

Edgar Filing: MEDSTONE INTERNATIONAL INC/ - Form 10-Q

MEDSTONE INTERNATIONAL INC/  
Form 10-Q  
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-16752

MEDSTONE INTERNATIONAL, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

66-0439440

-----  
(State or other jurisdiction  
of incorporation or organization)

(I.R.S. Employer  
Identification No.)

100 Columbia, Suite 100, Aliso Viejo, California

92656

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (949) 448-7700

Not Applicable

-----  
(Former name, former address and former fiscal year,  
if changed, since last report)

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  No   
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The number of shares of the Common Stock of the registrant outstanding as of November 2, 2001 was 4,176,220.

MEDSTONE INTERNATIONAL, INC.

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MEDSTONE INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2001
	----- (Unaudited)
	ASSETS
	-----
Current assets:	
Cash and cash equivalents	\$ 2,872,927
Short-term investments held to maturity	3,381,474
Accounts receivable, less allowance for doubtful accounts	

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\$685,986 and \$477,180 at September 30, 2001 and December 31, 2000, respectively	4,269,887
Inventories, less allowance for inventory obsolescence of \$498,417 at September 30, 2001 and \$457,088 at December 31, 2000, respectively	6,330,296
Deferred tax assets	1,005,814
Prepaid expenses and other current assets	392,125
	-----
Total current assets	18,252,523
Buildings, property and equipment, at cost:	
Building	359,324
Lithotripters	13,243,389
Equipment, furniture and fixtures	3,031,040
Leasehold improvements	170,427
	-----
	16,804,180
Less accumulated depreciation and amortization	(11,929,446)
	-----
Net property and equipment	4,874,734
	-----
Goodwill, net	3,230,170
Investment in unconsolidated subsidiaries	2,114,584
Long-term receivable from unconsolidated subsidiary	2,000,000
Net investment in sale-type lease	262,737
Other assets, net	122,931
	-----
	\$ 30,857,679
	=====

### LIABILITIES AND STOCKHOLDERS' EQUITY

-----	
Current liabilities:	
Accounts payable	\$ 969,846
Accrued expenses	506,102
Accrued income taxes	278,449
Accrued payroll expenses	307,751
Customer deposits	367,730
Deferred revenue	611,549
	-----
Total current liabilities	3,041,427
Deferred tax liabilities	562,313
Minority interest	622,736
Deferred rent	85,575
Stockholders' equity:	
Common stock - \$.004 par value, 20,000,000 shares authorized, 5,742,670 shares issued and outstanding at both September 30, 2001 and December 31, 2000, respectively	22,971
Additional paid-in capital	19,646,388
Accumulated earnings	17,603,770
Accumulated other comprehensive income	47,588
Treasury stock, at cost, 1,544,450 and 1,434,450 shares at September 30, 2001 and December 31, 2000, respectively	(10,775,089)
	-----
Total stockholders' equity	26,545,628
	-----
	\$ 30,857,679
	=====

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See accompanying notes.

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	(Unaudited)	
	Three Months Ended September 30,	
	2001	2000
	-----	-----
Revenues:		
Procedures, maintenance fees and fee-for service....	\$ 4,816,951	\$ 4,908,462
Net equipment sales.....	1,066,443	374,000
Interest income.....	104,139	160,408
	-----	-----
Total revenues.....	5,987,533	5,442,870
Costs and expenses:		
Costs of procedures and maintenance fees.....	2,928,207	3,209,622
Cost of equipment sales.....	683,820	222,145
Research and development.....	319,631	253,145
Selling .....	681,465	544,491
General and administrative.....	591,478	559,161
	-----	-----
Total costs and operating expenses.....	5,204,601	4,788,564
	-----	-----
Operating income.....	782,932	654,306
Other expense (income):		
Gain on sale of investments.....	(200,169)	(471,897)
Other expense.....	47,255	22,270
	-----	-----
Total other expense (income):.....	(152,914)	(449,627)
Minority interests:		
Minority interest in subsidiaries income.....	229,485	213,314
Equity in (income)/loss from unconsolidated subsidiaries.....	186,179	(12,119)
	-----	-----
Total minority interest.....	415,664	201,195
	-----	-----
Income before provision for income taxes.....	520,182	902,738
Provision for income taxes.....	205,129	330,000
	-----	-----
Net income .....	\$ 315,053	\$ 572,738
	=====	=====
Earnings per share:		
Basic .....	\$ .08	\$ .13
	=====	=====
Diluted .....	\$ .08	\$ .13
	=====	=====

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Number of shares used in the computation of earnings per share:

Basic	.....	4,198,220	4,421,134
		=====	=====
Diluted	.....	4,198,220	4,458,456
		=====	=====

See accompanying notes.

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MEDSTONE INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional	Accumulated	Accumulated	
	Number of	paid-in	earnings	Other	
	shares	capital		Comprehensive	
	Amount			income (loss)	
	-----	-----	-----	-----	
Balance at December 31, 2000	4,308,220	\$ 22,971	\$19,646,388	\$ 16,708,143	\$ 55,395
Net income	---	---	---	895,627	---
Other comprehensive income:					
Unrealized loss on foreign					
currency translation, net	---	---	---	---	(7,807)
Total comprehensive income					
Treasury stock repurchased	(110,000)	---	---	---	---
Balance at September 30, 2001 (Unaudited)	4,198,220	\$ 22,971	\$19,646,388	\$ 17,603,770	\$ 47,588
	=====	=====	=====	=====	=====

See accompanying notes.

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MEDSTONE INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Nine months ended September 30, 2001 and 2000  
(Unaudited)

	2001
	-----
Cash flows from operating activities:	
Net income .....	\$ 895,627

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Adjustments to reconcile net income to net	
cash provided (used) by operating activities:	
Depreciation and amortization.....	1,569,241
Minority interest in partnership.....	564,444
Minority equity in unconsolidated subsidiaries.....	149,014
Provision for doubtful accounts.....	215,000
Provision for inventory obsolescence.....	126,000
Gain on sale of investments.....	(627,774)
Provision for investment write down.....	
Changes in assets and liabilities:	
Accounts receivable.....	(319,324)
Receivable from unconsolidated subsidiary.....	---
Inventories.....	(575,131)
Prepaid expenses and other current assets.....	236,963
Accounts payable and accrued expenses.....	208,255
Accrued income taxes.....	232,850
Deferred revenue.....	(44,783)
Customer deposits.....	309,289
Other, net.....	4,151
	-----
Net cash provided by operating activities.....	2,943,822
	-----
Cash flows from investing activities:	
Purchase of short-term investments.....	(6,739,054)
Proceeds from sales of short-term investments.....	8,581,239
Sale of long-term investments.....	627,774
Distribution of minority interest.....	(496,000)
Investment in other entities.....	(1,000,000)
Long-term loan to unconsolidated subsidiary.....	---
Purchase of property and equipment.....	(1,199,985)
Disposals of property and equipment.....	5,963
	-----
Net cash provided by (used in) investing activities.....	(220,063)
	-----
Cash flows from financing activities:	
Proceeds from issuance of common stock .....	---
Purchase of Treasury Stock.....	(650,506)
Net investment in sale-type lease .....	(143,114)
Deferral of rent payments .....	6,878
Loan payments.....	(9,700)
	-----
Net cash used in financing activities.....	(796,442)
	-----
Net increase in cash and cash equivalents.....	1,927,317
Cash and cash equivalents at beginning of period.....	945,610
	-----
Cash and cash equivalents at end of period.....	\$ 2,872,927
	=====
Supplemental cash flow disclosures:	
Cash paid during the period for:	
Income taxes .....	\$ 442,086
Interest.....	\$ 0

See accompanying notes.

MEDSTONE INTERNATIONAL, INC.  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

A. Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of Medstone International, Inc. and its subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated.

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements include all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of its consolidated financial position at September 30, 2001 and consolidated results of operations and cash flows for the periods presented. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2001. Results of operations for the three and nine months ended September 30, 2001 are not necessarily indicative of results to be expected for the full year.

On September 1, 2001, the Company purchased common stock representing 25% of the outstanding shares of Arcoma AB, a Swedish manufacturer and supplier of equipment to the Company. The Company reflects this purchase as an investment in unconsolidated subsidiary and reflects its proportional percentage of operating income or loss in minority interests. Operating results for Arcoma AB for the three months ended September 30, 2001 were not material.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

B. Recently Issued Accounting Pronouncement

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income, after tax, of approximately \$60,000 (\$.01 per share) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

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### C. Accumulated Other Comprehensive Loss

The components of other comprehensive loss are as follows:

Currency Translation Adjustment	
Balance at December 31, 2000	\$ 55,395
Foreign currency translation adjustments	(7,807)
Balance at September 30, 2001	\$ 47,588

The functional currency of the investment in foreign subsidiaries is considered to be the United States dollar.

The earnings associated with the Company's investment in its foreign subsidiaries are considered to be permanently invested and no provision for U.S. federal and state income taxes on those earnings or translation adjustments has been provided.

For the three months ended September 30, 2001 and 2000, total comprehensive income was \$321,068 and \$541,666, respectively, For the nine months ended September 30, 2001 and 2000, total comprehensive income was \$887,820 and \$2,130,187, respectively.

### D. Business Segments

The Company operates in two business segments, equipment sales and fees for procedures, maintenance and management.

	Three months ended		Nine months ended	
	September		September	
	2001	2000	2001	2000
	-----	-----	-----	-----
<b>Revenue:</b>				
Equipment sales	\$1,066,443	\$ 374,000	\$ 2,134,302	\$ 2,880,544
Fees for procedures, maintenance and management	4,816,951	4,908,462	14,076,918	14,215,683
	-----	-----	-----	-----
	\$5,883,394	\$5,282,462	\$16,211,220	\$17,096,227
	=====	=====	=====	=====
 <b>Operating income (loss):</b>				
Equipment sales	\$ 94,547	\$ (34,593)	\$ (29,144)	\$ 82,687
Fees for procedures, maintenance and management	841,298	1,138,526	2,278,008	3,918,507
	-----	-----	-----	-----
	\$ 935,845	\$1,103,933	\$ 2,248,864	\$ 4,001,194
	=====	=====	=====	=====

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### E. Per share information

The Company has adopted SFAS No. 128 "Earnings Per Share," and applied this pronouncement to all periods presented. This statement requires the presentation of both basic and diluted net income per share for financial



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statement purposes. Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding. Diluted net income per share includes the effect of the potential shares outstanding, including dilutive stock options and warrants using the treasury stock method. All earnings per share amounts for all periods have been restated to conform with the SFAS No. 128 requirements and the accounting rules set forth in Staff Accounting Bulletin 98 issued by the Securities and Exchange Commission on February 3, 1998.

The following table sets forth the computation of earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Numerator: Net income	\$ 315,053	\$ 572,738	\$ 895,627	\$ 1,317,100
Denominator for weighted average shares outstanding	4,198,220	4,421,134	4,223,220	4,223,220
Basic earnings per share	\$ .08	\$ .13	\$ .21	\$ .31
Effect of dilutive securities:				
Weighted average shares outstanding	4,198,220	4,421,134	4,223,220	4,223,220
Stock options	---	37,322	3,751	---
Denominator for diluted earnings per share	4,198,220	4,458,456	4,226,971	4,223,220
Diluted earnings per share	\$ .08	\$ .13	\$ .21	\$ .31

Common equivalent shares result from the assumed exercise of outstanding dilutive securities when applying the treasury stock method. Fully diluted per share information is not presented for periods in which the effect is antidilutive.

### F. Inventories

At September 30, 2001 and December 31, 2000, inventories consisted of the following:

	September 30, 2001	December 31, 2000
Raw materials	\$ 4,347,417	\$ 3,888,640
Work in process	438,770	231,175
Finished goods	1,544,109	1,983,236
	\$ 6,330,296	\$ 6,103,051

G. Contingencies

From time to time, the Company is subject to legal actions and claims for personal injuries or property damage related to patients who use its products. The Company has obtained a liability insurance policy providing coverage for product liability and other claims. Management does not believe that the resolution of any current proceedings will have a material financial impact on the Company or the consolidated financial statements.

H. Stock Repurchase Plan

On September 26, 2001, the Company announced a stock repurchase plan of up to 420,000 additional shares of its Common Stock. During the third quarter of 2001 the Company did not repurchase any shares. Under all of the Company's stock repurchase plans a total of 1,544,450 shares have been repurchased at a total cost of \$10,775,089.

I. Subsequent Events

Stock Repurchase Plan  
-----

From October 1, 2001 through November 2, 2001, the Company has repurchased a total of 22,000 shares of its Common Stock under the current Stock Repurchase Plan for a cost of approximately \$92,000.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Company's audited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2001.

Results of Consolidated Operations

General

Medstone manufactures, markets and maintains lithotripters, and continues to expand its Fee-for-Service Program to supply lithotripsy equipment to providers on a per procedure basis. The lithotripters manufactured by Medstone are approved to treat both kidney stones and gallstones. The Company is also marketing a urology imaging and treatment table, used for various urological functions, mobile urology and pain management tables to serve the mobile treatment market and various radiology room equipment, capitalizing on the relationships that the Company has with radiology equipment manufacturers. To date, the Company's consolidated revenues have come primarily from Medstone's lithotripsy business.

As a manufacturer of medical devices, the Company has been vertically integrating by offering its medical devices directly to providers. It currently offers lithotripsy procedures using 15 mobile systems, two fixed sites and 23 transmobile lithotripters located throughout the United States on a per procedure basis. With the ability to offer quality equipment at reasonable prices, Medstone intends to continue the growth of this manufacturer direct business.

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### Results of Operations

Three Months ended September 30, 2001 Compared to Three Months Ended September  
-----  
30, 2000  
-----

The Company recognized total revenue of \$6.0 million in the third quarter of 2001 compared to \$5.4 million in the third quarter of 2000, or a 10% increase. Revenues from procedures, maintenance and management fees decreased from \$4.9 million in the three months ended September 30, 2000 to \$4.8 million in the three months ended September 30, 2001 due to lower average per patient charges on the Company's fee-for-service equipment even as the patient count increased slightly. Also decreasing were the revenues from maintenance contracts as the number of contracts declined. Partially offsetting these decreases were increased spares revenues as there were higher shipments for both domestic and foreign customers in the current year when compared to the same period of the prior year. Equipment revenues increased to \$1.066 million in the quarter ending September 30, 2001 from \$ .374 million in the comparable

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quarter of the prior year, or a 185% increase. The Company shipped one lithotripsy system in each period but there were 29 various patient handling tables shipped in the 3 months ended September 30, 2001 compared to two shipped in the same period of 2000.

Interest income decreased by 35% in the third quarter of 2001 when compared to the same period of the prior year due to a significant decline in investment yields and no significant change in the average invested balance.

Recurring revenue cost of sales decreased to 61% of sales in the quarter ended September 30, 2001 compared to 65% in the same quarter of the prior year. This is due to lower depreciation and equipment rental expenses as the fee-for-service revenue stream incorporates more fixed site fee-for-service units and older mobile vans are fully depreciated. Cost of sales on equipment sales increased to 64% of sales in the three months ended September 30, 2001 compared to 59% of sales in the same period of 2000. This increase is due to a higher cost of sales of imaging tables and increased costs of production on lithotripsy equipment. Overall cost of sales, as a percentage of revenue (excluding interest), decreased to 61% in the third quarter of 2001 compared to 65% in the third quarter of 2000.

Research and development costs increased to \$320,000 in the third quarter of 2001 compared to \$253,000 in the third quarter of 2000 or an increase of 26% due to additional UroPro 2000 development spending and additional consulting expenses as the Company accelerates spending on new applications for our existing equipment.

Selling costs increased to \$681,000 in the third quarter of 2001 compared to \$544,000 in the same period of the prior year, a change of \$137,000 or 25% due to higher payroll expenses for added sales staff and increased bad debt expense.

General and administrative expenses increased by \$32,000 or 6% in the three months ended September 30, 2001 compared to the same period in the prior year due to higher legal and audit expenses.

Gain on sale of investments was approximately \$200,000 in the quarter ending September 30, 2001 compared to \$472,000 in the three months ended

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September 30, 2000. The Company sold the final 86,000 shares of its Cardiac Science, Inc. common stock in the current year, whereas the Company sold 65,000 shares of Cardiac Science in the same period of 2000 at a higher average per share price. The net book value of all shares was \$0.

Total minority interest expense increased to \$416,000 in the three months ended September 30, 2001 compared to \$201,000 in the same period of the prior year due to higher profits in the Northern Nevada and Southern Idaho operations and recognition of the Company's portion of operating losses in Medicredit.com, Inc., k.Biotech and Arcoma AB operations in 2001.

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Provision for income taxes for the third quarter of 2001 decreased by \$125,000 as a result of lower taxable income in the current year when compared to the same period of 2000.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30,  
-----  
2000  
-----

The Company recorded total revenue of \$16.6 million in the first nine months of 2001 or a 5% decrease compared to \$17.5 million in the corresponding period of 2000. Revenues from procedures, maintenance and management fees decreased by \$139,000, or 1%, due to lower average reimbursement per patient even as total patient count increased by 3% in the current year, to over 21,400 patients. Maintenance revenue also decreased in the current year compared to the same period in the prior year. Equipment revenue decreased by \$746,000, or 26%, as lithotripter shipments decreased from 7 in the nine months ended September 30, 2000 to 2 in the same period of 2001. Offsetting some of the decline in lithotripter shipments is the increased activity in the Company's imaging tables, as the Company has shipped 78 various types of tables in 2001 with only 2 units sold in the corresponding period of 2000.

Interest income decreased by 18% for the first nine months of 2001 when compared to the same period of the prior year as significantly lower interest yields were earned on a lower average invested balance.

Procedure, maintenance and management fee cost of sales decreased to 60% in the nine months ended September 30, 2001 compared to 61% in the same period of the prior year as costs decreased in the fee-for-service program due to lower depreciation and equipment rental costs. Cost of sales on equipment sales increased to 80% of revenue in the first nine months of 2001 compared to 67% of revenue in the first nine months of 2000 due to lower margins on imaging tables. Overall cost of sales, as a percentage of revenue (excluding interest), increased slightly to 63% in the first nine months of 2001 compared to 62% in the first nine months of 2000.

Research and development costs decreased by \$34,000, or 4% in the first nine months of 2001 when compared to the same period of 2000 as the Company developed the UroPro 2000 table in 2000 and is increasing spending on new project applications in 2001.

Selling costs increased by 22%, or \$350,000, in the first nine months of 2001 compared to the same period of 2000 due to higher tradeshow expenses, payroll for expanded imaging sales efforts and bad debt expense.

General and administrative expenses decreased by 2%, or \$38,000, in the nine months ended September 30, 2001 compared to the first nine months of 2000 due to lower consulting expense regarding the gallstone filing and lower

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audit fees due to the 2000 acquisition of an ownership interest in Medicredit.com, Inc..

Gain on sale of investments was \$628,000 in the nine months ended September 30, 2001 compared to \$1,553,000 in the nine months ended September 30, 2000. In 2001, the Company sold a total of 187,000 shares of Cardiac Science common stock whereas 258,667 shares of

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Cardiac Science common stock and 5,000 shares of Genstar Therapeutics Corp. (Formerly Urogen Corp.) were sold in 2000. The net book value of all shares sold was \$0.

Minority interest increased by 19%, or \$112,000 in the nine months ended September 30, 2001 when compared to the same period of the prior year due to decreased profits in the partnership operations and recognition of the Company's portion of the losses of k.Biotech and Arcoma AB and minimal equity earnings from Medicredit.com, Inc.

Provision for income taxes decreased to \$640,000 in the first nine months of 2001 compared to \$1,350,000 for the same period of 2000 as a result of lower taxable income in the current year.

### Liquidity and Capital Resources

-----

At September 30, 2001, the Company had cash and short-term investments of approximately \$6.3 million. These funds were generated from continuing operating activities.

The Company's long-term capital expenditure requirements will depend on numerous factors, including the progress of the Company's research and development programs, the time required to obtain regulatory approvals, the resources that the Company devotes to the development of self-funded products, proprietary manufacturing methods and advanced technologies, the costs of acquisitions and/or new revenue opportunities, the ability of the Company to obtain additional licensing arrangements and to manufacture products under those arrangements, and the demand for its products if and when approved and possible acquisitions of products, technologies and companies.

The Company believes that its existing working capital and funds anticipated to be generated from operations will be sufficient to meet the cash needs for continuation of its present operations during 2001.

### Safe Harbor Statement Under the Private Securities Litigation Reform

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Act of 1995

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Forward-looking statements in this report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objections, expectations and intentions are subject to change at any time at the discretion of the Company, (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth; (iii) the Company's businesses are highly competitive and the entrance of new competitors into or the expansion of the operations by existing

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competitors in the Company's markets and other changes could adversely affect the Company's plans and results of operations; and (iv) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

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MEDSTONE INTERNATIONAL, INC.

PART II. OTHER INFORMATION

- Item 1.       Legal Proceedings  
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              Previously reported.
- Item 2.       Changes in Securities  
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              None
- Item 3.       Defaults upon Senior Securities  
-----  
  
              None
- Item 4.       Submission of Matters to a Vote of Security Holders  
-----  
  
              None
- Item 5.       Other Information  
-----  
  
              None
- Item 6.       Exhibits and Reports on Form 8-K  
-----  
  
              (a)     The following exhibits are included herein:  
                  None.
- (b)     Reports on Form 8-K.  
                  None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Medstone International, Inc.  
-----  
A Delaware corporation

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Date: November 8, 2001

/s/ Mark Selawski

-----  
Mark Selawski  
Chief Financial Officer  
(Principal financial and  
accounting officer)