



**MGC**  
**DIAGNOSTICS®**

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**FOR IMMEDIATE RELEASE**

## **MGC Diagnostics Corporation Reports 2013 First Fiscal Quarter Operating Results**

**SAINT PAUL, MN (March 5, 2013)** — MGC Diagnostics Corporation (NASDAQ: MGCD) (formerly Angeion Corporation), a global medical technology company, today reported financial results for the first quarter fiscal 2013 ended January 31, 2013.

### **First Quarter Highlights:**

- Solid first quarter revenue of \$7.0 million, an increase of 9% over the fiscal 2012 first quarter;
- First quarter 2013 recurring revenue (service and supplies revenues) totaled \$2.7 million, or 39% of total first quarter revenue;
- GPO sales increased 109% to \$3.2 million, compared to \$1.5 million in the 2012 first quarter;
- First quarter 2013 maintenance and service contract billings increased 14% on a year-over-year basis, while maintenance and service gross margin improved to 70.8%, compared to 68.4% in the fiscal 2012 fiscal quarter;
- Spirometry shipments for the first quarter increased 51% to 121 units, compared to 80 units in the prior year's first quarter;
- International revenues increased 25% to \$1.7 million, compared to \$1.4 million in last year's first quarter;
- Backlog at January 31, 2013, increased 36% to \$530,000, compared to backlog of \$390,000 at January 31, 2012;
- Strong balance sheet with \$8.9 million in cash and cash equivalents, \$13.2 million of working capital and no long-term debt;
- At January 31, 2013, the Company had federal net operating loss carry forwards of approximately \$14.5 million that may be used to offset a portion of the Company's future tax liability;
- Rated #1 in all product and service categories under a December 20, 2012 User Satisfaction Survey by MD Buyline, a provider of objective, evidence-based information used in the selection, acquisition, and management of medical technology;

First quarter fiscal 2013 total revenues increased 9% to \$7.0 million compared to \$6.4 million in the fiscal 2012 first quarter. Domestic 2013 first quarter sales were \$5.3 million, compared to \$5.0 million in the 2012 first quarter, while international sales were \$1.7 million, versus \$1.4 million in last year's first quarter. For the first quarter, Group Purchasing Organization ("GPO") sales increased 109% to \$3.2 million, as compared to \$1.5 million in the prior year's first quarter. GPO sales accounted for approximately 46% of total sales for the 2013 first quarter, compared to 24% in the 2012 first quarter.

First quarter equipment, supplies and accessories sales totaled \$5.8 million, compared to \$5.4 million during last year's first quarter. Service revenues for the first quarter totaled \$1.2 million, compared to \$1.1 million during last year's first quarter. The Attachment Rate, which reflects the percentage of Extended Service Contracts added at the point of sale to customer equipment purchases, was 17% for the first quarter of fiscal 2013. The attachment rate has steadily increased from the low single-digit level when the current management team was installed. The Company's "Real Time Diffusion" ("RTD") technology continues to do well, with 79% of new pulmonary device equipment sales during the quarter containing RTD capabilities.

Gross margin for the quarter was 54.5% compared to 55.5% in the 2012 first quarter. Gross margin for equipment, supplies and accessories fell to 51.2% for the quarter, compared to 53.0% in the prior year's quarter, primarily as a result of product mix. Gross margin for services increased to 70.8% for the quarter, compared to 68.4% for the prior year's quarter primarily as a result of improved pricing.

First quarter 2013 general and administrative expenses totaled \$1.4 million versus \$1.1 million in the comparable quarter last year. Sales and marketing expenses were \$2.1 million compared to \$1.8 million in the 2012 first quarter.

For the 2013 first quarter, the Company reported a net loss of \$383,000, or (\$0.10) per diluted share, versus a net loss of \$249,000, or (\$0.07) per diluted share, in the 2012 first quarter. During the quarter, the Company incurred non-recurring corporate development expenses of approximately \$177,000 while pursuing a potential strategic acquisition. The Company abandoned the acquisition during the later stages of due diligence. The Company also incurred a \$28,000 expense related to legal fees regarding an intellectual property dispute. Research and development expenses were \$647,000 compared to \$810,000 in last year's first quarter, reflecting cost savings from prior year executive separations and conversion of consulting resources to full time personnel.

Gregg O. Lehman, Ph D., president and chief executive officer of MGC Diagnostics, said, "We are very pleased with the revenue increase achieved in the fiscal 2013 first quarter. The nine percent increase is the highest first quarter revenue increase in nearly a decade. With the implementation of a new strategic initiative to drive improved first quarter sales, our sales force did a great job of converting sales leads into active buyers."

"We had solid performance across all of our sales channels and geographies. During the quarter, revenue from our GPO distribution channel increased 109%. International sales were up 25%, as we made a number of upgrades in our international distribution group. Extended service contracts sold at the point of sale increased to 17% compared to 7% in Q1 2012. Recurring revenue, which includes supply and service revenue, totaled 39% of total first quarter revenue. Growing our base of recurring revenue, which provides our highest gross margin, will continue to be a core focus. We are off to a good start in fiscal 2013 and we look forward to the rest of the year."

Dr. Lehman continued, "In January 2013, Denver-based National Jewish Health, known worldwide for treatment of patients with respiratory, cardiac, immune and related disorders, and for groundbreaking medical research, selected MGC Diagnostics as its preferred provider of cardiopulmonary diagnostic technology and equipment. We are proud that an internationally renowned institution the caliber of National Jewish has selected our technology as its preferred option. This was an important competitive win for MGC Diagnostics and marks an important point in the Company's history as we transition into a leading innovator and aggressive sales and marketing organization. I believe this sets the stage for MGC Diagnostics to attract other leading cardiorespiratory institutions to partner with us. We firmly believe there are other significant opportunities in 2013 and beyond."

### **Discontinued Operations**

On August 28, 2012, the Company completed the sale of the assets of its New Leaf business to Life Time Fitness, Inc. for \$1.235 million. As a result, the Company has reclassified its results for prior periods to eliminate from its statement of comprehensive loss all fiscal 2012 revenues and expenses associated with its New Leaf business and presented the income (loss) from New Leaf activities as “discontinued operations.”

### **Net Operating Loss Carry Forward**

At January 31, 2013, the Company had federal net operating loss carry forwards of approximately \$14.5 million, not subject to IRC annual limitations on use. These loss carry forwards will expire in years 2018 through 2032.

### **Conference Call**

The Company has scheduled a conference call for Tuesday, March 5, 2013 at 4:30 p.m. ET to discuss its financial results for the first quarter of fiscal year 2013.

Participants can dial (877) 317-6789 or (412) 317-6789 to access the conference call, or listen via a live Internet webcast on the Company's website at [www.mgcdiagnostics.com](http://www.mgcdiagnostics.com). A replay of the conference call will be available by dialing (877) 344-7529 or (412) 317-0088, confirmation code 10025649, through March 12, 2013. A webcast replay of the conference call will be accessible on the Company's website at [www.mgcdiagnostics.com](http://www.mgcdiagnostics.com) for 90 days.

### **About MGC Diagnostics**

MGC Diagnostics Corporation (NASDAQ: MGCD), (formerly Angeion Corporation), is a global medical technology company dedicated to cardiorespiratory health solutions. The Company develops, manufactures and markets non-invasive diagnostic systems. This portfolio of products provides solutions for disease detection, integrated care, and wellness across the spectrum of cardiorespiratory healthcare. The Company's products are sold internationally through distributors and in the United States through a direct sales force targeting heart and lung specialists located in hospitals, university-based medical centers, medical clinics, physicians' offices, pharmaceutical companies, medical device manufacturers, and clinical research organizations (CROs). For more information about MGC Diagnostics, visit [www.mgcdiagnostics.com](http://www.mgcdiagnostics.com).

### **Cautionary Statement Regarding Forward Looking Statements**

*From time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, MGC Diagnostics Corporation may make forward-looking statements concerning possible or anticipated future financial performance, business activities or plans that include the words “believes,” “expects,” “anticipates,” “intends” or similar expressions. For these forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements contained in federal securities laws. These forward-looking statements are subject to a number of factors, risks and uncertainties, including those disclosed in our periodic filings with the SEC, that could cause actual performance, activities or plans after the date the statements are made to differ significantly from those indicated in the forward-looking statements. For a list of these factors, see the sections entitled “Risk Factors” and “Cautionary Note Regarding Forward Looking Statements,” in the Company's Form 10-K for the year ended October 31, 2012, and any updates in subsequent filings on Form 10-Q or Form 8-K under the Securities Exchange Act of 1934.*

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|----------|---|---|
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(Financial Tables to Follow)

**MGC DIAGNOSTICS CORPORATION AND SUBSIDIARY****Consolidated Balance Sheets**

(In thousands, except share and per share data)

|   | <b>January 31,<br/>2013</b> | <b>October 31,<br/>2012</b> |
|---|-----------------------------|-----------------------------|
|   | (Unaudited)                 |                             |
| <b>Assets</b>   |                             |                             |
| <b>Current Assets:</b>  |                             |                             |
| Cash and cash equivalents   | \$ 8,922                    | \$ 9,665                    |
| Accounts receivable, net of allowance for doubtful accounts of \$105 and \$98, respectively   | 6,029                       | 5,860                       |
| Inventories, net of obsolescence reserve of \$394 and \$373, respectively   | 4,036                       | 3,850                       |
| Prepaid expenses and other current assets   | 298                         | 418                         |
| Total current assets  | 19,285                      | 19,793                      |
| Property and equipment, net of accumulated depreciation of \$3,925 and \$3,876, respectively  | 753                         | 578                         |
| Intangible assets, net  | 1,771                       | 1,492                       |
| Other non-current assets  | 85                          | 85                          |
| <b>Total Assets</b>   | <b>\$ 21,894</b>            | <b>\$ 21,948</b>            |
| <b>Liabilities and Shareholders' Equity</b>   |                             |                             |
| <b>Current Liabilities:</b>   |                             |                             |
| Accounts payable  | \$ 2,006                    | \$ 2,094                    |
| Employee compensation   | 1,493                       | 1,749                       |
| Deferred income   | 1,994                       | 1,927                       |
| Warranty reserve  | 84                          | 91                          |
| Other current liabilities and accrued expenses  | 509                         | 442                         |
| Total current liabilities   | 6,086                       | 6,303                       |
| <b>Long-term liabilities:</b>   |                             |                             |
| Long-term deferred income and other   | 1,300                       | 895                         |
| <b>Total Liabilities</b>  | <b>7,386</b>                | <b>7,198</b>                |
| <b>Commitments and Contingencies</b>  |                             |                             |
| <b>Shareholders' Equity:</b>  |                             |                             |
| Common stock, \$0.10 par value, authorized 25,000,000 shares, 4,000,678 and 3,986,350 shares issued and 3,901,607 and 3,885,279 shares outstanding in 2013 and 2012, respectively | 390                         | 388                         |
| Undesignated shares, authorized 5,000,000 shares, no shares issued and outstanding  | -                           | -                           |
| Additional paid-in capital  | 21,185                      | 21,046                      |
| Accumulated deficit   | (7,067)                     | (6,684)                     |
| <b>Total Shareholders' Equity</b>   | <b>14,508</b>               | <b>14,750</b>               |
| <b>Total Liabilities and Shareholders' Equity</b>   | <b>\$ 21,894</b>            | <b>\$ 21,948</b>            |

**MGC DIAGNOSTICS CORPORATION AND SUBSIDIARY**  
**Consolidated Statements of Comprehensive Loss**  
(Unaudited in thousands, except per share amounts)

|  | <b>Three Months Ended<br/>January 31,</b> |                  |
|--|---|------------------|
|  | <b>2013</b>                               | <b>2012</b>      |
| <b>Revenues</b>                                      |   |                  |
| Equipment, supplies and accessories revenues         | \$ 5,806                                  | \$ 5,372         |
| Service revenues                                     | 1,202                                     | 1,056            |
|  | <u>7,008</u>                              | <u>6,428</u>     |
| <b>Cost of revenues</b>                              |   |                  |
| Cost of equipment, supplies and accessories revenues | 2,835                                     | 2,525            |
| Cost of service revenues                             | 351                                       | 334              |
|  | <u>3,186</u>                              | <u>2,859</u>     |
|  | <u>3,822</u>                              | <u>3,569</u>     |
| <b>Gross margin</b>                                  |   |                  |
| <b>Operating expenses:</b>                           |   |                  |
| Selling and marketing                                | 2,126                                     | 1,775            |
| General and administrative                           | 1,418                                     | 1,145            |
| Research and development                             | 647                                       | 810              |
| Amortization of intangibles                          | 7   | 108              |
|  | <u>4,198</u>                              | <u>3,838</u>     |
| <b>Operating loss</b>                                | <u>(376)</u>                              | <u>(269)</u>     |
| Interest income                                      | -   | 4                |
| <b>Loss from continuing operations before taxes</b>  | <u>(376)</u>                              | <u>(265)</u>     |
| Provision for taxes                                  | 7   | 7                |
| <b>Loss from continuing operations</b>               | <u>(383)</u>                              | <u>(272)</u>     |
| <b>Discontinued operations</b>                       |   |                  |
| Income from operations of discontinued operations    | -   | 23               |
| <b>Net loss</b>                                      | <u>(383)</u>                              | <u>(249)</u>     |
| <b>Other comprehensive loss; net of tax</b>          |   |                  |
| Unrealized loss on securities                        | -   | (1)              |
| <b>Comprehensive loss</b>                            | <u>\$ (383)</u>                           | <u>\$ (250)</u>  |
| <b>Loss per share</b>                                |   |                  |
| <b>Basic</b>   |   |                  |
| From continuing operations                           | \$ (0.10)                                 | \$ (0.07)        |
| From discontinued operations                         | 0.00                                      | 0.00             |
| <b>Total</b>   | <u>\$ (0.10)</u>                          | <u>\$ (0.07)</u> |
| <b>Diluted</b>                                       |   |                  |
| From continuing operations                           | \$ (0.10)                                 | \$ (0.07)        |
| From discontinued operations                         | 0.00                                      | 0.00             |
| <b>Total</b>   | <u>\$ (0.10)</u>                          | <u>\$ (0.07)</u> |
| <b>Weighted average common shares outstanding</b>    |   |                  |
| Basic  | <u>3,891</u>                              | <u>3,780</u>     |
| Diluted  | <u>3,891</u>                              | <u>3,780</u>     |

**MGC DIAGNOSTICS CORPORATION AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
(Unaudited in thousands)

|   | <b>Three Months Ended<br/>January 31,</b> |                 |
|---|---|-----------------|
|   | <b>2013</b>                               | <b>2012</b>     |
| <b>Cash flows from operating activities:</b>                                    |   |                 |
| Net loss  | \$ (383)                                  | \$ (249)        |
| Adjustments to reconcile net loss to net cash provided by operating activities: |   |                 |
| Depreciation  | 55  | 64              |
| Amortization  | 21  | 108             |
| Stock-based compensation  | 101                                       | 137             |
| Increase (decrease) in allowance for doubtful accounts                          | 7   | (3)             |
| Decrease in inventory obsolescence reserve                                      | 21  | 47              |
| Gain on disposal of equipment   | (3)                                       | -               |
| Changes in operating assets and liabilities:                                    |   |                 |
| Accounts receivable   | (176)                                     | 1,063           |
| Inventories   | (207)                                     | (419)           |
| Prepaid expenses and other current assets                                       | 120                                       | 37              |
| Accounts payable  | (88)                                      | (189)           |
| Employee compensation   | (256)                                     | (202)           |
| Deferred income   | 314                                       | (218)           |
| Warranty reserve  | (7)                                       | (19)            |
| Other current liabilities and accrued expenses                                  | (3)                                       | 9               |
| Net cash (used in) provided by operating activities                             | (484)                                     | 166             |
| <b>Cash flows from investing activities:</b>                                    |   |                 |
| Sales of investments  | -   | 241             |
| Purchases of property and equipment and intangible assets                       | (317)                                     | (240)           |
| Net cash (used in) provided by investing activities                             | (317)                                     | 1               |
| <b>Cash flows from financing activities:</b>                                    |   |                 |
| Proceeds from issuance of common stock under employee stock purchase plan       | 68  | 11              |
| Proceeds from the exercise of stock options                                     | -   | 40              |
| Repurchase of common stock  | -   | (5)             |
| Repurchase of common stock upon vesting of restricted stock awards              | (10)                                      | -               |
| Net cash provided by financing activities                                       | 58  | 46              |
| <b>Net increase in cash and cash equivalents</b>                                | <b>(743)</b>                              | <b>213</b>      |
| <b>Cash and cash equivalents at beginning of year</b>                           | <b>9,665</b>                              | <b>8,461</b>    |
| <b>Cash and cash equivalents at end of year</b>                                 | <b>\$ 8,922</b>                           | <b>\$ 8,674</b> |
| <b>Cash paid for taxes</b>  | <b>\$ 16</b>                              | <b>\$ 2</b>     |
| <b>Supplemental non-cash items:</b>   |   |                 |
| Current and non-current liabilities issued for leasehold improvements           | \$ 210                                    | \$ -            |