ANGEION CORP/MN
Form 10QSB
March 17, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended January 31, 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	**41-1579150**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

350 Oak Grove Parkway, Saint Paul, Minnesota 55127-8599
(Address of principal executive offices)

(651) 484-4874
(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 ý No o

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 ý No o

The Company had 3,594,433 shares of common stock, $0.10 par value, outstanding as of March 11, 2003.

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

January 31, 2003 and October 31, 2002

(in thousands except share and per share data)

	Successor Company	
	January 31, 2003	**October 31, 2002**
Assets		
Current assets:		
Cash and cash equivalents	$ 4,132	$ 4,434
Accounts receivable, net of allowance for doubtful accounts of $342 and $312, respectively	2,985	2,687
Inventories	3,206	3,470
Prepaid expenses and other current assets	226	123
Total current assets	10,549	10,714
Property and equipment, net	2,005	2,164
Intangible assets, net	8,055	8,250
	$ 20,609	**$ 21,128**
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 992	$ 964
Employee compensation	640	439
Deferred income	919	811
Warranty reserve	119	111
Other liabilities and accrued expenses	657	897
Total current liabilities	3,327	3,222
Shareholders equity:		
Common stock, $0.10 par value, authorized 25,000,000 shares, issued and outstanding 3,594,627 shares	359	359
Additional paid-in capital	17,547	17,547
Accumulated deficit	(624)	
Total shareholders equity	17,282	17,906
	$ 20,609	**$ 21,128**

See accompanying notes to consolidated financial statements

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited, in thousands except per share amounts)

	Successor Company Three Months Ended January 31, 2003	Predecessor Company 2002
Revenues		
Equipment and supply sales	$ 3,941	$ 3,723
Service revenue	729	700
	4,670	4,423
Cost of goods sold		
Cost of equipment and supplies	2,542	2,402
Cost of service revenue	187	104
	2,729	2,506
Gross margin	1,941	1,917
Operating expenses:		
Selling and marketing	1,490	1,472
General and administrative	548	659
Research and development	342	392
Amortization of intangibles	195	235
	2,575	2,758
Operating loss	(634)	(841)
Other income (expense):		
Interest income	10	6
Interest expense		(510)
Loss before taxes	(624)	(1,345)
Provision (benefit) for taxes		
Loss from continuing operations	(624)	(1,345)
Loss from discontinued operations		(678)
Net loss	$ (624)	$ (2,023)

Net loss per share basic and diluted				
Continuing operations	$	(0.17)	$	(0.38)
Discontinued operations				(0.19)
Net loss	$	(0.17)	$	(0.57)
Weighted average common shares outstanding				
Basic and diluted		3,594		3,569

See accompanying notes to consolidated financial statements

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Successor Company Three Months Ended January 31, 2003	Predecessor Company 2002
Cash Flows From Operating Activities:		
Net loss	$ (624)	$ (2,023)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Loss from discontinued operations		678
Depreciation and amortization	366	394
Changes in operating assets and liabilities:		
Accounts receivable	(298)	79
Inventories	264	(160)
Prepaid expenses and other current assets	(103)	520
Accounts payable	28	137
Employee compensation	201	(99)
Deferred income	108	(7)
Warranty reserve	8	(45)
Other liabilities and accrued expenses	(240)	306
Net cash provided by (used in) continuing operations	(290)	(220)
Net cash used in discontinued operations		(186)
Net cash provided by (used in) operating activities	(290)	(406)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(12)	(58)
Investment in proprietary software		(236)
Net cash used in continuing operations	(12)	(294)
Net cash provided by discontinued operations		11
Net cash used in investing activities	(12)	(283)
Cash Flows From Financing Activities:		
Proceeds from stock transactions		21
Net cash provided by financing activities		21
Net decrease in cash and cash equivalents	(302)	(668)

Cash and cash equivalents at beginning of period		4,434		2,019
Cash and cash equivalents at end of period	**$**	**4,132**	**$**	**1,351**

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2003

(Unaudited)

1. Basis of Presentation

The consolidated balance sheet as of January 31, 2003, the consolidated statements of operations and cash flows for the three months ended January 31, 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-B, 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 months ended January 31, 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 months ended January 31, 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 (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.

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 its 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 value. 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 January 31, 2003 consisted of the following:

(In thousands)		**Gross Carrying Amount**		**Accumulated Amortization**		**Intangible Assets, net**
Amortized developed technology	$	7,250	$	195	$	7,055
Unamortized trade name		1,000				1,000
	$	8,250	$	195	$	8,055

Amortization expense was $195,000 and $235,000 for the three months ended January 31, 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 January 31, 2003 is as follows:

(In thousands)		**Amortization**
Nine months ending October 31, 2003	$	629
2004		824
2005		824
2006		824
2007		824
Thereafter		3,130
	$	7,055

5. Warranty Reserve

Sales of the Company s systems are subject to a warranty. System 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 systems that are 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 system. System warranty expenses are evaluated and adjusted periodically. Warranty provisions and expenses for the three months ended January 31, 2003 were as follows:

(In thousands)		**Warranty Reserve**
Balance October 31, 2002	$	111
Warranty provisions		66
Warranty expenses		(58)
Balance January 31, 2003	$	119

6. Reclassifications

Certain amounts in Angeion s financial statements for the three months ended January 31, 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 losses per share are computed by dividing net loss by the weighted average shares outstanding during the reporting period. Diluted losses per share are computed similar to basic losses 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 months ended January 31, 2003 and 2002.

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 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.

9. New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses the financial accounting and reporting for costs associated with exit and disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination

Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company will account for any restructuring activities initiated after December 31, 2002 under the provisions of SFAS No. 146.

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 will make the required interim disclosures effective with the quarter ending April 30, 2003.

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 increase revenue from its New Leaf health and fitness products, (ii) the Company s ability to develop, improve and update its cardiopulmonary diagnostic products, (iii) the Company s ability to protect its intellectual property, (iv) potential product liability claims related to the Company s medical products, (v) dependence upon third party vendors and (vi) the Company s ability to maintain a bid price of $1.00 per share for its common stock to remain eligible for continued inclusion on Nasdaq as well as other factors not now anticipated. Additional factors are set forth in the Section entitled Certain Risk Factors in Part I, Item 1, Business of the Company s Form 10-KSB for the transition period ended October 31, 2002. Various forward-looking statements have been made in this Quarterly Report on Form 10-QSB and may also be made in other Angeion reports filed under the Securities Exchange Act of 1934, in its press releases and in other documents. 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