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Zacks Equity Research

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Angeion Corp (ANGN-NASDAQ)

ANGN: Q4 Big Upside Surprise. Headcount and R&D Investments Starting to Pay Off!

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/09/2010
Current Price (12/17/10)	$4.56
Target Price	**$7.00**

OUTLOOK

We are maintaining our Outperform rating on Angeion and have raised our price target from $6.00 to $7.00. Recent investments in sales staff and R&D are really starting to pay off. We believe Angeion is on the front-end of a significant recovery in revenue and EPS growth. Financial position remains very healthy.

SUMMARY DATA

52-Week High	**$5.00**
52-Week Low	**$3.51**
One-Year Return (%)	**29.55**
Beta	**1.25**
Average Daily Volume (sh)	**10,063**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$19**
Short Interest Ratio (days)	**0.20**
Institutional Ownership (%)	**10**
Insider Ownership (%)	**17**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-2.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**16.3**
P/E using 2012 Estimate	**11.1**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**Med Instruments**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in 000's)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	$6,615 A	$6,854 A	$7,120 A	$8,452 A	$29,041 A
2011	$8,252 E	$7,955 E	$8,037 E	$8,523 E	$32,768 E
2012					$36,309 E
2013					$40,157 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	-$0.20 A	-$0.13 A	$0.03 A	$0.10 A	-$0.20 A
2011	$0.06 E	$0.05 E	$0.06 E	$0.12 E	$0.28 E
2012					$0.41 E
2013					$0.54 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

Fourth Quarter Financial Results

On December 15th Angeion reported financial results for the fourth quarter and full year ending October 31, 2010. For the third consecutive quarter revenue and EPS both came in better than our forecast. While maybe still a little too early to make any concrete conclusions, it appears that investments in sales staff, marketing and product development earlier in the year are starting to pay some very significant dividends.

Revenue
For the full year 2010 total revenue was $29.041 million, up 14% from 2009. The majority of the growth came from Q3 (+14.2%) and Q4. Equipment and supplies revenue increased by 15.1%, with services revenue up by 6.4%.

Q4 revenue of $8.452 million increased by 27.9% y-o-y and consisted of $7.564 million (up 30.6%) in equipment and supplies and $888k (up 8.7%) in services revenue. Domestic sales accounted for all of this growth, increasing 39%. International sales were $1.414 million, down 9.3% and accounted for 16.7% of total revenue, compared to 23.6% of total sales in Q4 2009.

Total revenue in the quarter came in 15% ($1.113 million) ahead of our $7.339 million estimate. Equipment and supplies revenue topped our estimate by $1.171 million ($7.564 million actual vs. $6.393 estimated) while services revenue actually came in slightly lower than our figure ($888k actual vs. $946k estimated). Angeion's management attributed the especially robust domestic revenue growth to new marketing programs, increased commissions paid to their sales force and a slight improvement in hospital capital expenditures. Also noted were continued strong sales of the Ultima product line as well as pricey plethysmographs. International sales, while benefitting from strong sales in Europe, fell on both a y-o-y and sequential basis due to some softness in Latin America and the Far East. Management sounded optimistic on the call that overseas revenue would again rebound in the coming year.

Gross Margin
Gross margin came in at 56.1% in Q4 with product margin at 53.4% and service margin at 79.8%. For the third straight quarter service margin has trailed the historical norm of about 85% - 88%. Management noted earlier in the year that retrofitting of certain products would cause service margin to contract, with the expectation of it returning to the mid-to-high 80% range within about 6 – 9 months. Despite the relatively weak service margin, the 56.1% overall gross margin is the highest in Angeion's recent history, save for the 57.8% in Q3 of this year. Manufacturing efficiencies and economies of scale from higher production volumes could continue to expand equipment and supplies margins going into 2011. We also expect service margin to gradually come back to about 85%. We model full-year 2011 gross margin of 56.7% but note that this could end up being conservative as we have included little incremental improvement in the equipment margin from that posted in the most recent quarter. With equipment and supplies accounting for approximately 88% of total revenue, even a slight improvement in the equipment margin can have a relatively dramatic effect on earnings.

Operating Expenses
Operating expenses were $4.215 million in the quarter. This is equal to 50% of revenue compared to the 52% that we had modeled. $118k worth of R&D was capitalized in the quarter. As noted in Q3, Angeion began capitalizing some expenses related to the development of certain software that will be used on the MedGraphics products.

Selling and marketing expenses of $2.257 million equaled 26.7% of total revenue in the fourth quarter – this is down considerably y-o-y (28.2%) as well as sequentially (27.6%), despite Angeion sweetening some sales commission rates in the quarter. Selling and marketing expenses have fallen every quarter throughout 2010. For 2011 we have modeled only a slight improvement in selling and marketing expense as a percent of revenue (from 27.8% in 2010 to 27.5% in 2011). This, again, may prove to be conservative.

General and administrative expenses were $1.219 million in Q4, above our $950k estimate mostly as a result of a $205k one-time charge related to the 13D filing in August for a proposed shareholder meeting. Important is that Angeion is seeing some very significant leverage on the G&A line – and we expect this to be a major catalyst in driving more revenue to the bottom line in the years to come. Operating margin came in at 5.0% in the quarter, pro-forma for the $205k charge and operating margin was 7.5%. This 7.5% operating margin is the highest since Q3 2006 when Angeion posted an 11.0% operating margin.

EPS
EPS came in at $0.10 and ($0.20) for Q4 and the full year, compared to ($0.14) and ($0.39) for the prior year periods. Q4 2010 EPS came in well ahead of our $0.03 estimate due to significantly higher than forecast revenue, 100 basis point beat on gross margin and operating expenses 200 basis points lower as a percent of revenue.

Pro forma for one-time charges ($245k in Q3 and $205k in Q4) in G&A expense, Q4 and full year 2010 EPS were about $0.15 and ($0.10).

Cash
Angeion exited the fiscal year with $10.4 million in cash and investments roughly flat sequentially and down slightly from the $11.2 million at the end of fiscal 2009. Operating cash flow was $1.695 million for the full year 2010 and was $1.609 million in Q4. Ex-changes in working capital these figures are $625k and $717k. The balance sheet remains debt free. Angeion bought back about $1.7 million worth of stock in the quarter (~401k shares).

2011 Forecast
We have dramatically raised our 2011 EPS estimate mostly as a result of margins widening farther and faster than we had previously anticipated. Our 2011 EPS estimate of $0.28 (up from $0.08 prior to Q4 2010) reflects our expectations that Angeion is able to gain some meaningful leverage from G&A expense, gross margin continues to improve and revenues grow 12.8% to $32.768 million.

As management does not provide any financial guidance it is difficult to determine whether the revenue growth posted in Q4 of this year may be an indication of what to expect for 2011. Similarly the recent margin improvement may not continue – although we think a trend has emerged and believe this will continue throughout 2011. Our estimate for revenue growth is based on the expectation that Angeion's domestic business benefits from the head count additions made during 2010, market share gains, increased hospital capex and some pricing increases. And while international revenue was somewhat soft in Q4, we think this may rebound throughout 2011 with an overall improvement in global economies.

For Q1 2011 we model revenue of $8.253 million (+24.8%) and EPS of $0.06.

We also note that our model incorporates only a modest amount of additional share repurchasing activity during the coming year and does not include any contribution from a potential acquisition. With the recent board and management changes the big cash balance may now be used more aggressively to accelerate EPS growth. This could add some upside to our EPS estimates.

CEO Transition
On November 15, 2010 Angeion announced that Rod Young would step down as CEO on December 31, 2010. He will remain a director of the company and continue in a consulting capacity. Philip Smith, a member of Angeion's board of directors since 2007, was named as the company's new CEO.

Angeion's press release detailed Mr. Smith's background. He has served in executives roles for several medical technology companies over the past 18 years, including as CEO of two companies. Prior to that he was an investment banker in the medical devices group of Piper Jaffray.

This news comes after recent changes that have been made to Angeion's board of directors over the last several months. This was a result of the company's largest shareholder, Blue Line Partners, expressing dissatisfaction with the direction and lack of profitability of the company. Since then three of the seven board members have been replaced.

$2MM Share Buyback Complete – More to Come?
On October 28, 2010 Angeion announced that they had completed their $2 million share buyback program. As of that date there were 3.75 million shares outstanding, down from 4.22 million shares prior to the start of the program in January of this year.

We remind investors that the current program, which was instituted in early 2010 and runs through April 2011, was initially authorized up to $1 million and subsequently increased in September at the urging of Blue Line Partners. Blue Lines' August letter to Angeion's board of directors suggested increasing the buyback program to $5 million – based on this and the remaining sizeable cash balance, we think, barring a near-term acquisition, that it's possible Angeion would pursue further share repurchases.

OVERVIEW

BUSINESS:

Angeion Corporation was founded in 1986 and acquired Medical Graphics Corporation in December 1999. The company filed Chapter 11 bankruptcy in June 2002 and emerged from bankruptcy in October 2002. The company is headquartered in Saint Paul, MN and as of January 15, 2010 had 129 employees.

Medical Graphics is a leading designer, manufacturer and marketer of non-invasive cardiorespiratory diagnostic systems that are sold under the **MedGraphics** and **New Leaf** brand and trade names. These cardiorespiratory diagnostic systems have a wide range of applications in healthcare as well as health and fitness. The company's products are sold internationally through a network of distributors and in the United States through a direct sales force that targets heart and lung specialists as well as health and fitness clubs. In June 2010 Angeion also entered contracts with Amerinet and Broadlane, national healthcare group purchasing organizations which together serve over 3,000 hospitals and 50,000 non-acute facilities.

Medical Graphics designs and assembles all the major system components for its cardiorespiratory diagnostic systems at its St. Paul-based manufacturing facility. The company purchases the majority of the cardiorespiratory diagnostic systems components as well as the related peripheral computer equipment and treadmills and cycle ergometers from outside vendors.

MedGraphics

The vast majority of Angeion's business is currently generated by MedGraphics branded products which are sold primarily to hospitals, physician offices, clinics, pulmonary physicians, cardiologists, critical care physicians, and rehabilitation and physical therapy centers. MedGraphics has a diversified customer base with no single customer accounting for a significant amount of revenue.

The company's pulmonary function and cardiopulmonary gas exchange testing systems allow physicians to diagnose and effectively treat patients with a variety of lung disorders including asthma, emphysema and chronic obstructive pulmonary disease (COPD). The systems are also used to diagnose and treat heart diseases such as heart failure and coronary disease. Additionally, the MedGraphics equipment is used by clinical trial organizations and pharmaceutical companies for use in safety and efficacy studies. The systems are designed to be simple to use while providing the flexibility to address the specific needs of each end-user. MedGraphics' products are typically sold with a personal computer, color monitor, printer and other peripherals. The company sells the products domestically through its direct sales force and uses a network of approximately 63 independent distributors to sell the products internationally throughout 60 countries. A significant part of the company's marketing effort is through on-site product demonstrations and attendance at industry trade-shows and conventions held throughout the world. Conventions allow the company to demonstrate their products to potential customers including pulmonologists, respiratory therapists, allergy physicians, and personal trainers. The company's other marketing channels include print advertising, educational seminars and website traffic.

MedGraphics' cardiorespiratory diagnostic systems fall into two broad categories; pulmonary function systems and cardiopulmonary exercise testing systems.

Pulmonary function systems are used in the early detection of lung disease, to evaluate the effect of medication, monitor patients with chronic disease, diagnose lung diseases (COPD, asthma and emphysema), manage treatment, assess the surgical risk of lung transplant and lung reduction candidates and evaluate the impact of diseases such as neuromuscular disease on breathing. Customers include pulmonary labs in hospitals, clinics, physician offices, occupational medicine clinics, asthma/allergy practices and clinical research centers. MedGraphics' pulmonary function systems fall into three categories; spirometry, complete pulmonary function, and body plethysmography.

Spirometry provides measurements of airflow, lung volume and elastic/mechanical properties. The spirometer can serve as a platform that can be upgraded to either a complete pulmonary function or cardiopulmonary exercise system. Complete pulmonary function systems are a desktop or cart-mounted module that performs rapid, non-invasive assessment of an individual's lung volumes, respiratory pressures and gas diffusion in addition to spirometry measurements. Body plethysmograph systems, or "body-boxes" are enclosed metal and clear acrylic chambers that offer the most sensitive method for measuring chest wall movement. Body-boxes offer maximum

accuracy and minimal patient discomfort while allowing for a broad patient testing population including pediatric patients.

MedGraphics' **Cardiopulmonary exercise testing systems** are used to help distinguish between cardiovascular and pulmonary disease, screen for early signs of cardiac and pulmonary dysfunction, establish exercise training programs, evaluate the effect of prescribed therapy and determine appropriate nutritional requirements. This is done by measuring the volume of air and concentrations of oxygen and carbon dioxide as they enter and leave the lungs while a person exercises in a bike or treadmill. The systems can also perform measurements of individuals at rest to determine nutritional requirements of critically-ill patients or individuals wishing to assess the number of calories burned per day. Customers include hospital cardiopulmonary labs, cardiology and pulmonary clinics, critical care units, cardiac rehabilitation units, weight loss clinics, human performance labs and health clubs. MedGraphics' *Ultima* cardiopulmonary exercise testing systems are sold in six different configurations to suit the requirements of the particular end-user.

MedGraphics products are currently in 37 of the top 40 hospitals in the U.S. The customer base is well diversified and ranges in size from small physicians offices to some of the largest hospitals including Johns Hopkins and Mayo Clinic.

Growth in this segment is expected to come from continuing to service the existing customer base, further market penetration and tapping new market segments including internal medicine physician offices and corporate fitness centers. On a macro level, further international penetration as well as the COPD/asthma markets represent significant growth opportunities for MedGraphics. We expect these will be two areas where MedGraphics will dedicate more resources and place an ever-increasing focus.

International revenues account for approximately 25% of total sales.

New Leaf

Angeion sells one of its cardiorespiratory diagnostic systems (VO2000 system) along with related consumable supplies under the New Leaf brand name to health and fitness clubs, personal training studios and weight loss centers. While Angeion does not break out revenue of New Leaf, management has noted that New Leaf's contribution to total revenue is significantly less than is MedGraphics'.

The VO2000 system is a MedGraphics system which is sold under the New Leaf brand name as the VO2PAS system. It is designed to measure fitness levels and nutritional requirements by measuring the volume of air concentrations of oxygen and carbon dioxide as they enter and leave the lungs while an individual exercises on a stationary bike or treadmill. In addition to the VO2PAS system New Leaf sells accessories and consumables including heart rate monitors and watches.

Angeion launched several new products in their New Leaf business including TRUcal, New Leaf's new resting metabolic rate system designed to calculate an individuals daily caloric intake requirements, thereby aiding the user in achieving weight loss goals.

New Leaf tailors conditioning programs specific to the needs and goals of each individual based on personalized fitness evaluations. New Leaf metabolic assessments help design individualized training and nutritional programs for people interested in losing weight, overall fitness or increasing athletic performance. Metabolic testing measures how efficiently an individual burns calories both at rest and while exercising. The fitness assessment allows trainers to determine how long and how intensely an individual needs to exercise in order to achieve their goals in lieu of the standard "one-size-fits" all training regimens practiced at most fitness facilities. The assessment also includes individualized nutritional recommendations in order to further enhance the benefits of the specific fitness programs. The goal of the assessment-based fitness and nutritional programs is for people to achieve their goals in less time with greater ease compared to standard workout routines.

New Leaf targets individuals interested in increasing their fitness levels and athletic performance and those individuals interested in losing weight. The significant and growing obesity problem in the U.S. should offer substantial opportunity for New Leaf.

Life Time Fitness, a health and fitness organization with 85 locations in 19 states, is New Leaf's largest customer and accounts for a disproportionate of New Leaf's revenue. In an effort to grow and diversify New Leaf's customer base the company will focus on further penetrating the fitness club market and has recently embarked on a new campaign that will market New Leaf's products and services to corporations with on-site fitness facilities.

PRODUCTS/SERVICES:

Angeion reports revenue from equipment, supplies, consumables and clinical trial services under "Equipment and Supplies" revenue on the income statement. While the company does not break out the different components of revenue, the bulk of revenue comes from equipment sales. Equipment and Supplies revenue contributes approximately 85% - 87% of total revenue. Gross margins in this business have recently expanded to about 54% (from ~ 45% in recent past) as a result of Angeion beginning to gain some manufacturing efficiencies due to higher production volumes.

Equipment:

The *CPFS/D* is MedGraphics' spirometer which provides portable full-function spirometry and comes with optional bronchial provocation software. The CPFS/D is powered through a USB computer port. The system can be used with adult and pediatric patients and can serve as a platform that can be upgraded to either a complete pulmonary function or cardiopulmonary exercise system. MedGraphics launched a new diagnostic spirometer during the second quarter 2010.



CPFS/D Spirometer (Medl Graphics Corp)

MedGraphics' *Ultima Series* comprises the company's complete pulmonary function and cardiopulmonary exercise testing systems. The system offers flexibility for both pulmonary function as well as gas exchange and can be upgraded for additional functionality. The system runs on the company's proprietary BreezeSuite software and utilizes the company's disposable *preVent* flow sensors. The *Ultima/PF Series* is a complete pulmonary function system and is available in a desktop or cart-mounted configuration. In addition to spirometry functionality, the PF systems perform rapid measurement of lung-volumes, respiratory pressures and gas diffusion.



Ultima PF and Ultima PFX (Medical Graphics Corp)

The *Ultima Series* cardiopulmonary exercise testing systems are sold in six different configurations. The *CPX* system is a basic exercise testing system designed to measure fitness level during exercise. It uses a breath-by-breath gas exchange system and measures functional capacity along with diagnosis of the primary causes of exercise intolerance. The system can be used in concert with third-party electrocardiogram (ECG) systems. The *CardiO2* system adds an integrated ECG option to the *CPX* system. The *CardiO2* system launched in early 2010 and has been a significant contributor to Angeion's sales growth throughout the year. The *CCM* system provides basic metabolic assessment and nutritional requirements of an individual at rest. Specific applications of the CCM system include the assessment of critically ill patients, monitoring patients with eating disorders, diagnosing nutritional needs of trauma patients and management of patients on mechanical ventilation. MedGraphics recently launched smaller, portable and more affordable versions of their CPX and CCM systems. The *CPX/Express,* which launched in October 2009, is a portable, scaled-down version of the *CPX* system. Early indications are that it has been well received by physicians and clinicians. The *CCM/Express* is a portable, scaled-down version of the *CCM* system. It is ideal for use in intensive care and critical units and areas with space constraints. *CCM/Express* was launched in early 2009. Finally, the *VO2000* system is a portable system that has remote data transmission capabilities. The systems can be worn by the subject and are used for the assessment of fitness levels and nutritional requirements. V02000 system is also sold by New Leaf under the VO2PAS brand name.



Ultima Cardi02 (MGC)



CPX/Express (MGC)

MedGraphics' Platinum Elite Series body plethysmographs are available in two configurations, *DL* and *DX*. The *DL* performs spirometry, measures total volume of air in the lungs and resistance to airflow in the airways of the patient. In addition it performs diffusion testing similar to the Ultima/PF complete pulmonary function system. The *DX* adds lung volume measurement functionality to the *DL.* The plethysmographs also run on BreezeSuite software and use *preVent* flow sensors. The boxes can accommodate adult as well as pediatric patients. Angeion has a new international plethysmograph under development which we expect to hit the market during the fourth quarter 2010.

MedGraphics also sells specially designed stationary bicycles (cycle ergometers) and treadmills for use with and controlled by the company's cardiopulmonary exercise testing equipment.



Platinum
Series plethysmograph (MGC)

Supplies/Services:

MedGraphics offers a catalog of supplies and consumables that are configured for use with all of their equipment including mouthpieces, filters, flow sensors and masks. MedGraphics' supplies business affords the company with a steady, predictable and meaningful stream of revenue. During the fiscal first quarter 2010 the company initiated a sales and marketing program which will establish a network of independent sales representatives and distributors to sell MedGraphics' supplies as well as some of the company's lower-cost equipment such as table-top and hand-held spirometers.



Face Mask (MGC)

The company's proprietary BreezeSuite software provides diverse interfacing capabilities and network connectivity between several cardiorespiratory systems. The software is compatible with most commercial information systems and allows for electronic medical records sharing from any of the institution's networked systems. The software is designed to make for a seamless integration of MedGraphics' equipment with each customer's existing information systems platform. BreezeSuite is Microsoft Windows based and can be connected through Microsoft SQL server. During the fourth quarter 2010 Angeion began rolling out its new BreezeConnect HL7 software connectivity platform.

In addition to catering to health care providers and fitness facilities, Angeion also sells equipment and provides services to clinical research organizations and pharmaceutical companies engaged in running clinical trials. The company has provided equipment and clinical trials services to companies such as Novartis, Mannkind and Boston Scientific. Through MedGraphics Angeion provides consultation services to clinical research providers including protocol advisement, data management and reporting, and site training. MedGraphics also supplies research organizations with cardiorespiratory equipment, supplies and software. The clinical trials portion of MedGraphics business is highly unpredictable which has resulted in somewhat of an erratic revenue stream from this portion of the business over the last few years. As an example, the clinical trials business contributed over $7 million in revenue in fiscal 2007, while the contribution to fiscal 2009 was less than $1 million. While we expect Angeion to continue to focus on growing the clinical trials portion of the business, due to the highly variable nature of clinical trial demand, we do not believe it will ever become a significant and predictable portion of overall company revenue. During the first quarter 2010 the company initiated a clinical research trial which will generate $1 million in revenue over six quarters (including Q1 2010).

Angeion also provides service and maintenance work for all of their equipment. Equipment purchases typically include warranty coverage for a period of twelve-months and customers are given the option of entering into extended warranty contracts beyond the initial coverage period. Customers have the option of renewing extended warranties as they expire. The company also provides non-warranty work. Revenues from extended warranties are recognized over the term of the warranty while non-warranty work is recognized as revenue when the services are provided. While service and maintenance revenue (captured under "services" on the income statement) contributes approximately only 13% - 15% of total sales, it is a highly profitable segment, consistently posting profit margins of 80% - 90%.

COMPETITION:

The non-invasive cardiorespiratory space is competitive and highly diversified. The industry includes a significant number of small players with only a few companies likely to claim more than a few percentage points in market share. The largest, Viasys, generated revenue of $610 million including $406 million from its respiratory business in 2006 before being acquired by CareFusion (CFN) in June 2007. CareFusion (2009 revenue of $4.5B) was part of Cardinal Health until being spun off in August 2009. Along with a formidable respiratory business, CFN also markets products in the areas of intravenous, medication dispensing, infection prevention and surgical instruments. CFN sells its cardiorespiratory and pulmonary testing equipment under the Jaeger and SensorMedics brand names. Angeion Corp. ranks second largest in terms of revenue among the pure-play cardiorespiratory manufacturer and distributors.

Privately held nSpire Health, formed in 2006 through a management buyout of Ferraris Group plc, is considered the third largest player in the industry. The Colorado-based company sells a variety of pulmonary function diagnostic equipment and supplies including spirometers, complete pulmonary function devices and body plethysmographs. NSpire Health sells pulmonary function equipment and supplies under the KoKo, HDpft, ZAN, Collins and Piko brand names. nSpire Health also provides equipment and services for clinical research trials and was recently awarded a $9 million clinical research contract.

Italian-based COSMED is another privately-held cardiopulmonary diagnostic equipment manufacturer. The company was founded in 1980 and sells its products through specialist distributors in over 90 countries including the United States.

Viasys, nSpire and COSMED all offer products, supplies and services that compete directly with Angeion's pulmonary function and cardiopulmonary exercise offerings.

Competition to the New Leaf business is much less defined and includes companies that offer metabolic measurement devices, nutritional education and weight loss programs. New Leaf remains unique to most competing products and services, however, in the respect that the company caters to a more diverse demographic (i.e. overweight individuals and top-level athletes) and provides equipment, assessments and training programs which is typically a more robust range of offerings relative to competing products or services.

FINANCIAL HIGHLIGHTS:

Annual
Revenue fell 15% from 2008 to 2009 to $25.5 million with net loss growing to $1.59 million (-$0.39/share), compared to a net loss of $686k (-$0.17/share) in 2008. International sales which were $6.18 million (20.6% of total) in 2008 fell to $5.45 million (21.4% of total) in 2009. Roughly $1.2 million or 27% of the decrease in total sales from 2008 to 2009 was a result of the conclusion of a large clinical trial during 2008. The remainder of the drop in domestic sales was attributed to continued deterioration in capital spending by hospitals and clinics.

Revenue showed a significant rebound in 2010, posting 14% growth. Domestic sales growth of 13% benefitted from several new product launches, slight loosening of hospital capital expenditures and Angeion beefing up the size its sales force. Despite acute economic issues in parts of Europe, international sales grew 17% y-o-y and accounted for 22% of total sales (versus 21% in 2009).

Despite the significant variability in revenue over the last several years (2008 $30.0MM, 2009 $25.5MM and 2010 $29.0MM), there has been a consistent improvement in gross margins (2008 51.5%, 2009 52.1% and 2010 54.4%) over that same period. This is the result of raising prices, cost-containment initiatives and, more recently, from gaining manufacturing efficiencies due to higher production volumes.

The company breaks out operating expenses into selling and marketing, general and administrative, research and development and intangibles amortization. Total operating expenses (excluding amortization) as a percent of revenue increased from 52% in 2008 (-2.5% op margin) to 55% in 2009 (-6.2% op margin) to 56% in 2010 (-2.8% op margin). However, excluding one-time charges, operating expenses were 54% of revenue in 2010.

The fall in operating margin from 2008 to 2009 was a result of the 15% drop in revenues and the inability to reduce certain fixed costs in G&A by the same percentage. Product development (including that related to the CCM Express instrument) pushed R&D expense up by 29% which also contributed to the operating margin contraction in 2009. Meanwhile, Angeion successfully trimmed S&M expense from 28.8% of revenue in 2008 to 27.3% in 2009.

S&M as a percent of revenue spiked in Q1 2010 as a result of Angeion beginning to more aggressively add headcount to their domestic sales force. This showed a consistent sequential improvement throughout the year, however. Although for the full-year, S&M was 27.8% of revenue (compared to 27.3% in 2009), the sequential quarterly improvement resulted in this falling to 26.7% in Q4 (compared to 29.4% in Q1).

Angeion was able to gain some leverage in G&A in 2010, benefitting from the sales growth during the year – this leverage was despite a $245k charge taken in Q3 related to the replacement of the company's CFO and a $205 charge taken in Q4 related to a 13D filing for a proposed shareholder meeting. Leveraging G&A is an area we expect Angeion to significantly benefit from in the coming years. R&D expense was $3.606 million in 2010, up $455k from 2009 (12.4% of revenue in both 2009 and 2010) as the company continued to invest in product

development which should benefit future sales growth. We expect R&D expense to moderate (as a % of sales) and for this to be another area where the company will gain some leverage in 2011.

Recent Quarter
Q4 2010 revenue of $8.452 million increased by 27.9% y-o-y and consisted of $7.564 million (up 30.6%) in equipment and supplies and $888k (up 8.7%) in services revenue. Domestic sales accounted for all of this growth, increasing 39%. International sales were $1.414 million, down 9.3% and accounted for 16.7% of total revenue, compared to 23.6% of total sales in Q4 2009.

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Operating expenses were $4.215 million in the quarter. This is equal to 50% of revenue compared to the 52% that we had modeled. $118k worth of R&D was capitalized in the quarter. As noted in Q3, Angeion began capitalizing some expenses related to the development of certain software that will be used on the MedGraphics products.

Selling and marketing expenses of $2.257 million equaled 26.7% of total revenue in the fourth quarter – this is down considerably y-o-y (28.2%) as well as sequentially (27.6%), despite Angeion sweetening some sales commission rates in the quarter. Selling and marketing expenses have fallen every quarter throughout 2010.

General and administrative expenses were $1.219 million in Q4, above our $950k estimate mostly as a result of $205k in one-time charges related to the 13D filing in August for a proposed shareholder meeting. Important is that Angeion is seeing some very significant leverage on the G&A line – and we expect this to be a major catalyst in driving more revenue to the bottom line in the years to come. Operating margin came in at 5.0% in the quarter, pro-forma for the $205k charge and operating margin was 7.5%. This 7.5% operating margin is the highest since Q3 2006 when Angeion posted an 11.0% operating margin.

EPS came in at $0.10 in Q4 compared to ($0.14) in Q4 2009. This was well ahead of our $0.03 estimate due to significantly higher than forecast revenue, 100 basis point beat on gross margin and operating expenses 200 basis points lower as a percent of revenue.

Pro forma for one-time charges ($245k in Q3 and $205k in Q4) in G&A expense, Q4 2010 EPS was $0.15.

FINANCIAL CONDITION:

Angeion exited the fiscal year with $10.4 million in cash and investments roughly flat sequentially and down slightly from the $11.2 million at the end of fiscal 2009. Operating cash flow was $1.695 million for the full year 2010 and was $1.609 million in Q4. Ex-changes in working capital these figures are $625k and $717k. The balance sheet remains debt free.

As the company has relatively low capex requirements and should continue to generate positive cash flow, we expect Angeion's balance sheet to remain very healthy for the foreseeable future. Angeion completed a $2 million stock buyback program during 2010, including $1.7 million worth in Q4. We think the large cash balance may be used to fund additional stock repurchases or possibly a small ($5MM in revenue) acquisition.

OUTLOOK:

Near-term….

Hospitals began significantly cutting back on capital expenditures around the middle of 2008 as a result of the weakness in the global economy. Since that time hospitals have kept a tight rein on budgets and held capex to a minimum. Where MedGraphics could rely on a certain amount business coming from hospitals expanding or upgrading their cardiorespiratory departments prior to economic turmoil, now this revenue source is significantly diminished. Instead MedGraphics has had to rely on sales from hospitals and clinics which need to replace broken equipment that can no longer be repaired. As detailed above, the result has been Angeion's sales falling 15% from $30.0 million in 2008 to $25.5 million in 2009. With the economy starting to show slight signs of revitalization, it appears that hospital capex has slowly started to rematerialize (as of Q4 2010). We do not expect the acceleration in hospital capex to be a large singular event but instead to be incremental and drawn-out. We note that while capital expenditures are typically dictated by annual budgets, hospitals generally have some flexibility to modify spending throughout the year based on their financial performance and resources. So a significant uptick in business could result in additional capital spending outside of annual budgets. Our model reflects our expectations that domestic revenue benefits from sales staff additions made during 2010, market share gains, increased hospital capex and some pricing increases. We also look for international revenue, which was somewhat soft in Q4 2010, to rebound throughout 2011 with an overall improvement in global economies. We forecast 2011 sales of $29.041 million, implying growth of 12.8% from 2010. Services revenue, which is largely a function of equipment sales should continue to track at about 14% - 15% of equipment sales.

Gross margin improvement, along with additional operating leverage (both of which began to materialize in 2H 2010) should expand operating margins in 2011 and push more revenue to the bottom line. We look for 2011 net income of $1.022 million and EPS of $0.28, compared to ($849k) and ($0.20) in 2010. For Q1 2011 we model EPS of $0.06, compared to ($0.20) in Q1 2010.

Long-term….

Longer-term growth will be a function of further market penetration, entering new markets and new product introductions. We expect growth to come from all three of these areas both from both organic means and through acquisitions.

The domestic and international COPD/asthma markets offer enormous opportunity for Angeion to grow its MedGraphics business. COPD is a highly under diagnosed, deadly and costly disease. COPD is the fourth leading cause of death in the U.S. and some estimates show that one-half of all COPD sufferers in the U.S., or about 16 million people, have yet to be diagnosed with the disease. Figures for asthma are similar, with about 35%, or 12 million Americans, suffering from but yet to be diagnosed with the disease. Worldwide statistics are much more dramatic with 300 million people estimated to suffer from asthma and 200 million remaining undiagnosed. The World Health Organization estimates that 600 million people suffer from COPD worldwide and that it will become the third leading cause of death by 2020. A conservative estimate would mean one-half, or 300 million people remain undiagnosed. This number is expected to grow due to the increasing rate of smoking in some countries. COPD is also burdensome from a cost perspective, especially when it goes undiagnosed. A study done by the Lovelace Clinic Foundation, a non-profit health research organization, found that the average healthcare cost per COPD patient was almost $2,500 more during the twelve months just prior to diagnosis compared to the twelve months following COPD diagnosis. The majority of the difference in costs were from hospital care.
We feel that Angeion is well positioned to capitalize on the growing COPD/asthma epidemic through recently expanding its international reach with new distributors and increasing its product breadth to cater to a wider market segment. As mentioned previously, international growth is a major focus for the company, and we expect COPD/asthma diagnosis to be a central theme to their international growth strategy. The international business also provides higher gross margins relative to domestic sales so as international revenue grows as a percent of total sales, gross margins should benefit.

We also expect the company to continue to benefit from market share gains at the expense of competitors. The company's strong brand and service reputation has resulted in customer loyalty and some market share gains which we expect to continue especially as hospital capital expenditures increase.

MedGraphics is also marketing to new customers, recently targeting not only hospitals and pulminologists, but internal medicine physicians as well. The company's new more affordable and smaller CCM Express and CPX

Express products allow MedGraphics to more effectively target critical care units and smaller clinics and physician offices. The Express line is an example of Angeion continuing to deliver on their long-term growth strategy of rolling out a steady stream of new products and product extensions in order to further penetrate their existing markets and tap into new markets.

Opportunity for long-term growth in the New Leaf business lies in addressing the growing U.S. obesity epidemic, a greater desire for a more personalized-treatment approach and expanding into corporate fitness centers. Approximately two-thirds of the U.S. population is considered either overweight or obese and New Leaf is poised to benefit from this. Personalized medicine, or treatment tailored to the specific needs of the individual as opposed to a "one-size-fits-all approach", is a relatively new idea and a huge growth area in health care. New Leaf is on the forefront of tailoring training and nutritional programs based on the needs of the individual. Angeion is also looking to further expand the New Leaf business into additional fitness centers as well as into corporate fitness centers which should offer additional opportunities to grow the business. It's important to note that management has indicated (New Leaf revenue is not broken out) that despite the poor economy, the New Leaf business has been relatively stable. This is in the face of plummeting discretionary spending. We think this bodes well for New Leaf when the economy begins a more sustainable expansion and disposable income levels increase.

Finally, we believe Angeion is interested in expanding through acquisition(s). The company's healthy balance sheet affords it an opportunity to go shopping and management has indicated they may be interested in a small (~ $5MM in revenue) bolt-on acquisition. And while we wouldn't be surprised to see something happen in the near future, we believe management is being very selective in what they will consider. Our model currently does not reflect any contribution from any potential acquisition(s).

RECOMMENDATION

We believe Angeion's revenues bottomed in 2009 and expect sales to continue to grow for the foreseeable future. The company made significant investments in head count (sales staff) and R&D during 2010, the benefits of which began to materialize during the second half of that year. We expect these benefits to continue to be realized into 2011(and beyond) in the form of revenue growth and expanding operating margins.

We have dramatically raised our 2011 EPS estimate mostly as a result of margins widening farther and faster than we had previously anticipated. Our 2011 EPS estimate of $0.28 (up from $0.08 prior to Q4 2010) reflects our expectations that Angeion is able to gain some meaningful leverage from G&A expense, gross margin continues to improve and revenues grow 12.8% to $32.768 million.

For Q1 2011 we model revenue of $8.253 million (+24.8%) and EPS of $0.06.

We also note that our model incorporates only a modest amount of additional share repurchasing activity during the coming year and does not include any contribution from a potential acquisition. With the recent board and management changes the big cash balance may now be used more aggressively to accelerate EPS growth. This could add some upside to our EPS estimates.

Angeion's stock is well off its high of $18.21 set in January 2007 and continues to trade near where it did in 2008 when sales began to suffer as a result of hospital spending beginning to dry up. The stock has lingered well below what we calculate as fair value.

We have changed our valuation methodology to what we believe is more appropriate, based on the fact that we believe Angeion will now continue to generate positive net income. We use the industry average long-term PE/G ratio of 0.88x. Applying this to our 3-year expected annual EPS growth rate of 29% and estimated 2011 EPS of $0.28 for Angeion, results in a current valuation of approximately $7.00 per share.

We are maintaining our Outperform rating on Angeion and are raising our price target from $6.00 to $7.00 per share.

FINANCIAL STATEMENTS

INCOME STATEMENT **Angeion Corp.**

	2010 A	Q1E	Q2E	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Equipment and Supplies	$25,522.0	$7,164.0	$6,954.0	$7,025.0	$7,450.0	$28,593.0	$31,738.2	$35,102.5	$38,542.5
YOY Growth	*15.1%*	*23.7%*	*16.7%*	*13.2%*	*-1.5%*	*12.0%*	*11.0%*	*10.6%*	*9.8%*
Services	$3,519.0	$1,088.9	$1,001.4	$1,011.6	$1,072.8	$4,174.7	$4,570.3	$5,054.8	$5,550.1
YOY Growth	*6.4%*	*32.0%*	*12.1%*	*10.8%*	*20.8%*	*18.6%*	*9.5%*	*10.6%*	*9.8%*
Total Revenues	$29,041.0	$8,252.9	$7,955.4	$8,036.6	$8,522.8	$32,767.7	$36,308.5	$40,157.2	$44,092.6
YOY Growth	*14.0%*	*24.8%*	*16.1%*	*12.9%*	*0.8%*	*12.8%*	*10.8%*	*10.6%*	*9.8%*
Cost of equip/supplies	$12,647.0	$3,431.6	$3,317.1	$3,301.8	$3,427.0	$13,477.4	$14,853.5	$16,357.8	$17,922.3
Equipment and supplies margin	*50.4%*	*52.1%*	*52.3%*	*53.0%*	*54.0%*	*52.9%*	*53.2%*	*53.4%*	*53.5%*
Cost of service revenue	$603.0	$217.8	$180.2	$151.7	$160.9	$710.7	$639.8	$707.7	$777.0
Service revenue margin	*82.9%*	*80.0%*	*82.0%*	*85.0%*	*85.0%*	*82.0%*	*86.0%*	*86.0%*	*86.0%*
Cost of Revenues	$13,250.0	$3,649.3	$3,497.3	$3,453.5	$3,587.9	$14,188.1	$15,493.3	$17,065.4	$18,699.3
Gross Income	$15,791.0	$4,603.6	$4,458.1	$4,583.1	$4,934.9	$18,579.6	$20,815.2	$23,091.8	$25,393.4
Gross Margin	*54.4%*	*55.8%*	*56.0%*	*57.0%*	*57.9%*	*56.7%*	*57.3%*	*57.5%*	*57.6%*
Selling & Mktg	$8,067.0	$2,327.3	$2,187.7	$2,210.1	$2,301.2	$9,026.3	$10,021.2	$11,043.2	$12,125.5
% Sell&Mktg	*27.8%*	*28.2%*	*27.5%*	*27.5%*	*27.0%*	*27.5%*	*27.6%*	*27.5%*	*27.5%*
G&A	$4,514.0	$1,105.9	$1,050.1	$1,044.8	$1,065.4	$4,266.1	$4,647.5	$5,019.7	$5,511.6
% G&A	*15.5%*	*13.4%*	*13.2%*	*13.0%*	*12.5%*	*13.0%*	*12.8%*	*12.5%*	*12.5%*
R&D	$3,606.0	$841.8	$914.9	$1,004.6	$1,022.7	$3,784.0	$4,110.0	$4,295.0	$4,400.0
% R&D	*12.4%*	*10.2%*	*11.5%*	*12.5%*	*12.0%*	*11.5%*	*11.3%*	*10.7%*	*10.0%*
Amortization of Intangibles	$420.0	$110.0	$110.0	$115.0	$115.0	$450.0	$450.0	$450.0	$450.0
Operating Income	($816.0)	$218.6	$195.4	$208.7	$430.6	$1,053.3	$1,586.6	$2,283.9	$2,906.3
Operating Margin	*-2.8%*	*2.6%*	*2.5%*	*2.6%*	*5.1%*	*3.2%*	*4.4%*	*5.7%*	*6.6%*
Interest income, net	$8.0	$2.0	$2.4	$2.6	$2.8	$9.8	$12.0	$18.0	$35.0
Pre-Tax Income	($808.0)	$220.6	$197.8	$211.3	$433.4	$1,063.1	$1,598.6	$2,301.9	$2,941.3
Taxes	$41.0	$8.0	$8.0	$8.0	$17.0	$53.2	$127.9	$345.3	$735.3
Tax Rate	*N/A*	*3.6%*	*4.0%*	*3.8%*	*3.9%*	*5.0%*	*8.0%*	*15.0%*	*25.0%*
Net Income	($849.0)	$212.6	$189.8	$203.3	$416.4	$1,022.1	$1,470.7	$1,956.6	$2,206.0
YOY Growth	*46.7%*					*-220.4%*	*43.9%*	*33.0%*	*12.7%*
Net Margin	*-2.9%*					*3.1%*	*4.1%*	*4.9%*	*5.0%*
EPS	($0.20)	$0.06	$0.05	$0.06	$0.12	$0.28	$0.41	$0.54	$0.61
YOY Growth	*47.5%*					*-237.5%*	*46.4%*	*33.0%*	*12.7%*
Diluted Shares O/S	4,182	3,750	3,700	3,600	3,600	3,663	3,600	3,600	3,600

Source: Zacks Investment Research *Brian Marckx, CFA*

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BALANCE SHEET **Angeion Corp.**

	October 31, 2010	October 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$6,943	$11,219
Short term invesmtents	$2,721	-
Accounts receivable, net	$5,221	$4,510
Inventories, net	$3,697	$4,371
Prepaid expenses and other current assets	$270	$243
Total current assets	**$18,852**	**$20,343**
Noncurrent investments	$722	$0
Property and equipment	$528	$698
Intangible assets, net	$1,279	$1,422
Total Assets	**$21,381**	**$22,463**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$1,951	$1,771
Employee compensation	$2,115	$1,375
Deferred income	$1,522	$1,579
Warranty reserve	$175	$143
Other current liabilities and accrued expenses	$408	$323
Total current liabilities	$6,171	$5,191
Long-term liabilities:		
Long-term deferred income	$873	$718
Total Liabilities	**$7,044**	**$5,909**
Shareholders' equity:		
Common stock	$375	$415
Additional paid-in capital	$20,486	$21,821
Accumulated deficit	($6,531)	($5,682)
Accumulated other comprehensive income	$7	-
Total shareholders' equity	**$14,337**	**$16,554**
Commitments and contingencies		
Total Liabilities and Shareholders' Equity	**$21,381**	**$22,463**

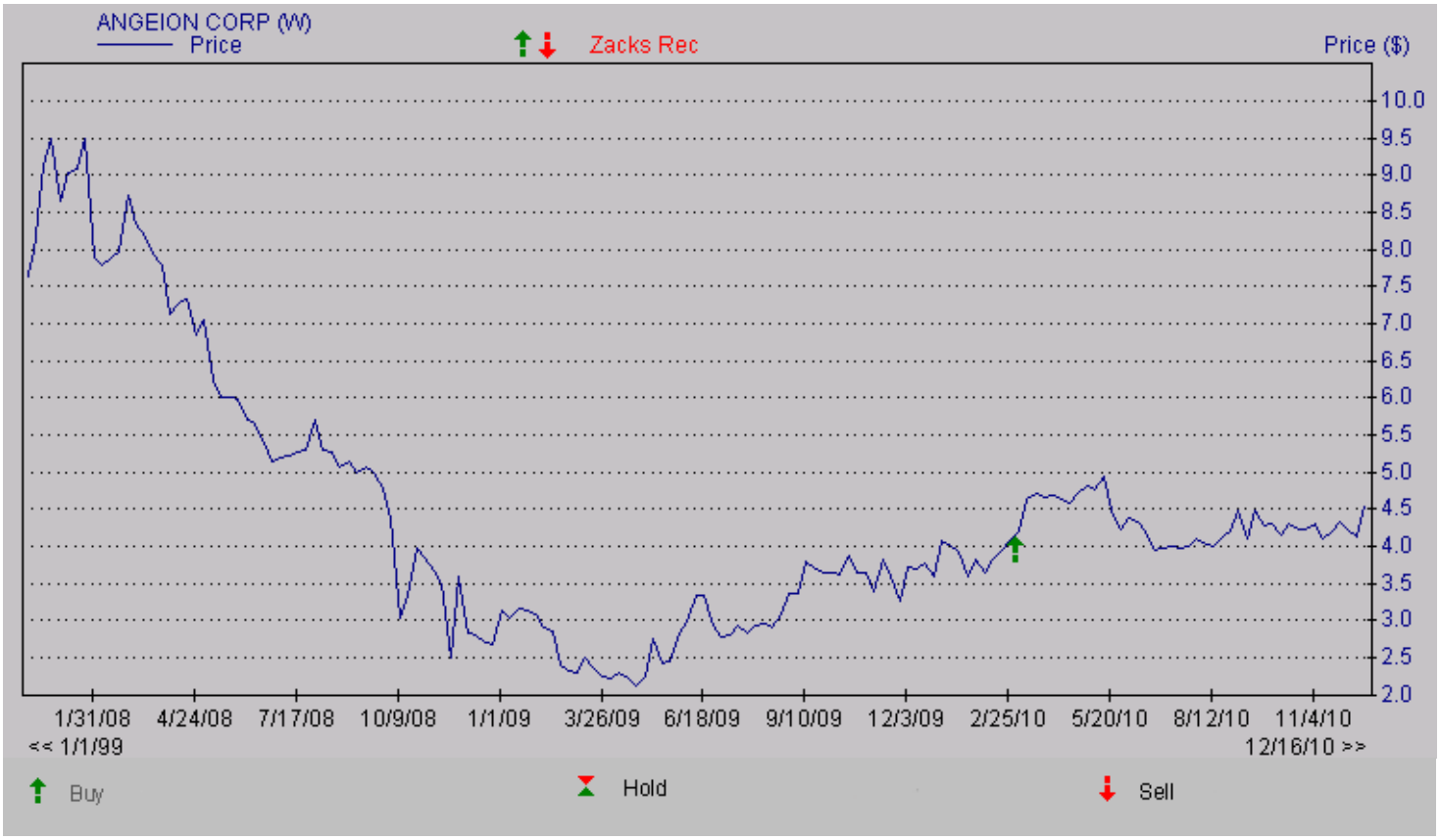
Source: Angeion Corp. / Zacks Investment Research *Brian Marckx, CFA*

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CASH FLOW STATEMENT **Angeion Corp.**

	Year Ended October 31,		
	2010	2009	2008
Cash Flows From Operating Activities:			
Net loss	($849)	($1,593)	($686)
Depr & Amort	$770	$1,138	$1,184
Stock-based compensation	$712	$790	$513
Increase in inventory obsolescence reserve	$2	$48	$499
Increase/(decrease) in allowance for doubtful accounts	($10)	($173)	$198
Loss on disposal of equipment	$0	$13	$0
Changes in operating assets and liabilities:			
Accounts receivable	($701)	$1,109	$2,306
Inventories	$709	$724	($332)
Prepaid expenses and other current assets	($27)	$49	$55
Accounts payable	$180	$227	($314)
Employee compensation	$740	$87	($753)
Deferred income	$64	($23)	($262)
Warranty reserve	$32	($14)	($96)
Other current liabilities and accrued expenses	$63	($57)	$10
Net cash provided by operating activities	$1,685	$2,325	$2,322
Cash Flows From Investing Activities:			
Purchases of investments	($3,436)	$0	$0
Purchases of property, equip and intangible assets	($438)	($234)	($203)
Net cash used in investing activities	($3,874)	($234)	($203)
Cash Flows From Financing Activities:			
Proceeds from issuance of common stock under employee stock purchase plan	$18	$20	$20
Proceeds from the exercise of stock options	$6	$88	$0
Retirment of common stock	($2,025)	$0	$0
Repurchase of common stock upon vesting of restricted common shares	($86)	($27)	$0
Net cash provided by financing activities	($2,087)	$81	$20
Net increase in cash and cash equivalents	($4,276)	$2,172	$2,139
Cash and cash equivalents at beginning of year	$11,219	$9,047	$6,908
Cash and cash equivalents at end of year	**$6,943**	**$11,219**	**$9,047**

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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