ANGEION CORP/MN
Form 10-KT
January 29, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20509

FORM 10-KSB

o Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

ý Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the Transition Period from January 1, 2002 to October 31, 2002.

COMMISSION FILE NO. 001-13543

ANGEION CORPORATION

(Name of Small Business Issuer 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)

Issuer s telephone number, including area code: **(651) 484-4874**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.10 Par Value
Warrants for Common Stock Purchase Rights

Check whether the issuer filed all 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 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

The issuer s revenues for the ten months ended October 31, 2002 were $13,402,000.

The aggregate market value of the issuer s common stock held by non-affiliates of the issuer as of January 22, 2003 was approximately $3,937,000, based upon the closing sale price for the issuer s common stock on that date as reported by the Nasdaq SmallCap Market.

There were 3,594,627 shares of the issuer s Common Stock, $0.10 par value per share, outstanding as of January 22, 2003.

Documents Incorporated By Reference: None.

PART I

Item 1. Description of Business.

Unless the context requires otherwise, references in this Form 10-KSB to Angeion or the Company means Angeion Corporation, while references to Medical Graphics or MedGraphics refers to Medical Graphics Corporation, a wholly owned subsidiary of Angeion. Angeion acquired Medical Graphics in December 1999. For periods after December 21, 1999 Angeion and Medical Graphics are collectively referred to as the Company.

(a) General Development of Business.

Events Prior to 2000

Angeion Corporation was incorporated in Minnesota in May 1986 for the purpose of developing, manufacturing and selling medical products. The Company initially used its engineering and manufacturing technologies to custom design and manufacture products to customers specifications, while it devoted its research and development capabilities to designing proprietary products. In July 1988, Angeion merged with Verde Ventures Incorporated, a public company organized in March 1987 that had no operations at the time of the merger. Verde Ventures Incorporated, the surviving legal entity, changed its name to Angeion Corporation and continued the business of the pre-merger Angeion Corporation.

In August 1990, the Company established a subsidiary to assume responsibility for the intensified research efforts on the development of a laser catheter ablation system, and in October 1990, the Company acquired a company engaged in the development of an automatic implantable cardioverter defibrillator (ICD) system. Subsequent to this acquisition, Angeion designed, developed, manufactured and marketed products, including ICDs that treat irregular heartbeats (arrhythmias). ICDs are designed to treat abnormally rapid heartbeats in the ventricular (or lower) chambers of the heart, a condition known as ventricular tachycardia (VT), and a severe form of VT known as ventricular fibrillation (VF), that if not terminated will lead to sudden cardiac death. ICDs are electronic devices that are implanted within the body and are connected to the heart with defibrillator leads. These devices monitor the patient s heartbeat and, in the event of VT or VF, deliver an electrical shock to return the heartbeat to normal rhythm. During the period from 1990 through March 2000, Angeion was engaged in the development, design and manufacture of ICDs. During 1999 and 2000, the Company went though two restructurings, granted a series of non-exclusive licenses to its ICD technology and discontinued its ICD operations.

In December 1999, the Company acquired Medical Graphics Corporation.

2000 Developments.

In March 2000, Angeion announced that it had largely completed its assimilation of the Medical Graphics business and intended to focus its future efforts primarily on the markets served by and business operations of Medical Graphics and the acquisition and development of future businesses that contributed to shareholder value. Angeion entered into separate license agreements with Medtronic, Inc. and Sanofi-Synthélabo under which it granted each company non-exclusive licenses for its ICD technology.

On March 15, 2000, the Company, through Medical Graphics, acquired the operating assets of AeroSport, Inc., a privately held Ann Arbor, Michigan corporation, and obtained an exclusive worldwide license to AeroSport s patented technology. AeroSport was a leading global supplier of gas exchange metabolic analyzers for the health, fitness, and research and education markets. The acquisition of the

assets included the purchase of inventory, fixed assets and certain intellectual property for $468,000. In addition, Medical Graphics entered into an exclusive worldwide license agreement for AeroSport s patented technology for royalty payments of 5% of net sales of products covered by those patents up to a maximum of $850,000, with a $700,000 minimum over seven years required to retain those rights.

2001 Developments.

On January 16, 2001, the Company announced that its Medical Graphics subsidiary was adding the Personal Digital Coach™ to its cardio-respiratory products. The Personal Digital Coach™ is a proprietary device that provides verbal feedback to the user regarding exercise intensity. The Company announced that it would market this new product to the cardiac rehabilitation, fitness club and weight loss industries through an exclusive OEM distribution agreement with Newlife Technologies Corp., a privately held Virginia corporation.

During the summer of 2001, the Company introduced the New Leaf® brand as the umbrella brand name for its planned family of health and fitness products to be marketed to consumers through health and fitness clubs, cardiac rehabilitation centers, weight loss centers and other retail outlets. At that time, the Company introduced the first product to carry the New Leaf brand, the New Leaf Personal Exercise System. The product provides the consumer with a personalized exercise plan based on an assessment of the individual s level of fitness and metabolism. The assessment is performed at a health club or fitness center equipped with one of the Company s VO_2 assessment systems. The participating consumer must purchase a kit containing the single user materials required for the VO_2 assessment and, optionally, a Personal Digital Coach that is then programmed with the user s exercise plan and provides verbal coaching during exercise to help the user exercise at the correct intensity level to achieve the desired results.

Initially, the Company is focused on selling the New Leaf Personal Exercise System to 32 million members of approximately 17,000 fitness clubs in the United States as well as another 5 to 7 million individuals with some form of cardiovascular disease. The Company believes that the former represents over a $5 billion dollar market for the exercise system while the latter represents at least another $1 billion market. In comparison, the Company currently sells its cardiorespiratory products to a market that approximates $100 million. Management is committed to this new product, which builds upon the Company s existing business and core competencies and expands the business model from one based on one-time sales of capital equipment to one that includes providing a product that ultimately gets sold to each customer.

2002 Developments.

In March 2002, the Company completed a revision of its agreement with $INTER_XVENT^{USA}$, a Georgia corporation engaged in the business of developing and delivering risk assessment and lifestyle management materials and services to patients for improved cardiovascular health. The Company modified the agreement such that it obtained a perpetual license to use certain $INTER_XVENT^{USA}$ intellectual property as part of a custom-developed private label product that is a web enabled self-help lifestyle management program. This new program enables the user to select specific subjects of interest or design a comprehensive program from an array of subjects. Unlike other products offered by $INTER_XVENT^{USA}$, this private label product is being designed for consumer use without the requirement of human intervention, such as in-person or remote mentoring. This significantly broadens the program s potential market and availability. The Company has agreed to make royalty payments of 15% on all amounts received for the program with a $5.00 per participant minimum applicable to each consumer. This new product will carry the New Leaf brand name and be marketed as part of the New Leaf brand of health and fitness products now being introduced to the market.

On June 17, 2002, Angeion Corporation filed a voluntary petition for reorganization under Chapter 11 of the federal bankruptcy laws (Chapter 11 or Bankruptcy Case) in the United States Bankruptcy Court for the District of Minnesota under case number 02-32260. The Joint Modified Plan of Reorganization (Plan) was filed jointly with the holders of the Company s 7-½% Senior Convertible Notes (Notes) due April 2003. 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 do business as usual during the bankruptcy period.

Bankruptcy law empowers a debtor in possession to assume or reject executory contracts and unexpired leases and limits the amount that a landlord may claim. The Company previously leased space in Brooklyn Park, Minnesota that served as office, manufacturing and warehouse space for its discontinued ICD business. In May 2000, the Company had entered into an agreement that terminated its future rental obligations for approximately 64% of its Brooklyn Park space in exchange for a payment of $476,000. In early 2002, the Company signed a sublease with CHF Solutions, Inc. for the balance of the leased Brooklyn Park building. The Company negotiated an amendment with the landlord and CHF Solutions, Inc. to the lease that requires the Company to continue making lease payments subsequent to its filing of the Chapter 11 petition through June 2003, and releases the Company from all other obligations. The Bankruptcy Court approved this amendment on August 21, 2002. As a result, the Company recognized a $292,000 gain by decreasing its liability for future rental obligations. This gain was included in reorganization items.

On September 19, 2002, the Company entered into a Settlement and License Agreement (Settlement Agreement) with Biotronik, Inc. (Biotronik) pursuant to which the Company granted to Biotronik a perpetual, non-exclusive license to use the Company s cardiac stimulation technology. In return, Biotronik agreed to make a one-time cash payment of $4,000,000. As a result, the Company recorded license revenue of $2,900,000 relating to the Settlement Agreement, which is net of the related contingent transaction expenses of $1,100,000.

On October 24, 2002, the Bankruptcy Court entered an order confirming the Company s Plan. The Plan became effective on October 25, 2002, the first business day after the date of confirmation. Upon the effectiveness of the Plan, Messrs. Arnold A. Angeloni, John C. Penn, Richard E. Jahnke and Jeffrey T. Schmitz constituted the Board of Directors of the Company.

By approving the Plan on October 24, 2002, the Bankruptcy Court also approved the Company s Amended and Restated Articles of Incorporation (the Articles of Incorporation) and Amended and Restated Bylaws (the Bylaws). The Articles of Incorporation grant the Creditors Committee, formed under that Plan of Reorganization (the Creditors Committee) the right to designate four (4) directors at any time. This right terminates on the earlier of: (i) January 1, 2006 or (ii) the date on which the former holders of the Company s 7½% Senior Convertible Notes due April 2003 collectively own less than forty percent (40%) of the outstanding shares of common stock. Until this right is terminated, there will be at least one (1) director serving as a Designee of the Creditors Committee. The unanimous vote of the Designee(s) of the Creditors Committee is required for the Board of Directors to approve (a) a merger of the Company with or into another entity or (b) a sale of all or substantially all of the assets of the Company. The current designee of the Creditors Committee is Jeffrey T. Schmitz.

Under the Bylaws, for a period of three years after the end of the fiscal year in which this Plan is confirmed or until November 1, 2005, no purchase of the Company s common stock may be made by any beneficial owner of 5% or greater of the Company s common stock (or any person who would become a

5% or greater owner as a result of the purchase), unless the transfer is approved in advance by the Company s Board of Directors. Further, each person that was a beneficial owner of 5% or greater of the Company s common stock immediately following confirmation of the Plan is prohibited from transferring more then 60% of the holder s common stock during the two year period after confirmation, unless the transfer is approved in advance by the Board of Directors.

As of June 17, 2002, the date the Chapter 11 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). Under the Plan, all of the Company s Old Common Stock and all existing options and warrants to purchase the Company s Old Common Stock have been canceled. To effectuate the Plan, the Company issued 3,594,627 shares of its common stock in replacement of the Old Common Stock (the Replacement Common Stock).

Under the Plan, each holder of the Company s Notes and each holder of certain other unsecured claims received the 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 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 by the Company 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.

The Company has also reserved 600,000 shares of its Replacement Common Stock for issuance upon exercise of stock options to be issued to employees pursuant to the Angeion Corporation 2002 Stock Option Plan. The 2002 Stock Option Plan provides, however, that options to purchase no more than 359,463 shares of the Company s common stock may be issued in the first two years after the confirmation of the Plan without approval of the Designee of the Creditors Committee.

The effective date of the Company's emergence from bankruptcy was October 25, 2002. For accounting purposes, the Company adopted fresh-start reporting principles 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.

(b) Financial Information about Industry Segments.

The Company operates in a single industry segment: the research, development, manufacture and marketing of medical devices and fitness related products, including non-invasive cardio-respiratory diagnostic systems and related software.

(c) Narrative Description of Business.

General

Angeion, through its Medical Graphics Corporation subsidiary, designs non-invasive diagnostic systems and related software products under the MedGraphics trade name that assist health care professionals in the prevention, early detection and cost-effective treatment of heart and lung disease. Primary MedGraphics products include pulmonary function and cardiopulmonary exercise (CPX) testing systems. MedGraphics systems operate with its proprietary *BreezeSuite*™ Windows 98/NT/2000/XP compatible software, which is designed to be simple and easy-to-use while at the same time, provide the flexibility to address the specific needs of hospitals, clinics and physician offices. This software provides a common platform for all MedGraphics products. All MedGraphics products, except for certain OEM products, are sold with a personal computer, full color monitor, printer and other peripherals.

***Pulmonary Function Systems*.** Health care professionals use assessment of pulmonary function to diagnose lung diseases, such as asthma and emphysema, and manage treatment of their patients. Pulmonary function applications include screening asthma patients, pre-operative and post-operative assessment of heart and lung surgery patients, evaluating lung damage from occupational exposures and documenting responses to therapy.

These pulmonary function systems fall into three major product categories: Spirometry, Complete Pulmonary Function and Body Plethysmography.

All MedGraphics pulmonary function products use the *preVent*™ pneumotach, a patented disposable mouthpiece/flow measurement device that eliminates concern over the transmission of infectious diseases. The *preVent*™ gives all MedGraphics products the capability to perform spirometry, a test that measures the flow rates, volumes (capacities) and mechanical properties of the lung. MedGraphics pulmonary function products use a patented expert system, *Pulmonary Consult*™, to assist physicians in the interpretation of test results.

Spirometry. The CPF-S/D, MedGraphics top-of-the-line spirometry system, is comprised of a flow measurement module that is operated through a personal computer (PC). The CPF-S/D can serve as a platform that can be upgraded to either a complete pulmonary function or cardiopulmonary exercise system. Additionally, Medical Graphics markets the *SpiroCard*™, an OEM product that provides a Type II PCMIA interface to a handheld PC or laptop PC that, when combined with MedGraphics proprietary *Breeze SC*™ software, yields a compact and low-cost yet fully-featured spirometer.

Complete Pulmonary Function Systems. The *Profiler*™ Series comprises MedGraphics Complete Pulmonary Function systems. The *Profiler*™ is a desktop or cart-mounted module that performs non-invasive assessment of an individual s volumes (capacities), pressures, gas diffusion and mechanical properties in the lung.

Capabilities available with the *Profiler*™ Series systems include:

Profiler DL™. The *Profiler DL*™ performs spirometry and also measures how efficiently the lungs transport certain gases into and out of the bloodstream. The *Profiler DL*™ measures this lung function by using a gas chromatograph that measures gas concentrations before the patient inhales a test gas mixture and after the patient breathes the gas out. This is referred to as diffusion or diffusing capacity testing.

Profiler DX™. The *Profiler DX*™ has all the abilities of the *Profiler DL*™, plus the additional ability to measure the total volume of air in the lungs. This is done with a patented gas analyzer that measures the amount of nitrogen in a person s breath.

The *Profiler*™ systems compact design and mobility option attract a wide variety of customers, including pulmonary laboratories in hospitals, clinics, physician offices, occupational medicine clinics, asthma centers and clinical research centers.

Body Plethysmograph Systems. The *Elite*™ Series comprises MedGraphics body plethysmograph systems. A body plethysmograph is an enclosed metal and clear acrylic chamber that offers the most sensitive method for measuring lung function. The patient sits inside the chamber and undergoes diagnostic pulmonary function tests.

Elite D™. The *Elite D*™ performs spirometry, measures the total volume of air in the lungs and the resistance to airflow in the airways of a person s lungs.

Elite DL™. The *Elite DL*™ performs the same tests as the *Elite D*™, and includes the diffusion test the same manner as the *Profiler DL*™.

Elite DX™. The *Elite DX*™ performs all the tests as an *Elite DL*™, and adds the lung volume test from the *Profiler DX*™.

The *Elite*™ Series systems applications include diagnosing lung diseases (especially asthma), managing treatment, assessing the surgical risk of lung transplant and lung reduction candidates and evaluating the impact of diseases, such as neuromuscular disease, on breathing. The system s design optimizes patient comfort with a clear-view acrylic enclosure and allows testing of a broad population including pediatric patients and individuals in wheelchairs.

***Cardiopulmonary Exercise Testing Systems*.** MedGraphics cardiopulmonary exercise (CPX) testing systems measure fitness or conditioning levels as well as help physicians diagnose heart and lung diseases. This is accomplished by measuring the concentrations of oxygen and carbon dioxide in a person s lungs and assessing how these concentrations change as a person exercises on a bike or treadmill. The gas concentrations of a person at rest can also be measured to determine nutritional requirements of critically ill patients or individuals wishing to assess the number of calories burned per day, which is termed metabolic rate. This measurement is known as metabolic assessment and is marked by Medical Graphics as the *MAX* option. The CPX systems measure each breath using a patented breath-by-breath methodology. These CPX systems use the same patented *preVent*™ pneumotach as the pulmonary function systems. Medical Graphic s cardiopulmonary exercise systems also include a patented oxygen analyzer and a carbon dioxide analyzer. Medical Graphics holds several patents relating to data reporting, including two expert system software packages for evaluating the information obtained from cardiopulmonary exercise assessments.

The *CPX Series* is sold in several different configurations:

CPX/D™. The basic exercise testing system is a *CPX/D*™ , which measures an individual s fitness level while exercising and their ability to perform work (functional capacity) or activities of daily living (ADL).

CCM/D™. The basic metabolic assessment system is a *CCM/D*™ that measures the nutritional requirements of a patient at rest.

CPX/MAX/D™. A *CPX/MAX/D*™ is a *CPX/D*™ with the metabolic assessment option added.

CardiO$_2$®. A *CardiO*$_2$® is a *CPX/D*™ with an integrated 12-lead electrocardiogram stress option added. The electrocardiogram, which measures heart functions, is generally referred to as an ECG.

CardiO$_2$*/MAX/D*™. A *CardiO*$_2$/MAX/D™ is a *CPX/D*™ with an integrated 12-lead ECG and the metabolic assessment option.

EXPRESS™. A CPX *EXPRESS*™ is a smaller version of the *CPX/D*™ designed for use in a laboratory or physician s office. Like the *CPX/D*™, it can be used with a nutrition option and/or interfaced with a 12-lead ECG system.

VO 2000™. The *VO 2000*™ is a portable/ambulatory version that is about twice the size of a typical portable CD player and can transmit data via telemetry. In addition to all of the uses for CPX, applications for these portable and wearable products include assessment of work capacity in occupational medicine and physical therapy as well as field training of amateur and elite athletes during participation in their actual events. The *VO 2000*™ is a key component of the Company s New Leaf Personal Exercise System health and fitness product.

The *CPX/D*™ and CPX *EXPRESS*™ can also be used in conjunction with other manufacturers stand-alone ECG systems.

Applications for the cardiopulmonary systems include distinguishing between cardiovascular and pulmonary disease, screening for early signs of cardiac and pulmonary dysfunction, establishing exercise prescriptions and training programs and evaluating the efficacy of prescribed therapy. Customers include hospital cardiopulmonary laboratories, cardiology and pulmonary office-based clinics; critical care units, cardiac rehabilitation units, human performance laboratories and health clubs.

Cycle Ergometers and Treadmills. MedGraphics offers several models of cycle ergometers providing healthcare professionals and patients a tool for more successful outcomes in clinical rehabilitation and athletic training. A cycle ergometer is a specially designed stationary exercise bicycle that can operate at a broad spectrum of resistance levels while a treadmill is a motorized walking/running surface that can operate at different inclines to produce a range of work levels. MedGraphics has cycle ergometers and treadmills that are used in diagnostic, rehabilitation, training and sports medicine applications. The ergometers and treadmills are used and controlled by MedGraphics cardiopulmonary exercise testing systems.

Competition

The industry for companies selling cardiopulmonary diagnostic systems is competitive. There are a number of companies that currently offer, or are in the process of developing, products that compete with products offered by Medical Graphics. Medical Graphics competitors include large medical companies, some of which have greater financial and technical resources and broader product lines. Viasys Healthcare, Inc. and Ferraris Medical, Inc represent the principal competitors for Medical Graphics current products. The Company believes that the principal competitive factors in its markets are product features, price, quality, customer service, performance, market reputation, breadth of product offerings and effectiveness of sales and marketing efforts.

Competition based on price is expected to continue as an important factor in customer purchasing patterns as a result of cost containment pressures on, and consolidation in, the health care industry. This competition has exerted, and is likely to continue to exert, downward pressure on prices the Company is able to charge for its products. There can be no assurance that it will be able to offset such downward price pressure through corresponding cost reductions. Any failure to offset such pressure could have an adverse effect on our business, results of operations or financial condition.

Any product developed by the Company that gains regulatory approval will have to compete for market acceptance and market share. The timing of market introduction of competitive products could adversely affect the competitiveness of Medical Graphics products. Accordingly,

the relative speeds with which the Company can develop products, complete clinical testing and the regulatory approval process and supply commercial quantities of the product to the market are important competitive factors. The Company expects that competition will also be based on many factors, including device size and weight, longevity, ease of programmability, ability to provide diagnostic capability, product reliability,

physician familiarity with the device, patent protection, sales and marketing capability, third-party reimbursement policies, reputation and price.

The Company s New Leaf products for the health and fitness market combine components that individually have numerous competitors ranging from metabolic measurement systems (HealtheTech) to heart rate monitors (Polar) and nutrition education and lifestyle enhancement software (e-Diets) and weight loss programs (Jenny Craig, Weight watchers). The Company believes that its integration of these components together with its proprietary exercise programming into a weight loss program for the consumer has been accomplished in a unique manner. The Company has protected this product with various patents and is presently unaware of any other system that competes directly.

Manufacturing

Medical Graphics currently manufactures and assembles all major analyzer components of its pulmonary systems including a waveform analyzer, gas chromatograph, nitrogen analyzer and oxygen analyzer. Sheet metal, electrical components and some measurement devices are purchased from outside vendors and are tested, assembled and packaged by Medical Graphics personnel into fully integrated systems. Medical Graphics also acquires general-purpose computers, monitors and printers from a variety of sources and integrates its proprietary transducer modules into these systems. Medical Graphics acquires its cycle ergometers and treadmills from third parties. A third party manufactures the Company s New Leaf Personal Digital Coach. Although some of Medical Graphics components are purchased from only one or a limited number of suppliers, Medical Graphics believes that if it were unable to obtain components from these suppliers, it would be able to obtain comparable components from other sources without significant additional expense or interruption of business.

Medical Graphics is ISO 9001 certified for its development and manufacturing processes. See Regulation by Foreign Governments for additional discussion of the Company s ISO 9001 certification.

Marketing and Distribution

Medical Graphics markets its products in the United States through a direct sales force that targets customers located in hospitals, university-based medical centers, clinics and physician offices of heart and lung specialists. Each salesperson is responsible for a specific geographic area and sells Medical Graphics complete product line to all customers, from hospitals to physician offices within that area. The Company markets its New Leaf personal exercise product through a separate direct sales force that targets customers located in fitness clubs, weight loss centers and cardiac rehabilitation clinics. Medical Graphics salespersons are compensated with a base salary, expense reimbursement and a revenue-based commission.

Medical Graphics markets its products outside the United States through sales organizations that operate primarily as distributors. During 2002, Medical Graphics used approximately 50 international sales organizations to sell its products into 60 countries. These organizations typically carry a limited inventory of MedGraphics products and sell these products in specific geographic areas, generally on an exclusive basis. International sales accounted for 16.6% and 21.5% of total sales for the ten months ended October 31, 2002 and the year ended December 31, 2001, respectively. All of Medical Graphics international sales are made on a United States dollar-denominated basis to distributors.

Sales into foreign countries involve certain risks not ordinarily associated with domestic business including fluctuations in exchange rates even when product sales are denominated in dollars, reliance on distributors and fluctuations in sales resulting from changes in local economies.

Medical Graphics believes that demonstration of its products capabilities to potential customers is one of the most significant factors in achieving sales. Consequently, the main thrust of domestic and international promotional efforts is product demonstrations at trade shows and customer facilities. Other promotional efforts include educational seminars, print advertisements, direct mail campaigns and marketing through Medical Graphics web site (www.medgraphics.com).

Research and Development

Medical Graphics research and development expenses during 2002 reflected its efforts to eliminate reliance on Microsoft Office Pro and the related costs associated with on-gong maintenance. Two new Windows 98/NT/2000 pulmonary function software products were introduced during 1998. Software for cardiopulmonary exercise testing systems was converted to the Windows 98/NT/2000 platform during 2000. During 2002 and 2001, the Pulmonary and Gas Exchange software products were combined into one software platform now called BreezeSuite. In addition, Medical Graphics is continuing to add product improvements designed to enhance product reliability and improve margins as well as to migrate to newer platforms such as Windows XP and Office XP. Medical Graphics is also developing new products targeted for new growth markets, including products that will be marketed under the New Leaf brand. The Company believes ongoing research and development efforts have been and will remain important to its continuing success. Research and development expenses associated with continuing operations were $1,030,000 for the ten months ended October 31, 2002 and $1,623,000 for the year ended December 31, 2001. Research and development expenses that have been capitalized as part of the Company s proprietary software were $350,000 for the ten months ended October 31, 2002 and $518,000 for the year ended December 31, 2001.

Intellectual Property

Patents and trademarks are critical in the medical device industry. The Company believes strongly in protecting its intellectual property and has a long history of obtaining patents, when available, in connection with its research and product development programs. The Company also relies upon trade secrets and proprietary know-how. Angeion owns a number of patents and patent applications.

Medical Graphics relies on a combination of patent, trademark and trade secret laws to establish proprietary rights in its products. Medical Graphics currently owns 18 United States domestic patents that cover the basic aspects of Medical Graphics core technologies, including gas pressure, flow measurement, breath-by-breath assessment of gas exchange and some expert systems. In addition, Medical Graphics has a number of foreign patents with respect to technologies covered by its United States patents. Medical Graphic s material United States patents issued during the period from 1989 through 2002 are as follows:

Patent Name	Serial No.	Issue Date	Expiration Date
Pulmonary Diagnostic System	4,796,639	January 10, 1989	January 9, 2007
Flow Meter System	5,038,773	August 13, 1991	August 12, 2009
Drying Sample Line	5,042,500	August 27, 1991	August 26, 2009
Multifunction Disposable Patient Valve	5,119,825	June 9, 1992	June 8, 2010
Dynamic Transit Time Compensation	5,398,695	March 21, 1995	March 20, 2013
Dynamic Gas Density	5,502,660	March 26, 1996	March 25, 2014
Breath by Breath Nutritional Requirements Analyzing System	5,705,735	January 6, 1998	August 9, 2016
Boxless Measurement of Thoracic Gas Volume	5,857,459	January 12, 1999	February 4, 2017

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Foreign patents generally expire 20 years after the date of original application, but vary from country to country. Medical Graphics intends to aggressively enforce its intellectual property rights and has successfully done so in the past. There can be no assurance, however, that these patents, or any patents that may be issued as a result of existing or future application, will offer any degree of protection from competitors.

Both Angeion and Medical Graphics also own registered trademarks and have applied for other trademarks in the U.S. and certain foreign countries.

Although patent and intellectual property disputes in the medical device area have often been settled through licensing agreements or similar arrangements, costs associated with such arrangements may be substantial, and there can be no assurance that necessary licenses would be available to the Company on satisfactory terms, if at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent the Company from manufacturing and selling its products, which would have a material adverse effect on the Company s business, financial condition and results of operations.

The Company seeks to protect its trade secrets and proprietary know-how, in part, through confidentiality agreements, non-compete agreements and assignment of invention provisions in agreements with employees, consultants and other parties, as well as through contractual exclusivity with certain suppliers. There can be no assurance, however, that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company s trade secrets will not otherwise become known to or independently developed by competitors.

The Company conducts ongoing evaluations of potential infringement of any proprietary rights of third parties by the products the Company intends to market. Regardless of the Company s efforts to evaluate the potential infringement of any proprietary rights of third parties, however, there can be no assurance that such infringements do not exist or may not arise in the future. There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. Litigation, which will result in substantial cost to and diversion of effort by the Company, may be necessary to enforce patents issued to or licensed by the Company, to protect trade secrets or know-how owned by the Company, to defend the Company against claimed infringement of the rights of others, and to determine the scope and validity of the proprietary rights of others. Adverse determinations in litigation could subject the Company to significant liabilities to third parties or could require the Company to seek licenses from third parties.

Angeion has also entered into a number of license agreements over the past several years under which it has licensed its ICD technology to third parties. Angeion intends to continue to protect its intellectual technology and if appropriate to seek license agreements from third parties that practice the Company s technology.

The Company has also entered into a license agreement under which it licenses the technology for the New Leaf Personal Digital Coach from a third party.

Government Regulation

Most of the products manufactured by the Company are devices as defined in the Federal Food, Drug and Cosmetic Act (the Act) and are subject to regulatory authority of the Food and Drug Administration (FDA), which regulates the manufacture, distribution, related record keeping,

labeling and advertising of such devices. Following the enactment of the Medical Device Amendments to the Act in May 1976 (the Amendments), the FDA classified medical devices in commercial distribution into

one of three classes, Class I, II or III. These classifications are based on the controls necessary to reasonably ensure the safety and efficacy of medical devices. The Company s New Leaf health and fitness products are not classified as medical devices as defined in the Act.

Many Class I devices have been exempted from pre-market notification requirements by the FDA. The same types of controls the FDA has used on devices since the passage of the Act in 1938 can adequately regulate these products. These general controls include provisions related to labeling, producer registration, defect notification, records and reports and good manufacturing practices. The good manufacturing practice regulation has been replaced by a more comprehensive Quality System Regulation (QSR). As noted below, QSRs include implementation of quality assurance programs, written manufacturing specifications and processing procedures, written distribution procedures and record keeping requirements.

Class II devices are products for which the general controls of Class I devices are deemed not sufficient to assure the safety and effectiveness of the device and thus require special controls. Special controls for Class II devices include performance standards, post-market surveillance, patient registries and the use of FDA guidelines. Standards may include both design and performance requirements. Class III devices have the most restrictive controls and require pre-market approval by the FDA. Generally, Class III devices are limited to life-sustaining, life-supporting or implantable devices. All of Medical Graphics products are Class II devices. Angeion s ICD products were classified as Class III devices.

If the Company does not comply with applicable regulatory requirements, including marketing products only for approved uses, it could be subject to fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant pre-market clearance or pre-market approval for products, withdrawal of approvals and criminal prosecution. In addition, changes in existing regulations or adoption of new governmental regulations or policies could prevent or delay regulatory approval of the Company s products or result in increased regulatory costs. Furthermore, once clearance or approval is granted, subsequent modifications to the approved product or manufacturing process may require a new round of clearances or approvals that could require substantial additional clinical data and FDA review.

Class II Requirements

Section 510(k) of the Act requires individuals or companies manufacturing medical devices intended for use with humans to file a notice with the FDA at least 90 days before introducing a product not exempted from notification requirements into the marketplace. The notice (a 510(k) Notification) must state the class in which the device is classified and the action taken to comply with performance standards or pre-market approval that may be needed if the device is a Class II or Class III device, respectively. Under Section 510(k), a medical device can be marketed if the FDA determines that the device is substantially equivalent to similar devices marketed prior to May 28, 1976. In the past, Medical Graphics has filed notifications with the FDA of its intent to market its systems pursuant to Section 510(k) of the Amendments, the FDA subsequently cleared these systems for commercial sale and Medical Graphics is now marketing the devices under Section 510(k). The action of the FDA does not, however, constitute FDA approval of Medical Graphics products or pass upon their safety and effectiveness.

In addition to the requirements described above, the Act requires that all medical device manufacturers and distributors register with the FDA annually and provide the FDA with a list of those medical devices that they distribute commercially. The Act also requires that all manufacturers of medical devices comply with labeling requirements and manufacture devices in accordance with QSRs. QSRs require that companies manufacture their products and maintain their documents in a prescribed manner with respect to manufacturing, testing and quality control. In addition, these manufacturers are

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subject to inspection on a routine basis for compliance with the QSRs. The FDA s Medical Device Reporting regulation requires that companies provide information to the FDA on death or serious injuries alleged to have been associated with the use of their products, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The FDA further requires that certain medical devices not cleared with the FDA for marketing in the United States meet specific requirements before they are exported. Medical Graphics is registered as a manufacturer with the FDA and successfully passed an FDA audit in 2002 with no negative observations.

The Company is subject to certain FDA regulations governing manufacturing practices, labels, packaging, defective products and complaints about its products. The FDA has authority to inspect the Company s facilities to ensure compliance with the FDA Act and regulations thereunder. Failure to comply with these regulations could have a material adverse effect on the Company s business, financial condition and results of operations. Further, the FDA regulates the export of medical devices that have not been approved or cleared for marketing in the United States.

Regulation by Foreign Governments

The Company s products are also subject to regulation similar to that of the FDA in various foreign countries. ISO 9001 certification indicates that a company s development and manufacturing processes comply with standards for quality assurance and manufacturing process control. ISO 9001 certification evidences compliance with the requirements that enable a company to affix the CE Mark to its products. The CE Mark denotes conformity with European standards for safety and allows certified devices to be placed on the market in all European Union (EU) countries. Since June 1998, medical devices cannot be sold in EU countries unless they display the CE Mark. Medical Graphics received ISO 9001 certification for its development and manufacturing processes in 1998 and has passed surveillance and recertification audits in 2002, 2001 and 2000. Medical Graphics has achieved CE certification for its primary cardiopulmonary testing products. There can be no assurance, however, that Medical Graphics will be able to obtain regulatory approvals or clearances for its products in foreign countries.

Employees

As of December 30, 2002, the Company had 114 full-time and 3 part-time employees, including 29 in sales and marketing, 27 in customer support and education, 31 in materials and manufacturing, 14 in research, development and regulatory, and 15 engaged in finance and administration. No employees are represented by a collective bargaining agreement and the Company has not experienced any work stoppage. Management believes that relations with its employees are good.

Cautionary Note Regarding Forward-looking Statements

This Annual Report on Form 10-KSB contains certain forward-looking statements. For this purpose, any statements contained in this Form 10-KSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate or continue or comparable terminology are intended to identify forward-looking state These statements by their nature involve substantial risks and uncertainties. The Company s actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Annual Report on Form 10-KSB. These forward-looking statements are made as of the date of this Annual Report on Form 10-KSB and the Company assumes no obligation to update such forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

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Certain Risk Factors

History of Recent Losses. During the year ended December 31, 2001 and the ten months ended October 31, 2002, the Company incurred losses of $6,526,000 and $1,579,000, respectively. The Company s bankruptcy restructuring eliminated over $1,500,000 in annual cash requirements to make interest payments for debt service associated with its $20,198,000 debt. While the Company believes that its existing cash is adequate to support operations for the next 18 to 24 months or more, the Company must ultimately achieve profitability or obtain additional financing to be able to meet its future cash flow requirements, and there can be no assurance that it will do so.

Limited Liquidity of Common Stock. Since the Company emerged from bankruptcy in October 2002, there has been limited trading in its common stock.

Success of Business Plan. Successful implementation of the Company s business plan through its Medical Graphics subsidiary operating entity is dependent on the interaction of many variables, including the effects of changing industry conditions, competition and the Company s ability to successfully market and sell its new products. While the Company believes that its business plan is reflective of reasonable judgments in assessing those risks, there can be no assurance that influences not foreseen by the Company would not adversely affect its ability to execute the business plan strategies. While the Company believes that its business plan projections are in line with achievable performance levels, there can be no assurance that the Company will be able to obtain, and sustain, the projected sales volume increases.

Nasdaq SmallCap Market. Angeion s common stock is traded on the Nasdaq SmallCap Market. Under the rules for continued inclusion on the Nasdaq SmallCap Market, the Company must maintain a minimum bid price of $1.00 for its common stock and must maintain a minimum of $1.0 million in market value of its publicly held shares. The Nasdaq rules also state that for continued inclusion on the listing, the Company shall maintain at least one of the following:

(i) Stockholders equity of $2.5 million;
(ii) Market capitalization of $35 million; or
(iii) Net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the three most recently completed fiscal years.

If a Nasdaq SmallCap Market security fails to meet one of these criteria for a period of 30 consecutive business days, the issuer will be notified of the failure by Nasdaq and have a period of 180 calendar days to achieve compliance with the standard.

Although the Company had fallen out of compliance with certain listing requirements during 2002, the Company regained compliance with all Nasdaq SmallCap Market listing requirements, including the Nasdaq minimum bid and market value of publicly held shares requirements on

December 6, 2002. The Company can give no assurance that it will be able to meet the requirements for continued listing on the Nasdaq SmallCap Market in the future

Dependence upon New Products. The Company has previously announced that it intended to focus a significant portion of its resources on the weight loss, cardiac rehabilitation and disease prevention markets, which are a logical extension of its core diagnostic systems business. The Company s future success will be dependent, in part, upon its ability to successfully identify and introduce new products and services into the weight loss, cardiac rehabilitation and disease prevention markets. In developing new products, it will incur additional research and development and marketing expenses. The Company s success will depend upon cost effective development of new products for its

core markets. There can be no assurance that revenues, if any, from new products will be sufficient to recoup the Company s expenses in development and marketing any new product. Moreover, there is no assurance that the Company can manufacture these new products at a cost, or sell the new products at a price, that will result in an acceptable rate of return for the Company. Market acceptance of these new products may be slow or customers may not accept the new products at all. If the Company cannot successfully develop and market new products, its financial performance and results of operations will be adversely affected.

Need for Market Acceptance. Market acceptance of the Company s products will depend, in part, on the capabilities and operating features of its products compared to competing products, the Company s ability to convince the medical community of the clinical efficacy of its products, the timeliness of its product introductions compared to competing products and its ability to manufacture quality products profitably and in sufficient quantities. Failure of the Company s products to gain market acceptance would have a material adverse effect on the Company s business, financial condition and results of operations. Furthermore, even if there is growth in the markets for the Company s products, there can be no assurance that the Company will participate in such growth.

Importance of Intellectual Property Protection. Patents and trademarks are critical in the medical device industry, and the Company believes strongly in protecting its intellectual property and has a long history of obtaining patents, when available, in connection with its research and product development programs. The Company owns a number of United States and foreign patents. The Company also owns certain registered trademarks, and has applied for other trademarks in the U.S. and certain foreign countries. There can be no assurance, that patents and trademarks will be granted in the future, or that any patents and trademarks that the Company now holds or may be granted, or under which it has held license rights, will be valid or otherwise be of value to the Company. Even if the Company s patents and trademarks are valid, others may be able to introduce non-infringing products that are competitive with those of the Company. Competitors of the Company may also hold or be granted patents that are not licensed to the Company.

Although patent and intellectual property disputes in the medical device area have often been settled through licensing agreements or similar arrangements, costs associated with such arrangements may be substantial, and there can be no assurance that necessary licenses would be available to the Company on satisfactory terms or if at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent the Company from manufacturing and selling its products, which would have a material adverse effect on the Company s business, financial condition and results of operations.

The Company seeks to protect its trade secrets and proprietary know-how, in part, through confidentiality agreements, non-compete agreements and assignment of invention provisions in agreements with employees, consultants and other parties, as well as through contractual exclusivity with certain suppliers. There can be no assurance, however, that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company s trade secrets will not otherwise become known to or independently developed by competitors.

Product Liability and Potential Insufficiency of Product Liability Insurance. The testing, manufacturing, marketing and sale of medical devices involve risk of liability claims and product recalls. ICD products that the Company sold in the past are highly complex and were used in medical procedures and in situations where there is a potential risk of serious injury, adverse side effects or death. As a result, the Company currently carries product liability insurance covering its products with policy limits per occurrence and in the aggregate which the Company has deemed to be sufficient. It

cannot be predicted, however, whether such insurance is sufficient, or if not, whether the Company will be able to obtain such

insurance as is sufficient, to cover the risks associated with the Company s business or whether such insurance will be available at premiums that are commercially reasonable. Although the Company has discontinued its ICD business, a successful claim against or settlement by the Company in excess of its insurance coverage or the Company s inability to maintain insurance in the future could have a material adverse effect on the Company s business, results of operations, liquidity and financial condition. See Note 17, Discontinued Operations, *Contingencies* in Notes to Consolidated Financial Statements in this Form 10-KSB.

Dependence on Senior Management and Other Key Personnel. The Company s success depends largely on its senior management and other key personnel. Moreover, competition for qualified personnel with sufficient and relevant experience in the medical device industry is intense. Accordingly, the loss of the services of such individuals, or the inability to hire additional key individuals as required, could have a material adverse effect on the Company, including its current and future product development efforts.

Dependence on Third Party Vendors. The Company relies on third party vendors for certain components used in the Company s products. A number of significant components, such as capacitors, batteries and integrated circuits, are purchased from sole source suppliers. Medical Graphics acquires its cycle ergometers and treadmills from third parties. Although the Company attempts to maintain sufficient quantities of inventory of such components to minimize production delays or interruptions, there can be no assurance that the Company will find suitable alternatives at reasonable prices, if at all, or that any such alternatives will remain available to the Company. The Company s inability to obtain acceptable components in a timely manner or find and maintain suitable replacement suppliers for components would have a material adverse effect on the Company, including its ability to manufacture its products.

Effect of Certain Anti-Takeover Provisions. The Company is governed by the provisions of Sections 302A.671 and 302A.673 of the Minnesota Business Corporation Act. These anti-takeover provisions could potentially operate to deny shareholders the receipt of a premium on their common stock and may also have a depressive effect on the market price of the Company s common stock. Section 302A.671 generally provides that the shares of a corporation acquired in a control share acquisition have no voting rights unless voting rights are approved by the shareholders in a prescribed manner. A control share acquisition is generally defined as an acquisition of beneficial ownership of shares that would, when added to all other shares beneficially owned by the acquiring person, entitle the acquiring person to have voting power of 20% or more in the election of directors. Section 302A.673 prohibits a public corporation from engaging in a business combination with an interested shareholder for a period of four years after the date of the transaction in which the person became an interested shareholder, unless the business combination is approved in a prescribed manner. A business combination includes mergers, asset sales and other transactions. An interested shareholder is a person who is the beneficial owner of 10% or more of the corporation s voting stock. Reference is made to the detailed terms of Sections 302A.671 and 302A.673 of the Minnesota Business Corporation Act.

Under the Bylaws, for a period of three years after the end of the fiscal year in which the Reorganization Plan is confirmed or until November 1, 2005, no purchase of the Company s common stock may be made by any beneficial owner of 5% or greater of the Company s common stock (or any person who would become a 5% or greater owner as a result of the purchase), unless the transfer is approved in advance by the Company s Board of Directors. Further, each person that was a beneficial owner of 5% or greater of the Company s common stock immediately following confirmation of the Plan is prohibited from transferring more then 60% of the holder s common stock during the two year period after confirmation, unless the transfer is approved in advance by the Board of Directors.

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The Company has also entered into agreements with certain executive officers that provide for certain benefits upon a change of control.

Item 2. Description of Property.

The Company currently leases a 52,250 square foot building for its office, assembly and warehouse facilities located in suburban Saint Paul, Minnesota. The building is also the location of the Company s Medical Graphics subsidiary. The lease expires June 30, 2004, at which time the Company has an option to renew the lease for an additional two years. The Company has the option to purchase the building at the end of each lease expiration period at the building s fair market value. Annual rental costs will be approximately $309,000 in fiscal year 2003. Rent expense was $287,000 for the ten months ended October 31, 2002 and $345,000 for the year ended December 31, 2001.

The Company previously leased space in Brooklyn Park, Minnesota that served as office, manufacturing and warehouse space for its discontinued ICD business. At October 31, 2002, the Company remained liable for $148,000 in payments under the lease while the sublessor is obligated to the Company for future rental payments aggregating $71,000 through June 30, 2003. Rent payments for office and production space used in the discontinued ICD manufacturing business were $258,000 for the ten months ended October 31, 2002 and $297,000 for the year ended December 31, 2001.

Item 3. Legal Proceedings.

The Company is subject to certain claims and lawsuits that have been filed in the ordinary course of business. From time to time, the Company brings suit against others to enforce patent rights or to collect debts in the ordinary course of business. It is management s opinion that the settlement of all litigation would not have a material effect on the financial position of the Company.

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

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). In connection with the Chapter 11 Bankruptcy, the Court approved a disclosure statement dated September 4, 2002 that was distributed to the Company s creditors, equity security holders and other parties in interest for purposes of soliciting the vote of these persons on the Joint Modified Plan of Reorganization that was submitted by Angeion and the Unsecured Creditors Committee.

A hearing on the Plan was held on October 24, 2002. In connection with the hearing, the votes were tallied and a majority of the ballots cast by the Company s creditors, equity security holders and other parties of interest accepted the Plan. Holders of $14.6 million in the Company s Notes out of the $20.2 million outstanding and other unsecured claims voted in favor of the Plan. No holder of Notes opposed the plan. Of the holders of the Company s common stock, holders of 180,897 shares or 98.2% of the shares voting accepted the Plan while holders of 3,253 shares or 1.8 percent of the shares voting cast votes rejecting the Plan.

On October 24, 2002, the Court entered an order confirming the Plan. The Plan was effective on the first business day after the date of confirmation, that is October 25, 2002.

Approval of the Plan included the approval of Messrs. Arnold A. Angeloni, John C. Penn, Richard E. Jahnke and Jeffrey T. Schmitz as the Board of Directors of the Company. The approval of the Plan also approved the Company s Amended and Restated Articles of Incorporation, Amended and

Restated Bylaws, and the Angeion 2002 Stock Option Plan, reserving 600,000 shares for issuance under the Stock Option Plan.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The Company s common stock began trading on the Nasdaq SmallCap Market at the opening of business on February 14, 2001, under the symbol ANGN. Prior to February 14, 2001, the Company s common stock was traded on the Nasdaq National Market under the symbol ANGN. During the Chapter 11 proceeding and until Nasdaq determined that the Company had met all listing requirements, the Company traded on the Nasdaq SmallCap Market under the symbols of ANGNQ and ANGQC between June 17, 2002 and December 6, 2002. The prices below are the high and low sales prices as reported by the Nasdaq National/SmallCap Market for each quarter of 2000 and 2001 as well as three quarters and the month of October for 2002.

Due to the conversion of the Company s $20,198,000 of Notes to equity on October 25, 2002, and the resulting new capital structure, future prices of the Company s common stock will not be comparable to those presented in the table below.

Angeion Common Stock Prices

Calendar Years	High	Low
2002		
Month of October	$ 0.25	$ 0.02
Third quarter	0.50	0.05
Second quarter	0.75	0.05
First quarter	0.75	0.42
2001		
Fourth quarter	1.20	0.45
Third quarter	1.70	0.56
Second quarter	2.11	0.78
First quarter	1.75	0.63
2000		
Fourth quarter	1.75	0.31
Third quarter	3.63	1.13
Second quarter	3.06	1.13
First quarter	4.38	1.94

As of January 7, 2003, approximately 629 persons held the Company s common stock of record. In addition, nominees for approximately 8,800 shareholders held a number of shares in street name.

Dividends

The Company has not paid any dividends on its common stock. The Company currently intends to retain any earnings for use in its operations and does not anticipate paying any cash dividends in the future.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders			600,000

The Company has one equity compensation plan, its 2002 Stock Option Plan. At October 31, 2002, there were no options outstanding under the 2002 Stock Option Plan.

Recent Sales of Unregistered Securities

On October 25, 2002, in connection with the Confirmation and Implementation of its Plan of Reorganization, Angeion issued 3,594,627 shares of Company stock to former creditors and former holders of Old Common Stock. The Company believes the issuance was exempt pursuant to Section 1145 of the Unites States Bankruptcy Code.

Item 6. Management s Discussion and Analysis or Plan of Operation.

Overview

The first ten months of 2002 represented a period of significant change for the Company. The year began with management focused on exploring different options that would resolve repayment of the $20,198,000 in Notes that were due in April 2003. During this period, the price of the Company s stock in the market continued to decline because of the uncertainty concerning the Company s ability to repay the Notes when due. The decline in the price of the Company s stock generated compliance issues regarding continued listing of the Company s stock on the Nasdaq SmallCap Market. As a result of these factors, the Company became concerned that the uncertainty associated with repayment of the Notes would affect its ongoing business.

On June 17, 2002, the Company announced that it had reached an agreement with the holders of the $20,198,000 in outstanding Notes to restructure the debt by converting it to equity. The Company also announced that to avoid impairment of its $125 million tax loss carryover, the debt restructuring would take place under a Chapter 11 Bankruptcy filing. On June 17, 2002, Angeion Corporation, the parent company, filed a voluntary petition for Reorganization under Chapter 11 of the federal Bankruptcy laws in the United States Bankruptcy Court for the District of Minnesota under case number 02-32260 and on that same day filed a Joint Plan of Reorganization with the holders of the Company s 7-½% Senior Convertible Notes.

The Company s subsidiary, Medical Graphics Corporation, was not part of the Chapter 11 filing and continued to do business as usual during the Bankruptcy period. The reorganization did not have an

adverse impact upon the day-to-day operations, customers or suppliers of the Company s Medical Graphics operations.

During the Bankruptcy period, the Company negotiated an amendment to the lease for space that served as office, manufacturing and warehouse space for its discontinued ICD business. The amended lease requires the Company to continue making lease payments subsequent to its filing of the Chapter 11 petition through June 2003, and releases the Company from all other obligations. As a result, the Company significantly reduced its liability for future rental obligations.

In September 2002, during the Bankruptcy period, the Company entered into a Settlement and License Agreement with Biotronik, Inc. under which the Company granted to Biotronik a perpetual, non-exclusive license to use the Company s cardiac stimulation technology and Biotronik agreed to make a one-time cash payment of $4,000,000 within 30 days of execution of the contract. As a result, the Company recorded license revenue of $2,900,000 relating to the Settlement Agreement, which is net of the related contingent transaction expenses of $1,100,000.

On October 24, 2002, the Bankruptcy Court entered an order confirming the Company s Plan. The Plan became effective on October 25, 2002, the first business day after the date of confirmation. Upon the effectiveness of the Plan, Messrs. Arnold A. Angeloni, John C. Penn, Richard E. Jahnke and Jeffrey T. Schmitz constituted the Board of Directors of the Company.

The conversion of debt to equity together with the receipt of $2,900,000 in cash from the Settlement Agreement allowed the Company to emerge from Bankruptcy with over $4,400,000 in cash, no debt and approximately $18,000,000 in shareholders equity.

On November 13, 2002, the Company s Board of Directors decided to change the Company s fiscal year from December 31 to October 31 to coincide with the buying patterns of the Medical Graphic s medical equipment business as well as the New Leaf health and fitness product business. The change will also enable the Company to report its results in the future on a comparable basis as a result of the fresh start reporting that is required in conjunction with the Company s emergence from Chapter 11 bankruptcy. See Note 3, *Summary of Significant Accounting Policies* and Note 4, *Reorganization and Fresh Start Reporting Adjustments* , Notes to Consolidated Financial Statements.

With the Chapter 11 restructuring behind it, management is now looking forward to running the business without the distractions encountered during the past few years. The following paragraphs discuss the Company s performance for the ten months ended October 31, 2002 compared to the same period for 2001 and for the year ended December 31, 2001 compared to the year ended December 31, 2000. In addition, there is a table presenting selected financial data by quarter for the Company s new fiscal year ended October 31, 2002 at the end of this Management s Discussion and Analysis or Plan of Operation section.

Results of Operations

The following table summarizes selected financial data relating to the ongoing operations of the Company. The data for the ten months ended October 31, 2002 and the two years ended December 31, 2001 and 2000 are derived from the audited financial statements of the Company. The selected financial data for the ten months ended October 31, 2001 are derived from the unaudited financial statements of the Company. The unaudited financial data is presented for comparative purposes as a result of the Company s change in year-end from December 31 to October 31 in 2002.

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(000 s omitted)	Ten Months Ended October 31, 2002	Ten Months Ended October 31, 2001	Year Ended December 31, 2001	Year Ended December 31, 2000
Revenue	$ 13,402	$ 13,230	$ 16,666	$ 17,051
Gross margin	5,393	5,525	7,087	5,838
Gross margin percentage	40.2%	41.8%	42.5%	34.2%
Operating expenses:				
Selling and marketing	4,266	4,187	5,283	4,821
General and administrative	1,952	2,476	2,938	2,875
Research and development	1,030	1,363	1,623	1,705
Amortization of intangibles	636	1,016	1,191	1,226
Impairment loss on intangible assets	1,085			
Reorganization items	128			
	9,097	9,042	11,035	10,627
Operating loss	(3,704)	(3,517)	(3,948)	(4,789)
Licensing revenue, net	2,900			
Interest income	10	165	170	464
Interest expense	(877)	(1,701)	(2,041)	(2,105)
Loss before taxes	(1,671)	(5,053)	(5,819)	(6,430)
Benefit for income taxes	(92)			
Loss from continuing operations	(1,579)	(5,053)	(5,819)	(6,430)
Income (loss) from discontinued operations		(29)	(707)	10,833
Net income (loss)	$ (1,579)	$ (5,082)	$ (6,526)	$ 4,403

Ten Months Ended October 31, 2002 Compared to 2001

Revenue. Revenues consist of equipment and supply sales and service revenues. Equipment and supply sales reflect sales of Medical Graphic s non-invasive cardiorespiratory diagnostic systems and related software, 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.

Total revenue increased by $172,000 or 1.3% to $13,402,000 from $13,230,000 for the ten months ended October 31, 2002 and 2001, respectively. Domestic product revenue increased by $405,000 or 4.9% to $8,594,000 in 2002 compared to $8,189,000 in 2001. International product revenue decreased by $660,000 or 22.9% to $2,224,000 in 2002 compared to $2,884,000 in 2001. Service revenue increased by $427,000 or 19.8% to $2,584,000 in 2002 compared to $2,157,000 in 2001.

The Company believes that domestic customers interest in placing new system orders continues to improve but that its domestic customers also continue to exercise caution in making capital expenditures due to the overall uncertainty of the United States economy. 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. Revenue from these new products was $142,000 and $14,000 for the ten months ended October 31, 2002 and 2001, respectively.

There are two reasons driving the decline in international revenue. First, European customers are acting like United States customers and are delaying capital expenses unless there is a clear immediate need. Second, sales to Latin American customers continue to suffer from very weak economies and devaluating currencies.

The service revenue increase is primarily due to an increase in the number of service contracts that the Company has sold and non-warranty service calls. The Company has continued emphasis on the sale of those service contracts. In addition, the increase in non-warranty service call income reflects both increased fees and improved efficiencies in field service.

Gross Margin. Gross margin percentage decreased 1.6 percentage points to 40.2% from 41.8% of revenue for the ten months ended October 31, 2002 and 2001, respectively. The gross margin decrease is due to labor costs associated with revising certain product specifications. These additional labor costs were generally incurred during the first six months of 2002. Margins have improved in recent months and management believes that margins for fiscal year 2003, exclusive of the fresh-start adjustments, should approximate the level achieved for 2001. Gross margins will be negatively impacted in fiscal year 2003 by the fresh-start reporting adjustments that increased inventories by $59,000 and decreased deferred income by $224,000.

Selling and Marketing. Selling and marketing expenses increased $79,000 or 1.9% to $4,266,000 for the ten months ended October 31, 2002 compared to $4,187,000 in the comparable 2001 ten-month period. Increases in expenses associated with the Company s focus on selling and marketing its New Leaf personal exercise products of $455,000 for the ten months ended October 31, 2002 have been generally offset by lower travel, product demonstration and other selling and marketing expenses associated with hospital and medical clinic market products.

General and Administrative. General and administrative expenses decreased $524,000 or 21.2% to $1,952,000 for the ten months ended October 31, 2002 compared to $2,476,000 in the comparable 2001 ten-month period. Prior year expenses include $300,000 paid as part of a settlement agreement that resolved the on-going litigation with U.S. Bank National Association, as Trustee for the holders of the Company s 7-1/2% Senior Convertible Notes. General and administrative expenses for 2002 also reflect reduced professional fees, directors' costs and personnel costs.

Research and Development. Research and development expenses for the ten months ended October 31 decreased $333,000 or 24.4% to $1,030,000 in 2002 from $1,363,000 in 2001. The Company s previous focus on the conversion and consolidation of software platforms is now complete, resulting in the decrease in research and development expenses. Research and development expenses that have been capitalized as part of the Company s proprietary software were $350,000 and $437,000 for the ten months ended October 31, 2002 and 2001, respectively.

Amortization of Intangibles. Amortization of intangibles for the ten months ended October 31 decreased $380,000 or 37.4% to $636,000 in 2002 from $1,016,000 in 2001. The decrease reflects the Company s adoption of SFAS Statement No. 142, *Goodwill and Other Intangible Assets*. Under fresh-start accounting, the Company expects amortization expense to approximate $779,000 in fiscal year 2003. See Note 8, Intangible Assets, Notes to Consolidated Financial Statements in this Form 10-KSB.

Impairment Loss on Intangible Assets. The Company purchased a perpetual license for existing INTER$_X$VENT technology to be revised in the form of a self-help program. Since completion of the self-help program has been delayed and therefore was not introduced to the market, the Company evaluated the recoverability of its investment and determined that it was impaired. The Company reduced the value of its current investment by $1,085,000 to $325,000 at June 30, 2002. The Company commenced

amortizing the remaining value of $325,000 over three years on July 1, 2002. See Note 8, Intangible Assets, Notes to consolidated Financial Statements in this Form 10-KSB.

Reorganization Items. Fresh start reporting requires that professional fees and similar types of expenditures directly relating to the Chapter 11 proceeding be expensed as incurred and reported as reorganization items. The following table contains a summary of the expenses and gains recognized during the ten months ended October 31, 2002.

(In thousands)		Ten Months Ended October 31, 2002
Professional fees	$	262
Write-down of equipment held for sale		63
Mailings to shareholders and noteholders		60
Endorsement to Directors & Officers insurance		35
Gain from reduction of future rental obligations		(292)
	$	128

Licensing Revenue, net. Licensing revenue, net of $2,900,000 represents a cash payment for a Settlement Agreement in which the Company granted Biotronik a perpetual, non-exclusive license to use its cardiac stimulation technology. See Note 18, License for Proprietary Technology, Notes to Consolidated Financial Statements in this Form 10-KSB.

Interest Income. Interest income for the ten months ended October 31 decreased by $155,000 to $10,000 in 2002 from $165,000 in 2001. The decrease in interest income reflects lower excess cash balances available for short-term investment as well as lower interest rates.

Interest Expense. For the ten months ended October 31, interest expense decreased $824,000 to $877,000 in 2002 from $1,701,000 in 2001. Historically, interest expense included $132,000 of amortization of debt issuance costs on a quarterly basis. The debt issuance costs became fully amortized in April 2002. In addition, the Company discontinued accruing for interest expense on June 17, 2002, the date the Company filed the Joint Plan of Reorganization. The amount of stated contractual interest that was not charged to operations for the period from June 18, 2002 to October 31, 2002 was approximately $560,000. Under the Joint Plan of Reorganization, all unpaid interest expense, $1,017,000 at June 17, 2002, was converted into common stock of the Company upon emergence from bankruptcy.

Benefit for Income Taxes. During the first quarter of 2002, the Company recorded a refund of $92,000 for federal income taxes that were previously paid for 1999. The refund became available due to a tax law revision enacted into law during the first quarter of 2002.

Year Ended December 31, 2001 Compared to 2000

Revenue. Total revenue decreased 2.3% to $16,666,000 in 2001 from $17,051,000 in 2000. Domestically, revenue decreased 3.7% to $10,502,000 in 2001 from $10,908,000 in 2000. Domestic revenue for 2001 should be evaluated only after understanding what happened in 2000. Year 2000 domestic revenue included $824,000 in sales from the now discontinued sleep diagnostics products as well as the carryover of 1999 sales orders (reduction of order backlog) approximating $820,000. Domestic revenue really increased by over 13% if the impact of sleep product sales and the reduction in 1999 backlog are taken out of year 2000 domestic revenue. The quarter-to-quarter increases in 2001 customer orders ranged from a low of 6.1% in the third quarter to a high of 18.7% in the fourth quarter,

both reflecting a delay and recovery of new customer orders associated with the shock and uncertainty caused by the September 11, 2001 events. New domestic systems orders finished the year with an increase of 12.8% in 2001 compared to 2000.

Domestically, the Company has devoted a significant amount of its resources during the past year to developing its New Leaf Personal Exercise product for the cardiac rehabilitation, disease prevention, fitness club and weight-loss markets. Although the Company began selling its New Leaf Personal Exercise System during the summer of 2001, revenue from the initial sales of this new product was not significant.

Internationally, revenue decreased 3.4% to $3,583,000 in 2001 from $3,708,000 in 2000. The Company began its focus on returning international revenue to its historical revenue levels early in 2000. That effort resulted in a 50.9% increase in year 2000 international revenue compared to 1999 with year 2001 retreating by 3.4% from 2000. While the effort continues, international revenue has yet to fully recover from what management believes are the effect of the events of September 11, 2001. Moreover, international revenue for 2000 also enjoyed the impact of the carryover of 1999 sales orders (reduction of order backlog). New sales orders for international systems increased by 10.9% in 2001 compared to 2000. Quarterly, international system orders posted double digit increases with the exception of the third quarter posting a September 11th driven decrease of 23.9%.

Service revenue increased 6.0% to $2,581,000 in 2001 from $2,435,000 in 2000. The service revenue increase primarily reflects an increase in revenue from extended service warranties while non-warranty service call revenue and training revenue for 2001 both approximated year 2000 revenue.

Gross Margin. Gross margin as a percent of revenue increased by 8.3 percentage points to 42.5% in 2001 from 34.2% in 2000. The gross margin percentage for 2000 was depressed by a second quarter $332,000 reduction in the value of inventory related to the Company s decision to discontinue distribution of sleep disorder diagnostic products as well as by $824,000 in sales of those low margin products. The margin increase for 2001 includes approximately 5.7 percentage points attributed to a significant impact from cost reduction programs such as the introduction of new digital technology to the Company s products. While the introduction of digital technology remains ongoing, the contribution to margin results and service efficiencies during 2001 was significant.

Selling and Marketing. Selling and marketing expenses increased 9.6% to $5,283,000 in 2001 from $4,821,000 in 2000. As a percent of revenue, selling and marketing expenses increased to 31.7% in 2001 from 28.3% in 2000. A substantial portion of the increase in selling and marketing expenses is associated with the Company s focus on developing its New Leaf Personal Exercise System which is somewhat offset by a decrease in domestic marketing expenses. In addition, the increase also reflects additional costs in support of the Company s continued focus on international revenue.

General and Administrative. General and administrative expenses increased 2.2% to $2,938,000 in 2001 from $2,875,000 in 2000. As a percent of revenue, general and administrative expenses increased to 17.6% in 2001 from 16.9% in 2000. On-going litigation with U.S. Bank National Association, as Trustee for the holders of the Company s 7-1/2% Senior Convertible Notes led to increased legal expenses. That litigation was settled in November for $300,000. Those combined expenses account for the year-to year increase in general and administrative expenses. These

expenses were somewhat offset by lower personnel costs and director s fees.

Research and Development. Research and development expenses decreased 4.8% to $1,623,000 in 2001 from $1,705,000 in 2000 and as a percentage of revenue decreased to 9.7% in 2001 from 10.0% in 2000. Initial expenses associated with the development of technology acquired from AeroSport in

March 2000 were not repeated in 2001. One of the products acquired from AeroSport has been repackaged and integrated with new software and hardware and now represents a key component in the Company s current growth initiative for the cardiac rehabilitation, disease prevention, fitness club and weight-loss markets. During 2001, the Company completed transition to a Windows 98/NT/2000 platform and made the software changes required by Microsoft s decision to force a change from Windows 2000 to Windows XP. Expenses for 2001 also reflect development of new software and hardware platforms that address new market requirements such as the Health Insurance Portability and Accountability Act (HIPAA) of 1996 which will become a requirement in 2003 as well as ongoing replacement of older products. Research and development expenses that have been capitalized as part of the Company s proprietary software were $518,000 in 2001 and $724,000 in 2000.

Amortization of Intangibles. Amortization of intangibles represents the amortization of goodwill and other intangible assets associated with acquisitions. Amortization expenses were $1,191,000 in 2001 and $1,226,000 in 2000.

Other Income (Expense). Interest income resulted from the short-term investment of excess operating cash. Interest income decreased to $170,000 in 2001 from $464,000 in 2000. The decrease in interest income reflects lower excess cash balances available for short-term investment as well as lower interest rates.

Interest expense for 2001 is related to the Senior Convertible Notes. Interest expense decreased to $2,041,000 in 2001 from $2,105,000 in 2000. The decrease reflects the minimum interest charges incurred during the first quarter of 2000 for the Medical Graphics bank line of credit that expired by its terms on March 31, 2000. Interest expense includes amortization of debt issuance costs of $526,000 for each of the years ended December 31, 2001 and 2000. These debt issuance costs became fully amortized in April 2002.

Discontinued Operations. The loss from discontinued operations for 2001 is represented primarily by the future rental obligations, net of sublease revenue, of the building that was leased for the Company s discontinued ICD manufacturing business. In May 2000, the Company entered into an agreement that terminated its future rental obligations for approximately 64% of this space in exchange for a payment of $476,000 for the one-time costs associated with a new tenant occupying that portion of the building. The Company subleased the remaining space in January 2002. At December 31, 2001 and 2000, the Company had accrued $627,000 and $412,000, respectively, for the associated real estate commission and future rent expense that it expected not to be recovered at those points in time. Management estimated those amounts with the belief that the unused building space would be disposed of or rented during the ensuing years.

Income from discontinued operations of $10,833,000 for the year ended December 31, 2000 includes the first quarter gain of $11,876,000, net of taxes, primarily related to the Company s efforts to exploit its intellectual property through its granting of non-exclusive licenses for patent rights and sale of certain assets to Medtronic, Inc. and ELA Medical and Sanofi-Synthélabo. This gain was partially offset by $806,000 of rental expenses associated with the building previously used to manufacture ICD products as well as other expenses of $237,000 related to discontinued operations.

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 $4,434,000 and working capital of $7,492,000 as of October 31, 2002. During the ten months ended October 31, 2002, the Company generated $3,778,000 in cash from continuing operations. Cash was generated primarily by decreases of $1,581,000, $734,000 and $249,000 in accounts receivable, inventories and prepaid expenses and other assets, respectively, as well as an increase of $654,000 in other liabilities and accrued expenses. The reduction in inventories included $335,000 for disposition of the remaining discontinued sleep diagnostic product inventories. In addition, the Company used $262,000 in cash for discontinued operations, which represented real estate commissions and rental of the facility formerly used for the Company s ICD products.

During the ten months ended October 31, 2002, the Company used $443,000 in cash for investing activities. Cash was used to increase the Company s investment in proprietary software by $350,000, to invest $70,000 in the INTERVENT perpetual license and to purchase $36,000 of equipment and fixtures.

The Company has no material commitments for capital expenditures for 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 $4,434,000, the Company believes that its liquidity and capital resource needs for fiscal year 2003 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. Although these commitments are more fully discussed in the Notes to Consolidated Financial Statements, we are summarizing all of our significant commitments in the following table:

Description, (in thousands)	2003	2004	2005	2006	2007 & Thereafter
Continuing operations:					
Minimum lease payments	$ 326	$ 212	$ 5	$ 4	$ 8
Minimum royalty payments for sales of AeroSport products	100	100	100	100	
Discontinued operations:					
Minimum lease payments	148				
Sublease income	(71)				
	$ 503	$ 312	$ 105	$ 104	$ 8

Critical Accounting Policies

Significant accounting policies adopted and applied by the Company are summarized in Note 3, Notes to Consolidated Financial Statements, which is included in this Form 10-KSB. Some of the more critical policies include revenue recognition, allowance for doubtful accounts and intangible assets. The Company s policies for these items are discussed in the following paragraphs.

Revenue Recognition. The Company recognizes revenue in accordance with Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements.* Revenues are recognized when all of the following criteria are met: when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured. Amounts billed to customers under service contracts are deferred and recognized as income over the term of the agreement and related service contract costs are recognized as incurred.

Allowance for Doubtful Accounts. The Company establishes estimates of the uncollectibility of accounts receivable. Management analyzes accounts receivable, historical write-offs as bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts at an amount that it estimates to be sufficient to provide adequate protection against losses resulting from collecting less that full payment on receivables. A considerable amount of judgment is required when assessing the realizability of receivables, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for doubtful accounts may be required. The Company s accounts receivable balance was $2,687,000, net of an allowance for doubtful accounts of $312,000 at October 31, 2002.

Valuation of Long-Lived and Intangible Assets and Goodwill. The Company assesses the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill at least annually, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the Company determines that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable, it measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model or another valuation technique.

The Company adopted Statement of Financial Accounting Standards ("SAFS") No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002 and as a result, ceased to amortize approximately $1,925,000 of goodwill. In lieu of amortization, the Company was required to perform an initial impairment review of goodwill in 2002 and an annual impairment review thereafter. The Company did not record an impairment charge upon completion of the initial impairment review and with the Company's adoption of fresh-start reporting it no longer has goodwill on the Successor Company financial statements as of October 31, 2002. See Note 8, "Intangible Assets," Notes to Consolidated Financial Statements.

Foreign Currency Exchange Risk

All sales made by the Company s Medical Graphics subsidiary are denominated in U.S. dollars. The Company does not currently and does not intend in the future to utilize derivative financial instruments for trading purposes.

The Company s foreign subsidiaries are not operating currently and are being liquidated. Balances remaining with these subsidiaries are currently minimal and the corresponding exposure to foreign exchange rate fluctuations is likewise minimal.

New Accounting Pronouncements

In June 2002, the 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 adopt the provisions of SFAS No. 146 on January 1, 2003. SFAS No. 146 will have an impact on the Company s treatment of restructuring for any restructuring activities initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, Stock Compensation. 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 their method of accounting for stock-based employee compensation. The Company will make the required interim disclosures effective with the quarter ending April 30, 2003.

Pro Forma Unaudited Quarterly Financial Data

Since the Company has changed its fiscal year from December 31 to October 31, the Company has presented in the table below selected pro forma unaudited historical financial results for the fiscal year ended October 31, 2002 on a quarterly basis.

	Quarter Ended			
(000 s omitted)	**January 31**	**April 30**	**July 31**	**October 31**
Fiscal Year ended October 31, 2002				
Revenue	$ 4,423	$ 4,028	$ 4,188	$ 4,199
Gross margin	1,917	1,603	1,612	1,823
Gross margin percentage	43.3%	39.8%	38.5%	43.4%
Operating expenses	2,758	2,221	2,410	2,488
Impairment loss on intangible assets			1,085	
Reorganization items			273	(145)
	2,758	2,221	3,768	2,343
Operating loss	(841)	(618)	(2,156)	(520)
Licensing revenue, net				2,900
Interest income	6	4	2	3
Interest expense	(510)	(510)	(197)	
Income (loss) before taxes	(1,345)	(1,124)	(2,351)	2,383
Benefit for income taxes		(92)		
Income (loss) from continuing operations	(1,345)	(1,032)	(2,351)	2,383
Loss from discontinued operations	(678)			
Net income (loss)	$ (2,023)	$ (1,032)	$ (2,351)	$ 2,383

Item 7. Financial Statements.

The Board of Directors and Shareholders

Angeion Corporation:

We have audited the accompanying consolidated balance sheets of Angeion Corporation and subsidiaries as of October 31, 2002 (successor company) and December 31, 2001 (predecessor company), and the related consolidated statements of operations, cash flows, and shareholders equity for the ten months ended October 31, 2002 and the year ended December 31, 2001. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of Angeion Corporation and subsidiaries as of October 31, 2002 and December 31, 2001, and the results of their operations and their cash flows for the ten months ended October 31, 2002 and the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4 to the consolidated financial statements effective upon confirmation of the Company's Plan of Reorganization being approved by the United States Bankruptcy Court, the Company adopted the provisions of Statement of Position 90-7 for fresh-start reporting. As discussed in note 8, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002.

/s/ KPMG LLP

Minneapolis, Minnesota

January 27, 2003

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

October 31, 2002 and December 31, 2001

(in thousands except share and per share data)

	Successor Company October 31, 2002	Predecessor Company December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 4,434	$ 1,361
Accounts receivable, net of allowance for doubtful accounts of $312 and $244, respectively	2,687	4,268
Inventories	3,470	4,145
Prepaid expenses and other current assets	123	196
Total current assets	10,714	9,970
Property and equipment, net	2,164	1,438
Intangible assets, net	8,250	11,379
Other assets, net		176
Goodwill, net		1,935
	$ 21,128	**$ 24,898**
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 964	$ 942
Employee compensation	439	658
Deferred income	811	1,017
Warranty reserve	111	141
Other liabilities and accrued expenses	897	1,508
Total current liabilities	3,222	4,266
Long-term debt		20,198
Shareholders equity:		
Common stock, $0.10 and $0.01 par value, 2002 and 2001, respectively. Authorized 25,000,000 and 10,000,000 shares, 2002 and 2001, respectively; issued and outstanding 3,594,627 shares in 2002 and 2001	359	36
Additional paid-in capital	17,547	124,011
Accumulated deficit		(123,613)
Total shareholders equity	17,906	434
Commitments and contingencies (Notes 12, 19 and 20)		

	$ 21,128	**$ 24,898**

See accompanying notes to consolidated financial statements

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

(in thousands except per share amounts)

	Ten Months Ended October 31, 2002	Twelve Months Ended December 31, 2001
Revenues:		
Equipment and supply sales	$ 10,818	$ 14,085
Service revenue	2,584	2,581
	13,402	16,666
Cost of goods sold:		
Cost of equipment and supply sales	7,536	9,149
Cost of service revenue	473	430
	8,009	9,579
Gross margin	5,393	7,087
Operating expenses:		
Selling and marketing	4,266	5,283
General and administrative	1,952	2,938
Research and development	1,030	1,623
Amortization of intangibles	636	1,191
Impairment loss on intangible assets	1,085	
Reorganization items	128	
	9,097	11,035
Operating loss	(3,704)	(3,948)
Other income (expense):		
Licensing revenue, net	2,900	
Interest income	10	170
Interest expense	(877)	(2,041)
Loss before taxes	(1,671)	(5,819)
Benefit for taxes	(92)	
Net loss from continuing operations	(1,579)	(5,819)
Loss from discontinued operations		(707)
Net loss	$ (1,579)	$ (6,526)
Net loss per share - basic and diluted		
Continuing operations	$ (0.44)	$ (1.66)

Discontinued operations		(0.20)
Net loss	$ (0.44)	$ (1.86)
Weighted average common shares outstanding		
Basic and diluted	3,595	3,516

See accompanying notes to consolidated financial statements

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Ten Months Ended October 31, 2002	Twelve Months Ended December 31, 2001
Cash Flows From Operating Activities:		
Net loss	$ (1,579)	$ (6,526)
Loss from discontinued operations		707
Reorganization items	128	
Depreciation	499	667
Amortization	636	1,191
Impairment loss on intangible assets	1,085	
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Compensation expense on grant of stock		72
Changes in operating assets and liabilities:		
Accounts receivable	1,581	363
Inventories	734	(166)
Prepaid expenses and other assets	249	570
Accounts payable	22	130
Employee compensation	(219)	109
Deferred income	18	33
Warranty reserve	(30)	(98)
Accrued expenses	654	316
Net cash provided by (used in) continuing operations	3,778	(2,632)
Net cash used in discontinued operations	(262)	(363)
Net cash provided by (used in) operating activities	3,516	(2,995)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(36)	(110)
Purchase of perpetual license	(70)	(1,340)
Investment in proprietary software and trademarks	(350)	(641)
Net cash used in continuing operations	(456)	(2,091)
Net cash provided by discontinued operations	13	53
Net cash used in investing activities	(443)	(2,038)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock		35
Net cash provided by financing activities		35
Effect of exchange rate on cash		9

Net increase (decrease) in cash and cash equivalents		3,073		(4,989)
Cash and cash equivalents at beginning of year		1,361		6,350
Cash and cash equivalents at end of year	**$**	**4,434**	**$**	**1,361**
Cash paid for interest	**$**		**$**	**1,515**
Cash received for taxes		**92**		
Significant non-cash transactions:				
See fresh-start adjustments, Note 4				

See accompanying notes to consolidated financial statements

ANGEION CORPORATION AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity

(in thousands)

	Common stock		Additional paid-in capital	Cumulative translation adjustment	Accumulated deficit	Total
	Number of shares	Par value				
Balances at December 31, 2000	3,481	35	123,905	(9)	(117,087)	6,844
Director stock issued	52		72			72
Employee stock purchase plan	62	1	34			35
Cumulative translation adjustment				9		9
Net loss					(6,526)	(6,526)
Balances at December 31, 2001	3,595	$ 36	$ 124,011	$	$ (123,613)	$ 434
Retire all Old Common Stock	(3,595)	(36)	36			
Issue Replacement Common Stock	3,595					