procedure. The lack of training may result in product misuse and adverse treatment outcomes, which could harm our reputation and expose us to costly product liability litigation.

If our facilities were to experience catastrophic loss, our operations would be seriously harmed.

Our facilities could be subject to catastrophic loss such as fire, flood, tornados or earthquake. A substantial portion of our R&D and manufacturing activities, our corporate headquarters and other critical business operations are located near major earthquake faults in O Fallon, Missouri. Any such loss at any of our facilities could disrupt our operations, delay production, shipments and revenue and result in large expense to repair and replace our facilities.

Table of Contents

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our primary office and manufacturing operations are conducted in a 60,000 square foot building owned by our wholly owned subsidiary, Synergetics Development Company, LLC, a Missouri limited liability company. The facility is located in O Fallon, Missouri, approximately 25 miles west of St. Louis, Missouri. In August 2007, we leased approximately 10,000 square feet of additional space adjacent to our headquarters in O Fallon, Missouri, for a term of five years expiring July 31, 2012.

Effective May 1, 2005, we leased 13,500 square feet of office, assembly and manufacturing space in King of Prussia, Pennsylvania. The sublease and lease agreement for this facility is for a term of four and one-half years, which serves as office, engineering and manufacturing space. In November of 2008, this lease was extended through October 31, 2012.

In addition, effective June 2008, we purchased Medimold, Inc., a St. Peters, Missouri-based injection molding company that occupies approximately 1,500 square feet of manufacturing space. The space is leased on a month-to-month basis.

We believe that these facilities are suitable and adequate for our operations. We believe that we have the ability to generate additional production capacity using our existing manufacturing facilities.

Item 3. *Legal Proceedings*

On April 17, 2008, the Company filed a lawsuit in the United States District Court for the Southern District of New York against Swiss-based Alcon, Inc. and its primary operating subsidiary in the U.S., Alcon Laboratories, Inc. (collectively Alcon). This suit is captioned Synergetics USA, Inc. v. Alcon Laboratories, Inc. and Alcon, Inc., Case No. 08-CIV-003669. The Company's attorneys in this matter have agreed to represent the Company on a contingency-fee basis. In the complaint, the Company alleges that Alcon has used its monopoly power in the market for vitrectomy machines to control its customers' purchasing decisions in favor of Alcon's surgical illumination sources and associated accessories by, for example, tying sales of its light pipes to sales of its patented fluid collection cassettes, which are required for each vitreoretinal surgery using Alcon's market-dominant vitrectomy machine. The complaint describes further anti-competitive behaviors, which include commercial disparagement of the Company's products; payment of grant monies to surgeons, hospitals and clinics in order to influence purchasing decisions; the maintenance of a large surgeon advisory board, many of the surgeons receive benefits far beyond their advisory contributions and are required to buy Alcon's products; predatory pricing; an unlawful rebate program; and a threat to further lock out the Company from an associated market unless granted a license to use some of our key patented technologies. The Company requested both monetary damages and injunctive relief. On June 23, 2008, Alcon filed a pleading responsive to the complaint, denying all counts and asserting affirmative defenses. On June 4, 2009, the Court ruled in the Company's favor, denying a motion by Alcon to dismiss the complaint. The Court ruled that the Company's allegations present a legitimate legal claim for which damages may be awarded. At present, deadlines for pre-trial activities in this suit related to the Company's claims are scheduled through January 2010.

In its pleading on June 23, 2008, Alcon also made counterclaims in which it alleged that the Company misappropriated trade secrets from Infinitect, Inc., a company acquired by Alcon in 1998. On July 9, 2009, the Court issued a judgment in the Company's favor, ruling that the counterclaims are barred by the statute of limitations and are not be the basis for a remedy.

On October 9, 2008, Alcon Research, Ltd. filed a lawsuit against the Company and Synergetics in the Northern District of Texas, Case No. 4-08CV-609-Y, alleging infringement of United States Patent No. 5,603,710, as such patent is amended by the Re-examination Certificate issued July 19, 2005. On March 20, 2009, Alcon Research amended its complaint to add claims further alleging infringement of United States Patent No. 5,318,560 and infringement of and unfair competition with respect to three Alcon-owned trademarks, namely Alcon[®], Accurus[®] and Greishaber[®]. Alcon Research has requested enhanced damages based on an allegation of willful infringement,

Table of Contents

and has requested an injunction to stop the alleged acts of infringement. On April 6, 2009, the Company answered the amended complaint with a general denial of the claims, as well as affirmative defenses and a request for the Court to make declarations of non-infringement with respect to the patents and trademarks at issue. Based on a belief that the patents at issue are not valid, the Company requested that the United States PTO re-examine both patents and moved the Court for a stay of all proceedings during re-examination. On September 18, 2009, the Court granted the Company's motion and stayed all proceedings in the lawsuit in their entirety until such time as both of the patents at issue have completed re-examination. The Court ruled that the stay would not prejudice or be a tactical disadvantage for Alcon Research and that the stay may allow the re-examination to simplify or eliminate many of the issues in question. On October 2, 2009, Alcon Research filed a Motion for Reconsideration of the ordered stay, requesting the Court to vacate its order and restart the proceedings. The Company has contested this Motion. The Company believes it has meritorious defenses to all claims made by Alcon Research, such that no liability will arise in this case, though the amount of any monetary damages that may be awarded is wholly indeterminable at this time. The Company is currently awaiting the PTO re-examination results and the Court's ruling on the Motion for Reconsideration.

In addition, from time to time we may become subject to litigation claims that may greatly exceed our product liability insurance limits. An adverse outcome of such litigation may adversely impact our financial condition, results of operations or liquidity. We record a liability when a loss is known or considered probable and the amount can be reasonably estimated. If a loss is not probable, a liability is not recorded. As of July 31, 2009, the Company has no litigation reserve recorded.

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

During the quarter ended July 31, 2009, no matters were submitted to a vote of our stockholders through the solicitation of proxies or otherwise.

PART II**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company's common stock is listed on The NASDAQ Capital Market under the ticker symbol SURG. The table below sets forth the range of high and low sales prices per share of the Company's common stock as reported by The NASDAQ Capital Market for each of the quarterly periods within the fiscal years ended July 31, 2009 and 2008. None of the prices shown reflect retail mark-ups, mark-downs or commissions. For current price information, you are urged to consult publicly available sources.

	High	Low
Year ended July 31, 2008		
Quarter ended October 29, 2007	\$ 4.06	\$ 3.52
Quarter ended January 31, 2008	\$ 3.69	\$ 2.00
Quarter ended April 30, 2008	\$ 2.67	\$ 1.94
Quarter ended July 31, 2008	\$ 3.29	\$ 1.97
Year ended July 31, 2009		
Quarter ended October 29, 2008	\$ 3.22	\$ 1.14
Quarter ended February 3, 2009	\$ 1.50	\$ 0.80
Quarter ended May 4, 2009	\$ 1.09	\$ 0.79
Quarter ended July 31, 2009	\$ 1.69	\$ 0.99

The number of shareholders of record of Synergetics USA as of October 23, 2009, was 181.

The Company has not paid a dividend to holders of its common stock since 1996. We currently intend to retain earnings to finance growth and development of our business and do not anticipate paying cash dividends in the near future.

Table of Contents

STOCK PERFORMANCE GRAPH

The following graph is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, respectively.

The graph below compares the cumulative total stockholder return on an investment in our common stock, and the stocks of The NASDAQ Composite Stock Market and an index of a peer group of medical companies selected by the Company (the Peer Group) for the five-year period ended July 31, 2009. During the fiscal year ended July 31, 2009, the Company reviewed its Peer Group and determined that the group needed to contain some larger peer companies who derive their business from the sale of medical devices. The current Peer Group is composed of seven small companies with sales ranging from approximately \$28 million to \$78 million and whose primary business is medical devices: Bovie Medical Corporation, Endologix, Inc., Iridex, Micrus Endovascular Company, STAAR Surgical Company, Stereotaxis, Inc. and Vascular Solutions, Inc. The previous Peer Group was composed of eight smaller companies: Alphatec Holdings, Inc., Bovie Medical Corporation, Iridex, Orthovita, Inc., SenoRx, Inc., Stereotaxis, Inc., Thermage, Inc. and Vascular Solutions, Inc. The graph assumes the value of an investment of \$100 in the common stock of each group or entity at August 1, 2004 and that all dividends were reinvested.

Stock Performance Graph

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

Not applicable.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Table of Contents**Item 6. Selected Consolidated Financial Data**

The selected financial data set forth below should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K. The statements of income data for the years ended July 31, 2009, 2008 and 2007 and the balance sheet data as of July 31, 2009 and 2008 have been derived from audited consolidated financial statements of the Company included elsewhere in this report. The consolidated statements of income for the years ended July 31, 2006 and 2005 and the balance sheets data as of July 31, 2007, 2006 and 2005 have been derived from audited consolidated financial statements that are not included in this report. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	2009*	For the Fiscal Years Ended July 31,			2005**
		2008	2007	2006	
		(In thousands, except per share data)			
Statements of Income Data:					
Sales	\$ 52,965	\$ 50,063	\$ 45,945	\$ 38,246	\$ 21,792
Cost of Sales	23,550	20,101	18,943	14,238	8,289
Gross profit	29,415	29,962	27,002	24,008	13,503
Operating Income	3,125	5,208	1,518	5,004	2,383
Net income	1,595	2,663	845	3,081	1,458
Earnings per common share Basic	\$ 0.07	\$ 0.11	\$ 0.03	\$ 0.15***	\$ 0.43***
Earnings per common share Diluted	\$ 0.07	\$ 0.11	\$ 0.03	\$ 0.15***	\$ 0.42***

* In the fourth quarter of fiscal 2009, the Company recorded an adjustment of approximately \$975,000 or approximately \$0.03 earnings per share, net of tax, primarily due to excess and discontinued inventory which was either contributed to a charitable organization or was discarded.

** This tabular information reflects Synergetics' results only and does not reflect the effect of the combination of Synergetics and Valley Forge.

*** The fiscal years 2006 and 2005 have not been adjusted to reflect the 4.59 shares received by the private company shareholders at the time of the reverse merger between Valley Forge and Synergetics forming Synergetics USA, Inc.

	2009	As of Fiscal Years Ended July 31,			2005*
		2008	2007	2006	
		(In thousands)			
Balance Sheets Data:					
Cash and cash equivalents	\$ 160	\$ 500	\$ 167	\$ 243	\$ 1,817
Current assets	25,358	24,549	24,010	21,594	12,757
Total assets	58,080	58,396	58,616	51,329	20,116
Current liabilities	11,948	11,865	13,657	8,996	3,969
Long-term liabilities	8,002	10,174	11,524	10,028	6,008
Retained earnings	13,586	11,991	9,328	8,483	5,402

Stockholders' equity	38,130	36,357	33,435	32,305	10,139
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* This tabular information reflects Synergetics' results only and does not reflect the effect of the combination of Synergetics and Valley Forge.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, commonly referred to as MD&A, is intended to help the reader understand Synergetics USA, its operations and its

Table of Contents

business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated audited financial statements and accompanying notes. This overview summarizes the MD&A, which includes the following sections:

Our Business a general description of the key drivers that affect our business and the industries in which we operate.

Our Business Strategy a description of the strategic initiatives on which we focus and the goals we seek to achieve.

Results of Operations an analysis of the Company's results of operations for the three years presented in our financial statements.

Liquidity and Capital Resources an analysis of cash flows, sources and uses of cash, currency exchange and an overview of our financial position.

Contractual Obligations an analysis of contracts entered into in the normal course of business that will require future payments.

Use of Estimates and Critical Accounting Policies a description of critical accounting policies including those that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Our Business

The Company is a medical device company. Through continuous improvement and development of our people, our **mission** is to design, manufacture and market innovative microsurgical instruments and consumables of the highest quality in order to assist and enable surgeons who perform microsurgery around the world to provide a better quality of life for their patients. The Company's primary focus is on the microsurgical disciplines of ophthalmology and neurosurgery. Our distribution channels include a combination of direct and independent sales organizations and important strategic alliances with market leaders. The Company's product lines focus upon precision engineered, microsurgical, hand-held instruments and the microscopic delivery of laser energy, ultrasound, electrosurgery, aspiration, illumination and irrigation, often delivered in multiple combinations. Enterprise-wide information is included in Note 16 to the consolidated audited financial statements.

New Product Sales

The Company's business strategy has been, and is expected to continue to be, the development, manufacture and marketing of new technologies for microsurgery applications including the ophthalmic and neurosurgical markets. New products, which management defines as products first available for sale within the prior 24-month period, accounted for approximately 6.8 percent of total sales for the Company for fiscal 2009, or approximately \$3.6 million. For fiscal 2008, new products accounted for approximately 17.2 percent of total sales for the Company, or approximately \$8.6 million. This continued growth was primarily in our capital equipment and disposable products both in the ophthalmic and neurosurgical markets. The Company's past revenue growth has been closely aligned with the adoption by surgeons of new technologies introduced by the Company. Since August 1, 2008, the Company has introduced 18 new catalogue items to the ophthalmic and neurosurgical markets. We expect adoption rates for the Company's new products in the future to have a positive effect on its operating performance.

Growth in Minimally Invasive Surgery Procedures

Minimally invasive surgery is surgery performed without making a major incision or opening. Minimally invasive surgery generally results in less patient trauma, decreased likelihood of complications related to the incision and a shorter recovery time. A growing number of surgical procedures are performed using minimally invasive techniques, creating a multi-billion dollar market for the specialized devices used in the procedures. Based on our micro-instrumentation capability, we believe we are ideally positioned to take advantage of this growing market. The Company has developed scissors having a single activating shaft as small as 30 gauge (0.012 inch, 0.3 millimeter in diameter). We also believe that we are the world leader in small-fiber illumination technology as our Photon™ and Photon™ II light sources can transmit more light through a fiber of 300 micron diameter or smaller

Table of Contents

than any other light source in the world. This product was developed for ophthalmology but has wide ranging minimally invasive surgical applications. The Company's Mali® line of electrosurgical bipolar generators is the market share leader in neurosurgical generators worldwide. These generators produce a unique and patented waveform that has been developed and refined over many decades and has proven to cause less collateral tissue damage as compared to other competing generators. The Omni® power ultrasound system technology provides a new method for the minimally invasive removal of soft and fibrotic tissue, as well as bone removal. This technology is in its infancy, and we anticipate that, once fully developed, it will become a standard of care in multiple minimally invasive surgical applications. The Company has benefited from the overall growth in this market and expects to continue to benefit as it continues to introduce new and improved technologies targeting this market.

Demand Trends

Increased international sales contributed to the majority of sales growth for the Company during the fiscal year ended July 31, 2009. A recent study performed for the Company by Market Scope LLC predicts a steady growth of 3.4 percent per year in vitrectomy surgery worldwide. Neurosurgical procedures volume on a global basis continues to rise at an estimated 5.0 percent growth rate driven by an aging global population, new technologies, advances in surgical techniques and a growing global market resulting from ongoing improvements in healthcare delivery in third world countries, among other factors. In addition, the demand for high quality products and new technologies, such as the Company's innovative instruments and disposables, to support growth in procedures volume continues to positively impact growth. The Company believes innovative surgical approaches will continue to significantly impact the ophthalmic and neurosurgical market.

Pricing Trends

Through its strategy of delivering new and higher quality technologies, the Company has generally been able to maintain the average selling prices for its products in the face of downward pressure in the healthcare industry. However, increased competition in the market for the Company's capital equipment market segments in combination with customer budget constraints and capital scarcity, has in some instances negatively impacted the Company's selling prices on these devices.

Economic Trends

Economic conditions may continue to negatively impact capital expenditures at the hospital or surgical center and doctor level. Further, economic conditions in the United States are negatively impacting the volume of the Company's capital equipment sales. Therefore, the Company only experienced a 5.8 percent increase in sales during the 2009 fiscal year as compared to a compound annual growth rate of approximately 10 percent in fiscal 2008.

Our Business Strategy

The Company's key strategy is to enhance shareholder value through profitable revenue growth in ophthalmology and neurosurgery markets through the identification and development of reusable and disposable instrumentation in conjunction with leading surgeons and marketing partners and to build out a strong operational infrastructure and financial foundation within which prudently financed growth opportunities can be realized and implemented. At the same time, we will maintain vigilance and sensitivity to new challenges which may arise from changes in the definition and delivery of appropriate healthcare in our fields of interest. For additional detail on the Company's Strategy, see Part 1, Item 1 Business Strategy.

Table of Contents**Results of Operations*****Year Ended July 31, 2009 Compared to Year Ended July 31, 2008****Net Sales*

The following table presents net sales by category (dollars in thousands):

	Year Ended July 31,		% Increase
	2009	2008	(Decrease)
Ophthalmic	\$ 29,981	\$ 28,019	7.0%
Neurosurgery	13,968	12,925	8.1%
Marketing partners (Codman, Stryker and Iridex)	8,538	8,347	2.3%
Other	478	772	(38.1)%
Total	\$ 52,965	\$ 50,063	5.8%

Ophthalmic sales growth for fiscal 2009 was led by growth in sales of disposable products which includes illumination products, laser probes and sales of new disposable packs. When comparing neurosurgery, net sales during the fiscal year ended 2009 were 8.1 percent greater than 2008, primarily attributable to the sales of disposable products related to electrosurgical generators and power ultrasonic aspirators. Sales to our marketing partners were up 2.3 percent to \$8.5 million for the fiscal year ending July 31, 2009 primarily due to disposable products sold to Codman and Iridex and sales of pain control generators to Stryker, partially offset by a decrease in capital equipment sold to Codman due to the current economic environment. The Company expects that the Vitra[™] laser and Malis[®] electrosurgical generator sales will improve as signs of an economic turnaround are beginning to take shape, and that the related disposables will continue to have a positive impact on net sales, in fiscal 2010.

The following table presents domestic and international net sales (dollars in thousands):

	Year Ended July 31,		% Increase
	2009	2008	
United States (including sales to marketing partners)	\$ 36,047	\$ 35,838	0.6%
International (including Canada)	16,918	14,225	18.9%
Total	\$ 52,965	\$ 50,063	5.8%

U.S. sales remained relatively flat as the increase in sales of the Company's disposable products were offset by decreased sales of its capital products due to the economic recession experienced in fiscal 2009. International sales grew 18.9 percent in the Company's core technology areas, including sales of ophthalmic products in direct sales markets, the ultrasonic aspirator, electrosurgical generator and their related disposables. Our international ophthalmic sales force at July 31, 2009 included 13 direct employees and approximately 47 non-U.S. distributors and independent sales representatives covering 60 countries. Our international neurosurgical sales force at July 31, 2009 included approximately 30 distributors covering 40 countries.

Gross Profit

Gross profit as a percentage of net sales was 55.5 percent in fiscal 2009, compared to 59.8 percent in fiscal 2008. The decrease in gross profit as a percentage of net sales from fiscal 2009 to fiscal 2008 was attributable primarily to an increase in sales of 5.8 percent compared to a cost of goods sold increase of 17.2 percent. Gross profit as a percentage of net sales from fiscal 2008 to fiscal 2009 decreased by approximately four percentage points primarily due to the change in mix toward our international products, reduced absorption of both labor and overhead on our capital equipment product lines and a \$975,000 fourth quarter write-off primarily due to excess and discontinued inventory which was either contributed to a charitable organization or was discarded.

Operating Expenses

R&D costs as a percentage of net sales were 5.7 percent and 5.3 percent for the fiscal years ended July 31, 2009 and 2008, respectively. R&D costs increased approximately \$344,000 to \$3.0 million in 2009 compared to

Table of Contents

\$2.7 million in 2008. The increase in R&D costs was primarily due to the direct costs associated with 39 active, major projects in various stages of completion at July 31, 2009. The Company's R&D investment is driven by the opportunities to develop new products to meet the needs of its surgeon customers, and reflecting the need to keep such spending in line with what the Company can afford to spend, results in an investment rate that is comparable to such spending by other medical device companies. The Company expects over the next few years to invest in R&D at a rate of approximately 4 percent to 6 percent of net sales.

Selling expenses, which consist of salaries, commissions and direct expenses, increased approximately \$1.7 million to \$14.3 million, or 26.9 percent of sales, for the fiscal year ended July 31, 2009, compared to \$12.6 million, or 25.2 percent of net sales, for the fiscal year ended July 31, 2008. The increase in sales expenses as a percentage of net sales was primarily due to commissions paid on a 6.5 percent increase in commissionable sales which excludes sales to our marketing partners. In March 2009, the Company eliminated two positions within sales and marketing. In July 2009, the Company completed a reduction in personnel of approximately 10 percent of our workforce including most of our direct neurosurgical sales force. This realignment was designed to position the Company to attain increased profitability through the elimination of a substantial portion of our commercial expenses associated with direct distribution of the neurosurgical products.

General and administrative expenses (G&A) decreased by approximately \$469,000 during the fiscal year ended July 31, 2009 and as a percentage of net sales were 17.0 percent for the fiscal year ended July 31, 2009 as compared to 19.0 percent for the fiscal year ended July 31, 2008. The Company experienced a decrease of approximately \$388,000 in outside consulting costs on its Sarbanes-Oxley compliance efforts, primarily due to efforts to further internalize documentation processes and procedures. The Company also experienced a decrease of approximately \$100,000 in audit costs, as its external auditors were not required to attest to the Company's internal control over financial reporting due to the Company's qualification as a smaller reporting company. The Company's legal expenses increased by \$331,000 during the fiscal year ended July 31, 2009 compared to the fiscal year ended July 31, 2008 primarily due to the cost associated with the Alcon patent and trademark infringement lawsuit. Directors' fees increased \$176,000 due to each independent director serving as the principal executive officer of the Company on a weekly rotating basis for the first six months of the fiscal year while the Board was conducting a search for a new CEO. In addition, the directors serving as the principal executive officer also caused salaries and benefits to decrease by approximately \$150,000.

Stock-based compensation cost is measured at the grant date, based on the fair value of the award calculated using the Black-Scholes option pricing model, and is recognized over the directors' and employees' requisite service period. The Company will continue to grant options to its independent directors and officers but has begun to use restricted stock to provide incentive compensation for its non-officer employees. As of July 31, 2009, the future compensation cost expected to be recognized under Statement of Financial Accounting Standards (SFAS) No. 123(R) is approximately \$26,000 in fiscal 2010, \$13,000 in fiscal 2011 and \$3,000 in fiscal 2012. However, the major portion of our compensation cost arises from our stock option grants to our directors, which is recognized pro-ratably over the year as the options vest. As of July 31, 2009, there was approximately \$235,000 of total unrecognized compensation cost related to non-vested restricted-stock based compensation arrangements granted under a stock option plan adopted by Valley Forge in 2001. The cost is expected to be recognized over a weighted average period of five years, which is generally the vesting period.

Other Expense

Other expense for the 2009 fiscal year decreased 31.7 percent to \$755,000 from \$1.1 million for the fiscal year ended July 31, 2008. The decrease was primarily due to decreased interest expense for the decreased borrowings on the Company's working capital line during the year partially offset by the annual interest expense associated with the Iridex settlement.

Operating Income, Income Taxes and Net Income

Operating income for fiscal 2009 was \$3.1 million, as compared to an operating income of \$5.2 million in fiscal 2008. The decrease in operating income was primarily the result of a decrease in gross profit margin of approximately four percentage points on 5.8 percent more net sales, and an increase in R&D expenses and selling

Table of Contents

costs of \$344,000 and \$1.7 million, respectively, which was partially offset by a \$469,000 decrease in G&A expenses.

For the fiscal year ended July 31, 2009, the Company recorded a \$775,000 provision on a pre-tax income of \$2.4 million, or 32.7 percent effective tax rate. For the fiscal year ended July 31, 2008, the Company recorded a \$1.4 million provision on pre-tax income of \$4.1 million, or 35.1 percent effective tax rate. The Company's effective tax rate decreased for the fiscal year ended July 31, 2009 due to the decrease in pre-tax income, causing the relative portion of the provision that is made up by the research and experimentation credit and the manufacturing deduction to increase.

Net income decreased by \$1.1 million to \$1.6 million for the fiscal year ended July 31, 2009, from \$2.7 million for the same period in fiscal 2008. Basic and diluted earnings per share for the fiscal year ended July 31, 2009 decreased to \$0.07, respectively, from \$0.11, respectively, for the fiscal year ended July 31, 2008. Basic weighted average shares outstanding increased from 24,321,713 at July 31, 2008 to 24,459,749 at July 31, 2009.

Year Ended July 31, 2008 Compared to Year Ended July 31, 2007*Net Sales*

The following table presents net sales by category (dollars in thousands):

	Year Ended July 31,		% Increase
	2008	2007	(Decrease)
Ophthalmic	\$ 28,019	\$ 24,522	14.3%
Neurosurgery	12,925	10,241	26.2%
Marketing partners (Codman, Stryker and Iridex)	8,347	10,266	(18.7)%
Other	772	916	(15.7)%
Total	\$ 50,063	\$ 45,945	9.0%

Ophthalmic sales growth was led by growth in sales of the products in our core technology areas including increased sales of vitreoretinal instruments, laser probes and sales of new disposable packs. When comparing neurosurgery, net sales during the fiscal year ended 2008 were 26.2 percent greater than 2007 sales, primarily attributable to the sales of disposables related to electrosurgical generators and power ultrasonic aspirators. Sales to our marketing partners were down 18.7 percent to \$8.3 million for the fiscal year ended July 31, 2008 compared to \$10.3 million for the prior year because sales to Stryker declined by 33.9 percent to \$2.0 million for the fiscal year ended July 31, 2008 compared to \$3.0 million for the prior year due to Stryker's model change completed during fiscal 2008 which resulted in lower sales.

The following table presents domestic and international net sales (dollars in thousands):

	Year Ended July 31,		% Increase
	2008	2007	
United States (including sales to marketing partners)	\$ 35,838	\$ 35,214	0.2%
International (including Canada)	14,225	10,731	32.5%

Total	\$ 50,063	\$ 45,945	9.0%
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U.S. sales were primarily flat with the sales of the Company's core technology products offsetting weak sales to our marketing partners. International sales grew 32.5 percent in the Company's core technology areas including sales of ophthalmic products in direct sales markets, the ultrasonic aspirator, electro-surgical generator and their related disposables. The Malis® Advantage™ received the CE mark during the fourth quarter of our 2006 fiscal year thus allowing the Company to begin selling these medical devices internationally. During fiscal 2008, the Company continued adding distributors to its international neurosurgical sales force due to the addition of the Omni® and the Malis® Advantage™. As of July 31, 2008, the Company had 30 international distributors covering 40 countries.

Table of Contents*Gross Profit*

Gross profit as a percentage of net sales was 59.8 percent in fiscal 2008, compared to 58.8 percent in fiscal 2007. The increase in gross profit as a percentage of net sales in fiscal 2008 from fiscal 2007 was attributable primarily to an increase in sales of 9.0 percent compared to a cost of goods sold increase of 6.1 percent. Gross profit as a percentage of net sales from fiscal 2007 to fiscal 2008 increased one percentage point, primarily due to the change in mix toward higher disposable product sales and as a result of the cost savings initiatives implemented by the Company. Beginning in June of 2007, the Company implemented a program to aggressively pursue cost savings and has subsequently had a reduction in force, implemented an incentive-based buyer's program for its purchasing department and gained additional control over its use of manufacturing supplies. The Company's incentive-based buyer's program is a bonus program for our purchasing employees, who are awarded a bonus based upon how much cost they can save from new or existing suppliers.

Operating Expenses

R&D costs as a percentage of net sales were 5.3 percent and 5.6 percent for the fiscal years ended July 31, 2008 and 2007, respectively. R&D costs remained relatively flat in 2008 compared to 2007. The Company's product development pipeline included over 36 active, major projects in various stages of completion at July 31, 2008.

Selling expenses, which consist of salaries, commissions and direct expenses, increased approximately \$1.5 million to \$12.6 million, or 25.2 percent of sales, for the fiscal year ended July 31, 2008, compared to \$11.1 million, or 24.2 percent of net sales, for the fiscal year ended July 31, 2007. This increase was primarily due to the increase in head count as the Company in fiscal 2008 continued to increase its territory coverage of the United States and expand its international sales force. Additionally, as sales to our marketing partners did not increase as quickly as core product sales increased, this led to a significant increase in commissionable sales on a percentage basis. Commissionable sales increased from 77.7 percent of sales during the fiscal year ended July 31, 2007 to 83.3 percent in the fiscal year ended July 31, 2008.

G&A expenses decreased by \$2.3 million during the fiscal year ended July 31, 2008 and as a percentage of net sales were 19.0 percent for the fiscal year ended July 31, 2008 as compared to 25.6 percent for the fiscal year ended July 31, 2007. The Company's legal expenses decreased by \$2.3 million during the fiscal year ended July 31, 2008 compared to the fiscal year ended July 31, 2007 as the cost associated primarily with the Iridex lawsuit and subsequent settlement are no longer a significant factor. The Company also experienced a decrease of approximately \$261,000 in outside consulting costs on the Company's Sarbanes-Oxley compliance efforts primarily due to the completion of documentation and testing of the former Valley Forge location in fiscal 2007 and the Company's efforts to internalize a portion of the documentation procedures. The Company instituted a cost savings initiative in June of 2007, which targeted selling, general and administrative (SG&A) costs. The additional SG&A costs savings were offset by head count increases and the increase in amortization expense associated with the Iridex settlement.

Other Expense

Other expense for the 2008 fiscal year increased 17.0 percent to \$1.1 million from \$945,000 for the fiscal year ended July 31, 2007. The increase was due primarily to increased interest expense for the increased borrowings on the Company's working capital line due to working capital needs during the year and the additional expense associated with the Iridex settlement, as the fiscal year ended July 31, 2008 included the expense for the full twelve months and the fiscal year ended July 31, 2007 only included the expense for three months on the remaining \$2.7 million obligation to Iridex.

Operating Income, Income Taxes and Net Income

Operating income for fiscal 2008 was \$5.2 million, as compared to an operating income of \$1.5 million in fiscal 2007. The increase in operating income was primarily the result of a one percentage point increase in gross profit margin on 9.0 percent more net sales, R&D expenses remaining relatively flat and a decrease of \$2.3 million in G&A expenses primarily related to reductions in legal costs, partially offset by an additional \$1.5 million in selling costs.

Table of Contents

For the fiscal year ended July 31, 2008, the Company recorded a \$1.4 million provision on a pre-tax income of \$4.1 million, or 35.1 percent effective tax rate. For the fiscal year ended July 31, 2007, the Company recorded an \$189,000 provision on pre-tax income of \$573,000, or 33.0 percent effective tax rate, excluding a \$461,000 research and experimentation credit for the 2007 fiscal year. The Company's effective tax rate increased for the fiscal year ended July 31, 2008 due to the substantial increase in pre-tax income, causing the relative portion of the provision that is made up by the research and experimentation credit and the manufacturing deduction to decrease.

Net income increased by \$1.8 million to \$2.7 million for the fiscal year ended July 31, 2008, from \$845,000 for the same period in fiscal 2007. Basic and diluted earnings per share for the fiscal year ended July 31, 2008 increased to \$0.11, respectively, from \$0.03, respectively, for the fiscal year ended July 31, 2007. Basic weighted average shares outstanding increased from 24,220,507 at July 31, 2007 to 24,321,713 at July 31, 2008.

Liquidity and Capital Resources

The Company had \$160,000 in cash and cash equivalents and total interest-bearing debt of \$13.2 million as of July 31, 2009.

Working capital, including the management of inventory and accounts receivable, is a management focus. At July 31, 2009, the Company had an average of 60 days of sales outstanding (DSO) for the three month period ending July 31, 2009 (annualized) in accounts receivable. The Company utilized the three month period to calculate DSO, as it included the current growth in sales. The DSO at July 31, 2009 was unfavorable to July 31, 2008 by 6 days and unfavorable to July 31, 2007 by 3 days. The increase in the DSO is a result of the increased mix of international sales which typically have a longer collection cycle.

At July 31, 2009, the Company had 201 days of inventory on hand for the three month period ending July 31, 2009 (annualized). The Company utilized the three month period to calculate inventory on hand, as it included the current growth in cost of goods sold. The inventory on hand was favorable to July 31, 2008 by 17 days and favorable by 32 days to July 31, 2007. The decrease in days of inventory was impacted by a \$975,000 fourth quarter write-off primarily due to excess and discontinued inventory which was either contributed to a charitable organization or was discarded. Although management believes that meeting customer expectations regarding delivery times is important to its overall growth strategy, inventory reduction continues to be a focus of the Company and its newly installed MRP system will continue to aid in meeting that goal during fiscal 2010.

Cash flows provided by operating activities were \$492,000 for the year ended July 31, 2009, compared to cash flows provided by operating activities of approximately \$5.7 million for the comparable fiscal 2008 period. The decrease of \$5.2 million was attributable to net decreases applicable to net income, amortization, net receivables, income tax receivables, inventories, accounts payable, income taxes payable and other positive cash flow changes that accumulate to \$5.7 million. Such decreases were somewhat offset by accrued expenses and other negative cash flow changes that accumulate to approximately \$432,000.

Cash flows used in investing activities were \$816,000 for the year ended July 31, 2009, compared to cash used in investing activities of \$1.2 million for the comparable fiscal 2008 period. During the year ended July 31, 2009, cash additions to property and equipment were \$749,000, compared to \$1.0 million for fiscal 2008. Decreases in cash additions in fiscal 2009 to property and equipment were primarily due to the purchase of machinery and equipment for the newly leased R&D space adjacent to our current facility in O'Fallon, Missouri which took place in fiscal 2008. Acquisitions of patents and other intangibles were approximately \$20,000 during the fiscal year end July 31, 2009, compared to approximately \$200,000 during the fiscal year end July 31, 2008.

Cash flows used in financing activities were \$16,000 for the year ended July 31, 2009, compared to cash used in financing activities of \$4.2 million for the year ended July 31, 2008. The decrease of \$4.2 million was attributable primarily to the change in excess of outstanding checks over the bank balance of \$606,000, the decrease in net borrowing on the lines-of-credit of \$4.2 million, and principal payments of long-term debt of \$285,000 and other of \$21,000. The Company paid down its lines-of-credit substantially during fiscal 2009 as compared to fiscal 2008. In fiscal 2009, 2008 and 2007, the proceeds of the lines-of- credit were used to pay Iridex \$800,000, \$800,000 and \$2.5 million on April 15, 2009, April 15, 2008 and April 16, 2007, respectively, as the parties had reached a settlement of the lawsuit.

Table of Contents

The Company had the following committed financing arrangements as of July 31, 2009:

Revolving Credit Facility: The Company has a credit facility with Regions Bank which allows for borrowings of up to \$9.5 million with interest at an interest rate based on either the one-, two- or three-month LIBOR plus 2.00 percent and adjusting each quarter based upon our leverage ratio. As of July 31, 2009, interest under the facility is charged at 2.28 percent. The unused portion of the facility is charged at a rate of 0.20 percent. Borrowings under this facility at July 31, 2009 were \$4.8 million. Outstanding amounts are collateralized by the Company's domestic receivables and inventory. This credit facility expires on November 30, 2009. The Company expects this credit facility to be renewed.

The facility has two financial covenants: a maximum leverage ratio of 3.75 times and a minimum fixed charge coverage ratio of 1.1 times. As of July 31, 2009, the Company's leverage ratio was 1.50 times and the minimum fixed charge coverage ratio was 1.57 times. Collateral availability under the line as of July 31, 2009 was approximately \$3.8 million. The facility restricts the payment of dividends if, following the distribution, the fixed charge coverage ratio would fall below the required minimum.

Non-U.S. Receivables Revolving Credit Facility: On June 4, 2009, the Company amended this line of credit. The credit facility with Regions Bank allows for borrowings of up to \$1.75 million; however, the interest rate, which was based on the bank's prime lending rate, is now one-month LIBOR plus 3.0 percent. Under no circumstances shall the rate be less than 3.5 percent per annum. The facility is charged an administrative fee of 1.0 percent. There were no borrowings under this facility at July 31, 2009. Outstanding amounts are collateralized by the Company's non-U.S. receivables. The line matures on June 3, 2010 and has no financial covenants. Collateral availability under the line was approximately \$1.3 million at July 31, 2009. The Company expects this credit facility to be renewed.

Equipment Line of Credit: On June 5, 2009, the Company amended this line of credit. Under this amended credit facility, the Company may borrow up to \$1.0 million, with interest now being one-month LIBOR plus 3.0 percent. Under no circumstances shall the rate be less than 3.5 percent per annum. The unused portion of the facility is not charged a fee. The borrowings under this facility as of July 31, 2009 were \$263,000. The equipment line of credit has a maturity date of November 30, 2009. The Company expects this credit facility to be renewed.

Management believes that cash flows from operations, together with available borrowings of \$5.1 million under its renewed credit facilities, will be sufficient to meet the Company's working capital, capital expenditure and debt service requirements for the next twelve months.

Contractual Obligations

The Company has entered into contracts with various third parties in the normal course of business that will require future payments. The following illustrates the Company's contractual obligations as of July 31, 2009:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Revolving Line of Credit(1)	\$ 4,829,000	\$ 4,829,000	\$	\$	\$
Equipment Line of Credit(2)	266,000	266,000			
Non-U.S. Receivables Line(3)					
2008 Equipment Line(4)	1,032,000	522,000	510,000		
Revenue Bonds Payable(5)	3,806,000	354,000	784,000	498,000	2,170,000
Malis® Tradename Note Payable(6)	1,599,000	640,000	959,000		

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Settlement Obligation(7)	2,400,000	800,000	1,600,000		
Operating Leases(8)	888,000	311,000	575,000	2,000	
Total Contractual Obligations	\$ 14,820,000	\$ 7,722,000	\$ 4,428,000	\$ 500,000	\$ 2,170,000

(1) Amount represents the expected cash payment of the outstanding borrowings of \$4.8 million on our \$9.5 million revolving credit facility, including interest at one-month LIBOR plus 3.0 percent through the expiration of the revolving credit facility on November 30, 2009.

Table of Contents

- (2) Amount represents the expected cash payment of the outstanding borrowings of \$263,000 on our \$1.0 million equipment line through the expiration of the revolving credit facility on November 30, 2009.
- (3) Amount represents the expected cash payment of the outstanding borrowings of \$0.00 on our \$1.75 million non-U.S. receivables line through the expiration of the revolving credit facility on June 4, 2009.
- (4) Amount represents the cash payment for our equipment term loan entered into in July 2008, including interest at prime lending rate.
- (5) Amount represents the expected cash payments for our revenue bonds payable, including interest at the established fixed rates through September 1, 2009 and December 1, 2011.
- (6) Amount represents the expected cash payment on the note payable to the estate of the late Dr. Leonard I. Malis. The note includes interest at an imputed rate of 6.0 percent.
- (7) Amount represents the expected cash payment on the settlement obligation to the Iridex. The note includes interest at an imputed rate of 8.0 percent.
- (8) We enter into operating leases in the normal course of business. Some lease agreements provide us with the option to renew the lease. Our future cash payment would change if we exercised these renewal options or if we entered into additional operating lease agreements.

Use of Estimates and Critical Accounting Policies

The financial results of the Company are affected by the selection and application of accounting policies and methods. Significant accounting policies which require management's judgment are discussed below.

Principles of consolidation:

The consolidated financial statements include the accounts of Synergetics USA and its wholly owned subsidiaries, Synergetics, Synergetics IP, Inc., Synergetics Development Company, LLC and Synergetics Delaware, Inc. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company records revenue from product sales when the revenue is realized and the product is shipped from its facilities. This includes satisfying the following criteria: the arrangement with the customer is evident, usually through receipt of a purchase order; the sales price is fixed and determinable; delivery to the carrier has occurred; and collectibility is reasonably ensured. Freight and shipping billed to customers is included in net sales, and the cost of shipping is included in cost of sales.

The terms and conditions of sales to both our domestic and international distributors do not differ materially from the terms and conditions of sales to our domestic and international end-user customers.

Service revenue substantially relates to repairs of products and is recognized when the service has been completed. Revenue from licenses, extended warranty contracts and royalty fees is recorded when earned.

Inventories

Inventories, consisting of purchased materials, direct labor and manufacturing overhead, are stated at the lower of cost, with cost being determined using the first-in, first-out (FIFO) method, or market. The Company s inventory is very dynamic and new products are added frequently. Thus, the Company reviews the valuation of its inventory on a quarterly basis and determines if a valuation allowance is necessary for items that have not had their values updated recently. In addition, the Company evaluates inventories for excess quantities and identified obsolescence quarterly. The Company s evaluation includes an analysis of historical sales levels by product and projections of future demand, as well as estimates of quantities required to support warranty and other repairs. To the extent that it determines there are some excess quantities based on its projected levels of sales and other requirements, or obsolete material in inventory, it records valuation reserves against all or a portion of the value of the related parts or products. If future cost valuations, future demand or market conditions are different from the

Table of Contents

Company's projections, a change in recorded inventory valuation reserves may be required and would be reflected in cost of sales in the period the revision is made.

Amortization Periods

The Company records amortization of intangible assets using the straight-line method over the estimated useful lives of these assets. It bases the determination of these useful lives on the period over which it expects the related assets to contribute to its cash flows or in the case of patents, their legal life, whichever is shorter. If the Company's assessment of the useful lives of intangible assets changes, it may change future amortization expense (see *Impairment of Long-Lived Assets*).

Allowance for Doubtful Accounts

The Company evaluates the collectibility of accounts receivable based on a combination of factors. In circumstances where a specific customer is unable to meet its financial obligations to the Company, the Company records an allowance against amounts due to reduce the net recognized receivable to the amount that management reasonably expects to collect. For all other customers, the Company records allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment, historical experience and credit insurance. If the financial condition of customers or the length of time that receivables are past due were to change, the Company may change the recorded amount of allowances for doubtful accounts in the future.

Patents and Research and Development

Incremental legal and other costs to obtain patents are capitalized to a patent asset. Salaries, benefits and other direct costs of product development are expensed as operating expenses in R&D costs. Patents are amortized to operations under the straight-line method over the shorter of the remaining statutory life of the patent or the cash flow stream associated with that patent.

Goodwill and Other Intangibles

Absent any impairment indicators, goodwill is tested for impairment on an annual basis. The Company performs its impairment tests during the fourth fiscal quarter. Management analyzes the valuation of its intangible assets by utilizing current and projected business operations, a market multiple method and a control valuation of equity method. Based on this analysis, we believe the enterprise value of our acquisition continues to be greater than our investment. As a result, we have determined that no impairment of our goodwill has occurred. While the annual impairment tests did not indicate goodwill impairment, we would be subject to future impairment if the operating results and cash flows of our operations would not support the fair value of the reporting unit's net assets including goodwill.

Intangibles assets, consisting of patents, licensing agreements and proprietary know-how are amortized to operations under the straight-line method over their estimated useful lives or statutory lives whichever is shorter. These periods range from two to ten years. The life of a trademark is inextricably related to the life of the product bearing the mark or the life of the business entity owning the trademark. The Company intends to use the trademark indefinitely, and therefore, its useful life is not limited to any specific product. The trademark constitutes an indefinite-lived intangible that will be used in perpetuity.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable, but not less than annually. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the group of assets and their eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Table of Contents***Deferred Tax Assets and Liabilities***

The Company's deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when a determination is made that it is more likely than not that a portion or all of the deferred tax assets will not be realized. The valuation allowances are established and adjusted in accordance with the principles of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). Under FIN No. 48, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that is greater than 50 percent likely of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and FIN No. 48 tax liabilities. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although we believe that we have adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on our effective tax rate in future periods.

Stock-Based Compensation

The Company utilizes SFAS 123(R) and related interpretations in accounting for its employee stock options. Stock-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized over the directors' and employees' requisite service period. Compensation expense is calculated using the Black-Scholes option pricing model. Of the inputs into the Black-Scholes option pricing model, the one that can impact the value of the options the most is the volatility factor. For awards occurring in fiscal year ended July 31, 2009, the Company has utilized a volatility factor of 80.5 percent in this calculation. In addition, the Company utilized an expected average risk-free interest rate of 2.25 percent, an expected average life of 10 years and no expected dividends.

Recent Accounting Pronouncements

Information about recent accounting pronouncements is included in Note 19 to the consolidated audited financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's primary market risks include fluctuations in interest rates and exchange rate variability.

The Company has two revolving credit facilities and an equipment line of credit facility in place. The primary revolving credit facility had an outstanding balance of \$4.8 million at July 31, 2009, bearing interest at a current rate of LIBOR plus 3.0 percent. The non-U.S. receivables revolving credit facility had no outstanding balance at July 31, 2009. Balances on this credit facility also bear interest at LIBOR plus 3.0 percent. The equipment line of credit facility had a \$263,000 outstanding balance at July 31, 2009, bearing interest at a current interest rate of LIBOR plus 3.0 percent. Interest expense from these credit facilities is subject to market risk in the form of fluctuations in interest rates. Assuming the current levels of borrowings at variable rates and a two-percentage-point increase in the average interest rate on these borrowings, it is estimated that our interest expense would have increased by approximately \$101,000. The Company does not perform any interest rate hedging activities related to these three facilities.

Additionally, the Company has exposure to non-U.S. currency fluctuations through export sales to international accounts. As only approximately 5.0 percent of our sales revenue is denominated in non-U.S. currencies, we estimate that a change in the relative strength of the dollar to non-U.S. currencies would not have a material impact on the Company's results of operations. The Company does not conduct any hedging activities related to non-U.S. currency.

Table of Contents

Item 8. *Financial Statements and Supplementary Data*

Financial statements and financial statement schedules specified by this Item, together with the report thereon by UHY LLP, are filed pursuant to Item 15 of this annual report on Form 10-K.

Information on quarterly results of operations is set forth in Note 18, *Quarterly Financial Data (Unaudited)* to our consolidated audited financial statements.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures Our management, under the supervision and with the participation of our chief executive officer and chief financial officer, has reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as of July 31, 2009. Based on such review and evaluation, our chief executive officer and chief financial officer have concluded that, as of July 31, 2009, the disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, (a) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting includes policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework of Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion of this evaluation. Based on our evaluation we have concluded our internal control over financial reporting was effective as of July 31, 2009.

Changes in Internal Control Over Financial Reporting There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934, as amended, that occurred during the fiscal quarter ended July 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Attestation Report of Registered Public Accounting Firm This annual report does not include an attestation report of UHY LLP, the Company's independent registered public accounting firm, regarding internal control over financial reporting. Management's report was not subject to attestation by UHY LLP pursuant to the rules as they relate to Smaller Reporting Companies and Non-Accelerated Filers.

Item 9B. *Other Information*

None.

Table of Contents

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information under the heading, "Executive Officers of the Registrant" in Part I, Item I of this Form 10-K is incorporated herein by reference. In addition, certain information required by this Item 10 will be included in the Company's definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report and is incorporated herein by reference. The following sections of such proxy materials are herein incorporated by reference: "Election of Directors," information regarding the identification of the members of the Audit Committee of the Company and "Section 16(a) Beneficial Ownership Reporting Compliance."

The Board of Directors has determined that Ms. Juanita Hinshaw, one of the Company's independent directors, qualifies as the Audit Committee financial expert because she has served in an oversight role in finance and accounting.

The Company has established a Code of Business Conduct and Ethics, which is applicable to all of its employees, officers and directors. The Code is available on the Company's website at www.synergeticsusa.com and also is available to stockholders in print upon request. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding the amendment to, or a waiver from, a provision of this policy that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on its website.

During the fourth quarter of fiscal 2009, there were no material changes to the procedures by which stockholders may recommend nominees to the Board.

Item 11. *Executive Compensation*

Information required pursuant to this Item 11 will be included in the Company's definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the sections "Executive Compensation" and "Director Compensation" and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Certain information required pursuant to this Item 12 will be included in the Company's definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the section "Principal Stockholders" and is incorporated herein by reference.

EXISTING EQUITY COMPENSATION PLAN INFORMATION

The table below shows information with respect to all of our equity compensation plans as of July 31, 2009.

**Number of Securities
Available for Future
Issuance
Under Equity**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Compensation Plans (Excluding Securities Reflected in the First Column)
Equity Compensation Plans Approved By Security Holders	527,735	\$ 2.10	1,078,019
Equity Compensation Plans Not Approved By Security Holders			
Total	527,735	\$ 2.10	1,078,019

Table of Contents

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information required pursuant to this Item 13 concerning certain relationships and related transactions, as applicable, will be included in the Company's definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the section Certain Relationships and Related Transactions. Information required pursuant to this Item 13 concerning director independence will be included in the Company's definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the section Corporate Governance and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

Information required pursuant to this Item 14 concerning our principal accountant fees and services will be included in our definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the section Proposal 2 Ratification of Independent Registered Public Accounting Firm and is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) The following documents are filed as part of this report.

1. Financial Statements

The consolidated financial statements and supplemental schedule of Synergetics USA, Inc. and Subsidiaries, together with the report thereon of independent registered public accounting firm, are included following Item 15 of this annual report on Form 10-K. See Index to Financial Statements and Financial Statement Schedules on page F-1, herein.

2. Financial Statement Schedules

Schedule II Valuation Allowances and Qualifying Accounts is included in Note 20 to the consolidated financial statements, which are included following Item 15 of this annual report on Form 10-K. See Index to Financial Statements and Financial Statement Schedules on page F-1 herein.

3. Exhibits

The exhibits required to be filed as part of this annual report on Form 10-K are listed in the attached Index to Exhibits.

(b) The exhibits filed with this annual report on Form 10-K are listed in the attached Index to Exhibits.

(c) None.

Table of Contents

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Audited Financial Statements

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements for the fiscal years ended July 31, 2009, 2008 and 2007 F-2

Consolidated Balance Sheets as of July 31, 2009 and 2008 F-3

Consolidated Statements of Income for the years ended July 31, 2009, 2008 and 2007 F-4

Consolidated Statements of Stockholders' Equity for the years ended July 31, 2009, 2008 and 2007 F-5

Consolidated Statements of Cash Flows for the years ended July 31, 2009, 2008 and 2007 F-6

Notes to Consolidated Financial Statements F-7

Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts F-24

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Synergetics USA, Inc.

We have audited the accompanying consolidated balance sheets of Synergetics USA, Inc. and Subsidiaries as of July 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2009. Synergetics USA, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synergetics USA, Inc. and Subsidiaries as of July 31, 2009 and 2008 and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

St. Louis, Missouri
October 28, 2009

Table of Contents**Synergetics USA, Inc. and Subsidiaries****Consolidated Balance Sheets
July 31, 2009 and 2008**

	2009	2008
	(Dollars in thousands, except share and per share data)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 160	\$ 500
Accounts receivable, net of allowance for doubtful accounts of \$316 and \$250, respectively	9,105	8,593
Inventories	15,025	14,568
Prepaid expenses	414	361
Deferred income taxes	654	527
Total current assets	25,358	24,549
Property and equipment, net	7,914	8,159
Intangible and other assets		
Goodwill	10,690	10,690
Other intangible assets, net	13,135	13,946
Deferred expenses	2	6
Patents, net	918	991
Cash value of life insurance	63	55
Total assets	\$ 58,080	\$ 58,396
Liabilities and stockholders equity		
Current Liabilities		
Excess of outstanding checks over bank balance	\$ 75	\$
Lines-of-credit	5,035	3,287
Current maturities of long-term debt	1,856	1,823
Current maturities of revenue bonds payable	249	249
Accounts payable	1,822	2,776
Accrued expenses	2,874	2,659
Income taxes payable	37	1,071
Total current liabilities	11,948	11,865
Long-Term Liabilities		
Long-term debt, less current maturities	2,665	4,309
Revenue bonds payable, less current maturities	3,414	3,642
Deferred income taxes	1,923	2,223

Total long-term liabilities	8,002	10,174
Total liabilities	19,950	22,039
Commitments and contingencies (Notes 10 and 17)		
Stockholders' Equity		
Common stock at July 31, 2009 and July 31, 2008, \$0.001 par value, 50,000,000 shares authorized; 24,454,256 and 24,354,295 shares issued and outstanding, respectively	24	24
Additional paid-in capital	24,520	24,342
Retained earnings	13,586	11,991
Total Stockholders' Equity	38,130	36,357
Total liabilities and stockholders' equity	\$ 58,080	\$ 58,396

See Notes to Consolidated Financial Statements.

F-3

Table of Contents**Synergetics USA, Inc. and Subsidiaries****Consolidated Statements of Income
Years Ended July 31, 2009, 2008 and 2007**

	2009	2008	2007
	(Dollars in thousands, except share and per share data)		
Net sales	\$ 52,965	\$ 50,063	\$ 45,945
Cost of sales	23,550	20,101	18,943
Gross profit	29,415	29,962	27,002
Operating expenses			
Research and development	2,998	2,654	2,584
Selling	14,262	12,601	11,124
General and administrative	9,030	9,499	11,776
	26,290	24,754	25,484
Operating income	3,125	5,208	1,518
Other income (expense)			
Investment income	5	6	1
Interest expense	(763)	(1,129)	(974)
Miscellaneous	3	17	28
	(755)	(1,106)	(945)
Income before provision for income taxes	2,370	4,102	573
Provision for income taxes	775	1,439	189
Provision for re-enactment of the research and experimentation credit			(461)
	775	1,439	(272)
Net income	\$ 1,595	\$ 2,663	\$ 845
Earnings per share:			
Basic	\$ 0.07	\$ 0.11	\$ 0.03
Diluted	\$ 0.07	\$ 0.11	\$ 0.03
Basic weighted average common shares outstanding	24,459,749	24,321,713	24,220,507

Diluted weighted average common shares outstanding	24,493,263	24,474,840	24,404,653
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See Notes to Consolidated Financial Statements.

F-4

Table of Contents**Synergetics USA, Inc. and Subsidiaries****Consolidated Statements of Stockholders Equity
Years Ended July 31, 2009, 2008 and 2007**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
	(Dollars in thousands, except share data)			
Balance, August 1, 2006	\$ 24	\$ 23,798	\$ 8,483	\$ 32,305
Restricted stock grants		89		89
Stock-based compensation		146		146
Proceeds from stock option exercises		37		37
Tax benefit associated with stock option exercises		13		13
Net income			845	845
Balance, July 31, 2007	24	24,083	9,328	33,435
Restricted stock grants		125		125
Stock-based compensation		99		99
Proceeds from stock option exercises		30		30
Tax benefit associated with stock option exercises		5		5
Net income			2,663	2,663
Balance, July 31, 2008	24	24,342	11,991	36,357
Restricted stock grants		40		40
Stock-based compensation		138		138
Net income			1,595	1,595
Balance, July 31, 2009	\$ 24	\$ 24,520	\$ 13,586	\$ 38,130

See Notes to Consolidated Financial Statements.

Table of Contents**Synergetics USA Inc. and Subsidiaries****Consolidated Statements of Cash Flows
Years Ended July 31, 2009, 2008 and 2007**

	2009	2008	2007
	(Dollars in thousands, except share data)		
Cash Flows from Operating Activities			
Net income	\$ 1,595	\$ 2,663	\$ 845
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,052	1,013	887
Amortization	908	977	747
Provision for doubtful accounts receivable	88	23	49
Stock-based compensation	178	224	235
Deferred income taxes	(427)	(407)	(264)
Loss on sale of equipment	2	5	
Change in assets and liabilities:			
(Increase) decrease in:			
Sales of trading securities			50
Accounts receivables	(600)	(352)	(1,506)
Income taxes receivable		473	(213)
Inventories	(457)	(318)	(1,004)
Prepaid expenses	(53)	(31)	79
(Decrease) increase in:			
Accounts payable	(1,015)	474	849
Accrued expenses	255	(80)	(55)
Deferred expenses			(16)
Income taxes payable	(1,034)	1,071	253
Net cash provided by operating activities	492	5,735	936
Cash Flows from Investing Activities			
Acquisition of a business	(40)	(40)	
Net decrease in notes receivable, officer-stockholder			20
Increase (decrease) in deferred expense			(105)
Proceeds on the sale of equipment	1	19	
Purchase of property and equipment	(749)	(957)	(421)
Acquisition of patents and other intangibles	(20)	(199)	(2,771)
Increase in cash value of life insurance	(8)	(9)	(14)
Net cash used in investing activities	(816)	(1,186)	(3,291)
Cash Flows from Financing Activities			

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Excess of outstanding checks over bank balance	75	(531)	294
Net borrowings (repayments) on lines-of-credit	1,748	(2,428)	2,385
Principal payments on revenue bonds payable	(228)	(249)	(249)
Proceeds from long-term debt		823	919
Principal payments on long-term debt	(1,080)	(1,366)	(649)
Tax benefit associated with the exercise of non-qualified stock options		5	13
Payment on debt incurred for acquisition of trademark	(531)	(500)	(471)
Proceeds from the issuance of common stock		30	37
Net cash (used in) provided by financing activities	(16)	(4,216)	2,279
Net (decrease) increase in cash and cash equivalents	(340)	333	(76)
Cash and cash equivalents			
Beginning	500	167	243
Ending	\$ 160	\$ 500	\$ 167
Supplemental Disclosures of Cash Flow Information			
Cash paid for:			
Interest	\$ 781	\$ 1,145	\$ 913
Income taxes paid (refunded)	2,237	299	(74)
Supplemental Schedule of Non-cash Investing and Financing Activities			
Purchases of equipment included in accounts payable	61		
Transfer from deferred expenses to property, plant and equipment		161	
Licensed intangible assets financed by settlement obligations			3,194
Transfer from prepaid expenses to patents		13	
Amount owed on acquisition of a business		40	

See Notes to Consolidated Financial Statements.

Table of Contents

Synergetics USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Synergetics USA, Inc. (Synergetics USA or the Company) is a Delaware corporation incorporated on June 2, 2005, in connection with the reverse merger of Synergetics, Inc. (Synergetics) and Valley Forge Scientific Corp. (Valley Forge) and the subsequent reincorporation of Valley Forge (the predecessor to Synergetics USA) in Delaware. Synergetics USA is a medical device company. Through continuous improvement and development of our people, our **mission** is to design, manufacture and market innovative microsurgical instruments, capital equipment, accessories and disposables of the highest quality in order to assist and enable surgeons who perform microsurgery around the world to provide a better quality of life for their patients. The Company's primary focus is on the microsurgical disciplines of ophthalmology and neurosurgery. Our distribution channels include a combination of direct and independent sales organizations and important strategic alliances with market leaders. The Company is located in O'Fallon, Missouri and King of Prussia, Pennsylvania. During the ordinary course of its business, the Company grants unsecured credit to its domestic and international customers.

A summary of the Company's significant accounting policies follows:

Use of estimates in the preparation of financial statements: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of consolidation: The consolidated financial statements included the accounts of Synergetics USA and its wholly owned subsidiaries: Synergetics, Synergetics IP, Inc., Synergetics Development Company, LLC and Synergetics Delaware, Inc. All significant intercompany accounts and transactions have been eliminated.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Accounts receivable: During the ordinary course of its business, the Company grants unsecured credit to its domestic and international customers. Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Collateral is not generally required on the Company's accounts receivable. The majority of the Company's non-U.S. accounts receivable is covered by credit insurance. Accounts receivable are generally considered past due based upon their specific terms. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, current economic conditions, and credit insurance. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The Company generally does not charge interest on past-due amounts in accounts receivable.

Concentration of credit risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect

any in the future.

Inventories: Inventories, consisting of purchased materials, direct labor and manufacturing overhead, are stated at the lower of cost, with cost being determined using the first-in, first-out (FIFO) method, or market. The Company s inventory is very dynamic and new products are added frequently. Thus, the Company reviews the valuation of its inventory on a quarterly basis and determines if a valuation allowance is necessary for items that have not had their values updated recently. In addition, the Company evaluates inventories for excess quantities and identified obsolescence quarterly. The Company s evaluation includes an analysis of historical sales levels by product and projections of future demand, as well as estimates of quantities required to support warranty and other repairs. To the extent that it determines there are some excess quantities based on its projected levels of sales and

F-7

Table of Contents

other requirements, or obsolete material in inventory, it records valuation reserves against all or a portion of the value of the related parts or products. If future cost valuations, future demand or market conditions are different from the Company's projections, a change in recorded inventory valuation reserves may be required and would be reflected in cost of sales in the period the revision is made.

Property and equipment: Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

	Useful Lives
Building and improvements	7-39
Machinery and equipment	5-7
Furniture and fixtures	5-7
Software	3-5

Goodwill and other intangibles: Absent any impairment indicators, goodwill is tested for impairment on an annual basis. The Company performs its goodwill impairment tests during the fourth fiscal quarter. Other intangible assets, consisting of licensing agreements and proprietary know-how are amortized to operations under the straight-line method over their estimated useful lives or statutory lives whichever is shorter. These periods range from two to seventeen years. The life of a trademark is inextricably related to the life of the product bearing the mark or the life of the business entity owning the trademark. The Company intends to use the trademark indefinitely, and therefore, its useful life is not limited to any specific product. The trademark constitutes an indefinite-lived intangible that will be used in perpetuity. Proprietary know-how consists of the patented technology which is included in one of the Company's core products, bipolar electrosurgical generators. As a proprietary technology is a distinguishing feature of the Company's products, it represents a valuable intangible asset.

Patents: Incremental legal and other costs to obtain the patent are capitalized to a patent asset. Salaries, benefits and other direct costs of product development are expensed as operating expenses in research and development (R&D) costs. Patents are amortized to operations under the straight-line method over the remaining statutory life of the patent. Total amortization for the years ended July 31, 2009, 2008 and 2007 was \$908,000, \$977,000 and \$747,000, respectively.

Accounting for settlement agreement: In fiscal 2007, the Company entered into a \$6.5 million settlement agreement with Iridex Corporation (Iridex) pursuant to which the parties agreed to a cross-licensing agreement in exchange for the dismissal of all pending lawsuits between the parties. The present value of the settlement payments was valued utilizing an incremental borrowing rate of 8.0%. The fair value of the assets acquired in the cross-licensing agreement was valued pursuant to Statement of Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. The fair value of the two intangible assets acquired was measured based upon the future royalty stream that would have been due to Iridex to utilize two of its patents. This fair value was then limited to the net present value of the payment stream due to Iridex discounted at 8.0 percent. The intangible assets' value is then amortized to income over the remaining life of the patents. The Company then reviewed the other elements of the settlement agreement and did not assign any value to the dismissal of the pending litigation, the assignment of the directional laser probe patent to Iridex or the supply agreement as it did not believe there was any value to these elements. The Company paid \$800,000 on both April 15, 2009 and 2008 and \$2.5 million to Iridex on April 16, 2007. The remaining net present value of the obligation is reflected on the Company's balance sheet as long-term debt and current maturities of long-term debt.

Impairment of long-lived assets (excluding goodwill and other intangibles): The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, but not less than annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are impaired, the impairment is recognized as the amount by which the carrying amount exceeds the estimated future undiscounted cash flows. Assets to be sold are reported at the lower of the carrying amount or the fair value less costs to sell.

Table of Contents

Product warranty: The Company provides a warranty against manufacturing and workmanship defects. Under the Company's general terms and conditions of sale, liability during the warranty period (typically three years) is limited to repair or replacement of the defective item. The Company's warranty cost is not material.

Deferred income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Accounting for Uncertainties in Income Taxes: Effective August 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation Number 48, or FIN No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in the income tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 utilizes a two-step approach for evaluating uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. Step one, recognition, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement. The cumulative effect of adopting FIN No. 48 is to be recognized as a change in accounting principle, recorded as an adjustment to the opening balance of retained earnings on the adoption date. The Company identified no uncertain tax positions taken in prior periods and as a result, there was no financial impact from the adoption of FIN No. 48.

The Company's policy is to recognize interest and penalties through income tax expense. As of July 31, 2009, the 2006-2008 tax years remain subject to examination by major tax jurisdictions. There are no federal, state or non-U.S. income tax audits in process as of July 31, 2009.

Fair value of financial instruments: SFAS No. 107, Disclosures about Fair Value of Financial Instruments (SFAS No. 107), requires management to disclose the estimated fair value of certain assets and liabilities defined by SFAS No. 107 as a financial instrument. As of July 31, 2009 and 2008, the carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying amount of notes and revenue bonds payable and long-term debt is estimated to approximate fair value because the interest rates fluctuate with market interest rates or the fixed rates are based on estimated current rates offered to the Company for debt with similar terms and maturities.

Revenue recognition: The Company records revenue from product sales when the revenue is realized and the product is shipped from its facilities. This includes satisfying the following criteria: the arrangement with the customer is evident, usually through the receipt of a purchase order; the sales price is fixed and determinable; delivery to the carrier has occurred; and collectibility is reasonably ensured. Freight and shipping billed to customers is included in net sales, and the cost of shipping is included in cost of sales.

The terms and conditions of sales to both our domestic and international distributors do not differ materially from the terms and conditions of sales to our domestic and international end-user customers.

Service revenue substantially relates to repairs of products and is recognized when the service has been completed. Revenue from licenses, extended warranty contracts and royalty fees is recorded when earned.

Advertising: The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was approximately \$63,400, \$142,400 and \$127,500 for the years ended July 31, 2009, 2008 and 2007, respectively.

Table of Contents

Royalties: The Company pays royalties to doctors and medical institutions for providing assistance in the design of various instruments and components. Royalties are paid quarterly based on the sales of the instrument or components. Royalty expense was approximately \$1,172,500, \$971,600 and \$772,600 for the years ended July 31, 2009, 2008 and 2007, respectively.

Stock compensation: The Company has a stock plan for employees and consultants allowing for incentive and non-qualified stock options, restricted stock and stock awards which have been granted to certain employees and certain consultants of the Company. In addition, the Company has a stock option plan for non-employee directors allowing for non-qualified stock options. Options under this plan have been granted to all non-employee directors. Stock-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized over the directors' and employees' requisite service period. Compensation expense is calculated using the Black-Scholes option pricing model. In addition, compensation expense equal to number of shares granted multiplied by the market value on the date of the grant over the restriction period is recognized in net earnings for restricted stock awards.

Earnings per share: Basic earnings per share (EPS) data has been computed on the basis of the weighted average number of common shares outstanding during each period presented. Diluted EPS data has been computed on the basis of the assumed conversion, exercise or issuance of all potential common stock instruments, unless the effect is to reduce the loss or increase the net income per common share (dollars in thousands, except EPS).

	Year Ended July 31,		
	2009	2008	2007
Numerator:			
Net income	\$ 1,595	\$ 2,663	\$ 845
Denominator:			
Weighted average common shares and denominator for basic calculation	24,459,749	24,321,713	24,220,507
Stock options and restricted stock	33,514	153,127	184,146
Denominator for diluted calculation	24,493,263	24,474,840	24,404,653
Net income per share basic	\$ 0.07	\$ 0.11	\$ 0.03
Net income per share diluted	\$ 0.07	\$ 0.11	\$ 0.03

Segment reporting: SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker or group, in deciding how to allocate resources and in assessing performance. The Company's chief decision maker reviews the results of operations and requests for capital expenditures based on one industry segment: producing and selling products and procedures for minimally invasive surgery, primarily for vitreoretinal and neurosurgery. The Company's entire revenue is generated through this segment. Revenues are attributed to countries based upon the location of end-user customers or distributors.

Subsequent events: In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165), which is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In accordance with SFAS No. 165, the Company has evaluated subsequent events through October 28, 2009, the date of issuance of the financial statements.

Note 2. Mergers and Acquisitions

In June 2008, the Company purchased Medimold, Inc.; a Missouri based operation specializing in plastic injection molding for \$80,000 in cash consideration. Medimold, Inc. designs, engineers, and manufactures quality, specialized medical tools and devices through their plastic injection molding technology. The Company is incorporating the technology into its operations by moving currently machined parts to the Medimold, Inc. platform. The acquisition is also expected to enhance component quality, expand the Company's manufacturing

F-10

Table of Contents

capacity, and provide greater component inventory control. The purchase price was allocated based upon the fair value of the assets acquired, with the excess of such purchase price over the fair value of the acquired assets being allocated to Goodwill.

Note 3. Distribution Agreements

The Company sells a portion of its electrosurgical generators to a U.S. based national and international distributor as described below:

Codman & Shurtleff, Inc. (Codman)

In the neurosurgical market, the bipolar electrosurgical system manufactured by Valley Forge prior to the merger has been sold for over 25 years through a series of distribution agreements with Codman, an affiliate of Johnson & Johnson and formerly Valley Forge's largest customer. On April 2, 2009, the Company executed a new, three-year distribution agreement with Codman for the continued distribution by Codman of certain bipolar generators and related disposables and accessories. In addition, the Company entered into a new, three-year license agreement, which provides for the continued licensing of the Company's *Mal*® trademark to Codman for use with certain Codman products, including those covered by the distribution agreement. Both agreements expire on December 31, 2011. Sales to Codman and its respective percent of net sales in the fiscal years ended July 31, 2009, 2008 and 2007 were as follows (dollars in thousands):

	July 31, 2009	July 31, 2008	July 31, 2007
Net sales	\$ 5,334	\$ 6,041	\$ 7,227
Percent of net sales	10.1%	12.1%	15.7%

No other customer comprises more than 10 percent of sales.

Note 4. Inventories

Inventories as of July 31, 2009 and 2008 were as follows (dollars in thousands):

	2009	2008
Raw materials and component parts	\$ 6,058	\$ 5,379
Work in progress	2,723	2,772
Finished goods	6,244	6,417
	\$ 15,025	\$ 14,568

In the fourth quarter of fiscal 2009, the Company recorded an adjustment of approximately \$826,000 due to excess and discontinued inventory which was either contributed to a charitable organization or was discarded.

Table of Contents**Note 5. Property and Equipment**

Property and equipment as of July 31, 2009 and 2008 were as follows (dollars in thousands):

	2009	2008
Land	\$ 730	\$ 730
Building and improvements	5,782	5,720
Machinery and equipment	5,363	4,959
Furniture and fixtures	720	680
Software	336	332
Construction in progress	166	30
	13,097	12,451
Less accumulated depreciation	5,183	4,292
	\$ 7,914	\$ 8,159

Depreciation expense is included in both cost of sales and selling, general and administrative expenses. There are no long-lived assets outside of the United States. Depreciation expense for the years ended July 31, 2009, 2008 and 2007 was \$1,052,000, \$1,013,000 and \$887,000, respectively.

Note 6. Other Intangible Assets

Information regarding the Company's other intangible assets is as follows (dollars in thousands):

	Gross Carrying Value	Accumulated Amortization July 31, 2009	Net
Proprietary know-how	\$ 4,057	\$ 1,295	\$ 2,762
Trademark	5,923		5,923
Licensing agreements	5,834	1,384	4,450
Patents	1,335	417	918
	\$ 17,149	\$ 3,096	\$ 14,053

	July 31, 2008		
Proprietary know-how	\$ 4,057	\$ 1,017	\$ 3,040
Trademark	5,923		5,923
Licensing agreements	5,834	851	4,983
Patents	1,315	324	991

\$ 17,129 \$ 2,192 \$ 14,937

Goodwill of \$10,660,000 and proprietary know-how of \$4,057,000 are a result of the reverse merger transaction completed on September 21, 2005.

Amortization for the years ending July 31, 2010, 2011, 2012, 2013 and 2014 is estimated to approximate \$844,000, \$621,000, \$567,000, \$565,000 and \$565,000, respectively.

F-12

Table of Contents**Note 7. Accrued Expenses**

Accrued expenses as of July 31, 2009 and 2008 consisted of the following (dollars in thousands):

	2009	2008
Payroll, commissions and employee benefits	\$ 966	\$ 890
Royalties	243	316
Interest	61	79
Warranty	15	15
Other	1,589	1,359
	\$ 2,874	\$ 2,659

Note 8. Pledged Assets, Short and Long-Term Debt

Revolving Credit Facility: The Company has a credit facility with Regions Bank (Regions) which allows for borrowings of up to \$9.5 million with an interest rate based on either the one-, two- or three-month LIBOR plus 2.0 percent and adjusting each quarter based upon our leverage ratio. As of July 31, 2009, interest under the facility is charged at 2.28 percent. The unused portion of the facility is charged at a rate of 0.20 percent. Borrowings under this facility at July 31, 2009, were \$4.8 million. Outstanding amounts are collateralized by the Company s domestic receivables and inventory. This credit facility expires on November 30, 2009. The Company expects this credit facility to be renewed.

The facility has two financial covenants: a maximum leverage ratio of 3.75 times and a minimum fixed charge coverage ratio of 1.1 times. As of July 31, 2009, the leverage ratio was 1.50 times and the minimum fixed charge coverage ratio was 1.57 times. Collateral availability under the line as of July 31, 2009, was approximately \$3.8 million. The facility restricts the payment of dividends if, following the distribution, the fixed charge coverage ratio would fall below the required minimum.

Non-U.S. Receivables Revolving Credit Facility: On June 4, 2009, the Company amended this line of credit. The credit facility with Regions now allows for borrowings of up to \$1.75 million. The interest rate at July 31, 2009 is one-month LIBOR plus 3.0 percent. Pursuant to the terms of the non-U.S. receivables revolving credit facility, under no circumstances shall the rate be less than 3.5 percent per annum. The facility is charged an administrative fee of 1.0 percent. There were no borrowings under this facility at July 31, 2009. Outstanding amounts are collateralized by the Company s non-U.S. receivables. The line matures on June 3, 2010, and has no financial covenants. Current collateral availability under the line was approximately \$1.3 million at July 31, 2009. The Company expects this credit facility to be reviewed.

Equipment Line of Credit: On June 5, 2009, the Company amended this line of credit. Under this amended credit facility, the Company may borrow up to \$1.0 million, with interest at one-month LIBOR plus 3.0 percent. Pursuant to the terms of the equipment line of credit, under no circumstances shall the rate be less than 3.5 percent per annum. The unused portion of the facility is not charged a fee. The borrowings under this facility as of July 31, 2009, were \$263,000. The equipment line of credit has a maturity date of November 30, 2009. The Company expects this credit facility to be renewed.

Table of Contents

Long-term debt as of July 31, 2009 and 2008 consisted of the following (dollars in thousands):

	2009	2008
Note payable to bank, due in monthly principal installments of \$41,022 beginning August 2008 plus interest at a rate of 5.0 percent, remaining balance due July 31, 2011, collateralized by substantially all assets of the Company	\$ 984	\$ 1,477
Note payable to the estate of the late Dr. Leonard I. Malis, due in quarterly installments of \$159,904 which includes interest at an imputed rate of 6.0 percent; remaining balance of \$1,599,040 including the effects of imputing interest, due December 2011, collateralized by the Malis® trademark	1,475	2,006
Settlement obligation to Iridex Corporation (Iridex), due in annual installments of \$800,000 which includes interest at an imputed rate of 8.0 percent; remaining balance of \$2,400,000 including the effects of imputing interest, due April 15, 2012	2,062	2,649
	4,521	6,132
Less current maturities	1,856	1,823
Long-term portion	\$ 2,665	\$ 4,309

Aggregate annual maturities of long-term debt as of July 31, 2009 are as follows (dollars in thousands):

Year Ending July 31,	Amount
2010	\$ 1,856
2011	1,726
2012	939
	\$ 4,521

Note 9. Revenue Bonds Payable

In September 2002, the Company issued \$2,645,000 in Private Activity Revenue Bonds, Series 2002. The proceeds from the bond issue were used to provide financing for the construction of a building and equipment for use as a manufacturing facility located in O Fallon, Missouri. The bond issue is collateralized by a first deed of trust. The Company signed a promissory note to a bank payable in monthly installments of interest only, commencing on October 1, 2002. Principal is payable on May 1, 2004, and on the first day of each month thereafter, in the amount of \$11,021 until final payment in monthly installments beginning on September 1, 2022. Interest is payable at 5.5 percent through September 1, 2009, and prime rate plus 0.5 percent thereafter. These revenue bonds payable totaled \$1.8 million and \$1.9 million as of July 31, 2009 and 2008, respectively.

In December 2004, Synergetics Development Co., LLC issued \$2,330,000 in Industrial Revenue Bonds, Series 2004. The proceeds from the bond issue were used to provide financing for a building expansion and the purchase of land and equipment located in O Fallon, Missouri. The bond issue is collateralized by a first deed of trust. The Company signed a promissory note to a bank payable in monthly installments of interest only, commencing on February 1,

2005. Principal is payable in monthly installments beginning on June 1, 2005, and on the first day of each month thereafter, in the amount of \$9,708, until final payment on December 1, 2024. Interest is payable at 4.75 percent through December 1, 2011, and prime rate thereafter. These revenue bonds payable totaled \$1.9 million and \$2.0 million as of July 31, 2009 and 2008, respectively.

Under the terms of the bonds, the Company is required to comply with certain financial covenants, including a minimum debt coverage ratio of 1.25 to 1.0.

F-14

Table of Contents

Aggregate annual maturities required on bonds payable as of July 31, 2009 are as follows (dollars in thousands):

Year Ending July 31,	Amount
2010	\$ 249
2011	249
2012	249
2013	249
2014	249
Thereafter	2,418
	\$ 3,663

Note 10. Operating Leases

The Company leases various equipment, a portion of its facilities in O Fallon, Missouri and the facility in King of Prussia, Pennsylvania under operating leases. The O Fallon, Missouri lease expires in July 2012 and the King of Prussia, Pennsylvania lease has been renewed through October 2012.

The approximate minimum rental commitment under non-cancelable operating leases as of July 31, 2009 is due as follows (dollars in thousands):

Year Ending July 31,	Amount
2010	\$ 311
2011	289
2012	223
2013	63
2014	2
	\$ 888

Rent expense incurred and charged to cost of sales and selling, general and administrative expenses was approximately \$310,000, \$326,000 and \$223,000 for the years ended July 31, 2009, 2008 and 2007, respectively.

Table of Contents**Note 11. Income Tax Matters**

The Company and its wholly owned subsidiaries file as a single entity for income tax reporting purposes. The net deferred income tax amounts included in the accompanying consolidated balance sheets as of July 31, 2009 and 2008 include the following amounts as deferred income tax assets and liabilities (dollars in thousands):

	2009	2008
Deferred tax assets:		
Accounts receivable	\$ 98	\$ 83
Inventories	155	176
Accrued liabilities	181	110
Other	219	158
Loss on foreign subsidiaries	746	302
Research and experimentation tax credit carryforward		
	1,399	829
Deferred tax liabilities:		
Property and equipment	373	288
Other intangible assets	2,295	2,237
	2,668	2,525
	\$ (1,269)	\$ (1,696)

The deferred tax amounts noted above have been classified on the accompanying consolidated balance sheets as of July 31, 2009 and 2008, as follows (dollars in thousands):

	2009	2008
Current assets	\$ 654	\$ 527
Long-term liabilities	(1,923)	(2,223)
	\$ (1,269)	\$ (1,696)

The provision for income taxes for the years ended July 31, 2009, 2008 and 2007, consisted of the following (dollars in thousands):

	2009	2008	2007
Currently payable	\$ 1,202	\$ 1,846	\$ (8)
Deferred	(427)	(407)	(264)
	\$ 775	\$ 1,439	\$ (272)

Reconciliation of the Company's income tax at the statutory rate to the Company's effective rate is as follows:

	2009	2008	2007
Computed at the statutory rate	34.0%	34.0%	34.0%
State taxes, net of federal tax benefit	3.0	4.5	4.0
Extraterritorial income exclusion			(9.2)
Production deduction for domestic manufacturers	(3.3)	(1.3)	(3.4)
Research and experimentation	(6.9)	(3.5)	(80.5)
Other	5.9	1.4	7.6
	32.7%	35.1%	(47.5)%

The Company recorded an income tax credit for the re-enactment of the research and experimentation credit of \$461,000 during the fiscal year ended July 31, 2007. The impact of this credit was due to the continuation of the research and experimentation credit in January, 2007 which had not been recorded during fiscal 2006.

Table of Contents**Note 12. Employee Benefit Plan**

The Company has a 401(k) savings plan, which covers employees who have attained the age of 18 and who have been credited with at least one year of service. Company contributions are made at the discretion of the Board of Directors. The Company made no contributions to the plan for the years ended July 31, 2009, 2008 and 2007.

Note 13. Stock-Based Compensation Plans***Stock Option Plans***

In addition to the historical options outstanding for Synergetics prior to the merger, the Company has options outstanding under two existing active option plans and two terminated plans of Valley Forge. The first active plan (the 2001 Plan) was adopted by Valley Forge on January 16, 2001 pursuant to which 345,000 shares of common stock were reserved for issuance to employees, officers and consultants of the Company. The 2001 Plan was amended with the approval of the Valley Forge stockholders on September 19, 2005 to increase the number of share awards issuable under the 2001 Plan from 345,000 to 1,345,000. There were 858,019 options and restricted shares unawarded at July 31, 2009 under this plan. On September 19, 2005, the stockholders of Valley Forge voted to adopt the Valley Forge Scientific Corp. 2005 Non-Employee Directors Stock Option Plan and voted to authorize up to 200,000 shares issuable upon exercise of options granted thereunder. On December 11, 2008, the stockholders of the Company voted to increase the number of shares authorized for issuance under the plan from 200,000 to 400,000. There were 220,000 options available for future grants at July 31, 2009 under this plan. Generally, options were granted with an exercise price equal to fair market value at the date of grant and expire 10 years from the date of the grant. Generally, stock options granted under these plans vest over a five-year period, with the exception of the non-employee director options which vest over a twelve-month period.

A summary of the status of the fixed awards at July 31, 2009, 2008 and 2007 and changes during the years ended on those dates is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Options outstanding as of July 31, 2006	411,750	\$ 1.98	\$ 1.63
For the period from August 1, 2006 through July 31, 2007:			
Granted	55,000	\$ 3.72	\$ 2.98
Forfeited	(4,590)	\$ 1.09	\$ 0.91
Exercised	(33,425)	\$ 0.96	\$ 0.82
Options outstanding, July 31, 2007	428,735	\$ 2.18	\$ 1.79
For the period from August 1, 2007 through July 31, 2008:			
Granted	40,000	\$ 2.95	\$ 2.45
Forfeited	(17,000)	\$ 2.85	\$ 2.05
Exercised	(15,000)	\$ 1.99	\$ 1.80
Options outstanding, July 31, 2008	436,735	\$ 2.23	\$ 1.84
For the period from August 1, 2008 through July 31, 2009:			

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Granted	93,000	\$	0.95	\$	0.78
Forfeited	(2,000)	\$	3.75	\$	0.99
Exercised					
Options outstanding, July 31, 2009	527,735	\$	2.10	\$	1.74
Options exercisable, July 31, 2009	455,349	\$	2.27	\$	1.88

F-17

Table of Contents

A further summary about awards outstanding at July 31, 2009 is as follows:

	Shares	Weighted Average Grant Date Value	
Unvested options, beginning of period	61,528	\$	1.49
Granted	93,000	\$	0.95
Vested	82,142	\$	1.31
Unvested options, period end	72,386	\$	1.01

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised were as follows (dollars in thousands):

	Fiscal Year Ended		
	July 31, 2009	July 31, 2008	July 31, 2007
Proceeds of options exercised	\$	\$ 30	\$ 37
Related tax benefit recognized		5	13
Intrinsic value of options exercised		41	32

The following table provides information about options outstanding and exercisable options at July 31, 2009 (dollars in thousands):

	Options Outstanding	Exercisable Options
Number	527,735	455,349
Weighted average exercise price	\$ 2.10	\$ 2.27
Aggregate intrinsic value	\$ 917	\$ 857
Weighted average contractual term	5.4 years	4.9 years

The weighted average remaining life for options outstanding and weighted average exercise price per share for exercisable options at July 31, 2009 were as follows:

	Options Outstanding		Exercisable Options
	Weighted Average Remaining Contractual Life		Weighted Average Remaining Contractual Life
Shares	(in Years)	Shares	(in Years)

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< \$1.00	68,950	6.5 years	54,367	5.8 years
\$1.00 \$2.00	242,785	4.6 years	184,982	3.4 years
\$2.00 \$5.00	216,000	5.9 years	216,000	5.9 years
Total	527,735	5.4 years	455,349	4.9 years

The Company granted 40,000 options during the fiscal year ended July 31, 2009 to the independent directors which vest pro-rata over twelve months from the grant date. The Company granted 48,000 and 5,000 options during the fiscal year ended July 31, 2009 to David M. Hable, the Company's new Chief Executive Officer and to Jerry Malis the Company's Chief Scientific Officer, respectively. The shares granted to Mr. Hable vest pro-rata over twelve quarters from the grant date and the shares granted to Mr. Malis vest pro-rata over twelve months from the grant date. The Company recorded \$72,000 of compensation expense with respect to options granted to directors and employees. The fair value of options granted during the fiscal year ended July 31, 2009 was determined at the date of the grant using a Black-Scholes options-pricing model.

F-18

Table of Contents

The following table provides the weighted average fair value of options granted and the assumptions used in the Black-Scholes model:

	Fiscal Year Ended July 31,		
	2009	2008	2007
Expected average risk-free interest rate	2.25%	3.5%	4.0%
Expected average life (in years)	10	10	10
Expected volatility	80.5%	69.2%	79.7
Expected dividend yield	0.0%	0.0%	0.0%

The expected average risk-free rate is based on 10 year U.S. treasury yield curve in December of 2008. The expected average life represents the period of time that options granted are expected to be outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. Expected volatility is based on historical volatilities of Synergetics USA, Inc.'s common stock. The expected dividend yield is based on historical information and management's plan. The Company expects to issue new shares as options are exercised. As of July 31, 2009, the future compensation cost expected to be recognized under SFAS 123(R) is approximately \$26,000 in fiscal 2010, \$13,000 in fiscal 2011 and \$3,000 in fiscal 2012.

Restricted Stock Plans

Under our 2001 Plan, our common stock may be granted at no cost to certain employees and consultants of the Company. Certain plan participants are entitled to cash dividends and voting rights for their respective shares. Restrictions limit the sale or transfer of these shares during a vesting period whereby the restrictions lapse either pro-ratably over a five-year vesting period or at the end of the fifth year. Upon issuance of stock under the 2001 Plan, unearned compensation equivalent to the market value at the date of the grant is charged to stockholders' equity and subsequently amortized to expense over the applicable restriction period. During the fiscal year ended July 31, 2009, 110,065 shares were granted to employees under the restricted stock plan. There were forfeitures of 51,796 shares during the fiscal year ended July 31, 2009. Compensation expense related to restricted stock grants outstanding was \$40,000 for the fiscal year ended July 31, 2009. As of July 31, 2009, there was approximately \$235,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's 2001 Plan. The cost is expected to be recognized over a weighted average period of five years which is generally the vesting period.

In addition, during the fiscal year ended July 31, 2009, 43,192 shares were granted to advisory consultants under the restricted stock plan. Compensation expense related to these shares was \$66,000 for the fiscal year ended July 31, 2009.

The following table provides information about restricted stock grants during the fiscal year ended July 31, 2009, 2008 and 2007 (dollars in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted Stock awards at August 1, 2006		\$
Granted	14,601	\$ 5.48

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Forfeited	1,500	\$ 5.48
Balance as of July 31, 2007	13,101	\$ 5.48
Granted	40,706	\$ 3.38
Balance as of July 31, 2008	53,807	\$ 3.89
Granted	110,065	\$ 2.78
Forfeited	51,796	\$ 3.18
Balance as of July 31, 2009	112,076	\$ 2.95

F-19

Table of Contents

Compensation expense associated with stock-based compensation plans as of July 31, 2009, 2008 and 2007 was as follows (dollars in thousands):

	July 31, 2009	July 31, 2008	July 31, 2007
Stock Options:			
Directors	\$ 52	\$ 74	\$ 104
Employees	20	38	25
Total	72	112	129
Restricted Stock:			
Employees	40	25	17
Advisors	66	87	89
Total	106	112	106
Total Compensation Expense	\$ 178	\$ 224	\$ 235

Note 14. Stockholders Equity

Upon completion of the reverse merger between Valley Forge and Synergetics on September 22, 2005, the Company reincorporated in Delaware, decreased the par value of common stock from \$0.012/3 to \$0.001, increased the authorized common shares to 50,000,000 and eliminated the outstanding treasury shares.

On December 22, 1998, the Company filed amended and restated Articles of Incorporation decreasing the par value of the 8,000,000 shares of common stock it is authorized to issue from \$0.031/3 to \$0.012/3. The holders of common stock have no preemptive rights and the common stock has no redemption, sinking fund or conversion provisions. Each share of common stock is entitled to one vote on any matter submitted to the holders and to equal rights in the assets of the Company upon liquidation. All of the outstanding shares of common stock are fully paid and nonassessable.

Note 15. Research and Development Costs

R&D costs related to both future and present products are charged to operations as incurred. The Company incurred approximately \$2,998,000, \$2,654,000 and \$2,584,000 of R&D costs during the years ended July 31, 2009, 2008 and 2007, respectively.

Note 16. Enterprise-wide Information

Enterprise-wide information as of July 31, 2009, 2008 and 2007 consisted of the following (dollars in thousands):

	Fiscal Year Ended July 31,		
	2009	2008	2007
Net sales			
Ophthalmic	\$ 29,981	\$ 28,019	\$ 24,522

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Neurosurgery	13,968	12,925	10,241
Marketing partners (Codman, Stryker Corporation and Iridex)	8,538	8,347	10,266
Other	478	772	916
Total	\$ 52,965	\$ 50,063	\$ 45,945

F-20

Table of Contents

	Fiscal Year Ended July 31,		
	2009	2008	2007
Net Sales			
Domestic	\$ 36,047	\$ 35,838	\$ 35,214
International	16,918	14,225	10,731
Total	\$ 52,965	\$ 50,063	\$ 45,945

Revenues are attributed to countries based upon the location of end-user customers or distributors.

Note 17. Commitments and Contingencies

The Company entered into three-year employment agreements with its Chief Operating Officer and its Chief Scientific Officer which expired on September 22, 2008. On August 1, 2007, the Company entered into a three-year employment agreement with its Executive Vice President and Chief Financial Officer, Ms. Boone. In the event she is terminated without cause, or if she resigns for good reason, she shall be entitled to her base salary and health care benefits for fifteen additional months.

On July 31, 2008, the Company's Board of Directors formally accepted the resignation of Gregg Scheller who was the President, Chief Executive Officer and Chairman of the Board. The Company believes the non-compete covenant contained in the Mr. Scheller's employment agreement survives until July 31, 2010.

Effective January 29, 2009, the Company's Board of Directors appointed David M. Hable to serve as President and Chief Executive Officer. Also on that date, the Company entered into a change of control agreement with Mr. Hable which provides that if employment is terminated within one year following a change in control for cause or disability (as each term is defined in the change in control agreement), as a result of his death or by Mr. Hable other than as an involuntary termination (as defined in the change in control agreement), the Company shall pay the Mr. Hable all compensation earned or accrued through his employment termination date, including (i) base salary; (ii) reimbursement for reasonable and necessary expenses; (iii) vacation pay; (iv) bonuses and incentive compensation; and (v) all other amounts to which he is entitled under any compensation or benefit plan of the Company (Standard Compensation Due).

If the Mr. Hable's employment is terminated within one year following a change in control without cause and for any reason other than death or disability, including an involuntary termination, and provided he enters into a separation agreement within 30 days of his employment termination, he shall receive the following in a lump sum (Early Severance): (i) all Standard Compensation Due; (ii) an amount equal to one-half times his annual base salary at the rate in effect immediately prior to the change in control; and (iii) as compensation for certain lost benefits, an amount equal to 10% of his base salary at the rate in effect immediately prior to the change in control. If such termination occurs during the period that is 6 to 12 months after the Mr. Hable's start date (as defined in the change in control agreement), he shall receive in a lump sum the Early Severance and an additional amount equal to the sum of one-twelfth times his base salary for each month of employment completed between 7 and 12 months after his Start Date. If the he is terminated at any time after the first anniversary of his start date, he shall receive the following (Ordinary Severance): (i) all Standard Compensation Due; (ii) an amount equal to one times his annual base salary at the rate in effect immediately prior to the change in control; and (iii) any amount payable as of the termination date under the Company's objectives-based incentive plan. Such Ordinary Severance shall be paid in 12 equal monthly installments beginning in the month following his employment termination. Furthermore, all of Mr. Hable's awards of

shares or options shall immediately vest and be exercisable for one year after the date of his employment termination.

Various claims, incidental to the ordinary course of business, are pending against the Company. In the opinion of management, after consultation with legal counsel, resolution of these matters is not expected to have a material effect on the accompanying financial statements.

The Company is subject to regulatory requirements throughout the world. In the normal course of business, these regulatory agencies may require companies in the medical industry to change their products or operating procedures, which could affect the Company. The Company regularly incurs expenses to comply with these

F-21

Table of Contents

regulations and may be required to incur additional expenses. Management is not able to estimate any additional expenditures outside the normal course of operations which will be incurred by the Company in future periods in order to comply with these regulations.

Note 18. Quarterly Financial Data (Unaudited)

The following table provides the Company's quarterly information as presented in the Form 10-Q (dollars in thousands except earnings per share):

Quarters Ended	July 31, 2009	May 4, 2009	February 3, 2009	October 29, 2008
Net Sales	\$ 13,906	\$ 13,161	\$ 13,652	\$ 12,246
Gross Profit	7,093(1)	7,401	7,841	7,080
Operating Income	176(1)	879	907	1,163
Net Income	87(1)	458	389	661
Earnings per Share				
Basic	\$ 0.00	\$ 0.02	\$ 0.02	\$ 0.03
Diluted	\$ 0.00	\$ 0.02	\$ 0.02	\$ 0.03
Basic weighted average common shares outstanding	24,454,256	24,470,755	24,451,904	24,440,861
Diluted weighted average common shares outstanding	24,472,354	24,471,258	24,459,568	24,578,342

Quarters Ended	July 31, 2008	April 30, 2008	January 31, 2008	October 29, 2007
Net Sales	\$ 14,457	\$ 13,500	\$ 11,636	\$ 10,469
Gross Profit	8,351	8,332	6,754	6,525
Operating Income	2,036	2,155	238	785
Net Income	1,203	1,117	(54)	397
Earnings per Share				
Basic	\$ 0.05(2)	\$ 0.05(2)	\$ 0.00(2)	\$ 0.02(2)
Diluted	\$ 0.05(2)	\$ 0.05(2)	\$ 0.00(2)	\$ 0.02(2)
Basic weighted average common shares outstanding	24,340,902	24,321,274	24,312,930	24,296,309
Diluted weighted average common shares outstanding	24,480,702	24,396,183	24,387,064	24,433,288

(1) In the fourth quarter of fiscal 2009, the Company recorded an adjustment of approximately \$975,000 or \$0.03 earnings per share, net of tax, primarily due to excess and discontinued inventory which was either contributed to a charitable organization or was discarded.

(2) The accumulation of four quarters in fiscal year 2008 for earnings per share does not equal the related per share amounts for the year ended July 31, 2008 due to rounding differences.

Note 19. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements (SFAS 157) which related to the definition of fair value, the methods used to estimate fair value and the requirement of expanded disclosures about estimates of fair value. SFAS 157 is effective in relation to financial assets and liabilities for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Positions (FSP) 157-1 (FSP 157-1) and FSP 157-2 (FSP 157-2). FSP 157-1 amends SFAS 157 to exclude FASB Statement No. 13 Accounting for Leases and other accounting pronouncements that address fair value measurements of leases from the provision of SFAS 157. FSP 157-2 delays the effective date of SFAS 157 for most non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP 157-3, Determining the Fair

Table of Contents

Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. In April 2009, the FASB issued FSP 157-4, Determining Fair Value When the Volume and Level and Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly (FSP 157-4). FSP 157-4 provides guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability (or similar assets or liabilities) and for identifying circumstances that indicate a transaction is not orderly. Additionally FSP 157-4 amends SFAS 157 to require disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value.

SFAS 157 is effective for the Company on August 1, 2009. We have not completed our evaluation of the potential impact, if any, of the adoption of SFAS 157 on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which replaced SFAS No. 141, Business Combinations. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, any non-controlling interests in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements that will enable users of the financial statements to better evaluate the nature and financial effects of the business combination. In April 2009, the FASB issued FSP No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies (FSP 141(R)-1). FSP 141(R)-1 amends and clarifies the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS 141(R). SFAS 141(R) is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008 and will be applied if we consummate an acquisition on or after August 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Non-controlling interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The statement also establishes reporting standards that require the provision of sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for the Company on August 1, 2009. We have not completed our evaluation of the potential impact, if any, of the adoption of SFAS 160 on our consolidated financial position, results of operations and cash flows.

In April 2008, the FASB finalized FSP FAS No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 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 (SFAS 142). The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141[®], and other U.S. GAAP. In addition, FSP 142-3 requires additional disclosures concerning recognized intangible assets. These additional disclosures would enable users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP 142-3 is effective for the Company on August 1, 2009. We have not completed our evaluation of the potential impact, if any, of the adoption of FSP 142-3 on the consolidated financial position, results of operations and cash flows.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (FSP APB 14-1). FSP APB 14-1 required entities with cash settled convertibles to bifurcate the

securities into a debt component and an equity component and accrete the debt component to par over the expected life of the convertible. Early adoption will not be permitted, and FSP APB 4-1 must be applied retrospectively to all instruments. FSP APB 14-1 is effective for the Company on August 1, 2009. We have not completed our evaluation of the potential impact, if any, of the adoption of FSP APB 14-1 on our consolidated financial position, results of operations and cash flows.

Table of Contents

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions in FSP EITF 03-6-1. Earlier adoption is prohibited. FSP EITF 03-6-1 is effective for the Company on August 1, 2009. We have not completed our evaluation of the potential impact, if any, of adoption of FSP EITF 03-6-1 on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1). FSP 107-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, and Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require disclosures about fair value of financial instruments for interim periods of publicly traded companies as well as in annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We have not completed our evaluation of the potential impact, if any, of the adoption of FSP 107-1 on our interim financial statement disclosures.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles to be applied by non-governmental entities in the preparation of financial statements. In addition, SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws as authoritative GAAP for SEC registrants. On the effective date of SFAS 168, all non-grandfathered, non-SEC accounting literature not included in the Codification is deemed non-authoritative. SFAS 168 will be effective for the Company on August 1, 2009. As the Codification was not intended to change existing GAAP, it will not have any impact on the Company s consolidated financial statements.

We have reviewed all other recently issued, but not yet effective, accounting pronouncements and do not believe any such pronouncements will have a material impact on our financial statements.

Table of Contents**Note 20. Valuation Allowances and Qualifying Accounts****Schedule II Valuation Allowances and Qualifying Accounts**

Classifications	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions from Reserves(1)	Balance at End of Year
		(Dollars in Thousands)			
Year ended July 31, 2007					
Allowance for Doubtful Accounts	\$ 179	\$ 88	\$	\$ (40)	\$ 227
Allowance for Excess and Obsolete Inventory	\$ 75	\$ (49)		\$	26
Year ended July 31, 2008					
Allowance for Doubtful Accounts/Returned Goods	\$ 227	\$ 69	\$	\$ (46)	\$ 250
Allowance for Excess and Obsolete Inventory	\$ 26	\$ 39		\$	\$ 65
Year ended July 31, 2009					
Allowance for Doubtful Accounts/Returned Goods	\$ 250	\$ 206		\$ (140)	\$ 316
Allowance for Excess and Obsolete Inventory	\$ 65	\$		\$ (26)	\$ 39

(1) Adjustments represent write-offs of uncollectible accounts receivable and excess inventories.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Synergetics USA, Inc.
(registrant)

/s/ David M. Hable
David M. Hable, President and Chief
Executive Officer (Principal Executive Officer)

/s/ Pamela G. Boone
Pamela G. Boone, Executive Vice President, Chief
Financial Officer, Secretary and Treasurer (Principal
Financial and Accounting Officer)

October 28, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ David M. Hable
David M. Hable, President and Chief
Executive Officer and Director
and Director (Principal Executive Officer)

October 28, 2009

/s/ Pamela G. Boone
Pamela G. Boone, Executive Vice President, Chief
Financial Officer, Secretary and Treasurer (Principal
Financial and Accounting Officer)

October 28, 2009

/s/ Robert Dick
Robert Dick, Chairman of the Board of Directors

October 28, 2009

Table of Contents

/s/ Lawrence C. Cardinale
Lawrence C. Cardinale, Director

October 28, 2009

/s/ Kurt W. Gampp, Jr.
Kurt W. Gampp, Jr., Director

October 28, 2009

/s/ Guy Guarch
Guy Guarch, Director

October 28, 2009

/s/ Juanita H. Hinshaw
Juanita H. Hinshaw, Director

October 28, 2009

/s/ Jerry L. Malis
Jerry L. Malis, Director

October 28, 2009

Table of Contents**Index to Exhibits**

Exhibit Number	Description
2.1	Agreement and Plan of Merger by and among Valley Forge Scientific Corp. (Valley Forge), Synergetics Acquisition Corporation and Synergetics, Inc. dated May 2, 2005. (Filed as Exhibit 2.1 to Valley Forge s Current Report on Form 8-K filed on May 4, 2005 and incorporated herein by reference.)
2.2	Amendment No. 1 to Agreement and Plan of Merger by and among Valley Forge, Synergetics Acquisition Corporation and Synergetics, Inc. dated June 2, 2005. (Filed as Exhibit 2.1 to Valley Forge s Current Report on Form 8-K filed on June 3, 2005 and incorporated herein by reference.)
2.3	Amendment No. 2 to Agreement and Plan of Merger by and among Valley Forge, Synergetics Acquisition Corporation and Synergetics, Inc. dated July 15, 2005. (Filed as Exhibit 2.1 to Valley Forge s Current Report on Form 8-K filed on July 15, 2005 and incorporated herein by reference.)
2.4	Agreement and Plan of Reincorporation Merger, dated as of September 22, 2005, between Valley Forge and VFSC Delaware, Inc. (Filed as Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed on September 27, 2005 and incorporated herein by reference.)
3.1	Amended and Restated Certificate of Incorporation of the Registrant. (Filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on September 27, 2005 and incorporated herein by reference.)
3.2	Amended and Restated Bylaws of the Registrant. (Filed as Exhibit 3.2 to the Registrant s Current Report on Form 8-K filed on September 27, 2005 and incorporated herein by reference.)
4.1	Form of common stock certificate of the Registrant. (Filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on September 27, 2005 and incorporated herein by reference.)
10.1	Amended and Restated Synergetics USA, Inc. 2001 Stock Plan. (Filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended April 30, 2006 and incorporated herein by reference.)
10.2	Valley Forge Scientific Corp. 2000 Non-Employee Directors Stock Option Plan. (Filed as Exhibit 4.3 to Valley Forge s Registration Statement on Form S-8, Registration No. 333-72134 and incorporated herein by reference.)
10.3	Valley Forge Scientific Corp. 1988 Non-Qualified Employee Stock Option Plan, as amended. (Filed as Exhibit 10.1 to Valley Forge s Registration Statement on Form S-8, Registration No. 333-63637 and incorporated herein by reference.)
10.4	Amended and Restated Synergetics USA, Inc. 2005 Non-Employee Directors Stock Option Plan. (Filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended April 30, 2006 and incorporated herein by reference.)
10.5	Amendment No. 1 to Amended and Restated Synergetics USA, Inc. 2005 Non-Employee Directors Stock Option Plan. (Filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on January 29, 2009, and incorporated herein by reference.)
10.6	401(k) and Profit-Sharing Plan. (Filed as Exhibit 10(x) to Valley Forge s Registration Statement on Form S-18, Registration No. 33-35668-NY and incorporated herein by reference.)
10.7	Change of Control Agreement between Synergetics USA, Inc. and David M. Hable (Filed as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed February 3, 2009), and incorporated herein by reference.)
10.8	Employment Agreement, dated as of September 21, 2005, between Valley Forge and Gregg D. Scheller. (Filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on September 27, 2005 and

- incorporated herein by reference.)
- 10.9 Employment Agreement, dated as of September 21, 2005, between Valley Forge and Jerry L. Malis. (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 27, 2005 and incorporated herein by reference.)
- 10.10 Employment Agreement, dated as of September 21, 2005, between Valley Forge and Kurt W. Gampp, Jr. (Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 27, 2005 and incorporated herein by reference.)

Table of Contents

Exhibit Number	Description
10.11	Employment Agreement, dated as of August 1, 2007, between Synergetics USA, Inc. and Pamela G. Boone. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 6, 2007 and incorporated herein by reference.)
10.12	Letter Agreement dated December 10, 2007, between Synergetics USA, Inc. and Dave Dallam. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 10-Q for the quarter ended October 29, 2007 and incorporated herein by reference.)
10.13	Assignment of Know-How Agreement, dated June 30, 1989. (Filed as Exhibit 10(I) to Valley Forge's Registration Statement on Form S-18, Registration No. 33-35668-NY and incorporated herein by reference.)
10.14	Assignment of Patents Bipolar Electrosurgical Systems, June 30, 1989. (Filed as Exhibit 10(h) to Valley Forge's Registration Statement on Form S-18, Registration No. 33-31008-NY and incorporated herein by reference.)
10.15	Assignment of Patents Binocular Magnification System, June 30, 1989. (Filed as Exhibit 10(i) to Valley Forge's Registration Statement on Form S-18, Registration No. 33-31008-NY and incorporated herein by reference.)
10.16	Assignment of Malis® Trademark, dated June 30, 1989. (Filed as Exhibit 10(j) to Valley Forge's Registration Statement on Form S-18, Registration No. 33-31008-NY and incorporated herein by reference.)
10.17	Option Agreement for Malis® Trademark with Leonard I. Malis dated October 22, 2004. (Filed as Exhibit 10.14 to Valley Forge's Annual Report on Form 10-K for the year ended September 30, 2004 and incorporated herein by reference.)
10.18	Promissory Note from the Company and Synergetics IP, Inc. to the Estate of Dr. Leonard I. Malis dated October 12, 2005 in the Principal Amount of \$3,997,600. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 18, 2005 and incorporated herein by reference.)
10.19	Agreement with Codman & Shurtleff, Inc. dated October 15, 2004. (Filed as Exhibit 10.12 to Valley Forge's Annual Report on Form 10-K for the year ended September 30, 2004 and incorporated herein by reference.)
10.20	Amendment No. 1 to the Agreement dated as of October 1, 2004 between Valley Forge and Codman & Shurtleff, Inc. (Filed as Exhibit 10(a) to Valley Forge's Current Report on Form 8-K filed on March 16, 2005 and incorporated herein by reference.)
10.21	Supply and Distribution Agreement with Stryker Corporation dated October 25, 2004. (Filed as Exhibit 10.13 to Valley Forge's Annual Report on Form 10-K for the year ended September 30, 2004 and incorporated herein by reference.)
10.22	Agreement of Lease between Liberty Property Limited Partnership and Valley Forge. (Filed as Exhibit 10.16 to Valley Forge's Registration Statement on Form S-4, Registration No. 333-125521 and incorporated herein by reference.)
10.23*	Amendment to Agreement of Lease between Liberty Property Limited Partnership and Synergetics USA, Inc. dated March 26, 2009.
10.24	Loan Agreement between The Industrial Development Authority of St. Charles County, Missouri and Synergetics Development Company, L.L.C. dated as of September 1, 2002. (Filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.25	Promissory Note from Synergetics Development Company, L.L.C. to The Industrial Development Authority of St. Charles County, Missouri dated September 1, 2002 in the Principal Amount of \$2,645,000 (Filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended

- July 31, 2005 and incorporated herein by reference.)
- 10.26 Security Agreement (Equipment) dated as of September 1, 2002 from Synergetics, Inc. for the benefit of The Industrial Development Authority of St. Charles County, Missouri. (Filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)

Table of Contents

Exhibit Number	Description
10.27	Future Advance Deed of Trust and Security Agreement dated as of September 1, 2002 between Synergetics Development Company, L.L.C. and Victor Zarrilli, as trustee, and The Industrial Development Authority of St. Charles County, Missouri. (Filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.28	Guaranty Agreement dated as of September 1, 2002 by and among William L. Bates, Gregg D. Scheller and Kurt W. Gampp, Jr. and Synergetics, Inc. and The Industrial Development Authority of St. Charles County, Missouri. (Filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.29	Guaranty of Unassigned Issuer's Rights dated as of September 1, 2002 by and among William L. Bates, Gregg D. Scheller and Kurt W. Gampp, Jr. and Synergetics, Inc. and The Industrial Development Authority of St. Charles County, Missouri. (Filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.30	Bond Purchase Agreement dated as of September 1, 2002 by and among The Industrial Development Authority of St. Charles County, Missouri, Union Planters Bank, N.A. and Synergetics Development Company, L.L.C. (Filed as Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.31	First Supplemental Loan Agreement between The Industrial Development Authority of St. Charles County, Missouri and Synergetics Development Company, L.L.C. dated as of December 1, 2004. (Filed as Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.32	Promissory Note from Synergetics Development Company, L.L.C. to The Industrial Development Authority of St. Charles County, Missouri dated December 1, 2004 in the Principal Amount of \$2,330,000. (Filed as Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.33	First Supplemental Future Advance Deed of Trust and Security Agreement dated as of December 1, 2004 between Synergetics Development Company, L.L.C. and Victor Zarrilli, as trustee, and The Industrial Development Authority of St. Charles County, Missouri. (Filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.34	First Supplemental Guaranty of Unassigned Issuer's Rights dated as of December 1, 2004 by and between Synergetics, Inc. and the Industrial Development Authority of St. Charles County, Missouri. (Filed as Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.35	Bond Purchase Agreement dated as of December 1, 2004 by and among The Industrial Development Authority of St. Charles County, Missouri, Union Planters Bank, N.A. and Synergetics Development Company, L.L.C. (Filed as Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 2005 and incorporated herein by reference.)
10.36	Form of Employee Restricted Stock Agreement for the Amended and Restated Synergetics USA, Inc. 2001 Stock Plan (Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2006 and incorporated herein by reference.)
10.37	Letter Agreement between Synergetics, Inc. and Regions Bank, dated February 22, 2006 (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 2, 2006 and incorporated herein by reference.)
10.38	Credit and Security Agreement among Synergetics USA, Inc., Synergetics, Inc. and Regions Bank, dated March 13, 2006. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 15, 2006 and incorporated herein by reference.)

- 10.39 First Amendment to Credit and Security Agreement by and among Synergetics, Inc., Synergetics USA, Inc., Regions Bank, as Agent and Lender, and Wachovia Bank, National Association, as Lender, dated September 26, 2006. (Filed as Exhibit 10.52 to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 2006 and incorporated herein by reference.)

Table of Contents

Exhibit Number	Description
10.40	Second Amendment to Credit and Security Agreement by and among Synergetics, Inc., Synergetics USA, Inc., Regions Bank, as Agent and Lender, and Wachovia Bank, National Association, as Lender, dated December 8, 2006 (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 8, 2006 and incorporated herein by reference.)
10.41	Third Amendment to Credit and Security Agreement by and among Synergetics, Inc., Synergetics USA, Inc. and Regions Bank, as Lender, dated June 7, 2007. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 8, 2007 and incorporated herein by reference.)
10.42	Revolving Note from Synergetics USA, Inc. and Synergetics, Inc. in favor of Regions Bank, dated March 13, 2006 (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 15, 2006 and incorporated herein by reference.)
10.43	Revolving Note from Synergetics USA, Inc. and Synergetics, Inc. in favor of Regions Bank, dated September 26, 2006. (Filed as Exhibit 10.53 to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 2006 and incorporated herein by reference.)
10.44	Amended and Restated Revolving Note from Synergetics USA, Inc. and Synergetics, Inc. in favor of Regions Bank, dated December 8, 2006. (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 8, 2006 and incorporated herein by reference.)
10.45	Amended and Restated Revolving Note from Synergetics USA, Inc. and Synergetics, Inc. in favor of Regions Bank, dated June 7, 2007. (Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on June 8, 2007 and incorporated herein by reference.)
10.46	Letter Agreement between Synergetics, Inc. and Regions Bank, dated September 28, 2006. (Filed as Exhibit 10.55 to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 2006 and incorporated herein by reference.)
10.47	Foreign Accounts Credit and Security Agreement dated June 20, 2007 by and among Synergetics, Inc., Synergetics USA, Inc., Synergetics Germany, GmbH, and Synergetics Italia, Srl as Borrowers and Regions Bank as Lender. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 26, 2007 and incorporated herein by reference.)
10.48	Foreign Accounts Revolving Note from Synergetics, Inc., Synergetics USA, Inc., Synergetics Germany, GmbH, and Synergetics Italia, Srl in favor of Regions Bank, dated June 20, 2007. (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 26, 2007 and incorporated herein by reference.)
10.49	Fourth Amendment to Credit and Security Agreement by and among Synergetics, Inc. and Synergetics USA, Inc. as Borrowers and Regions Bank as Lender, dated as of January 31, 2008 (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 11, 2008 and incorporated herein by reference.)
10.50	Amended and Restated Revolving Note from Synergetics USA, Inc. and Synergetics, Inc. in favor of Regions Bank, dated as of January 31, 2008. (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 11, 2008 and incorporated herein by reference.)
10.51	First Amendment to Foreign Accounts Credit Agreement by and among Synergetics, Inc., Synergetics USA, Inc., Synergetics Germany, GmbH and Synergetics Italia, Srl as Borrowers and Regions Bank as Lender, dated as of January 31, 2008 (Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on March 4, 2008 and incorporated herein by reference.)
10.52	Amended and Restated Foreign Accounts Revolving Note from Synergetics, Inc., Synergetics USA, Inc., Synergetics Germany, GmbH and Synergetics Italia, Srl in favor of Regions Bank, dated as of January 31, 2008 (Filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on March 11, 2008 and incorporated herein by reference.)

- 10.53 Second Amendment to Foreign Accounts Credit Agreement by and among Synergetics, Inc., Synergetics USA, Inc., Synergetics Germany, GmbH, Synergetics Italia, Srl and Synergetics France, SARL as Borrowers and Regions Bank as lender dated as of June 5, 2008 (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 10, 2008 and incorporated herein by reference.)

Table of Contents

Exhibit Number	Description
10.54	Second Amended and Restated Foreign Accounts Revolving Note from Synergetics, Inc., Synergetics USA, Inc., Synergetics Germany, GmbH, Synergetics Italia, S and Synergetics France, SARL, in favor of Regions Bank, dated as of June 5, 2008. (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 10, 2008 and incorporated herein by reference.)
10.55	Fifth Amendment to Credit and Security Agreement by and among Synergetics, Inc. and Synergetics USA, Inc. as Borrowers and Regions Bank as Lender, dated December 1, 2008 (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 3, 2008 and incorporated herein by reference.)
10.56	Second 2008 Amended and Restated Revolving Note from Synergetics USA, Inc. and Synergetics, Inc. in favor of Regions Bank, dated as of December 1, 2008 (Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 3, 2008 and incorporated herein by reference.)
21*	Subsidiaries of Registrant.
23.1*	Consent of UHY, LLP.
31.1*	Certification of the Registrant's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Registrant's Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Registrant's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith