

ANGEION CORP/MN  
Form 10QSB  
June 05, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-QSB**

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**Quarterly report under Section 13 or 15(d) of the Securities  
Exchange Act of 1934.**

**For the quarterly period ended April 30, 2003**

**OR**

o

**Transition report under Section 13 or 15(d) of the Exchange  
Act.**

**For the transition period from            to            .**

**Commission file number 001-13543**

**Angeion Corporation**

(Exact name of small business issuer as specified in its charter)

**Minnesota**  
(State or other jurisdiction of  
incorporation or organization)

**41-1579150**  
(I.R.S. Employer  
Identification No.)

**350 Oak Grove Parkway, Saint Paul, Minnesota 55127-8599**

(Address of principal executive offices)

**(651) 484-4874**

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(Issuer's telephone number, including area code)

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act of 1934 after distribution of securities under a plan confirmed by a court:

Yes            No     

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes            No     

The Company had 3,594,433 shares of common stock, \$0.10 par value, outstanding as of June 2, 2003.

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## ANGEION CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

April 30, 2003 and October 31, 2002

(in thousands except share and per share data)

	Successor Company	
	April 30, 2003	October 31, 2002
	(unaudited)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,019	\$ 4,434
Accounts receivable, net of allowance for doubtful accounts of \$372 and \$312, respectively	2,998	2,687
Inventories	3,108	3,470
Prepaid expenses and other current assets	377	123
Total current assets	10,502	10,714
Property and equipment, net	1,863	2,164
Intangible assets, net	7,838	8,250
	<b>\$ 20,203</b>	<b>\$ 21,128</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 962	\$ 964
Employee compensation	858	439
Deferred income	1,015	811
Warranty reserve	125	111
Other liabilities and accrued expenses	594	897
Total current liabilities	3,554	3,222
<b>Shareholders equity:</b>		
Common stock, \$0.10 par value, authorized 25,000,000 shares, issued and outstanding 3,594,433 shares	359	359
Additional paid-in capital	17,547	17,547
Accumulated deficit	(1,257)	
Total shareholders equity	16,649	17,906
	<b>\$ 20,203</b>	<b>\$ 21,128</b>

See accompanying notes to consolidated financial statements



## ANGEION CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

(unaudited, in thousands except per share amounts)

	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	Three Months Ended April 30,		Six Months Ended April 30,	
	2003	2002	2003	2002
<b>Revenues</b>				
Equipment and supply sales	\$ 3,780	\$ 3,276	\$ 7,721	\$ 6,999
Service revenue	739	752	1,468	1,452
	4,519	4,028	9,189	8,451
<b>Cost of goods sold</b>				
Cost of equipment and supplies	2,340	2,308	4,882	4,710
Cost of service revenue	185	117	372	221
	2,525	2,425	5,254	4,931
<b>Gross margin</b>	1,994	1,603	3,935	3,520
<b>Operating expenses:</b>				
Selling and marketing	1,282	1,164	2,772	2,636
General and administrative	735	569	1,283	1,228
Research and development	401	308	743	700
Amortization of intangibles	217	180	412	415
	2,635	2,221	5,210	4,979
<b>Operating loss</b>	(641)	(618)	(1,275)	(1,459)
<b>Other income (expense):</b>				
Interest income	8	4	18	10
Interest expense		(510)		(1,020)
<b>Loss before taxes</b>	(633)	(1,124)	(1,257)	(2,469)
Tax benefit		(92)		(92)
<b>Loss from continuing operations</b>	(633)	(1,032)	(1,257)	(2,377)
<b>Loss from discontinued operations</b>				(678)
<b>Net loss</b>	\$ (633)	\$ (1,032)	\$ (1,257)	\$ (3,055)

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<b>Net loss per share - basic and diluted</b>					
Continuing operations	\$	(0.18)	\$	(0.29)	\$ (0.35) \$ (0.66)
Discontinued operations					(0.19)
Net loss	\$	(0.18)	\$	(0.29)	\$ (0.35) \$ (0.85)
<b>Weighted average common shares outstanding</b>					
Basic and diluted		3,594		3,595	3,594 3,582

See accompanying notes to consolidated financial statements

## ANGEION CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Successor Company	Six Months Ended April 30,	Predecessor Company
	2003	2002	2002
<b>Cash Flows From Operating Activities:</b>			
Net loss	\$ (1,257)		\$ (3,055)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:			
Loss from discontinued operations			678
Depreciation and amortization	730		730
Changes in operating assets and liabilities:			
Accounts receivable	(311)		419
Inventories	362		378
Prepaid expenses and other current assets	(254)		727
Accounts payable	(2)		88
Employee compensation	419		(69)
Deferred income	204		(1)
Warranty reserve	14		(60)
Other liabilities and accrued expenses	(303)		591
Net cash provided by (used in) continuing operations	(398)		426
Net cash used in discontinued operations			(254)
Net cash provided by (used in) operating activities	(398)		172
<b>Cash Flows From Investing Activities:</b>			
Purchase of property and equipment	(17)		(71)
Investment in proprietary software			(333)
Investment in perpetual license			(50)
Net cash used in continuing operations	(17)		(454)
Net cash provided by discontinued operations			11
Net cash used in investing activities	(17)		(443)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from stock transactions			21
Net cash provided by financing activities			21
<b>Net decrease in cash and cash equivalents</b>	<b>(415)</b>		<b>(250)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4,434</b>		<b>2,019</b>

<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>4,019</b>	<b>\$</b>	<b>1,769</b>
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See accompanying notes to consolidated financial statements



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2003

(Unaudited)

**1. Basis of Presentation**

The consolidated balance sheet as of April 30, 2003, the consolidated statements of operations for the three and six months ended April 30, 2003 and 2002 and the consolidated statements of cash flows for the six months ended April 30, 2003 and 2002, and the related information presented in these notes have been prepared by management in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Rule 10-01 of Regulation S-X, without audit. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of results have been included. The consolidated balance sheet at October 31, 2002 was derived from the audited consolidated financial statements as of that date. Operating results for the three and six months ended April 30, 2003 are not necessarily indicative of the results that may be expected for the year ending October 31, 2003. For further information, refer to the consolidated financial statements and notes thereto included in Angeion Corporation's Annual Report on Form 10-KSB for the transition period ended October 31, 2002.

During March 2000, Angeion Corporation discontinued its historical business, the research, development, manufacturing and marketing of implantable cardioverter defibrillators (ICD). Consequently, the accompanying consolidated statements of operations present all activities of the ICD business as discontinued operations. Although the last sales of ICD products were made during the second quarter of 2000, the Company continues to pursue the license or transfer of its ICD technology.

Comprehensive income is a measure of all non-owner changes in shareholders' equity and includes such items as net income, certain foreign currency translation items, minimum pension liability adjustments and changes in the value of available-for-sale securities. For the three and six months ended April 30, 2003 and 2002, comprehensive loss for Angeion Corporation was equivalent to net loss as reported.

**2. Reorganization**

**Reorganization Under Chapter 11.** On June 17, 2002, the Company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Minnesota, Third Division (the Court) under case number 02-32260. The filing was done jointly with the holders of the Company's 7 1/2% Senior Convertible Notes due April 2003 (Notes) and included a jointly submitted Plan of Reorganization (the Plan). The transaction was implemented as a Chapter 11 Bankruptcy filing for the purpose of enabling the Company and the noteholders to accomplish the restructuring in a controlled manner and to enable the Company to retain a net operating loss carry forward of approximately \$128 million out of the \$133 million pre-bankruptcy net operating loss carry forward. During the bankruptcy period, the Company continued to operate as debtor-in-possession. As debtor-in-possession, the Company operated as an ongoing business, but could not engage in transactions outside the ordinary course of business without approval of the Bankruptcy Court. The Company's subsidiary, Medical Graphics

Corporation, was not part of the Chapter 11 filing and continued to transact business as usual during the bankruptcy period.

On October 24, 2002, the Court entered an order confirming the Joint Modified Plan of Reorganization dated September 4, 2002. The Plan became effective October 25, 2002, the next business day.

As of June 17, 2002, the date the petition was filed with the Court, there were 3,594,627 shares of the Company's common stock issued and outstanding (the Old Common Stock). As a result of the Plan, all of the Company's Old Common Stock was canceled and all options and warrants to purchase the Company's Old Common Stock existing as of the petition date were canceled. To effectuate the Plan, the Company issued a total of 3,594,433 shares of its common stock (i) upon conversion of the Notes and other obligations to equity and (ii) in replacement of the Old Common Stock (the Replacement Common Stock). The difference between the 3,594,433 shares actually issued under the Plan and the 3,594,627 shares outstanding as of June 17, 2002 reflects a reduction of 194 shares representing fractional shares that were not issued under the Plan.

Under the Plan, each holder of the Company's Notes and each holder of certain other unsecured claims received such holder's pro rata share of 95% of the Replacement Common Stock. Each holder of the Company's Old Common Stock received a pro rata share of 5% of the Replacement Common Stock and one common stock purchase warrant for each share of Replacement Common Stock (the New Warrants). For each 20 shares of Old Common Stock owned prior to the Plan confirmation date, shareholders received one share of Replacement Common Stock and one New Warrant to purchase one share of Replacement Common Stock at \$7.79 per share. The New Warrants expire on October 31, 2007, and are subject to redemption at the Company's option for \$.01 per Warrant at any time after January 1, 2004, provided that the closing price of the common stock exceeds \$9.73 (subject to adjustment) for ten consecutive trading days after January 1, 2004 and during the term of the Warrants.

### 3. Accounting Policies

**Basis of Presentation.** The consolidated financial statements contained in this report reflect the accounting principles set forth in Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7). This statement provides guidance for financial reporting by entities that have filed voluntary petitions for relief under and have reorganized in accordance with the bankruptcy code. In accordance with fresh-start reporting, the reorganization value of the entity is to be determined and allocated to the entity's assets in conformity with purchase accounting guidelines. All assets and liabilities are to be recorded at their respective fair values. Adopting fresh-start reporting results in a new reporting entity with no beginning retained earnings or deficit. SOP 90-7 further states that fresh-start financial statements prepared by entities emerging from bankruptcy will not be comparable with those prepared before their plans were confirmed because they are, in effect, those of a new entity. Among other things, a black line is to be drawn in the financial statements to distinguish between the pre-reorganization entity (Predecessor Company) and the post-reorganization entity (Successor Company). Consequently, after giving effect to reorganization and fresh-start adjustments, the financial statements of a Successor Company are deemed not comparable to those of a Predecessor Company. For financial reporting purposes, the results of the Predecessor Company and the Successor Company cannot be combined.

**Stock Based Compensation.** In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company does not plan to change its method of accounting for stock-based employee compensation. The Company is required to provide the interim disclosures effective with this quarter ended April 30, 2003. These Notes to Consolidated Financial Statements do not contain pro forma disclosures because the Company did not grant any options during the three and six months ended April 30, 2003 and there are no options

outstanding at April 30, 2003.

**Fresh-Start Reporting.** The effective date of the Company's emergence from bankruptcy was October 25, 2002. For accounting purposes, the Company adopted fresh-start reporting in accordance with SOP 90-7 as of October 31, 2002. In accordance with fresh-start reporting, all assets and liabilities were recorded at their respective fair values. An independent third-party appraiser determined the fair values of substantially all of the Company's tangible and intangible assets.

All financial information prior to October 31, 2002 is presented as pertaining to the Predecessor Company while all financial information presented as of and after October 31, 2002 is presented as pertaining to the Successor Company. Accordingly, the Consolidated Financial Statements present information pertaining to both the Predecessor Company and the Successor Company. Tabular presentations in these Notes to Consolidated Financial Statements may include data pertaining to both the Predecessor Company and the Successor Company. Accordingly, a black line has been drawn in the financial statements to distinguish between the Predecessor Company and Successor Company.

**Fiscal Year Change.** On November 13, 2002, the Company's Board of Directors changed the Company's fiscal year from December 31 to October 31 to coincide with customer buying patterns of the Medical Graphic's medical equipment business and the New Leaf health and fitness product business. The change also enables the Company to report its results in the future on a comparable basis as a result of the fresh start reporting that was required in conjunction with the Company's emergence from Chapter 11 bankruptcy.

#### 4. Intangible Assets

As discussed in Note 3, Accounting Policies, the Company adopted fresh-start reporting as described in SOP 90-7 under which the Company's assets are to be recorded at their respective fair values. An independent third-party appraiser determined the fair values of the Company's intangible assets as of October 31, 2002. Accordingly, all intangible assets have been valued at fair value as of the date of fresh-start reporting, October 31, 2002. Intangible assets as of April 30, 2003 consisted of the following:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Amortized developed technology	\$ 7,250	\$ 412	\$ 6,838
Unamortized trade name	1,000		1,000
	\$ 8,250	\$ 412	\$ 7,838

Amortization expense was \$412,000 and \$415,000 for the six months ended April 30, 2003 and 2002, respectively. Amortization expense was \$636,000 for the ten-month transition period ended October 31, 2002. Intangible assets for the Predecessor Company were amortized using the straight-line method over the estimated useful lives of the assets that ranged from three to twelve years. The revalued intangible assets for the Successor Company are being amortized using the straight-line method over the estimated useful lives of the assets that range from seven to ten years. Estimated amortization expense for the remainder of fiscal year 2003 and for each of the succeeding years based on the intangible assets as of April 30, 2003 is as follows:



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(In thousands)	Amortization	
Six months ending October 31, 2003	\$	412
2004		824
2005		824
2006		824
2007		824
Thereafter		3,130
	\$	6,838

On January 1, 2002, new accounting rules for business combinations and accounting for goodwill and other intangibles (SFAS Nos. 141 and 142) became effective for the Company. Accordingly, goodwill, trade name and assembled workforce are no longer being amortized against earnings. The following table discloses reported net loss and the adjusted net loss that would have been reported assuming that SFAS No. 142 were to have been effective for all reported periods.

(In thousands, except for per share amounts)	Three Months Ended April 30,		Six Months Ended April 30,	
	2003	2002	2003	2002
<b>Net loss, as reported</b>	\$ (633)	\$ (1,032)	\$ (1,257)	\$ (3,055)
Add back amortization:				
Goodwill				6
Trade name				50
Assembled workforce				53
<b>Net loss, as adjusted</b>	\$ (633)	\$ (1,032)	\$ (1,257)	\$ (2,946)
Earnings per share, basic and diluted:	\$ (0.18)	\$ (0.29)	\$ (0.35)	\$ (0.85)
<b>Net loss per share, as reported</b>				
Add back amortization:				
Goodwill				
Trade name				0.01
Assembled workforce				0.02
<b>Net loss per share, as adjusted</b>	\$ (0.18)	\$ (0.29)	\$ (0.35)	\$ (0.82)

## 5. Warranty Reserve

Sales of the Company's equipment are subject to a warranty. Equipment warranties typically extend for a period of twelve months from the date of installation. Standard warranty terms are included in customer contracts. Under the terms of these warranties, the Company is obligated to repair or replace any components or assemblies that it deems defective in workmanship or materials. The Company reserves the right to reject warranty claims where it determines that failure is due to normal wear, customer modifications, improper maintenance or misuse. The Company adjusts the warranty reserve based on the number and type of equipment that is subject to warranty, adjusted for the remaining months of warranty coverage. The warranty reserve adjustment reflects the Company's historical warranty experience based on type of equipment. Warranty expenses are evaluated and adjusted periodically. Warranty provisions and expenses for the six months ended April 30, 2003 were as follows:

(In thousands)	Warranty Reserve	
Balance October 31, 2002	\$	111
Warranty provisions		119
Warranty expenses		(105)
Balance April 30, 2003	\$	125

## 6. Reclassifications

Certain amounts in Angeion's financial statements for the three and six months ended April 30, 2002 have been reclassified to conform to the 2003 presentation. These reclassifications had no effect on net loss or shareholders' equity.

## 7. Net Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options or warrants were exercised and that the proceeds from such exercise were used to acquire shares of common stock at the average market price during the reporting period. There were no dilutive common shares outstanding for the three and six months ended April 30, 2003 and 2002. The Company had 179,537 warrants outstanding at April 30, 2003 that were considered antidilutive and therefore not considered to have been exercised.

## 8. Other Information

In June 2002, Company's former joint venture partner, ELA Medical, notified the Company that some of the ICD's formerly manufactured by Angeion were experiencing premature battery depletion. The Company advised the attending physicians of the patients with these ICD's of the problems and provided the physicians with a recommended procedure to determine what action is required. As part of the May 1999 agreement



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between the Company and ELA in which the Company withdrew from a joint venture with ELA, ELA is responsible for the warranty coverage, technical service, and regulatory compliance service for these ICDs. The Company remains responsible for third party claims relating to these ICDs made on behalf of a patient (i.e. product liability claims). The Company believes that if any such claims are made, it has adequate product liability insurance to cover them, subject to deductibles.

**Item 2. Management's Discussion and Analysis or Plan of Operation**

**Forward-Looking Statements**

Statements included in this Quarterly Report on Form 10-QSB that are not historical or current facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe, expect, will, can, estimate, anticipate, and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially including the following: (i) the Company's ability to successfully operate its Medical Graphics business including its ability to develop, improve and update its cardiorespiratory diagnostic products, (ii) the Company's ability to successfully introduce its New Leaf products including its New Leaf Weight Loss Program, (iii) the Company's ability to successfully defend itself from product liability claims related to its Medical Graphics and New Leaf products or claims associated with its prior cardiac stimulation products, (iv) the Company's ability to protect its intellectual property, (v) the Company's dependence on third party vendors and (vi) the Company's ability to comply with Nasdaq listing requirements, including maintenance of the \$1.00 per share bid price as well as other factors not now anticipated. Additional information with respect to the risks and uncertainties faced by the Company may be found in, and the prior discussion is qualified in its entirety by, the other risk factors that are described from time to time in Angeion's Securities and Exchange Commission reports, including but not limited to the Transition Report on Form 10-KSB for the ten-month period ended October 31, 2002, and subsequently filed reports. In addition, from time to time, the Company through its management may make oral forward-looking statements. The Company undertakes no obligation to update any forward-looking statement.

**Overview**

Angeion Corporation is a medical products company that reported revenue of \$13.4 million for the ten months ended October 31, 2002 and \$16.7 million for the year ended December 31, 2001. Domestic product sales and service revenues accounted for 83.4% of revenue for the ten months ended October 31, 2002 while international product sales accounted for the remaining 16.6%.

Angeion, through its Medical Graphics Corporation subsidiary, develops, manufactures and markets non-invasive cardiorespiratory diagnostic equipment and related software for the management and improvement of cardiorespiratory health under the MedGraphics trade name. The primary MedGraphics products include pulmonary function and cardiorespiratory exercise testing equipment. The Company also develops, manufactures and markets health and fitness products and services designed to assist consumers with weight management, fitness improvement and cardiac rehabilitation. These new products and services are sold under the New Leaf brand name to consumers through various delivery sites such as health and fitness clubs, weight management and cardiac rehabilitation centers.

The ten-month transition period that ended October 31, 2002 was a difficult period for the Company, but also represented a period of significant change. Through the Chapter 11 Bankruptcy, all of the Company's Senior Convertible Notes due April 2003 were converted into common stock. In addition, the Company received \$2.9 million in cash under an agreement that granted a perpetual, non-exclusive license to use the Company's cardiac stimulation technology to Biotronik. As a result of these actions, the Company emerged from bankruptcy on October 25, 2002 with a strong balance sheet, no debt and over \$4.4 million in cash. For the first time in several years, management is now completely focused on running the cardiorespiratory diagnostic business as well as its new health and fitness products and services as opposed to the wind-down of its ICD business and all the financial issues associated with the debt that was incurred in April 1998.



The Company emerged from its Chapter 11 proceeding and adopted fresh start reporting as of October 31, 2002. In accordance with fresh-start reporting, all assets and liabilities were recorded at their respective fair values. An independent third-party appraiser determined the fair values of substantially all of the Company's tangible and intangible assets. As a result of that appraisal, the Company (i) increased the net book value of property and equipment from \$899,000 to \$2,164,000, (ii) decreased the net book value of intangible assets from \$10.1 million to \$8.3 million, (iii) eliminated the \$1.9 million value of goodwill, (iv) increased the value of inventory by \$59,000, and (v) decreased the value of deferred income by \$224,000.

The foregoing revaluation adjustments affect the Successor Company operating results in the following manner. For fiscal year 2003, they (i) increase depreciation expense by \$37,000, (ii) increase amortization of intangibles by \$50,000, (iii) decrease gross margins by \$59,000 as current inventory is sold and (iv) decrease gross margins by \$224,000 as deferred service contracts are recognized as income.

The Company's financial statements after October 31, 2002 reflect a new reporting entity, the Successor Company, and are not directly comparable to the financial statements of prior periods. The principal comparative differences between the three and six month periods ended April 30, 2003 and 2002 relate to the impact of the changes in indebtedness and the revaluation of the Company's assets and liabilities to reflect the reorganization value on October 31, 2002. The changes primarily affect depreciation and amortization expense, gross margins and interest expense in the Company's results of operations after October 31, 2002. However, for purposes of comparative analysis, the following discussion of the operating results of the Company compares the operating results of the Successor Company with the operating results of the Predecessor Company for the three and six months ended April 30, 2003 and 2002, respectively. The operations comprised of revenues, selling and marketing expenses, general and administrative expenses and research and development expenses of the Predecessor and Successor Companies were substantially similar and the comparison of those items is meaningful to understanding the business.

## Results of Operations

Angeion Corporation recorded a net loss of \$633,000 for the three months ended April 30, 2003 compared to a net loss of \$1.0 million for the same period in 2002. The net loss for 2002 included a \$92,000 recovery of income taxes as well as \$510,000 of interest expense. For the six months ended April 30, the Company recorded net losses of \$1.3 million and \$3.1 million for 2003 and 2002, respectively. The net loss for 2002 included a \$92,000 recovery of income taxes, \$1.0 million of interest expense and a loss of \$678,000 from discontinued operations.

## Revenues

Revenues consist of product sales and service revenues. Product sales reflect sales of Medical Graphic's non-invasive cardiorespiratory diagnostic equipment, sales of New Leaf health and fitness products and services, and aftermarket sales of peripherals and supplies. Service revenues reflect contract revenues from extended service contracts, non-warranty service visits and training.

Second quarter revenue increased by 12.2% to \$4.5 million from \$4.0 million for the three months ended April 30, 2003 and 2002, respectively. Domestic product revenue increased by 28.4% to \$2.9 million in 2003 compared to \$2.3 million in 2002. Internationally, product revenue decreased 14.4% to \$852,000 in 2003 from \$995,000 in 2002. Service revenue decreased by 1.7% to \$739,000 in 2003 from \$752,000 in 2002.



Total revenue increased by 8.7% to \$9.2 million compared to \$8.5 million for the six months ended April 30, 2003 and 2002, respectively. Domestic product revenue increased by 19.2% to \$6.2 million in 2003 compared to \$5.2 million in 2002. International product revenue decreased by 14.9% to \$1.6 million in 2003 compared to \$1.8 million in 2002. Year to date service revenue of \$1.5 million for 2003 is comparable to 2002.

The revenue trends noted during the first quarter of 2003 have continued into the second quarter. Although domestic customer interest in placing new equipment orders continues to improve, the Company believes that these customers are also continuing to exercise caution in making capital expenditures due to the overall uncertainty of the United States economy. Internationally, customer equipment orders continue to be sluggish. Despite a weakening U.S. Dollar compared to the Euro, European customers are delaying capital expenditures unless there is a clear immediate need. Latin America continues to suffer from very weak economies and devaluating currencies. In addition, the Company has experienced some delays in receiving new orders from customers in the Pacific Rim due to the business disruptions caused by the SARS outbreak. Service revenue reflects an increase in service contracts being written due to on-going emphasis of the sale of extended service contracts that has been offset by a decrease in non-warranty service revenue. The Company continues to develop its New Leaf Personal Exercise products that are currently targeting weight-loss consumers through fitness clubs and other delivery sites

### **Gross Margin**

Gross margin percentage increased to 44.1% of revenue for the three months ended April 30, 2003 compared to 39.8% for the same period in 2002. For the six months ended April 30, gross margin percentage increased to 42.8% in 2003 from 41.7% in 2002. Although overall gross margins have increased in 2003 compared to 2002 due to improved manufacturing efficiencies, gross margin percentages for 2003 have been negatively affected by the fresh start accounting rules that required the Company to write up its inventory to fair market value at October 31, 2002, rather than carrying the inventory at the lower of cost or market. As a result, the Company increased the carrying value of its inventory by \$59,000 at October 31, 2002. In addition, the Company was required to record the direct and incremental cost of fulfilling its obligations associated with customer service contracts existing at October 31, 2002. Consequently, deferred income was reduced by \$224,000 at October 31, 2002.

As the Company's inventory and deferred income turn during fiscal year 2003, the fresh start adjustments for inventory and deferred income will affect the Company's gross margin negatively. The impact of the October 31, 2002 fresh-start accounting adjustments resulted in decreases of \$134,000 and \$75,000 in gross margin for the first and second quarters of 2003, respectively. As a result, the corresponding gross margin percentages were negatively affected by 2.8% during the first quarter and 1.7% during the second quarter. Consequently, without these adjustments, the underlying first quarter 2003 gross margin rate would have been 44.4% while second quarter 2003 would have been 45.8%. Gross margins will continue to be negatively affected by the October 31, 2002 fresh start accounting adjustments by a total of \$74,000 for the remainder of 2003. The fresh start accounting adjustments had no impact, however, on the Company's cash flow.

### **Selling and Marketing**

Second quarter selling and marketing expenses increased 10.1% to \$1.3 million for the three months ended April 30, 2003 compared to \$1.2 million in 2002. For the six months ended April 30, selling and marketing expenses increased 5.2% to \$2.8 million in 2003 from \$2.6 million in 2002. The year-to-year increases for both the three and six months ended April 30 are due primarily to increased



commissions associated with increased revenue. Moreover, the Company has continued to focus on selling and marketing its New Leaf personal exercise products.

### **General and Administrative**

General and administrative expenses increased 29.2% to \$735,000 for the three months ended April 30, 2003 compared to \$569,000 in 2002. For the six months ended April 30, general and administrative expenses increased 4.5% to \$1.3 million in 2003 from \$1.2 million in 2002. The second quarter 2003 increase is primarily due to increased personnel expenses. The increase in personnel expenses was somewhat offset by a decrease in professional fees related to the conversion of debt to equity that were incurred during the three months ended January 31, 2002 and not incurred during the same period of 2003.

### **Research and Development**

Research and development expenses increased 30.2% to \$401,000 for the three months ended April 30, 2003 compared to \$308,000 in 2002. For the six months ended April 30, research and development expenses increased 6.1% to \$743,000 in 2003 from \$700,000 in 2002. The Company's research and development costs are focused on developing additional cardiorespiratory diagnostic products. The increase in research and development expenses for the three and six months ended April 30, 2003 is due the Company's discontinuance of capitalizing a portion of its software development costs, which is slightly offset by lower personnel costs during the second quarter. The Company's previous focus on the conversion and consolidation of software platforms was substantially completed in October 2002. Costs of \$113,000 and \$210,000 were capitalized as part of the Company's proprietary software for the three and six months ended April 30, 2002 while none were capitalized during the six months ended April 30, 2003. Costs of \$221,000 were capitalized as part of the Company's proprietary software for the six months ended October 31, 2002.

### **Amortization of Intangibles**

Amortization of intangibles increased to \$217,000 from \$180,000 for the three months ended April 30, 2003 and 2002, respectively. Amortization expenses resulting from fresh start accounting are somewhat higher than those that were incurred prior to the revaluation of intangible assets at October 31, 2002. Amortization expense for the first six months of 2003 was lower than the same period of 2002, which included the months of November and December 2001, due to the Company's January 1, 2002 adoption of SFAS Statement No. 142, *Goodwill and Other Intangible Assets*, wherein goodwill and trade name are no longer amortized.

### **Other Income (Expense)**

Interest income for the three months ended April 30, 2003 increased to \$8,000 from \$4,000 in 2002. For the six months ended April 30, interest income increased to \$18,000 in 2003 from \$10,000 in 2002. The increase in interest income reflects an increase in excess cash balances available for short-term investment.



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There was no interest expense for the three or six months ended April 30, 2003 compared to \$510,000 and \$1.0 million for 2002. Under the Joint Plan of Reorganization, all of the Company's Senior Convertible Notes due April 2003 were converted into common stock of the Company upon emergence from bankruptcy.

## Liquidity and Capital Resources

The Company has financed its liquidity needs over the last several years through revenue generated by the operations of its wholly owned subsidiary, Medical Graphics Corporation, through revenue from license agreements for patented ICD technology and through the use of cash balances.

The Company had cash of \$4.0 million and working capital of \$6.9 million as of April 30, 2003 compared to cash of \$4.4 million and working capital of \$7.5 million at October 31, 2002. During the six months ended April 30, 2003, the Company used \$398,000 in cash for all operating activities, primarily as a result of its net loss of \$1.3 million, which was offset by \$730,000 of depreciation and amortization. In addition, the Company used cash for increases of \$311,000 and \$254,000 in accounts receivable and prepaid expenses and other current assets, respectively, as well as a decrease of \$303,000 in other liabilities and accrued expenses. These uses of cash were partially offset with cash generated by a \$362,000 decrease in inventories as well as increases of \$419,000 and \$204,000 in accrued employee compensation and deferred income, respectively.

During the six months ended April 30, 2003, the Company used \$17,000 in cash for investing activities to purchase property and equipment.

The Company has no material commitments for capital expenditures for the remainder of fiscal year 2003.

As a result of the Company's October 25, 2002 emergence from bankruptcy and the resulting conversion of debt to equity and its cash of \$4.0 million, the Company believes that its liquidity and capital resource needs for the next twelve months will be met through its current cash and cash equivalents, cash flows from operations and working capital.

## Other Commitments

The Company has made various financial commitments in the ordinary course of conducting its business operations. The following table summarizes all significant commitments:

(Amounts in thousands) Description	Six months ending October 31, 2003	2004	2005	2006	2007 & Thereafter
Continuing operations:					
Minimum lease payments	\$ 163	\$ 215	\$ 8	\$ 6	\$ 4
Minimum royalty payments for sales of AeroSport products	50	100	100	100	
Discontinued operations:					
Minimum lease payments	39				

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Sublease income	(24)									
	\$	228	\$	315	\$	108	\$	106	\$	4

**Item 3. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

The Company's Chief Executive Officer, Richard E. Jahnke, and Chief Financial Officer, Dale H. Johnson, have evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days prior to the filing of this report. Based upon this review, these officers believe that the Company's disclosure controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

**(b) Changes in Internal Controls**

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter covered by this report or from the end of the reporting period to the date of this Form 10-QSB.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is subject to certain claims and lawsuits that have been filed in the ordinary course of business. Management is of the opinion that ultimate settlement of these matters will not have a material impact on its financial statements.

**Item 2. Changes in Securities**

None

**Item 3. Defaults Upon Senior Securities**

None

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

None

**Item 5. Other Information**

None

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**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits List

99.1 Certificate pursuant to 18 U.S.C. § 1350

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended April 30, 2003.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Angeion Corporation  
(Registrant)

Date: June 5, 2003

/s/ Richard E. Jahnke  
Richard E. Jahnke  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: June 5, 2003

/s/ Dale H. Johnson  
Dale H. Johnson  
Chief Financial Officer  
(Chief Accounting Officer)

**CERTIFICATIONS**

I, Richard E. Jahnke, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Angeion Corporation;
  
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
  
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
  
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
  
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):



a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 5, 2003

/s/ Richard E. Jahnke  
Richard E. Jahnke  
President and Chief Executive Officer

I, Dale H. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Angeion Corporation;
  
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
  
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
  
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
  
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 5, 2003

/s/ Dale H. Johnson  
Dale H. Johnson  
Chief Financial Officer