# FORM 10-K

## LANGER INC - GAIT

Exhibit:

**Filed: June 14, 1999 (period: February 28, 1999)**

Annual report which provides a comprehensive overview of the company for the past year

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended February 28, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-12991

THE LANGER BIOMECHANICS GROUP, INC.
(Exact name of Registrant as specified in its charter)

| New York | 11-2239561 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification number) |

450 Commack Road, Deer Park, New York 11729
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (516) 667-1200

Securities registered pursuant to Section 12(b) of the Act: NONE

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

Common Stock, par value $.02 per share
Title of Class

* * * * * * * * * * *

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. ( )

As of June 3, 1999, the aggregate market value of voting stock held by non-affiliates of the Registrant was $2,441,142, as computed by reference to the average bid and ask prices of the stock (1 1/2) multiplied by the number of shares of voting stock outstanding on June 3, 1999 held by non-affiliates (1,627,428).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of June 3, 1999.

| Class of Common Stock | Outstanding at June 3, 1999 |
| --- | --- |
| Common Stock, par value $.02 per share | 2,598,281 shares |

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

PART I

## ITEM 1. BUSINESS

### GENERAL

The Langer Biomechanics Group, Inc. ("LBG" or the "Company") is engaged in the design, manufacture and marketing of foot and gait-related biomechanical products. The Company's largest product line, custom-made, prescription orthotic devices, accounted for approximately 83% of revenues for the fiscal year ended February 28, 1999. Foot orthoses are contoured molds made from plastic, graphite, leather or composite materials, which are placed in patients' shoes to (i) correct or mitigate abnormalities in their gait and (ii) relieve symptoms associated with foot or postural malalignment. These devices function by maintaining the proper relationships between a patient's forefoot, rearfoot, leg and horizontal walking surface. To the Company's knowledge, it has the greatest overall unit volume and revenue in the custom foot orthoses industry. The Company's customers are primarily podiatrists, and also include orthopedists, physical therapists and Orthotic & Prosthetic ("O&P") centers. The Company also makes ankle foot orthoses ("AFO"), boot-like devices which assist individuals afflicted with neurological impairments, foot deformities and injuries to achieve a more natural gait.

In addition to its line of orthotics products, the Company has developed and markets a number of other products that help treat biomechanical medical problems related to feet and gait, including:

- A proprietary medical grade soft tissue cushioning material named PPT(R), which the Company believes provides superior protection against forces of pressure, shock and shear. PPT conforms and bonds to a broad array of orthotic and prosthetic devices, braces and assemblies; and

- The Pediatric Counter Rotation System ("CRS"-Registered Trademark-), a device which corrects in-toe/out-toe disorders of infancy, while allowing unrestricted movement of the feet and legs.

### BACKGROUND

Since its formation under the laws of the state of New York in 1971, the Company has engaged in activities relating to the application of scientific and quantitative methods for the diagnosis and treatment of foot and gait-related problems. To date, the majority of the Company's revenues have been derived from the sale of prescription biomechanical foot orthotic devices to health care practitioners in the field of podiatric biomechanics. Podiatric biomechanics deals essentially with the structure and function of segments of the feet as they relate to each other and to the function of the legs, hips and spine.

The Company has also endeavored to manufacture and market complementary products relating to locomotor dysfunctions. Building on its experience in treating disorders associated with the biomechanics of the foot and leg, the Company has directed efforts towards producing therapeutic products which can treat and improve patients' motor capabilities, biomechanical alignment and function.



Source: LANGER INC, 10-K, June 14, 1999

Net sales by product category of the Company as derived from its accounting records are set forth below (dollars in thousands):

| PRODUCT CATEGORY | FISCAL YEARS ENDED: | | | |
|---|---|---|---|---|
| | FEB. 28, 1999 | FEB. 28, 1998 | FEB. 28, 1997 | FEB. 29, 1996 |
| Custom Orthoses | $ 8,521 | $ 8,618 | $ 8,994 | $ 8,652 |
| PPT Products | 1,269 | 1,281 | 1,085 | 1,121 |
| Counter Rotation System ("CRS") | 108 | 111 | 129 | 165 |
| Materials and Other (including Superform) | 409 | 146 | 307 | 175 |
| Total | $10,307 | $10,156 | $10,515 | $10,113 |

Export and foreign sales constituted approximately 26%, 26% and 25% of revenues for the fiscal years ended February 28, 1999, 1998 and 1997, respectively.

CUSTOM ORTHOTIC DEVICES

The Company is engaged in the design, development, manufacture and sale of custom-made foot orthoses. Biomechanical orthotic devices help provide near normal function by maintaining the angular anatomical relationships between the patient's forefoot, rearfoot, leg and horizontal walking surface. This is achieved by the inherent contours of the neutral position shell of the device and by the angled posts on the front and/or rear ends which cause the orthotic device to move into specific positions at specific times during the gait cycle. Accordingly, muscle action is enhanced and the efficiency and smoothness of weight stress transmission through the feet and legs is improved. The result is a reduction of abnormal motion without total restriction of normal motion and an increase in foot and leg stability. Foot problems may be alleviated or eliminated, as may leg and back fatigue caused by improper muscle use. The formation and further growth of excrescences (e.g., corns or callouses) may be prevented, decreased in size or eliminated. In addition, the future formation of bunions may be prevented.

During the twelve months ended February 28, 1999, sales of orthotic products totaled $8,521,000, compared to $8,618,000 for the twelve months ended February 28, 1998. Decreased revenue resulted from decreased unit volume in the Company's United Kingdom subsidiary. The United Kingdom's volume decline in custom orthotics was largely offset by a volume increase in the Company's North America operations.

While sales were primarily made to practitioners within the United States, the Company also sold its orthotic products in approximately thirty-two foreign countries. No single orthotic customer presently accounts for more than 1% of the Company's annual sales. The primary market for custom orthotic devices is podiatrists who prescribe such devices for their patients. There are approximately 11,000 practitioners of podiatry licensed in the United States. Orthotic devices are also sold to other health care professionals, such as orthopedists, engaged in the treatment of the foot. The cost of the device to the patient is typically included by the practitioner as part of his fee for treatment. The Company does not sell the devices directly to the user-patient. Orthotic devices are made in the Company's three facilities in Deer Park, New York; Brea, California; and Stoke-on-Trent, England. The prescribing practitioner furnishes plaster impression casts of the patient's feet and necessary clinical information on an appropriate prescription order form. In addition to its six-month warranty, the Company offers an optional "Protect Program" at an additional cost of $55 per pair of orthoses. Under the program, the Company will repair or replace the orthotics at no charge, or at a reduced charge, during the first 24 months following sale.

Biomechanical orthotic devices can be fabricated with different functional capabilities and from various materials, depending upon the requirements of the patient. The Company has designed orthotic devices to address the needs of particular segments of the market. For example, the general interest in physical fitness has resulted in demand for orthotic



Source: LANGER INC, 10-K, June 14, 1999

devices and it has heightened the awareness of the importance of proper foot function and foot care. To address this segment of the market, the Company manufactures an extensive line of orthotics called Sporthotics-Registered Trademark-, designed for the specific needs of runners and other sport-specific athletes, including football, basketball and tennis players. Other specialized products include: Healthflex-Registered Trademark- (designed for the needs of aerobic dance, walking and exercise enthusiasts), DesignLine-Registered Trademark- (a functional orthotic designed to fit into dress shoes, such as high fashion shoes and loafers which cannot accommodate a full-size orthotic), DressFlex-Registered Trademark- (a unique proprietary device for use in women's high-heeled shoes), Slimthotics-Registered Trademark- (designed to fit into shoes, such as high heels and ballet slippers), Lyte Fit-Registered Trademark- (ultra-thin and lightweight devices made from LBG's exclusive Superform-Registered Trademark- thermoplastic material), the Golden Series-Registered Trademark-(designed for the needs of active individuals who are over 50 years of age), Bioflex-Registered Trademark- (devices suitable for younger, more active individuals), BlueLine-Registered Trademark- (a flexible, durable, accommodative device that provides a moderate level of of control), D.S.I.S.-Registered Trademark- (a patented device for the effective treatment of pediatric flat foot), and Diab-A-Thotics-Registered Trademark- (designed to meet the needs of diabetic patients in the growing diabetic population).

An additional product line called "FirstChoice" was introduced in fiscal 1995 in order to address price-sensitive market areas, including managed care organizations. The product offering is limited to several basic products and has flat rate pricing. The manufacturing and service areas are also limited in order to reduce costs.

Superform-Registered Trademark- is a proprietary composite material believed to be superior to other composite materials available for orthotic fabrication. Superform was first introduced in fiscal 1994 in several of the Company's orthotic products due to its strength and mouldability. During fiscal 1995, the Company began to market Superform to other orthotic labs.

Ankle Foot Orthoses ("AFO") are plastic devices which are composed of a foot plate and leg support. They assist individuals afflicted with neurological impairments, previous trauma, ankle and leg instability, and arthritic deformities, to achieve a more natural gait. These products include the Hinged Ankle Foot Orthosis ("HAFO") used for neurological problems, the Supra-Malleoloar Orthosis ("SMO") for instability of the ankle joint, the Solid Ankle Foot Orthoses ("SAFO") to restrict motion at the ankle to treat arthritis and other joint conditions, and the Posterior Leaf Spring ("PLS"), useful in tendon ruptures and flaccid drop foot. AFO devices are prescribed by podiatrists, physical therapists and rehabilitation therapists.

While the Company obtains a number of its fabrication materials from single sources, it has not experienced any significant shortages other than occasional backorders. In most cases, any needed materials can usually be obtained from a distributor.

The Company believes that a relatively small percentage of custom orthotic devices continue to be made by practitioners in their own offices or laboratories. The vast majority of the market is serviced by professional laboratories based on casts and prescriptions furnished by practitioners. There are several other custom orthotic laboratories that are national in scope which the Company believes hold approximately a combined 40% to 45% of the overall custom market. The remainder of the market is fragmented among smaller regional and local facilities.

PPT-Registered Trademark- PRODUCTS

PPT is a medical grade soft tissue cushioning material with a high density, open-celled urethane foam structure. PPT, a registered trademark of the Company, is manufactured, pursuant to an agreement, for the Company by a large industrial manufacturing company. This company manufactures urethane foam materials of which PPT is a derivative. Pursuant to the agreement, the Company has the exclusive worldwide rights to serve footcare, orthopedic and related medical markets with such materials.

The Company has developed and sells a variety of products fabricated from PPT including moulded insoles, components for orthotic devices, laminated sheets, and diabetic products. Some manufacturing operations associated with these products are performed by outside vendors.

Sales of PPT products for the twelve months ended February 28, 1999 were $1,269,000 versus $1,281,000 in the prior fiscal year. The decrease is attributable to supply chain problems that resulted in cancelled orders from larger direct accounts and distributors.



Source: LANGER INC, 10-K, June 14, 1999

In 1993, the Company introduced a new generation of PPT, which independent tests show to have improved properties over competitive materials. The essential function of PPT and other soft tissue supplements is to provide protection against forces of pressure, shock and shear. The Company believes that PPT's characteristics make it a superior product in its field. PPT has a superior "memory" that enables it to return to its original shape faster and more accurately than other materials used for similar purposes. PPT is also odorless and non-sensitizing to the skin, and has a porosity which helps the skin to remain dry, cool and comfortable. These factors are especially important in sports medicine applications.

Besides podiatric use, PPT is suitable for other orthopedic and medical-related uses such as liners for braces and prosthetics, as shock absorbers and generally in devices used in sports and physical therapy.

The Company has awarded exclusive distribution arrangements to certain leading distributors serving selected end-use markets in the United States and other countries. The Company sells direct to practitioners in non-exclusive markets.

The market for soft tissue supplements is highly competitive. Brand products as well as commodity type foam rubber are all widely used. Brand name products include Spenco, Sorbothane, medical-grade Poron, and DCS. The remainder of the market is fragmented. The Company competes directly with one other manufacturer of cellular urethane foam.

THE PEDIATRIC COUNTER-ROTATION SYSTEM ("CRS")

The Company introduced the CRS-Registered Trademark- device in fiscal 1987 for the correction and management of a variety of in-toe and out-toe disorders of infancy. The disorders manifest themselves in an excessive angle, either inward or outward, from that which is normal in the relationship of the foot to the direction of movement.

Sales for CRS totaled $108,000 during the twelve months ended February 28, 1999 compared to sales of $111,000 in the prior twelve-month period. The decrease in revenues is a result of a trend whereby more referring orthopedic physicians diagnose the in-toe and out-toe disorders as naturally correcting problems that do not require special devices such as the CRS.

The CRS is designed to replace rigid bars or splints which have traditionally been used (since 1934) and which not only inhibit normal leg movement and are cumbersome and inconvenient, but can also lead to permanent knee and hip damage. Unlike rigid bars or splints, the CRS requires no specific measurement for sizing and may be used with almost any type of children's shoes. Also, unlike other devices, it will allow the infant unrestricted movement of the feet and legs while maintaining the abnormal foot or feet in the corrected position. The CRS is also designed to compensate automatically for the rapid growth of an infant's legs and hips, thus avoiding the possibility of damage to the hips and knees. The potential for permanent knee and hip joint damage is a significant drawback of rigid bar therapy.

The CRS is prescribed by pediatricians, orthopedists and podiatrists and is sold by the Company directly to practitioners as well as through selected distributors. The level of reimbursement from third-party insurers for the CRS varies from one state to another.

The CRS was developed by BioResearch Ithaca, Inc. of Ithaca, New York, which has obtained patents on the device in the United States and certain other countries. In accordance with a license agreement entered into in l986 between the Company and BioResearch Ithaca, Inc., the Company has been granted an exclusive license, with the right to grant sublicenses, to make, use and sell the CRS. Food and Drug Administration acceptance to market the CRS has been obtained by the Company. See "Governmental Regulation".

The primary competitive products for the CRS are rigid bars and splints.

MATERIALS AND OTHER (INCLUDING SUPERFORM) - (MOS)

SUPERFORM-Registered Trademark- (MOS)



Source: LANGER INC, 10-K, June 14, 1999

Superform thermoplastic composite is the Company's proprietary material used for orthotic shell fabrication. Superform is lightweight and has superior impact resistance, making it a suitable material for orthotics that are used by athletes.

Sales for MOS totaled $409,000 during the twelve months ended February 28, 1999 compared to sales of $146,000 in the prior twelve-month period. The increase in revenues resulted from the use of MOS in non-Company products sold throughout the United Kingdom and sold to distributors.

MARKETING

The Company vitalized its field sales effort, targeting multi-practitioner facilities, in addition to trade shows, advertising, educational sponsorships, public relations and maintenance marketing. The Company continues to emphasize customer service by maintaining a staff of customer service representatives at each of its facilities.

The Company continues its focus on providing the education and training for healthcare practitioners who treat biomechanical problems of the lower extremity through seminar and in-service programs. A comprehensive program is offered in biomechanics, gait analysis and the cost-effectiveness of orthotic therapy.

Management promotes awareness of orthotics through marketing and operational initiatives. A Volume Incentive Program ("VIP") along with practice building assistance is oriented toward helping practitioners expand the orthotic components of their practices.

RESEARCH AND DEVELOPMENT

The Company incurred no research and development costs for the twelve months ended February 28, 1999, 1998 and 1997. However, the Company expects to incur research and development costs in the future. As of March 1, 1999, the Company established a Product Development department to explore new applications for existing products and ensure that the Company remains on the cutting edge of orthotic therapy.

PATENTS AND TRADEMARKS

The Company believes that patent and trademark protection are beneficial. The Company holds 13 patents, 94 trademarks and 9 copyrights. These patents and trademarks are held in 12 countries, including the United States. The Company has exclusive licenses to three types of orthotic devices which are patented in the United States and several foreign countries. In addition, patents have also been granted to a third party in the United States and numerous foreign countries with respect to the CRS (as to which the Company has exclusive marketing rights).

Although a patent would have a statutory presumption of validity in the United States, in the event that any patent awarded to the Company or a third party is later tested in litigation, the issuance of a patent is not conclusive as to such validity or as to the enforceable scope of the claims therein. The validity and enforceability of a patent can be attacked after its issuance. If the outcome of such litigation is adverse to the owner or licensor of the patent, third parties may use the invention or technology pertaining to the patent without restriction. Accordingly, any patents granted to the Company or to third parties from whom the Company obtained licenses may not afford any protection against competitors with similar products. Loss of patent protection could have an adverse effect on the Company's business by permitting competitors to utilize techniques developed by the Company.

GOVERNMENTAL REGULATION

Rules of the Food and Drug Administration ("FDA") may require the submission of a 510(k) notification of intent to market certain products. Upon submission of a 510(k), the FDA may determine the product to be substantially equivalent to products previously marketed in interstate commerce. Such submissions have been made and determined to be substantially equivalent for the CRS.



Source: LANGER INC, 10-K, June 14, 1999

## EMPLOYEES

At March 1, 1999, the Company had 147 employees, of which 90 were located in Deer Park, New York, 32 in Brea, California, and 25 in Stoke-on-Trent, England. The employees are not represented by a union. The Stoke-on-Trent facility is a 75% owned subsidiary of the Company.

## CONSULTANTS AND FIELD EVALUATION FORCE

The Company has oral or written agreements with four medical specialists with respect to their providing professional consultative services to the Company in their areas of specialization. Two of the consultants are on the faculties of podiatric medicine colleges in the United States.

The consultants test and evaluate the Company's products, act as speakers for the Company at symposiums and professional meetings, generally participate in the development of the Company's products and services and disseminate information about them. The Company also relies on practitioners in various parts of the country to act as field evaluators of the Company's products.

## SEASONALITY

Revenue derived from the Company's sale of orthotic devices, a substantial portion of the Company's operations, has historically been significantly higher in the warmer months of the year.

## ITEM 2. PROPERTIES

The Company's executive offices, and its primary manufacturing facilities, are located in Deer Park, New York. The Deer Park facility is leased through July 31, 2005, with a four year extension option, and with monthly lease payments averaging $25,181. The Company also leases space in Brea, California (manufacturing facility) which expires on December 31, 1999, and with aggregate monthly lease payments of $7,576. A 75% owned subsidiary of the Company currently leases facilities in Stoke-on-Trent, England under a lease that expired December 31, 1998 and for which it currently pays $2,536 monthly (at the current exchange rate) on a week to week lease until June 30th, 1999. The England subsidiary plans to occupy new premises on July 1, 1999. The Company believes that its manufacturing facilities are suitable and adequate and provide the productive capacity necessary for its current and reasonably foreseeable future needs. The Company believes that while these manufacturing facilities are being adequately utilized, they could be more fully utilized (e.g. with extended night shift operations) should this become necessary.

## ITEM 3. LEGAL PROCEEDINGS

None.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.



Source: LANGER INC, 10-K, June 14, 1999

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Registrant's common stock, par value $.02 per share ("Common Stock"), is traded on the over-the-counter market with quotations reported on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol GAIT. The following table sets forth the high and low closing bid prices for the Common Stock for the fiscal years ended February 28, 1998 and February 28, 1999. The NASDAQ quotations represent prices between dealers, do not include retail markups, markdowns or commissions, and may not represent actual transactions.

| TWELVE MONTHS ENDED FEBRUARY 28, 1998 | HIGH | LOW |
|---|---|---|
| 1st quarter | 1-7/8 | 1-5/8 |
| 2nd quarter | 2-1/4 | 1-11/16 |
| 3rd quarter | 2 | 1-7/16 |
| 4th quarter | 1 3/4 | 1-13/32 |

| TWELVE MONTHS ENDED FEBRUARY 28, 1999 | HIGH | LOW |
|---|---|---|
| 1st quarter | 1-9/16 | 1-5/16 |
| 2nd quarter | 1-7/16 | 1-5/16 |
| 3rd quarter | 1-3/8 | 1-1/16 |
| 4th quarter | 1-7/8 | 1-1/4 |

On February 28, 1999, there were approximately 300 holders of record of the Common Stock. However, this figure is exclusive of all owners whose stock is held beneficially or in "street" name. Based on information supplied by various securities dealers, the Company believes that there are in excess of 650 shareholders in total, including holders of record as well as those whose shares are beneficially held.

DIVIDEND HISTORY AND POLICY

The Registrant has never paid cash dividends on its Common Stock and anticipates that, for the foreseeable future, it will follow a policy of retaining earnings to finance the expansion and development of its business. In any event, future dividend policy will depend upon the Company's earnings, financial condition, working capital requirements and other factors.

RECENT ISSUANCE OF SECURITIES

On November 30, 1998, the Board of Directors authorized the issuance of 4000 shares of common stock to each of these outstanding directors (Kenneth Granat, Stephen V. Ardia and Thomas I. Altholz) in consideration for their services as outside directors. The Company relied upon the exemption provided Section 4(2) of the Securities Exchange Act of 1933 in commencing with this issuance.



Source: LANGER INC, 10-K, June 14, 1999

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share data.)

| | Fiscal Year Ended: | | | | |
|---|---|---|---|---|---|
| | Feb. 28, 1999 | Feb. 28, 1998 | Feb. 28, 1997 | Feb. 29, 1996 | Feb. 28, 1995 |
| Consolidated Statement of Operations: | | | | | |
| Net sales | $ 10,307 | $ 10,156 | $ 10,515 | $ 10,113 | $ 10,467 |
| Income (loss) before non-recurring charges and income taxes | 346 | 370 | 331 | 113 | (266) |
| Non-recurring changes: | | | | | |
| Discontinuance of CAD-CAM project | -- | -- | -- | (499) | -- |
| Lab closings, write down of selected assets and legal fees | -- | -- | -- | (49) | (363) |
| Income (loss) before income taxes | 346 | 370 | 331 | (435) | (629) |
| Provision for (benefit from) income taxes | 25 | 5 | 28 | (2) | 8 |
| Net income (loss) | 304 | 365 | 303 | (433) | (637) |
| Earnings per share: | | | | | |
| Income (loss) before non-recurring charges and income taxes | 0.12 | 0.14 | 0.12 | 0.04 | (0.11) |
| Non-recurring changes: | | | | | |
| Discontinuance of CAD-CAM project | -- | -- | -- | (0.19) | -- |
| Lab closings, write down of selected assets and legal fees | -- | -- | -- | (0.02) | (0.14) |
| Net income (loss) per common share: | | | | | |
| Basic | 0.12 | 0.14 | 0.12 | (0.17) | (0.25) |
| Diluted | 0.12 | 0.14 | 0.11 | (0.17) | (0.25) |
| Weighted average number of common shares: | | | | | |
| Basic | 2,584 | 2,585 | 2,583 | 2,568 | 2,547 |
| Diluted | 2,607 | 2,658 | 2,666 | 2,568 | 2,547 |
| Cash dividends per share | -- | -- | -- | -- | -- |
| Consolidated Balance Sheets: | | | | | |
| Working Capital | 2,423 | 2,090 | 2,050 | 1,576 | 1,456 |
| Total Assets | 5,125 | 4,848 | 4,445 | 4,035 | 4,535 |
| Long-term Indebtedness (excluding current maturities) | -- | 375 | 444 | 430 | 482 |
| Stockholders' Equity | 2,950 | 2,663 | 2,291 | 1,978 | 2,311 |



Source: LANGER INC, 10-K, June 14, 1999

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STATEMENTS OF OPERATIONS:

The Company's net sales of $10,307,000 for the twelve months ended February 28, 1999 were 1.5 percent above net sales of $10,156,000 for the twelve months ended February 28, 1998. Net sales in fiscal 1998 were 3.4 percent below net sales of $10,515,000 for the twelve months ended February 28, 1997.

Sales of orthotic products, which accounted for 83 percent of the Company's fiscal 1999 sales, decreased by approximately $97,000 or 1.1 percent to approximately $8,521,000 in the most recent twelve-month period. Decreased revenue resulted from decreased unit volume in the Company's United Kingdom subsidiary. The United Kingdom's volume decline in custom orthotics was largely offset by a volume increase in the Company's North America operations. Sales of orthotic products in fiscal 1998 decreased by $376,000 or 4.2 percent to $8,618,000 from fiscal 1997. Decreased revenues resulted from decreased unit volume from the elimination of marginal accounts and a shift in doctor preference toward lower priced orthoses, partially offset by an earlier unit price increase.

Sales of PPT (the Company's soft tissue supplement material) for the recent twelve months were $1,269,000, which decreased by $12,000 or 0.9 percent from sales in the prior fiscal year. The decrease in PPT sales over the prior fiscal year was due to supply chain problems that resulted in cancelled orders from larger direct accounts and distributors. For the year ended February 28, 1998, sales were $1,281,000, representing a 18.1 percent increase of $196,000 from the prior year. The increase was due to the addition of several larger volume accounts.

Sales of the Counter Rotation System ("CRS"-Registered Trademark-) were $108,000 for the twelve months ended February 28, 1999, representing a $3,000 or 2.7 percent decrease from the prior twelve-month period. The decrease in revenues is a result of a trend whereby more referring orthopedic physicians diagnose the in-toe and out-toe disorders as naturally correcting problems that do not require special devices such as the CRS. Sales for fiscal 1998 declined by $18,000 or 14.0 percent from the prior fiscal year. The decreased revenue resulted from a reduced level of direct promotion together with a shift toward wholesale sales to distributors in the United States and overseas.

Gross profit (net sales less cost of sales) as a percentage of sales decreased from 40.0 percent for the twelve months ended February 28, 1998 to 36.4 percent for the recent twelve-month period. The decreased gross profit percentage largely resulted from increased labor and freight costs associated with unusual customer support efforts that revolved around operational issues caused by the installation of a new company-wide computer system. Increased material costs also accounted for some of the decrease in gross margin. Gross profit as a percentage of sales decreased from 41.5 percent for the twelve months ended February 28, 1997 to 40.0 percent for the year-end February 28, 1998. The decreased gross profit percentage resulted from increased manufacturing overhead on reduced unit sales in United States operations, and increased labor costs in United Kingdom operations.

For the current fiscal year, selling expenses decreased by $97,000, and general and administrative expenses decreased by $3,000, compared to the prior twelve-month period. The decrease in selling expenses was driven by reductions in salaries, direct mail and advertising. The decrease in general and administrative expenses was due to net reductions in salaries and fringe benefits. For the twelve-month period ended February 28, 1998, selling expenses decreased by $332,000, and general and administrative expenses decreased by $18,000, compared to the prior twelve-month period. These reductions were due to lower promotional expense and tighter controls over operational expenditures and staff reductions.



Source: LANGER INC, 10-K, June 14, 1999

The Company incurred no research and development expenses in fiscal 1999, 1998 or 1997. However, the Company expects to incur research and development costs in the future. As of March 1, 1999, the Company established a Product Development department to explore new applications for existing products and ensure that the Company remains on the cutting edge of orthotic therapy.

Interest income for the recent twelve-month period of $44,000 decreased $9,000 from the prior twelve-month period. The decrease is due to a reduction in interest charged on past due receivables. Interest income of $53,000 for fiscal 1998 was above fiscal 1997 by $3,000. This was primarily due to higher cash balances and more effective short-term investment of excess cash.

Other income for fiscal year 1999 was $208,000. The significant increase is due to an insurance claim settlement for a fire at the main production facility several years ago. For the twelve months ended February 28, 1998 and 1997, other income was $13,000 and $20,000, respectively.

For the year ended February 28, 1999, the Company had net income of $304,000 compared with net income of $365,000 for the prior fiscal year. Net income remained substantially consistent with the prior year as declines in operating income were offset by increases in other income as explained above. The fiscal 1999 declines in operating profit were due to unexpected installation costs for the Company's new computer system. Also, the Company's effective tax rate was higher in fiscal 1999, primarily due to increased profits in the United Kingdom subsidiary, which further reduced net income.

For the year ended February 28, 1998, the Company had net income of $365,000 compared with a profit of $303,000 for the prior fiscal year. Income increased due to increased sales of PPT, the sales price increase on orthotic products for the full fiscal year, reduced selling expenses and a lower effective tax rate.

For the year ended February 28, 1997, the Company had net income of $303,000 compared with a profit of $115,000 before non-recurring expenses for the prior fiscal year. Income increased primarily due to higher unit volume, a sales price increase effective in the last four months of the year, improved manufacturing efficiencies and reduced general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of February 28, 1999 increased $333,000 to $2,423,000 from $2,090,000 at February 28, 1998. The increase is due to increases in cash and accounts receivable of $511,000 and $37,000, respectively, less decreases in inventories and prepaid expenses of $6,000 and $151,000, respectively. The increase was further offset by increases in accounts payable and accrued payroll and related payroll taxes of $89,000 and $4,000, respectively, and augmented by decreases in other current liabilities and unearned revenue of $4,000 and $34,000, respectively.

Cash balances at February 28, 1999 of $1,700,000 were $511,000 above the prior year-end balance of $1,189,000.

The Company anticipates that cash generated from operations as well as existing funds will be adequate to finance its present and contemplated future level of operations for a period of at least twelve months.

REVOLVING CREDIT

The Company has a one year (August 1, 1998 - July 31, 1999) agreement for revolving credit of $1,500,000, at an interest rate of prime plus 1/2 percent, from a bank, but to date has not found it necessary to use this credit line. The agreement contains, among other items, restrictions relating to incurrence of additional indebtedness and the payment of dividends. Additionally, the Company is required to maintain certain minimum financial ratios. Borrowings under this agreement are collateralized by substantially all of the assets of the Company.



Source: LANGER INC, 10-K, June 14, 1999

SEASONALITY

Revenue derived from the Company's sale of orthotic devices, a substantial portion of the Company's operations, has historically been significantly higher in the warmer months of the year.

INFLATION

The Company has in the past been able to increase the prices of its products or reduce overhead costs sufficiently to offset the effects of inflation on wages, materials and other expenses, and anticipates that it will be able to continue to do so in the future.

RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD

During the year ended February 28, 1999, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"), SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), and SFAS No. 132, "Employers' Disclosure about Pension and Other Post Retirement Benefits" ("SFAS No. 132). SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a set of financial statements. SFAS No. 131 establishes standards for reporting financial and descriptive information about reportable operating segments on the basis that is used internally for evaluating segment performance and allocating segment resources. SFAS No. 132 revises employers' disclosure requirements regarding pension and post retirement benefit plans. The adoption of SFAS No. 130, SFAS No.131 and SFAS No.132 did not have a material effect on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which requires that derivative instruments be measured at fair value and recognized as assets or liabilities in the Company's balance sheet. SFAS No.133 is effective for all quarters of all fiscal years beginning after June 15, 2000. The Company is currently evaluating the effect that SFAS No. 133 will have on the Company's consolidated financial statements.

YEAR 2000 COMPLIANCE

The inability of computers, software and other equipment utilizing microprocessors to recognize and properly process data fields containing a 2 digit year is commonly referred to as the "Year 2000 Compliance" issue. As the year 2000 approaches, such systems may be unable to accurately process certain date-based information. The Company commenced a program in fiscal 1998 to identify, remediate, test and develop contingency plans for Year 2000 Compliance. Currently, the Company is substantially complete with its Year 2000 Compliance Program, the results of which are summarized as follows:

COMPUTER INFORMATION SYSTEMS ("CIS"). Beginning in fiscal 1998 (March 1997 - February 1998) the Company began implementing a new enterprise-wide CIS. The CIS is customized software running on a Windows NT Server. The server, customer software and all networked personal computers are fully Year 2000 compliant. The Company has been operating the new CIS since February 1998 and it is now considered fully implemented. The Company anticipates that CIS, as it relates to the Year 2000 Compliance issue, will have no effect on business operations.

PRODUCTS. The Year 2000 Compliance issue affects none of the Company's current products. Due to the nature of the Company's business, custom orthotics and related materials and services, no software or microprocessors are used in the products.

THIRD PARTIES. The Company solicited statements of compliance from its key outside vendors, manufacturers and suppliers with respect to their CIS and overall business operations. Approximately 70% of these parties responded and informed the Company that they are currently compliant or plan to be compliant by December 31, 1999. To the extent that any of these parties have been unable to certify that they will be substantially Year 2000 compliant by early 1999, the Company is reviewing its alternatives with respect to other vendors, manufacturers or suppliers (as applicable). Currently, the Company has received responses from its critical suppliers and its CIS vendor certifying full Year 2000 compliance. Throughout the remainder of 1999 the Company will continue its efforts to monitor the progress and obtain and evaluate responses of its key vendors, suppliers and other significant third parties.



Source: LANGER INC, 10-K, June 14, 1999

COSTS. The Company's most significant Year 2000 Compliance costs relate to the implementation of the new CIS. The costs related to the new CIS for the years ended February 28, 1998 and 1999 were approximately $400,000 and $200,000, respectively. The Company does not currently anticipate that future costs associated with its ongoing Year 2000 Compliance program will be material to its financial condition or results of operations.

The Year 2000 issue presents far-reaching implications, some of which cannot be anticipated with any degree of certainty. Satisfactorily addressing the Year 2000 Compliance issue is dependent on many factors, some of which are not completely in the Company's control, such as availability of certain resources, third party remediation plans and other market-wide factors. Based on the assessment that has been made under the Year 2000 Compliance program, and other than stated above, the Company has no other contingency plans in the event of Year 2000 noncompliance and does not currently believe that any other contingency plans are necessary. In addition, management is not able to determine the effect of any Year 2000 noncompliance (including with respect to a "worst-case scenario") on the Company, and there can be no guarantee that any such noncompliance would not have an adverse effect on the Company's CIS, results of operations and financial condition.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Information contained or incorporated by reference in the annual report on Form 10-K and in other SEC filings by the Company contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof, other variations thereon or comparable terminology, or by discussions of strategy. No assurance can be given that future results covered by the forward-looking statements will be achieved, and other factors could also cause actual results to vary materially from the future results covered in such forward-looking statements. Factors which might cause such a difference include, but are not limited to, product demand, the impact of competitive products and pricing and general business and economic conditions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Begins on the next page.



Source: LANGER INC, 10-K, June 14, 1999

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE
FEBRUARY 28, 1999, 1998 AND 1997


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All other schedules have been omitted because they are not applicable, not required or the information is disclosed in the consolidated financial statements, including the notes thereto.



Source: LANGER INC, 10-K, June 14, 1999

## INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
The Langer Biomechanics Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of The Langer Biomechanics Group, Inc. and subsidiaries (the "Company") as of February 28, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended February 28, 1999. Our audits also included the consolidated financial statement schedule listed in the foregoing index for the three years in the period ended February 28, 1999. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 28, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended February 28, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Jericho, New York
June 4, 1999



Source: LANGER INC, 10-K, June 14, 1999

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FEBRUARY 28, 1999 AND 1998

| | 1999 | 1998 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,700,156 | $ 1,189,046 |
| Accounts receivables, net of allowance for doubtful accounts of approximately $36,000 in 1999 and $23,000 in 1998 | 1,396,878 | 1,360,420 |
| Inventories, net (Note 2) | 1,034,001 | 1,039,718 |
| Prepaid expenses and other current receivables | 160,723 | 311,447 |
| Total current assets | 4,291,758 | 3,900,631 |
| Property and equipment, net (Note 3) | 673,152 | 777,991 |
| Other assets (Note 7) | 159,670 | 169,214 |
| Total assets (Note 11) | $ 5,124,580 | $ 4,847,836 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 700,590 | $ 614,915 |
| Accrued liabilities: | | |
| Accrued payroll and related payroll taxes | 285,540 | 281,961 |
| Other current liabilities (Note 4) | 542,250 | 522,384 |
| Unearned revenue (Note 1) | 356,887 | 391,081 |
| Total current liabilities | 1,885,267 | 1,810,341 |
| Accrued pension expense (Note 7) | 195,254 | 220,609 |
| Unearned revenue (Note 1) | 104,420 | 148,733 |
| Deferred income taxes (Note 5) | 5,288 | 5,423 |
| Total liabilities | 2,190,229 | 2,185,106 |
| Commitments and Contingencies (Note 6) | | |
| Stockholders' equity (Note 8): | | |
| Common stock, $.02 par value. Authorized 10,000,000 shares; issued 2,598,281 shares in 1999 and 2,585,281 in 1998 | 51,966 | 51,706 |
| Additional paid-in capital | 6,291,564 | 6,277,543 |
| Accumulated deficit | (3,070,630) | (3,375,120) |
| Accumulated other comprehensive loss (Note 7) | (299,199) | (291,399) |
| | 2,973,701 | 2,662,730 |
| Less treasury stock at cost, 25,000 shares in 1999 | (39,350) | -- |
| Total stockholders' equity | 2,934,351 | 2,662,730 |
| Total Liabilities and Stockholders' Equity | $ 5,124,580 | $ 4,847,836 |

See accompanying notes to consolidated financial statements



Source: LANGER INC, 10-K, June 14, 1999

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Net sales (Note 9) | $ 10,307,114 | $ 10,156,085 | $ 10,514,842 |
| Cost of sales | 6,557,200 | 6,095,412 | 6,149,872 |
| Gross profit | 3,749,914 | 4,060,673 | 4,364,970 |
| Selling expenses | 1,399,339 | 1,496,148 | 1,828,144 |
| General and administrative expenses | 2,245,467 | 2,248,365 | 2,266,217 |
| Operating profit | 105,108 | 316,160 | 270,609 |
| Other income (expense): | | | |
| Interest income | 43,958 | 52,592 | 48,978 |
| Interest expense | (11,303) | (11,980) | (9,298) |
| Other (Note 9) | 208,070 | 13,453 | 20,261 |
| Minority interest | (16,030) | -- | -- |
| Other income, net | 224,695 | 54,065 | 59,941 |
| Income before income taxes | 329,803 | 370,225 | 330,550 |
| Provision for income taxes (Note 5) | 25,313 | 4,943 | 27,503 |
| Net income | $ 304,490 | $ 365,282 | $ 303,047 |
| Weightedaverage number of common shares used in computation of net income per share: | | | |
| Basic | 2,584,336 | 2,584,780 | 2,583,344 |
| Diluted | 2,607,285 | 2,658,378 | 2,666,420 |
| Net income per common share: | | | |
| Basic | $ 0.12 | $ 0.14 | $ 0.12 |
| Diluted | $ 0.12 | $ 0.14 | $ 0.11 |

See accompanying notes to consolidated financial statements.



Source: LANGER INC, 10-K, June 14, 1999

LANGER BIOMECHANICS GROUP, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

| | Common Stock | | | | | Accumulated Other Comprehensive Income (Loss) | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Treasury Stock | Additional Paid-in Capital | Accumulated Deficit | Foreign Currency Translation | Minimum Pension Liability |
| Balance at March 1, 1996 | 2,581,281 | $51,627 | | $ 6,274,497 | ($4,043,449) | ($49,788) | ($255,168) |
| Comprehensive income: | | | | | | | |
| Net income for 1997 | | | | | 303,047 | | |
| Foreign currency adjustment | | | | | | 1,279 | |
| Minimum pension liability adjustment | | | | | | | 6,920 |
| Total comprehensive income | | | | | | | |
| Exercise of stock options | 3,000 | 59 | | 2,285 | | | |
| Balance at February 28, 1997 | 2,584,281 | 51,686 | | 6,276,782 | (3,740,402) | (48,509) | (248,248) |
| Comprehensive income: | | | | | | | |
| Net income for 1998 | | | | | 365,282 | | |
| Foreign currency adjustment | | | | | | (1,062) | |
| Minimum pension liability adjustment | | | | | | | 6,420 |
| Total comprehensive income | | | | | | | |
| Exercise of stock options | 1,000 | 20 | | 761 | | | |
| Balance at February 28, 1998 | 2,585,281 | 51,706 | | 6,277,543 | (3,375,120) | (49,571) | (241,828) |
| Comprehensive income: | | | | | | | |
| Net income for 1999 | | | | | 304,490 | | |
| Foreign currency adjustment | | | | | | 2,676 | |
| Minimum pension liability adjustment | | | | | | | (10,476) |
| Total comprehensive income | | | | | | | |
| Treasury stock acquired | | | ($39,350) | | | | |
| Issuance of stock | 12,000 | 240 | | 13,260 | | | |
| Exercise of stock options | 1,000 | 20 | | 761 | | | |
| Balance at February 28, 1999 | 2,598,281 | $ 51,966 | ($39,350) | $ 6,291,564 | ($3,070,630) | ($46,895) | ($252,304) |

| | Comprehensive Income | Total Stockholders' Equity |
|---|---|---|
| Balance at March 1, 1996 | | $ 1,977,719 |
| Comprehensive income: | | |
| Net income for 1997 | $303,047 | |
| Foreign currency adjustment | 1,279 | |
| Minimum pension liability adjustment | 6,920 | |
| Total comprehensive income | $311,246 | 311,246 |
| Exercise of stock options | | 2,344 |
| Balance at February 28, 1997 | | 2,291,309 |
| Comprehensive income: | | |
| Net income for 1998 | $365,282 | |
| Foreign currency adjustment | (1,062) | |
| Minimum pension liability adjustment | 6,420 | |
| Total comprehensive income | $370,640 | 370,640 |

| | | |
|---|---|---|
| | -------- | |
| | -------- | |
| Exercise of stock options | | 781 |
| Balance at February 28, 1998 | | 2,662,730 |
| Comprehensive income: | | |
| Net income for 1999 | $304,490 | |
| Foreign currency adjustment | 2,676 | |
| Minimum pension liability adjustment | (10,476) | |
| | ------- | |
| Total comprehensive income | $296,690 | 296,690 |
| | -------- | |
| | -------- | |
| Treasury stock acquired | | (39,350) |
| Issuance of stock | | 13,500 |
| Exercise of stock options | | 781 |
| Balance at February 28, 1999 | | $ 2,934,351 |

See accompanying notes to consolidated financial statements.



Source: LANGER INC, 10-K, June 14, 1999

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net income | $ 304,490 | $ 365,282 | $ 303,047 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Deferred foreign tax (benefit) provision | (135) | 47 | 747 |
| Depreciation and amortization | 213,536 | 207,233 | 190,618 |
| Provision for doubtful accounts receivable | 59,788 | 17,525 | 7,524 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (91,260) | 52,540 | (158,868) |
| Inventories | 9,294 | (118,199) | (52,516) |
| Prepaid expenses and other assets | 152,831 | (30,219) | 38,435 |
| Accounts payable and accrued liabilities | 102,290 | 101,891 | 81,157 |
| Net pension liability | (28,041) | (52,495) | 2,845 |
| Unearned revenue | (79,468) | (2,154) | 27,484 |
| Net cash provided by operating activites | 643,325 | 541,451 | 440,473 |
| Cash Flows From Investing Activities - | | | |
| Capital expenditures | (107,146) | (478,474) | (53,282) |
| Net cash used in investing activities | (107,146) | (478,474) | (53,282) |
| Cash Flows From Financing Activities: | | | |
| Common stock options exercised | 781 | 781 | 2,344 |
| Issuance of stock | 13,500 | -- | -- |
| Treasury stock acquired | (39,350) | -- | -- |
| Principal payments of note payable | -- | (301) | (3,406) |
| Net cash (used in) provided by financing activites | (25,069) | 480 | (1,062) |
| Net increase in cash and cash equivalents | 511,110 | 63,457 | 386,129 |
| Cash and cash equivalents at beginning of year | 1,189,046 | 1,125,589 | 739,460 |
| Cash and cash equivalents at end of year | $ 1,700,156 | $ 1,189,046 | $ 1,125,589 |
| Supplemental Disclosures of Cash Flow Information- Cash paid during the year for: | | | |
| Interest | $ 11,303 | $ 11,980 | $ 9,298 |
| Income taxes | $ 5,600 | $ 1,500 | $ 8,286 |

See accompanying notes to consolidated financial statements.



Source: LANGER INC, 10-K, June 14, 1999

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of The Langer Biomechanics Group, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

### (b) REVENUE RECOGNITION

Revenue from the sale of the Company's products is recognized at shipment. Revenues derived from extended warranty contracts relating to sales of orthotics are recorded as deferred revenue and recognized over the lives of the contracts (24 months) on a straight-line basis.

### (c) CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all short-term, highly liquid investments purchased with a maturity of three months or less to be cash equivalents (money market funds and short-term commercial paper).

### (d) INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

### (e) PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method. The lives on which depreciation and amortization are computed are as follows:

| | |
|---|---|
| Leasehold improvements | Lesser of 5 years or life of lease |
| Machinery and equipment | 5 - 10 years |
| Office equipment | 5 - 10 years |
| Automobiles | 3 - 5 years |

The Company reviews long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying value of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized.



Source: LANGER INC, 10-K, June 14, 1999

(f) INCOME TAXES

The Company accounts for income taxes using an asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in defer tax assets and liabilities.

(g) NET INCOME PER SHARE

During the year ended February 28, 1998, the Company adopted SFAS No. 128, "Earnings per share" ("SFAS No. 128"), which requires dual presentation of basic and diluted earnings per share on the face of the consolidated statements of operations for all periods presented.

Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents (options and warrants) outstanding during the period, except where the effect would be antidilutive, computed in accordance with the treasury stock method.

(h) FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the foreign subsidiary have been translated at year-end exchange rates, while revenues and expenses have been translated at average exchange rates in effect during the year. Resulting cumulative translation adjustments have been recorded as a separate component of accumulated other conmprehensive loss.

(i) RECLASSIFICATIONS

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

(j) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) FAIR VALUE OF FINANCIAL INSTRUMENTS

At February 28, 1999 and 1998, the carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated fair value because of their short-term maturity.

(l) RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD

During the year ended February 28, 1999, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"), SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), and SFAS No. 132, "Employers' Disclosure about Pension and Other Post Retirement Benefits" ("SFAS No. 132). SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a set of financial statements. SFAS No. 131 establishes standards for reporting financial and descriptive information about reportable operating segments on the basis that is used internally for evaluating segment performance and allocating segment resources. SFAS No. 132 revises employers' disclosure requirements regarding pension and



Source: LANGER INC, 10-K, June 14, 1999

post retirement benefit plans. The adoption of SFAS No. 130, SFAS No.131 and SFAS No.132 did not have a material effect on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") which requires that derivative instruments be measured at fair value and recognized as assets or liabilities in the Company's balance sheet. SFAS No. 133 is effective for all quarters of all fiscal years beginning after June 15, 2000. The Company is currently evaluating the effect that SFAS No. 133 will have on the Company's consolidated financial statements.

(2) INVENTORIES

Inventories consist of the following at February 28,:

| | 1999 | 1998 |
|---|---|---|
| Raw materials | $ 1,017,080 | $ 921,065 |
| Work-in-process | 84,448 | 62,925 |
| Finished goods | -- | 114,739 |
| Total inventories | 1,101,528 | 1,098,729 |
| Less allowance for obsolescence | 67,527 | 59,011 |
| Net inventories | $ 1,034,001 | $ 1,039,718 |

(3) PROPERTY AND EQUIPMENT

Property and equipment, at cost, is comprised of the following at February 28,:

| | 1999 | 1998 |
|---|---|---|
| Leasehold improvements | $ 464,189 | $ 465,019 |
| Machinery and equipment | 851,781 | 851,807 |
| Office equipment | 1,897,086 | 1,787,304 |
| Automobiles | 34,838 | 35,067 |
| | 3,247,894 | 3,139,197 |
| Less accumulated depreciation and amortization | 2,574,742 | 2,361,206 |
| Property and equipment, net | $ 673,152 | $ 777,991 |

(4) OTHER CURRENT LIABILITIES

Other current liabilities consist of the following at February 28,:

| | 1999 | 1998 |
|---|---|---|
| Sales credits payable | $ 110,175 | $ 102,710 |
| Accrued professional fees | 77,785 | 70,800 |
| Management bonus | 34,000 | 80,082 |
| Health insurance | 59,251 | 59,251 |
| Warranty reserve | 46,797 | 33,797 |
| Rent | - | 44,526 |
| Other accrued liabilities | 214,242 | 131,218 |
| Total other accrued liabilities | $ 542,250 | $ 522,384 |



Source: LANGER INC, 10-K, June 14, 1999

(5) INCOME TAXES

The provision for (benefit from) income taxes is comprised of the following for the years ended February 28,:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Current: | | | |
| Federal | $ (2,500) | $ 502 | $ - |
| State | 9,000 | 4,439 | 4,639 |
| Foreign | 18,948 | (45) | 22,117 |
| | 25,448 | 4,896 | 26,756 |
| Deferred - Foreign | (135) | 47 | 747 |
| | $ 25,313 | $ 4,943 | $ 27,503 |

As of February 28, 1999, the Company has net Federal tax operating loss carryforwards of approximately $2,634,000, which may be applied against future taxable income and expire from 2000 through 2011. The Company also has available tax credit carryforwards of approximately $141,000.

The following is a summary of deferred tax assets and liabilities as of February 28,:

| | 1999 | 1998 |
|---|---|---|
| Current deferred tax assets | $ 199,443 | $ 227,994 |
| Non-current: | | |
| Deferred tax assets | 909,343 | 1,156,364 |
| Deferred tax liability | (5,288) | (5,423) |
| Non-current deferred tax assets, net | 904,055 | 1,150,941 |
| Total deferred tax assets, net | 1,103,498 | 1,378,935 |
| Valuation allowance | (1,108,786) | (1,384,358) |
| Net | $ (5,288) | $ (5,423) |

The current deferred tax assets are primarily composed of deferred revenue, inventory and accounts receivable reserves, accrued pension and accrued vacation. The non-current deferred tax assets are primarily composed of deferred revenue and Federal net operating loss carryforwards. The non-current deferred tax liability is primarily composed of excess tax depreciation over book depreciation. The decrease in the valuation allowance during fiscal 1999 resulted from a reduction in the net deferred tax assets.

The Company's effective provision for income taxes differs from the Federal statutory rate. The reasons for such differences are as follows:

| | FEBRUARY 28, 1999 | | FEBRUARY 28, 1998 | | FEBRUARY 28, 1997 | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Provision at Federal statutory rate | $ 112,133 | 34.0% | $ 125,877 | 34.0% | $ 112,387 | 34.0% |
| Increase (decrease) in taxes resulting from: | | | | | | |
| State income taxes, net of Federal benefit | 9,000 | 2.7 | 4,439 | 1.2 | 4,639 | 1.4 |
| Foreign taxes | 18,813 | 5.7 | 2 | - | 22,864 | 6.9 |
| Use of net operating loss carryforwards | (114,633) | (34.7) | (125,375) | (33.9) | (112,387) | (34.0) |
| Effective tax rate | $ 25,313 | 7.7% | $ 4,943 | 1.3% | $ 27,503 | 8.30% |

(6) COMMITMENTS AND CONTINGENCIES

(A) LEASES

Certain of the Company's facilities and equipment are leased under noncancellable lease agreements and certain operating leases contain minimum annual escalations in base rent. Rental expense amounted to $430,435, $445,088, and $439,972 for the years ended February 28, 1999, 1998 and 1997, respectively.

The following is a schedule, by fiscal year, of future minimum rental payments required under operating leases as of February 28, 1999:

| FISCAL YEAR ENDING FEBRUARY: | AMOUNT |
|---|---|
| 2000 | $ 97,475 |
| 2001 | 298,803 |
| 2002 | 301,282 |
| 2003 | 312,258 |
| 2004 | 324,748 |
| Thereafter | 137,516 |
| Total | $ 1,472,082 |

(b) ROYALTIES

The Company has entered into a number of agreements with licensors, consultants and suppliers, including:

1. The Company has an agreement with a licensor, which provides for the Company to pay royalties of 15 percent, with a minimum annual royalty of $25,000, on the net sales of a product named the Pediatric Counter Rotation System.

2. The Company has agreements with certain licensors, which provide for the Company to pay royalties ranging from 2.5 percent to 15 percent on the net sales of certain biomechanical devices.

Royalties under the above-mentioned agreements aggregated $34,095, $34,157 and $37,881 for the years ended February 28, 1999, 1998 and 1997, respectively.

(7) PENSION PLAN AND 401(K) PLAN

The Company maintains a non-contributory defined benefit pension plan covering substantially all employees. In 1986, the Company adopted an amendment to the plan under which future benefit accruals to the plan will cease (freezing of the maximum benefits available to employees as of July 30, 1986), other than those required by law. Previously accrued benefits will remain in effect and will continue to vest under the original terms of the plan.

The following table sets forth the Company's defined benefit plan status at February 28, 1999 and 1998, determined by the plan's actuary in accordance with Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions", as amended by SFAS No. 132:



Source: LANGER INC, 10-K, June 14, 1999

The following tables set forth the plan's benefit obligation and funded status for the years ended February 28,:

| | 1999 | 1998 |
|---|---|---|
| Projected benefit obligation | $ (413,708) | $ (404,730) |
| Plan assets at fair market value (primarily bond mutual funds) | 257,244 | 184,121 |
| Projected benefit obligation in excess of plan assets | (156,464) | (220,609) |
| Unrecognized transition liability | 151,275 | 159,066 |
| Unrecognized net loss | 252,304 | 241,828 |
| Minimum additional liability | (403,579) | (400,894) |
| Accrued pension cost | $ (156,464) | $ (220,609) |
| Change in projected benefit obligation: | | |
| Projected benefit obligation, beginning of year | $ (404,730) | $ (388,431) |
| Interest cost | (30,355) | (27,409) |
| Benefits paid | 27,514 | 18,455 |
| Actuarial loss | (6,137) | (7,345) |
| Projected benefit obligation, end of year | $ (413,708) | $ (404,730) |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | $ 184,121 | $ 101,116 |
| Actual return on plan assets | 9,462 | 14,610 |
| Employer contribution | 91,175 | 86,850 |
| Benefits paid | (27,514) | (18,455) |
| Fair value of plan assets, end of year | $ 257,244 | $ 184,121 |

Net periodic pension expense is comprised of the following components for the years ended February 28,:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Interest cost on projected benefit obligations | $ 30,355 | $ 27,409 | $ 27,585 |
| Expected return on plan assets | (17,595) | (12,713) | (6,993) |
| Amortization of unrecognized transition liability | 7,791 | 7,791 | 7,791 |
| Recognized actuarial loss | 11,834 | 11,868 | 11,859 |
| Net periodic pension expense | $ 32,385 | $ 34,355 | $ 40,242 |

The discount rate used in determining the actuarial present value of the projected benefit obligations was 7.50% at February 28, 1999 and 1998. The rate of return on plan assets was assumed to be 7.50% at February 28, 1999 and 1998. No assumed increase in compensation levels was used since future benefit accruals have ceased (as discussed above). The unrecognized transition liability and unrecognized net loss are being amortized over 30.4 and 20.4 years, respectively.

In fiscal 1999 and 1998, as required by Statement of Financial Accounting Standards No. 87, the Company recorded additional pension liability ($156,464 and $220,609, respectively, included in Accrued Pension expense) to reflect the excess of accumulated benefits over the fair value of pension plan assets. Since this liability is in excess of the related unrecognized prior service cost (unrecognized transition liability), an amount equal to the unrecognized prior service cost has been recognized as an intangible asset ($151,275 and $159,066, included in "Other assets" as of February 28, 1999 and 1998, respectively). The remaining liability required to be recognized is reported as a separate component of stockholders' equity.



Source: LANGER INC, 10-K, June 14, 1999

The Company has a defined contribution retirement and savings plan (the "401(k) Plan") designed to qualify under Section 401(k) of the Internal Revenue Code (the "Code"). Eligible employees include those who are at least twenty-one years old and who have worked at least 1,000 hours during any one year. The Company may make matching contributions in amounts that the Company determines at its discretion at the beginning of each year. In addition, the Company may make further discretionary contributions. Participating employees are immediately vested in amounts attributable to their own salary or wage reduction elections, and are vested in Company matching and discretionary contributions under a vesting schedule that provides for ratable vesting over the second through sixth years of service. The assets of the 401(k) Plan are invested in stock, bond and money market mutual funds. For the years ended February 28, 1999, 1998 and 1997, the Company made contributions totaling $27,387, $31,477 and $25,734, respectively, to the 401(k) Plan.

(8) STOCK OPTIONS AND WARRANTS

On July 27, 1992, the Company adopted a qualified stock option plan for employees, officers, directors, consultants and advisors of the Company covering 125,000 shares of common stock. On January 4, 1995, the Board of Directors increased the number of shares authorized to be issued under the plan to 350,000 shares, which amendment has been approved by stockholders at the September 13, 1995 stockholders' meeting. On January 21, 1999, the Board of Directors further increased the number of shares authorized to be issued under the plan to 550,000 shares. This amendment has yet to be approved by stockholders. Options granted under the plan are exercisable for a period of either five or ten years at an exercise price at least equal to 100 percent of the fair market value of the Company's common stock at date of grant. The Board of Directors has the discretion as to the persons to be granted options as well as the number of shares and terms of the option agreements. The expiration date of the plan is July 26, 2002.

The Company has also granted non-incentive stock options. These options are generally exercisable for a period of five or ten years and are issued at a price equal to or higher than the fair market value of the Company's common stock at the date of grant. At February 28, 1999, 375,250 non-incentive and incentive stock options were outstanding.

The following is a summary of activity related to the Company's incentive and non-incentive stock options:

| | EXERCISE NUMBER OF SHARES | WEIGHTED AVERAGE PRICE RANGE PER SHARE | EXERCISE PRICE PER SHARE |
|---|---|---|---|
| Outstanding at February 29, 1996 | 156,250 | $.56 - $1.31 | $.90 |
| Granted | 58,000 | 1.56 - 2.19 | 2.14 |
| Exercised | (3,000) | .78 | .78 |
| Cancelled | (2,000) | .78 | .78 |
| Outstanding at February 28, 1997 | 209,250 | .56 - 2.19 | 1.25 |
| Granted | 43,000 | 1.63 - 1.88 | 1.81 |
| Exercised | (1,000) | .78 | .78 |
| Outstanding at February 28, 1998 | 251,250 | .56 - 2.19 | 1.35 |
| Granted | 175,000 | 1.13 | 1.13 |
| Exercised | (1,000) | .78 | .78 |
| Cancelled | (50,000) | .75 | .75 |
| Outstanding at February 28, 1999 | 375,250 | $.56 - $2.19 | $1.36 |



Source: LANGER INC, 10-K, June 14, 1999

At February 28, 1999, 375,250 options were exercisable and 139,250 options were available for issuance. The 375,250 shares outstanding at February 28, 1999 had remaining lives of between less than one year and more than nine years, with a weighted average life of 6.15 years.

At February 28, 1999, there were 514,500 shares of common stock reserved for issuance under the Company's stock option plan.

ADDITIONAL STOCK PLAN INFORMATION

The Company continues to account for its stock-based awards using the intrinsic value method in accordance with APB 25, "Accounting for Stock Issued to Employees", and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements.

SFAS No. 123, "Accounting for Stock-Based Compensation", requires the disclosure of pro forma net income and net income per share had the Company adopted the fair value method as of the beginning of fiscal 1997. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 60 months following vesting; stock volatility of 39.08%, 42.82% and 44.95%, and risk free interest rates of 5.4%, 7.5% and 7.0% in fiscal 1999, 1998 and 1997, respectively, and no dividends during the expected term. The Company's calculations are on a multiple option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the award had been amortized to expense over the vesting period of the awards, the pro forma net income and net income per share for the years ended February 28, 1999, 1998 and 1997 would have been net income of $170,020, or $.07 per share, $311,532, or $.12 per share, and $280,553, or $.11 per share, respectively, on both a primary and fully diluted basis.

(9) EXPORT SALES AND OTHER INCOME

The Company had export sales from its United States operations of approximately 15, 16 and 16 percent of net sales for each of the years ended February 28, 1999, 1998 and 1997.

Included in Other Income for the year ended February 28, 1999 is $150,000 related to the settlement of an insurance claim.

(10) SEGMENT INFORMATION

The Company operates in two segments (North America and United Kingdom) principally in the design, development, manufacture and sale of foot and gait-related products. Intersegment sales are recorded at cost. The prior years' financial statements have been restated to conform with SFAS No. 131. Segment information for the years ended February 28, 1999, 1998 and 1997 are summarized in accordance with SFAS No. 131 as follows:

| 1999 | NORTH AMERICA | UNITED KINGDOM | CONSOLIDATED TOTAL |
|---|---|---|---|
| Net sales from external customers | $ 8,948,501 | $ 1,358,614 | $ 10,307,114 |
| Intersegment net sales | 176,277 | - | 176,277 |
| Gross margins | 3,207,393 | 542,521 | 3,749,914 |
| Operating (loss) profit | (68,615) | 173,723 | 105,108 |
| Depreciation and amortization | 196,509 | 17,027 | 213,536 |
| Total assets | 4,633,039 | 491,541 | 5,124,580 |
| Capital expenditures | 100,351 | 6,795 | 107,146 |



Source: LANGER INC, 10-K, June 14, 1999

| 1998 | | | |
|---|---|---|---|
| Net sales from external customers | $ 9,024,360 | $ 1,131,725 | $ 10,156,085 |
| Intersegment net sales | 142,814 | - | 142,814 |
| Gross margins | 3,648,092 | 412,581 | 4,060,673 |
| Operating profit | 240,644 | 75,516 | 316,160 |
| Depreciation and amortization | 182,191 | 25,042 | 207,233 |
| Total assets | 4,392,538 | 455,298 | 4,847,836 |
| Capital expenditures | 435,716 | 42,758 | 478,474 |
| **1997** | | | |
| Net sales from external customers | $ 9,473,108 | $ 1,041,734 | $ 10,514,842 |
| Intersegment net sales | 123,900 | - | 123,900 |
| Gross margins | 3,896,409 | 468,561 | 4,364,970 |
| Operating profit | 114,405 | 156,204 | 270,609 |
| Depreciation and amortization | 172,855 | 17,774 | 190,618 |
| Total assets | 4,014,392 | 430,634 | 4,445,026 |
| Capital expenditures | 40,810 | 12,472 | 53,282 |

(11) REVOLVING CREDIT LINE

The Company has a revolving credit facility with a bank. The agreement, which expires July 31, 1999, provides for a revolving credit line not to exceed $1,500,000. Interest on the outstanding balance is payable at prime (7 3/4 percent at February 28, 1999) plus 1/2 percent per annum.

The agreement contains, among other items, restrictions relating to the incurrence of additional indebtedness and the payment of dividends. Additionally, the Company is required to maintain certain minimum financial ratios. Borrowings under this agreement are collateralized by substantially all of the assets of the Company.

At February 28, 1999 and 1998, there were no borrowings outstanding under this credit facility.

(12) RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE

In accordance with SFAS No. 128, basic earnings per common share ("EPS") are computed based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are computed based on the weighted average number of common shares, after giving effect to dilutive common stock equivalents outstanding during each period. The following table provides a reconciliation between basic and diluted earnings per share:

| | FOR THE YEAR ENDED | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FEBRUARY 28, 1999 | | | FEBRUARY 28, 1998 | | | FEBRUARY 28, 1997 | | |
| | INCOME | SHARES | PER SHARE | INCOME | SHARES | PER SHARE | INCOME | SHARES | PER SHARE |
| BASIC EPS | | | | | | | | | |
| Income available to common Stockholders | $304,490 | 2,584,336 | $ .12 | $365,282 | 2,584,780 | $ .14 | $ 303,047 | 2,583,344 | $ .12 |
| EFFECT OF DILUTIVE SECURITIES | | | | | | | | | |
| Stock options | - | 22,949 | - | - | 73,598 | - | - | 83,076 | (.01) |
| DILUTED EPS | | | | | | | | | |
| Income available to common stockholders plus assumed exercise of stock options | $304,490 | 2,607,285 | $ .12 | $365,282 | 2,658,378 | $ .14 | $ 303,047 | 2,666,420 | $ .11 |

* * * * *



Source: LANGER INC, 10-K, June 14, 1999

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
SCHEDULE II

FOR THE YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

| | SALES RETURNS AND ALLOWANCES | ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE | WARRANTY RESERVE | INVENTORY RESERVE |
|---|---|---|---|---|
| At February 29, 1996 | $ 32,058 | $ 20,570 | $ 31,479 | $ 78,020 |
| Additions | - | 7,524 | 6,207 | - |
| Deletions | - | 8,319 | 3,889 | 18,408 |
| At February 28, 1997 | 32,058 | 19,775 | 33,797 | 59,612 |
| Additions | - | 17,525 | - | - |
| Deletions | - | 13,951 | - | 601 |
| At February 28, 1998 | 32,058 | 23,349 | 33,797 | 59,011 |
| Additions | 14,000 | 59,788 | 13,000 | 27,000 |
| Deletions | - | 46,982 | - | 18,484 |
| At February 28, 1999 | $ 46,058 | $ 36,155 | $ 46,797 | $ 67,527 |



Source: LANGER INC, 10-K, June 14, 1999

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

OFFICERS AND DIRECTORS

The executive officers and directors of the Company are as follows:

| NAME | AGE | OFFICE |
|---|---|---|
| Stephen V. Ardia | 57 | Chairman of the Board |
| Kenneth Granat | 54 | Director |
| Daniel J. Gorney | 55 | President and Chief Executive Officer |
| Dr. Justin Wernick | 63 | Chief Medical Director, Secretary and Director |
| Thomas I. Altholz | 48 | Director |
| Howell S. Schorr | 53 | Vice President - Operations |

Mr. Ardia was appointed as Chairman of the Board of Directors of the Company in January 1999 and has been a Director of the Company since November 1998. From 1969 to 1994, he was employed by Goulds Pumps, Inc., including most recently as President and Chief Executive Officer. Goulds Pumps, Inc. is a Fortune 500 manufacturer of industrial and residential pumps. From 1995 to 1999, Mr. Ardia was President at Environment One Corporation, a maker of advanced, environmentally sensitive sewage collection systems. Mr. Ardia serves on the Board of Directors of the New York College of Chiropractic Medicine.

Mr. Granat has been a Director of the Company since January 1995, including serving as Chairman of the Board from January 1995 to January 1999. Since 1987, he has been President of Active Screw and Fastener Inc., an Elk Grove. Village, Illinois company, engaged in full line distribution of fasteners with plants in Chicago, Illinois and Tucson, Arizona. Since 1991, he has also been Vice President and a Director of Trigran Investments Inc., Deerfield, Illinois, the general partner and investment advisor for Trigran Investments, L.P., and a more than 10 percent shareholder of the Company. Mr. Granat holds a J.D. from the University of Illinois as well as a B.B.A. degree in Business from the University of Michigan.

Mr. Gorney has been President and Chief Executive Officer of the Company since November 1998. From 1996 to 1998, he was Chief Executive Officer of LifeVision, LLC, a health care services company. From 1994 to 1996, Mr. Gorney was Chief Operating Officer of Visionics Corporation, a vision care company. He received a Bachelor of Arts degree in History and Business from the University of Buffalo with advanced studies in Organizational Development and Marketing Management.

Dr. Wernick is the co-founder, Secretary and a Director of the Company since its formation. From the formation of the Company until June 30, 1997, Dr. Wernick was Executive Vice President of the Company; commencing July 1, 1997, he became Chief Medical Director of the Company. In addition, since July 1997, Dr. Wernick has been Medical Director of Eneslow Comfort Shoe Centers, a shoe retailer. Dr. Wernick is a Diplomate of the American Board of Podiatric Orthopedics, a Fellow of the American College of Foot Orthopedics and of the Academy of Podiatric Sports Medicine and a member of several other professional societies. In 1975, he was the President of the Nassau County Division, Podiatry Society of the State of New York and was granted the Podiatrist of the Year Award from that Society in that same year. Since 1969, he has held various academic positions at the New York College of Podiatric Medicine and since 1979 has been serving as a professor, and since December 1998 as Chairman, with the Department of Orthopedic Sciences at the New York College of Podiatric Medicine. He has guest lectured and directed educational programs, both nationally and internationally, at many other podiatric colleges and seminars during the past 25 years. He has co-authored a book entitled "A Practical

Manual for a Basic Approach to Biomechanics" in 1972 and a report entitled "A Radiologic Study of Motion of the Foot within a Ski Boot" which was published in the Journal of the American Podiatry Association for which he is also a corresponding consultant. Dr. Wernick received his podiatric medical degree from M.J. Lewi College of Podiatry (now known as the New York College of Podiatric Medicine).

Mr. Altholz has been President, owner and Chief Executive Officer of TIA Solutions, Highland Park, Illinois, a business consulting firm, since 1997. From 1995 to 1996, Mr. Altholz was Director of Acquisitions of Unisource Worldwide, Inc. (since acquired by Georgia Pacific), a company engaged in the paper and packaging distribution business. From 1980 to 1995, he was President and owner of Inlander Steindler Paper Company (ISP), a paper distribution company with regional sales and warehousing centers in the Midwest, which Company was acquired by Alco Standard in November 1995. He has served on several industry advisory Boards such as Minnesota Mining and Manufacturing (MMM) and Scott Paper, and was Chairman of Affiliated Paper Companies. He is a member of the Board of Directors of Regal Ware, Inc., a company engaged in manufacturing and marketing of housewares products, and Northmoor Country Club and also is a member of the Board of Trustees of Ripon College. Mr. Altholz received his B.A. in Economics from Ripon College in Ripon, Wisconsin. .

Mr. Schorr has been Vice President of Operations since 1991. From 1988 to 1991, prior to becoming an executive officer of the Company, he was the Operations Manager for the Deer Park, New York, and Branch Manager for the Brea, California, facilities of the Company. From 1966 to 1987, Mr. Schorr was employed by Hazeltine Corporation/Esprit Systems, Inc. During his 21 years of service with Hazeltine Corporation/Esprit Systems, Inc., he held the positions of Director of Operations, National Service Manager, Customer Service/Production Manager, as well as other various supervisory and managerial positions. He has a B.S. in Business Administration from New York Institute of Technology.

All directors are normally elected at the annual meeting of shareholders to hold office until the next annual meeting and until their successors are duly elected and qualified. The Company's By-Laws provide that the annual meeting of shareholders be held each year at a time and place to be designated by the Board of Directors. Directors may be removed at any time for cause by the Board of Directors and with or without cause by a majority of the votes cast at a meeting of shareholders entitled to vote for the election of directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company is not aware of any late filings of, or failures to file, during the fiscal year ended February 28, 1999, the reports required by Section 16(a) of the Securities Exchange Act of 1934, except as follows:

Mr. Gorney and Mr. Ardia each filed one late Form 4, in each case relating to a single private purchase of Common Stock from the former President of the Company. In addition, Mr. Altholz filed a late Form 4 related to open market purchases of common stock.

LIMITATION ON LIABILITY OF DIRECTORS

As permitted by New York law, the Company's Certificate of Incorporation contains an article providing for the elimination of the personal liability of the directors of the Company to the fullest extent permitted by the provisions of paragraph (b) of Section 402 of the New York Business Corporation Law. Accordingly, a director's personal liability would be eliminated for any breach of a director's duty, unless, among other things, the director's actions or omissions were in bad faith, involved intentional misconduct or a knowing violation of the law, or personal gain in fact of a financial profit to which the director was not lawfully entitled. This article is intended to afford directors additional protection, and limit their potential liability, from suits alleging a breach of the duty of care by a director. The Company believes this article enhances the Company's ability to attract and retain qualified persons to serve as directors. As a result of the inclusion of such a provision, shareholders may be unable to recover monetary damages against directors for actions taken by them which constitute negligence or gross negligence or which are in violation of their fiduciary duties, although it may be possible to obtain injunctive or other equitable relief with respect to such actions. If equitable remedies are found not to be available to shareholders for any particular case, shareholders may not have any effective remedy against the challenged conduct.



Source: LANGER INC, 10-K, June 14, 1999

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table shows the cash compensation received by the three executive officers either whose compensation exceeded $100,000 during the fiscal year ended February 28, 1999 or was Chief Executive Officer of the Company during such year:

| NAME AND PRINCIPAL POSITION | FISCAL YEAR | SALARY $ | ANNUAL COMPENSATION BONUS $ | ANNUAL COMPENSATION OTHER $ | LONG-TERM COMPENSATION OPTIONS (NO. OF SHARES) |
|---|---|---|---|---|---|
| Daniel J. Gorney President and Chief Executive Officer | 1999 | 34,663 (1) | - | - | 15,000 |
| Gary L. Grahn | 1999 | 160,000 | 64,000 | 26,666 (2) | - |
| Former President and | 1998 | 160,000 | 53,440 | (3) | - |
| Chief Executive Officer | 1997 | 160,000 | 28,000 | (3) | 30,000 |
| Howell S. Schorr | 1999 | 99,585 | 5,000 | - | - |
| Vice President - Operations | 1998 | 94,000 | - | - | 5,000 |
| | 1997 | 85,800 | 10,000 | - | 5,000 |

(1) MR. GORNEY'S EMPLOYMENT COMMENCED ON NOVEMBER 30, 1998.
(2) MR. GRAHN'S EMPLOYMENT WAS TERMINATED IN DECEMBER 1999, OTHER COMPENSATION OF $26,666 REPRESENTS SEVERANCE PAY AND OTHER MINOR NON-DISCLOSED ITEMS ARE LESS THAN 10% OF TOTAL ANNUAL SALARY AND BONUS.
(3) LESS THAN 10% OF THE TOTAL ANNUAL SALARY AND BONUS.

OPTION GRANTS IN LAST FISCAL YEAR

| | INDIVIDUAL GRANTS | | | | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTIONTERM (1) | |
|---|---|---|---|---|---|---|
| NAME | NUMBER OF SECURITIES UNDERLYING OPTION/SARS GRANTED (#) | PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE ($/SH) | EXPIRATION DATE | 5% ($) | 10% ($) |
| Daniel J. Gorney | 75,000 | 42.9 | $1.1250 | 11/30/08 | $53,063 | $134,472 |
| Gary L. Grahn | - | - | - | - | - | - |
| Howell S. Schorr | - | - | - | - | - | - |

(1) The potential realizable value portion of the foregoing table illustrates value that might be received upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation on the Company's Common Stock over the term of the options. These numbers do not take into account provisions of certain options providing for termination of the option following termination of employment.



Source: LANGER INC, 10-K, June 14, 1999

FISCAL YEAR-END OPTION VALUES

The table below sets forth information regarding unexercised options held by the Company's named executive officers as of February 28, 1999. No options were exercised by the Company's executive officers during fiscal 1999.

| | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE |
|---|---|---|
| Name | (#) | $ (1) |
| Daniel J. Gorney | 15,000/60,000 | 11,250/45,000 |
| Gary L. Grahn | -/- | -/- |
| Howell S. Schorr | 15,000/- | 25,782/- |

(1) The closing bid price of the Company's Common Stock as reported by NASDAQ on February 26, 1999 was $1.875. Value is calculated on the difference between the option exercise price of in- the-money options and $1.75 multiplied by the number of shares of Common Stock underlying the option.

LONG-TERM INCENTIVE PLAN-AWARDS IN LAST FISCAL YEAR

None.

COMPENSATION OF DIRECTORS

Directors, who are not executive officers of the Company, are expected to be compensated by means of the issuance of shares of Common Stock. In this connection, each outside director was awarded 4,000 shares of Common Stock in 1999.

EMPLOYMENT AGREEMENTS

None.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of May 27, 1999, the shares of Common Stock owned beneficially and of record (unless otherwise indicated) by each person owning more than five percent (5%) of the outstanding shares, each director of the Company, each named executive officer of the Company and all directors and officers of the Company as a group.

| NAME (AND ADDRESS OF 5% HOLDERS) | NUMBER OF SHARES OWNED | PERCENT |
|---|---|---|
| Kenneth Granat<br>155 Pfingsten, Suite 360<br>Deerfield, Illinois 60015 | 707,153 (1) | 26.1% |
| Donald Cecil<br>1114 Avenue of the Americas<br>New York, New York 10036 | 248,553 | 9.6% |
| Dr. Justin Wernick<br>450 Commack Road<br>Deer Park, New York 11729 | 242,867 | 9.3% |



Source: LANGER INC, 10-K, June 14, 1999

| NAME (AND ADDRESS OF 5% HOLDERS) | NUMBER OF SHARES OWNED | PERCENT |
|---|---|---|
| Stephen V. Ardia | 91,333 (2) | 3.5% |
| Thomas I. Altholz | 49,500 (3) | 1.9% |
| Daniel J. Gorney | 40,000 (4) | 1.5% |
| Howell S. Schorr | 15,000 (5) | .6% |
| Gary Grahn | - | - |
| All Directors and Officers as a Group (7 persons) | 1,145,853 (6) | 41.4% |

(1) INCLUDES 110,000 SHARES ISSUABLE UNDER OUTSTANDING STOCK OPTIONS EXERCISABLE WITHIN SIXTY DAYS AND 552,753 HELD BY TRIGRAN INVESTMENTS LP. MR. GRANAT IS A DIRECTOR AND VICE PRESIDENT OF THE GENERAL PARTNER OF TRIGRAN INVESTMENTS, LP. AN ADDITIONAL 30,000 SHARES ARE OWNED BY THE GRANAT FAMILY LIMITED PARTNERSHIP OF WHICH MR. GRANAT IS A GENERAL PARTNER AND 10,400 SHARES ARE OWNED BY A TRUST OF WHICH MR. GRANAT IS A BENEFICIARY. MR. GRANAT ALSO OWNS 4,000 SHARES PERSONALLY.
(2) INCLUDES 25,000 SHARES ISSUABLE UNDER OUTSTANDING STOCK OPTIONS EXERCISABLE WITHIN SIXTY DAYS.
(3) INCLUDES 5,000 SHARES ISSUABLE UNDER OUTSTANDING STOCK OPTIONS EXERCISABLE WITHIN SIXTY DAYS.
(4) INCLUDES 20,000 SHARES ISSUABLE UNDER OUTSTANDING STOCK OPTIONS EXERCISABLE WITHIN SIXTY DAYS.
(5) INCLUDES 15,000 SHARES ISSUABLE UNDER OUTSTANDING STOCK OPTIONS.
(6) INCLUDES 170,000 SHARES ISSUABLE UNDER OUTSTANDING STOCK OPTIONS.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.



Source: LANGER INC, 10-K, June 14, 1999

PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(A) 1. FINANCIAL STATEMENTS

The following consolidated financial statements are filed as part of this Form 10-K:

Independent Auditors' Report

Consolidated Financial Statements:

Consolidated Balance Sheets as of February 28, 1999 and February 28, 1998

Consolidated Statements of Operations for the years ended February 28, 1999, 1998 and 1997

Consolidated Statements of Stockholders' Equity for the years ended February 28, 1999, 1998 and 1997

Consolidated Statements of Cash Flows for the years ended February 28, 1999, 1998 and 1997

Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES

The following Financial Statement Schedule is filed as part of this Form 10-K:

Schedule II - Valuation and Qualifying Accounts for the years ended February 28, 1999, 1998 and 1997

All other schedules have been omitted because they are not applicable, not required or the information is disclosed in the consolidated financial statements, including the notes thereto.

3. EXHIBITS

| NUMBER | | DOCUMENT |
|---|---|---|
| (3) | (a) | Copy of Restated Certificate of Incorporation and amendments thereto. (1)(4) |
| | (b) | Copy of Bylaws, as amended through July 2, 1987. (3) |
| (4) | (a) | Specimen of Common Stock Certificate. (1) |
| | (b) | Copy of 1992 Stock Option Plan. (6 ) |
| (10) | (a) | Copy of Agreements, dated February 23, 1993, relating to the Company's 75% ownership interest in Langer Orthotic Laboratory (U.K.) Limited. (6) |
| | (b) | Copy of The Langer Biomechanics Group Retirement Plan, restated as of July 30, 1979. (1) |
| | (c) | Copy of Leases related to the Company's Deer Park facilities. (6) |
| | (d) | Copy of Agreement, dated July 8, 1986, between BioResearch Ithaca, Inc. and the Company relating the licensing of the Pediatric Counter Rotation System. (2) |



Source: LANGER INC, 10-K, June 14, 1999

(e) Copy of Leases relating to the Company's Brea, California facilities. (5)

(f) Copy of Agreement, dated March 26, 1992 and effective as of March 1, 1992, relating to the Company's 401(k) Tax Deferred Savings Plan. (5)

(g) Copy of letter agreement, dated January 27, 1995, between the Company and Tekscan, Incorporated. (7)

(h) Copy of Employment Agreement, dated as of May 2, 1997, between the Company and Dr. Justin Wernick. (8)

(22) List of subsidiaries (4)

(24) Consent of Independent Auditors

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 2-87183), which became effective with the Securities and Exchange Commission on January 17, 1984.

(2) Incorporated by reference to the Company's Form 10-K for the fiscal year ended July 31, 1986.

(3) Incorporated by reference to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8.

(4) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1989.

(5) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 29, 1992.

(6) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1993.

(7) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1995.

(8) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1997.

(27) Financial Statement Schedule

(b) REPORTS ON FORM 8-K:

None.



Source: LANGER INC, 10-K, June 14, 1999

SIGNATURES

Pursuant to the requirements of Section l3 or l5(d) of the Securities Exchange Act of l934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE LANGER BIOMECHANICS GROUP, INC.

Date: June 14, 1999 By: /s/ Daniel J. Gorney

Daniel J. Gorney, President and
Chief Executive Officer
(Principal Executive, Financial and
Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of l934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: June 14, 1999 By: /s/ Kenneth Granat

Kenneth Granat, Director

Date: June 14, 1999 By: /s/ Stephen V. Ardia

Stephen V. Ardia, Director

Date: June 14, 1999 By: /s/ Justin Wernick

Dr. Justin Wernick, Director

Date: June 14, 1999 By: /s/ Thomas I. Altholz

Thomas I. Altholz, Director



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Exhibit 24

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-89880 of The Langer Biomechanics Group, Inc. on Form S-8 of our report dated June 4, 1999 appearing in this Annual Report on Form 10-K of The Langer Biomechanics Group, Inc. for the year ended February 28, 1999.

Jericho, New York
June 11, 1999

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