ARRHYTHMIA RESEARCH TECHNOLOGY INC /DE/
Form 10-K405/A
April 12, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K A1

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

DECEMBER 31, 2000	1-9731
(FOR THE FISCAL YEAR ENDED)	(COMMISSION FILE NUMBER)

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

ARRHYTHMIA RESEARCH TECHNOLOGY, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	72-0925679
(STATE OR OTHER JURISDICTION OF INCORPORATION OF ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NUMBER)

1101 SOUTH CAPITAL OF TEXAS HIGHWAY BUILDING G, SUITE 200 AUSTIN, TEXAS	78746
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(512) 347-9640
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK, $.01 PAR VALUE	AMERICAN STOCK EXCHANGE
(TITLE OF EACH CLASS)	(NAME OF EACH EXCHANGE ON WHICH REGISTERED)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT

NONE

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. X

On March 1, 2001, there were 3,072,120 shares of the registrant's common stock outstanding, par value $.01, which is the only class of common or voting stock of the registrant. As of March 1, 2001, the aggregate market value of the voting stock of the registrant held by non-affiliates was $4,388,540 based upon the closing price of the shares of common stock on the American Stock Exchange.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The title of the Company's Consolidated Balance Sheets has been amended.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders
Arrhythmia Research Technology, Inc.

We have audited the accompanying consolidated balance sheets of Arrhythmia Research Technology, Inc. and Subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ending December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arrhythmia Research Technology, Inc. and Subsidiary as of December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ending December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/BDO Seidman, LLP

Gardner, Massachusetts
February 16, 2001

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	2000
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,999,292
Trade and other accounts receivable, net of allowance for doubtful accounts of $52,827 and $83,203	1,604,141
Inventories (Note 4)	860,161
Deposits, prepaid expenses and other current assets	62,728
Income taxes recoverable	100,000
Total current assets	4,626,322

PROPERTY, PLANT AND EQUIPMENT, net (Notes 5 and 7)	3,310,958
GOODWILL, net of accumulated amortization (Note 6)	1,456,833
OTHER INTANGIBLES, net of accumulated amortization (Note 6)	48,030
DEFERRED INCOME TAXES, net (Note 8)	444,923
OTHER ASSETS	31,518
Total assets	$ 9,918,584
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of capital lease obligations	$ 23,882
Current maturities of bonds payable and other long-term debt (Note 7)	178,279
Accounts payable	344,821
Accrued expenses	407,897
Total current liabilities	954,879
BONDS PAYABLE AND OTHER LONG-TERM DEBT, net of current maturities (Note 7)	399,490
CAPITAL LEASE OBLIGATIONS, net of current portion	-
DEFERRED REVENUE	4,621
Total liabilities	1,358,990
COMMITMENTS AND CONTINGENCIES (Notes 7, 9, 10 and 13):	
SHAREHOLDERS' EQUITY (Note 13):	
Preferred stock, $1 par value; 2,000,000 shares authorized, none issued	-
Common stock, $.01 par value; 10,000,000 shares authorized; 3,729,681 and 3,711,883 issued, respectively	37,297
Additional paid-in-capital	9,166,615
Common stock held in treasury, 563,446 and 298,406 shares at cost	(1,654,664
Retained earnings	1,010,346
Total shareholders' equity	8,559,594
Total liabilities and shareholders' equity	$ 9,918,584

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,	2000	1999
NET SALES	$ 8,521,863	$ 9,994,986
COMMISSIONS AND RELATED REVENUE (Note 10)	1,000,000	384,598
Total Revenue (Note 14)	9,521,863	10,379,584
COST OF SALES	5,987,579	6,757,519
Gross profit	3,534,284	3,622,065
SELLING AND MARKETING	192,862	392,851
GENERAL AND ADMINISTRATIVE	2,169,217	2,142,607
RESEARCH AND DEVELOPMENT	229,659	297,568
AMORTIZATION OF GOODWILL	129,889	130,519
LOSS FROM IMPAIRMENT OF LONG-LIVED ASSETS (Note 3)	-	-
Income from operations	812,657	658,520
OTHER INCOME (EXPENSE):		
Interest expense	(91,477)	(132,919
Other income (expense), net	(56,053)	(80,243
Total other expense, net	(147,530)	(213,162
INCOME BEFORE INCOME TAXES	665,127	445,358
INCOME TAX PROVISION (Note 8):		
Current	66,000	69,313
Deferred	(21,000)	(49,000
	45,000	20,313
NET INCOME (LOSS)	$ 620,127	$ 425,045
NET INCOME (LOSS) PER SHARE (Note 2):		
Basic	$ 0.19	$ 0.12
Diluted	$ 0.18	$ 0.12

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NOTES 9 AND 13)

	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Unearned ESOP Compensation	(A
DECEMBER 31, 1997	3,679,216	$36,792	$8,909,307	$ (878,787)	$ (82,134)	$
Treasury stock purchase of 28,400 shares	-	-	-	(34,297)	-	
ESOP payments	-	-	-	-	42,857	
Net loss	-	-	-	-	-	
DECEMBER 31, 1998	3,679,216	36,792	8,909,307	(913,084)	(39,277)	
Issuance of common stock	32,667	327	36,986	-	-	
Treasury stock purchase of 153,891 shares	-	-	-	(238,808)	-	
ESOP payments	-	-	-	-	39,277	
Net income	-	-	-	-	-	
DECEMBER 31, 1999	3,711,883	37,119	8,946,293	(1,151,892)	-	
Issuance of common stock	17,798	178	26,322	-	-	
Treasury stock purchase of 265,040 shares	-	-	-	(502,772)	-	
Value of warrants issued with bond renewal	-	-	194,000	-	-	
Net income	-	-	-	-	-	
DECEMBER 31, 2000	3,729,681	$37,297	$9,166,615	$(1,654,664)	$ -	$

SEE ACCOMPANYING NOTES TO CONSOLID

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NOTE 11)

YEARS ENDED DECEMBER 31,	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 620,127	$ 425,045
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Director fees paid in stock	26,500	37,313
Depreciation	771,531	693,648
Provision for doubtful accounts	(30,376)	11,011
Amortization	277,087	194,092
Loss from impairment of long-lived assets	-	-
Deferred income tax provision	(21,000)	(49,000
Deferred revenue	(4,059)	(18,356
Changes in assets and liabilities:		
Trade and other accounts receivable	79,333	(356,441
Inventories	222,356	390,209
Deposits, prepaid expenses and other assets	117,379	(1,147
Income taxes recoverable	229,408	(66,598
Accounts payable and accrued expenses	89,071	(340,427
Net cash provided by operating activities	2,377,357	919,349
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(246,658)	(540,713
Other intangibles	(8,850)	(42,397
Net cash used in investing activities	(255,508)	(583,110
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments under credit facilities	-	-
Principal payments on long-term debt and capital leases	(75,459)	(238,567
Purchase of treasury stock	(502,772)	(238,808
Reduction of unearned ESOP compensation	-	39,277
Net cash used in financing activities	(578,231)	(438,098

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,543,618	(101,859
CASH AND CASH EQUIVALENTS, beginning of year	455,674	557,533
CASH AND CASH EQUIVALENTS, end of year	$ 1,999,292	$ 455,674

SEE ACCOMPANYING NOTES TO CONSOLID

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Arrhythmia Research Technology, Inc. ("ART"), a Delaware corporation, is engaged in marketing computerized medical instruments for monitoring, analyzing and treating heart disease. Micron Products, Inc. ("Micron"), a Massachusetts corporation, a wholly-owned subsidiary of ART, is a manufacturer of silver/silver chloride-plated sensor elements, a component used in the manufacture of disposable medical electrodes designed for electrocardiograph ("ECG") and other instrumentation. Additionally, Micron also acts as a distributor of metal snap fasteners, another component used in the manufacture of disposable medical electrodes. Micron manufactures and leases high speed electrode assembly machines to its sensor and snap customers.

2. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ART and Micron (collectively the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue from product sales is recognized upon shipment of the product when independent sales representatives or distributors are responsible for installation of systems, as the title and risk of loss passes to the customer at the time of shipment. However, in cases where ART personnel are scheduled to perform this in-service/installation, the revenue is not recognized until completion of such obligations. Revenue from the sale of extended warranties is deferred and amortized ratably over the life of the warranty.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and on deposit in high quality financial institutions. The Company considers highly liquid investments that can be readily converted to cash at par value to be cash equivalents.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is determined by the first-in, first-out method.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentrations of credit risk, as defined by SFAS No. 105, consist primarily of trade accounts receivable, cash and cash equivalents.

ART's customer base for ECG and electrophysiology products is primarily comprised of hospitals and to a much lesser extent of cardiologists and office based practitioners. Micron products are sold to manufacturers of disposable electrodes, who are typically large diversified medical product manufacturers. The Company does not generally require collateral for its sales; however, the Company believes that its terms of sale provide adequate protection against significant credit risk.

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (Continued)

CONCENTRATIONS OF CREDIT RISK (CONTINUED)

It is the Company's policy to place its cash and cash equivalents in high quality financial institutions. The Company does not believe significant credit risk exists with respect to these institutions.

ADVERTISING EXPENSES	Advertising expenses consist primarily of costs incurred in promoting the Company's products, printed brochures and other activities. The Company expenses advertising costs as incurred. The Company's advertising expense was approximately $16,000, $52,000 and $72,000 in 2000, 1999 and 1998, respectively.
PROPERTY, PLANT AND EQUIPMENT	Property, plant and equipment are recorded at cost and include expenditures which substantially extend their useful lives. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to earnings as incurred. When equipment is retired or sold, the resulting gain or loss is reflected in earnings.
GOODWILL	The excess of the aggregate purchase price over the fair value of net assets of businesses acquired is amortized over 20 years using the straight-line method. The Company periodically reviews goodwill of acquired businesses to assess recoverability based on future operating projections. Impairments would be recognized in operating results if a permanent diminution in value were to occur on an undiscounted basis.
OTHER INTANGIBLES	Direct costs to acquire patent technology and legal costs associated with securing and defending patents are capitalized and amortized using the straight-line method over the remaining useful life of the patents. The Company periodically reviews its patent assets to assess recoverability based on future undiscounted projected earnings from operations. Impairments are recognized in operating results when a permanent diminution in value occurs.
	Certain software development costs incurred subsequent to establishment of technological feasibility are capitalized and amortized using the straight-line method over the estimated economic life of the related product, generally three years. Amortization commences when the product is available for general release. Costs to establish the technological feasibility of the product are expensed as research and development.

LONG-LIVED ASSETS	The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (Continued)

INCOME TAXES	The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.
NET INCOME (LOSS) PER SHARE DATA	The Company follows the provisions of SFAS No. 128 "Earnings Per Share", which requires the Company to present its basic earnings per share and diluted earnings per share, and certain other earnings per share disclosures for each year presented. Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, the numerator is adjusted for any changes in income or loss that would result from the assumed conversions of those potential shares.
	Basic and diluted EPS computation for the years ended December 31, 2000, 1999, and

1998 are as follows:

YEARS ENDED DECEMBER 31,	2000	
Net income (loss) available to common shareholders	$ 620,127	$
Weighted average common shares outstanding	3,333,317	3
Basic EPS	$ 0.19	$
Diluted EPS:		
Net income (loss) available to common shareholders	$ 620,127	$
Weighted average common share outstanding	3,333,317	3
Assumed conversion of common shares issuable under stock option plan	97,084	
Weighted average common and common equivalent shares outstanding	3,430,401	3
Diluted EPS	$ 0.18	$

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (Continued)

NET INCOME (LOSS) PER SHARE DATA (Continued)

The following table summarizes securities that were outstanding but not included in the calculation of diluted earnings per share because their effect would have been antidilutive:

DECEMBER 31,	2000
Stock options	7,000
Stock warrants	-

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 revenue and expenses during the reporting periods. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of such instruments. The carrying amounts reported for the promissory note and bonds payable approximate fair value based on the Company's incremental borrowing rates.

COMPREHENSIVE INCOME

The Company follows the provisions of Statement of Financial Accounting Standards No. 130, REPORTING COMPREHENSIVE INCOME, ("SFAS No. 130") which establishes standards for reporting and display of comprehensive income, its components, and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 stipulates that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company did not have any components of comprehensive income for the years ended December 31, 2000, 1999 and 1998.

INDUSTRY SEGMENTS

The Company follows the provisions of Statement of Financial Accounting

Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") which requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas, and major customers. SFAS No. 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (Continued)

SHIPPING AND HANDLING COSTS

Shipping and handling costs include primarily freight and are classified as a cost of sales in the consolidated statements of operations.

NEW ACCOUNTING STANDARD NOT YET ADOPTED

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged assets or liability or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

Historically, the Company has not entered into derivative contracts either to hedge existing risks or for speculative purposes. Accordingly, the Company does not expect adoption of the new standard to affect its financial statements.

3. ACQUISITION ACTIVITY

On April 14, 1997, ART acquired from Astro-Med, Inc. substantially all of the assets related to the following products (i) the basic cardiac catheterization monitoring system (the "K3-I"), (ii) the stand-alone hemodynamic analysis package (the "K3-II"), (iii) the network ready hemodynamic analysis package (the K3-III"), and (iv) the control work station (the K3-WI") (collectively, the "K3 Products"). The purchase price for the assets was $350,000, with $50,000 paid at closing and a promissory note issued in the amount of $300,000 (see Note 7).

During the year ended December 31, 1998, the Company recorded an impairment loss on the long-lived assets related to the Astro-Med acquisition. The impairment was the result of the K3 Products technology failing to meet competitive demands. Included in the 1998 results of operations is an impairment loss of $192,201 which was due primarily to the reduction of the goodwill carrying value to zero. The Company also recorded a charge in 1998 of approximately $261,000 in cost of sales for the write-down of the related inventory to its net realizable value.

4. INVENTORIES

Inventories consist of the following:

DECEMBER 31,	
Raw materials	$ 1
Work-in-process	1
Finished goods	5
Total	$ 8

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

DECEMBER 31,	Asset Lives	
Machinery and equipment	5 to 15 years	$ 4,
Equipment held for lease	10 years	
Building and improvements	20 years	1,
Vehicles	3 to 5 years	
Furniture and fixtures	3 to 5 years	
		7,
Less accumulated Depreciation		(4,
Net property, plant and Equipment		$ 3,

The Company had $87,770 and $135,400 of assets under capital leases, included in machinery and equipment, at December 31, 2000 and 1999. Accumulated depreciation on these assets was $24,868 and $33,307 at December 31, 2000 and 1999, respectively.

EQUIPMENT LEASING

The Company leases attaching machines to customers under operating leases for periods of up to one year with renewable terms. The cost of the leased equipment is depreciated on a straight-line basis over ten years. Accumulated depreciation on leased equipment was $113,936 and $106,721 at December 31, 2000 and 1999.

6. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consist of the following:

DECEMBER 31,	
Goodwill	$ 2,4
Accumulated amortization	(1,0
Net goodwill	$ 1,4
Other intangibles	$ 6
Accumulated amortization	(5
Net other intangibles	$

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEBT

REVOLVING CREDIT FACILITY

The Company has available $800,000 from a revolving credit facility with a bank, which is renewable in June 2001. The agreement provides for borrowings up to 85% of eligible accounts receivable plus 40% of raw material and finished goods inventories. There were no outstanding borrowings on the working capital line of credit as of December 31, 2000 and 1999 and no borrowings during 2000.

The agreement contains covenants that, among various matters, restrict further borrowings and security interests, merger or consolidation, acquisitions, guarantees, sales of assets other than in the normal course of business, leasing, changes in ownership and payment of dividends.

LONG-TERM DEBT

Long-term borrowings, excluding capital lease obligations, consist of:

DECEMBER 31,	
Bonds payable	$3
$300,000 promissory note bearing interest at 8% per annum, payable in monthly installments of $9,551 through May 2001, collateralized by equipment purchased.	1
	5
Less current maturities	1
Long-term bonds payable and debt	$ 3

BONDS PAYABLE

In August 1995, the Company completed a $600,000 private bond placement. The bonds carried an 11% interest rate and matured in May 2000. In connection with the private bond placement, ART issued an aggregate of 279,000 warrants to the bondholders to purchase ART common stock at $3.00 per share. The warrants were exercisable upon issuance and expired in five years. The Company recorded the allocation between the detachable warrants and debt securities based on their relative fair values. The $202,000 related to the warrants was reported as additional paid-in capital and a discount on the bonds payable which was amortized to interest expense over the five-year term of the bonds. In 2000, the Company renewed $550,000 of the private placement bonds for a two-year period maturing May 31, 2002. New warrants were issued to the bondholders for 254,980 shares of the Company's stock at $1.50 per share. The warrants also expire May 31, 2002. The fair-value allocated to the warrants was $194,000 which is reported as additional paid-in capital and a discount on the debt securities being amortized to interest expense over the two year term of the bonds. For the years 2000, 1999 and 1998, the Company recorded amortization of bond discount of $63,490, $46,065 and $48,000, respectively and interest expense of $63,250 in 2000 and $66,000 in 1999 and 1998. The unamortized bond discount remaining as of December 31, 2000 and 1999 was $150,510 and $20,000, respectively.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEBT (Continued)

NOTE PAYABLE

On April 14, 1997, ART incurred a promissory note in the amount of $300,000, bearing interest of 8% per annum, through the acquisition of property and equipment from a manufacturer. No payments were made during 2000 as payment of the note is being contested. The unpaid principal is included in current liabilities.

8. INCOME TAXES

The income tax provision for each of the three years in the period ended December 31, 2000 consists of the following:

	2000	
Current:		
Federal	$ -	$
State	66,000	
Total	66,000	
Deferred	(21,000)	
Total income tax expense	$ 45,000	$

The Company's federal net operating loss ("NOL") carryforwards were approximately $1,500,000 at December 31, 2000. During the three years ended December 31, 2000, the Company utilized approximately $482,000, $0 and $137,000, of its NOL carryforwards. The NOL carryforwards expire through 2007. The use of the loss carryforwards to reduce future income tax obligations are limited in any given year due to restrictions defined in the Internal Revenue Code related to a change in ownership control.

The components of deferred income taxes were as follows as of December 31:

Deferred income taxes:	
Inventories	$
Property, plant and equipment	
Patents	2
Other	2
Net operating loss carryforwards	5
Valuation allowance	(7
Deferred income taxes	$ 4

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAXES (Continued)

Deferred tax assets are recognized by reducing the valuation allowance as the Company generates income, or when, in the opinion of management, significant positive evidence exists that the Company will be more likely than not to realize the tax benefits related to temporary differences which give rise to deferred tax assets.

The Company files a consolidated federal income tax return. For financial statement purposes, the actual effective consolidated tax rates have been applied to the income before income taxes when calculating the tax provision. The actual income tax provision differs from the statutory income tax rate (34%) as follows:

	2000	
Tax provision computed at Statutory rate	$ 226,143	$
Increases (reductions) due to:		
Nondeductible expenses	5,358	
Amortization of goodwill	39,054	
State income taxes net of federal benefit	43,560	
Changes in valuation allowance estimates	(306,880)	
Other	37,765	
Income tax expense	$ 45,000	$

9. EMPLOYEE BENEFIT PLANS

Micron established an Employee Stock Ownership Plan ("ESOP") as a result of a previous plan of reorganization. The ESOP is non-contributory on the part of its participants. All employees of the Company are eligible for participation in the ESOP. The ESOP borrowed $300,000 to purchase the Company's shares. The proceeds were used to pay creditors electing to receive cash under the ESOP plan. The shares issued by the Company to the ESOP are reflected as a reduction in shareholders' equity. The Company accounts for its ESOP in accordance with Statement of Position 76-3. Accordingly, all shares held by the ESOP, allocated or unallocated, are treated as outstanding in the earnings per share calculation. The Company has elected to recognize compensation expense based on contributions made. There are no repurchase obligations by the Company. The Company contributed and recorded compensation expense of $0, $39,277 and $42,857 during the years ended December 31, 2000, 1999 and 1998, respectively.

The Company sponsors an Employee Savings and Investment Plan under Section 401(k) of the Internal Revenue Code covering all eligible employees of the Company. Employees can contribute up to 20% of their eligible compensation or up to the maximum allowable by the IRS. The Company's matching contributions are at the discretion of management. The Company did not make any contributions for the years ended December 31, 2000, 1999 and 1998, respectively.

10. COMMITMENTS AND CONTINGENCIES

ROYALTIES

ART licenses its signal-averaging technology from an unrelated entity for a royalty fee of 4.5% of gross sales, less certain allowances for selling commissions and discounts. Costs of obtaining patents are offset against royalties due. To retain an exclusive license for the technology, ART is obligated to pay a minimum royalty of $30,000 annually. The royalties paid were $30,000, $30,000 and $35,000 for 2000, 1999 and 1998, respectively.

ELECTROPHYSIOLOGY PRODUCTS CONTRACT

ART and Prucka Engineering, Inc. ("Prucka"), the manufacturer of the CardioLab and CardioMapp products (the "Products") had an agreement related to ART's exclusive distribution of the Products. The agreement provided for ART to receive a 3% commission on CardioLab sales through December 31, 2002. The commissions earned for the years 1999 and 1998 were approximately $385,000, and $485,000, respectively. In 2000, Prucka (now owned by GE Marquette) negotiated to buy out the remainder of the agreement for $1,000,000 with no further obligations to either party.

ENVIRONMENTAL GROUNDWATER

Like many industrial processes, the Micron manufacturing process utilizes hazardous and non-hazardous chemicals, the treatment and disposal of which are subject to federal and state regulation. Since its inception, Micron has expended significant funds to train its personnel, install waste treatment and recovery equipment and to retain an independent environmental consulting firm to constantly review, monitor and upgrade its air and waste water treatment activities. As a result, Micron believes that the operations of its manufacturing facility are in compliance with currently applicable safety, health and environmental laws and regulations.

Micron has been identified as a "potential responsible party" (PRP) under the Comprehensive Environmental Response and may be required to share in the cost of cleanup with respect to its Fitchburg, Massachusetts manufacturing facility. In January 1998, Micron filed information with the Massachusetts Department of Environmental Protection (DEP) to allow further subsurface investigation and a subsequent risk assessment to be performed. During 2000, Micron filed it's Phase II Report with the DEP. The Phase II Report included a Massachusetts Contingency Plan (MCP) Method 3 Risk Characterization and Response Action Outcome Statement that demonstrated a condition of "No Significant Risk" at the site. The site has been closed out under the MCP and is now awaiting a mandatory audit by the DEP. At December 31, 2000 and 1999, the consolidated balance sheets include an accrual for these costs of $50,000.

Based on the Company's analyses and subject to the difficulty in estimating these future costs, the Company expects that any sum it may be required to pay in connection with environmental matters is not reasonably likely to exceed the amounts disclosed in an amount which would have a material adverse effect on financial condition, result of operations or liquidity.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES (Continued)

OPERATING LEASES

The Company leases certain office space, facilities, vehicles and equipment under non-cancelable lease arrangements. Rent expense under all operating leases was approximately $117,000, $115,000 and $106,000 in 2000, 1999 and 1998, respectively.

Future minimum operating lease payments as of December 31, 2000 are approximately as follows:

YEAR
2001
2002
2003
2004
Total

11. SUPPLEMENTAL CASH FLOWS INFORMATION

Cash paid for income taxes and interest for the years ended

	2000	
Income taxes	$ 59,091	$
Interest	$ 68,889	$
Non-cash activities:		
Bond discount resulting from bond and stock warrant renewal	$ 194,000	$
Directors fees paid in stock	$ 26,500	$

12. RELATED PARTY TRANSACTIONS

The Company obtains legal services with respect to its patents from a law firm, a partner of which is a shareholder and Director of the Company. Fees for services and patent prosecution costs paid to this firm were approximately $37,700, $41,000 and $3,300 for years 2000, 1999 and 1998, respectively. The amounts owed to this firm at December 31, 2000 and 1999 were approximately $4,000 and $31,000, respectively.

Cardio Digital Inc. ("CDI") has four shareholders who are also shareholders of the Company. Royalties paid CDI were $6,100, $15,700 and $19,000 for years 2000, 1999 and 1998, respectively. The amounts owed to CDI at December 31, 2000 and 1999 were $300 and $5,350, respectively.

12. RELATED PARTY TRANSACTIONS (Continued)

During the years 2000, 1999 and 1998 healthcare coverage premiums of approximately $11,670, $8,500 and $8,300, respectively, were paid on behalf of a Director of the Company in exchange for consulting services.

The Company obtains consulting services from a shareholder and Director of the Company related to acquisitions and other negotiations. No fees for services were paid to this Director for the years 2000, 1999 and 1998, respectively.

13. STOCK OPTIONS

OPTION PLAN

The Company has reserved 250,000 shares of its common stock for issuance to officers and key employees pursuant to an Incentive Stock Option Plan (the "Option Plan"). Under the Option Plan, options become exercisable commencing one year from the date of grant at the rate of 20% of the total granted per year and expire ten years from the date of grant. The exercise price is the fair market value of the common stock on the date of grant. The range of exercise prices was $1.06 to $6.00 per share for all options outstanding and granted under the Option Plan with a weighted average exercise price of $1.63 per share and weighted average remaining life of 4.7 years. In September 1998, the Board of Directors repriced options outstanding to Directors and Officers under the Option Plan to reflect the fair market value on the effective date of $1.06 per share.

The plan is no longer qualified for deferred tax treatment for future option grants unless amended by the Board of Directors.

Transactions under the Option Plan are summarized as follows:

	2000	
Options outstanding at Beginning of year	107,500	
Granted	-	
Cancelled/expired	(56,500)	
Options outstanding at end of year	51,000	
Options exercised to date	4,500	
Available for grant at end of year	194,500	
Exercisable at end of year	51,000	
Weighted-average fair value of options granted	$ -	$

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK OPTIONS
(Continued)

NON-PLAN OPTIONS

During 1994, non-plan options for 144,000 shares, expiring in 2004, at an exercise price of $3.00, were granted to eight Directors. At December 31, 2000, 90,000 options remain outstanding.

During September 1998, the Board of Directors repriced options outstanding to Directors and Officers. All options were repriced to reflect the fair market value on the effective date of $1.06 per share.

As of December 31, 2000 the exercise price for all non-plan options outstanding was $1.06 per share with a weighted average remaining life of 3.3 years.

Transactions relative to non-plan options are summarized as follows:

	2000
Options outstanding at	
Beginning of year	99,000
Granted	-
Cancelled/expired	(9,000)
Options outstanding at end of year	90,000
Exercisable at end of year	90,000

ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK OPTIONS (Continued)

NON-PLAN OPTIONS (CONTINUED)

The Company accounts for stock options at intrinsic value in accordance with Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. Accordingly, no compensation expense has been recognized for the plans. Had compensation cost for the Company's stock options been determined based upon the fair value at the grant date for awards under the plans consistent with the methodology prescribed under Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, the Company's net income (loss) would have been adjusted to the pro forma amounts indicated below:

	2000
Net income (loss) - as reported	$ 620,127
Net income (loss) - pro forma	$ 614,685
Basic income (loss) per share - as reported	$ 0.19
Diluted income (loss) per share - as reported	$ 0.18
Basic and diluted income (loss) per share - pro forma	$ 0.18

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The model uses assumptions for dividend yield, expected volatility, and the risk-free interest rate.

In August 1995, warrants were issued to bondholders to purchase an aggregate of

279,000 shares of common stock at $3.00 per share which expire five years from the date of the bond. In 2000, the warrants were extended to bondholders to purchase an aggregate of 254,980 shares of common stock at $1.50 per share which expire May 31, 2002.

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. INDUSTRY AND GEOGRAPHIC SEGMENTS

The Company's operations are classified into two business segments: medical electrodecomponents and computerized medical instruments.

The following table shows sales, operating income (loss) and other financial information by industry segment as of and for the years ended December 31, 2000, 1999 and 1998:

	Medical Electrode Components	Computerized Medical Instruments	Corpora
Year ended December 31, 2000			
Sales	$ 8,407,040	$ 1,114,823(A)	$
Operating income (loss)	$ 589,402	$ 353,144	$ (129,8
Capital Expenditures	$ 246,658	$ -	$
Depreciation and Amortization	$ 777,576	$ 12,778	$ 258,2
Identifiable assets at December 31, 2000	$ 6,079,844	$ 227,819	$3,610,9
Year ended December 31, 1999			
Sales	$ 9,718,408	$ 661,176	$

Operating income (loss)	$ 1,529,928	$ (740,889)	$ (130,5
Capital Expenditures	$ 504,817	$ -	$ 35,8
Depreciation and Amortization	$ 637,381	$ 13,975	$ 236,3
Identifiable assets at December 31, 1999	$ 7,076,354	$ 473,374	$2,151,9
Year ended December 31, 1998			
Sales	$ 8,444,870	$ 915,726	$
Operating income (loss)	$ 1,263,650	$ (953,764)	$ (129,8
Capital Expenditures	$ 453,112	$ -	$ 23,9
Depreciation and Amortization	$ 650,705	$ 27,053	$ 204,1
Identifiable assets at December 31, 1998	$ 6,188,950	$ 574,019	$3,227,1

(A) Includes a $1,000,000 buyout of Prucka commission agreement.

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. INDUSTRY AND GEOGRAPHIC SEGMENTS (Continued)

The following table sets forth the geographic distribution of the Company's net sales:

REGION	2000	
United States	$ 3,422,711(A)	$ 3,
Europe	2,987,559	2,
Canada, Mexico & South America	2,840,434	3,
Pacific Rim	248,343	
Other	22,816	

Net Sales	$ 9,521,863	$ 10,

(A) Includes a $1,000,000 buyout of Prucka commission agreement.

The following table sets forth the percentage of net sales to significant customers of the medical electrode components segment in relation to total segment sales:

CUSTOMERS	2000
A	36%
B	25%
C	14%
D	-

The only single significant customer for the computerized medical instruments segment was revenue from the Prucka commission agreement, which was terminated in 2000. For the years ended December 31, 2000, 1999 and 1998, this was 90%, 58% and 53% of computerized medical instrument net sales, respectively.

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. QUARTERLY FINANCIAL DATA

	First Quarter	Second Quarter	Q
2000			
Revenues	$ 2,543,826	$ 2,863,091	$ 2
Gross profit	867,192	1,582,495	
Net income(loss)	101,731	644,842	
Net income(loss) per share	.03	.19	
1999			
Revenues	$ 2,441,683	$ 2,922,771	$ 2
Gross profit	712,589	1,110,376	1
Net income(loss)	(1,131)	197,382	
Net income(loss) per share	(.00)	.06	

The second quarter results in 2000 include $1,000,000 of revenue associated with the termination of a commission agreement with Prucka. During the fourth quarter of 2000, the Company determined that $90,000 of costs related to a previous version of ART software had no future value and was charged to expense. In addition, $106,000 of severance costs was provided for in the fourth quarter of 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Arrhythmia Research Technology, Inc.

/s/ E. P. MARINOS

Chairman of the Board and
Acting Chief Executive Officer

April 12, 2001