ARRHYTHMIA RESEARCH TECHNOLOGY INC /DE/
Form 10-K405
March 29, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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

December 31, 2001(For the fiscal year ended) 1-9731 (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 (State or other jurisdiction of incorporation of organization)	72-0925679 (IRS Employer Identification Number)
25 Sawyer Passway Fitchburg, MA (Address of principal executive offices)	01420 (Zip Code)

(978) 345-5000
(Registrant's telephone number, including area code)

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

Common Stock, $.01 par value (Title of Each Class)	American Stock Exchange (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 February 28, 2002, there were 2,917,076 shares of the registrant's common stock outstanding, excluding shares held in treasury, par value $.01, which is the only class of common or voting stock of the registrant. As of

February 28, 2002, the aggregate market value of the voting stock of the registrant held by non-affiliates was $6,365,357 based upon the closing price of the shares of common stock on the American Stock Exchange.

PART I

Item 1. BUSINESS

BACKGROUND

Arrhythmia Research Technology, Inc. ("ART" or the "Company") was incorporated under the laws of the State of Louisiana in 1981 and reincorporated under the laws of the State of Delaware in 1987. ART's wholly owned subsidiary, Micron Products, Inc. ("Micron"), is a manufacturer and distributor of silver plated sensors ("sensors") used in the manufacture of disposable electrodes constituting a part of ECG diagnostic and monitoring instruments. Micron also acts as a distributor of metal snap fasteners ("snaps"), another component used in the manufacture of disposable electrodes. In 1997, Micron acquired the rights to an assembly machine, which it now manufactures and sells or leases to its sensor and snap customers. Micron was incorporated in the Commonwealth of Massachusetts in 1972 and is located in Fitchburg, Massachusetts.

ART is engaged in the sale and licensing of medical software which acquires data and analyzes electrical impulses of the heart to detect and aid in the treatment of potentially lethal arrhythmias. ART's products include signal-averaging electrocardiographic (SAECG) software comprised of the PREDICTOR(R) 7, the Tri-Pac and the LP-Pac Q(TM). ART recently completed a major update to a Windows based version of its proprietary SAECG PREDICTOR series. Rather than restore a direct sales force, the Company's intent is to market ART's product through third party representatives. No significant sales of ART's products were recorded in 2001 or are forecast for the year 2002.

The following table sets forth for the periods specified, the revenue derived from the products of ART and its subsidiary Micron (collectively the "Company"):

	Years ended December 31,					
	2001	%	2000	%	1999	%
Sensors	$6,388,003	88	$6,827,178	72	$ 7,583,530	73
Snaps & Snap Machines	689,948	10	1,515,074	16	1,951,039	19
CardioLab & CardioMapp	--	--	1,000,000	11	384,598	4
SAECG products	141,737	2	114,823	1	276,578	2
Polymers	--	--	64,788	--	183,839	2
Total	$7,219,688	100	$9,521,863	100	$10,379,584	100

RECENT DEVELOPMENTS

Closure of Austin Operations

In October 2001, the Company's office in Austin, Texas was closed and the administration and customer service functions were moved to Fitchburg, Massachusetts, home of the Company's subsidiary Micron Products, Inc.

Extension of Multi-Year Supply Contract

Micron's largest customer has renewed a multi-year contract to supply the silver plated sensors used in the manufacture of disposable electrodes. Additionally, the multi-year contract now includes the supply of disposable radiotranslucent sensors and snaps. These products are used in the manufacture of radiotranslucent electrodes which replace standard silver plated electrodes in certain diagnostic, monitoring and critical care applications. The annual growth of radiotranslucent electrodes is forecast to outpace that of standard electrodes in the future. To date, Micron has been a minor supplier of radiotranslucent sensors and snaps but the Company believes that this new contract will result in a significant increase in the sales of radiotranslucent product.

New Accounting Standard for Goodwill

Under the new rules promulgated by the Financial Accounting Standards Board for Goodwill and Other Intangible Assets (SFAS 142), beginning in 2002, the Company will no longer be reporting an amortization expense of approximately $130,000 through 2006 and $115,000 through 2012. Instead unamortized goodwill of $1,326,000 related to two acquisitions made in the 1990's will be subject to an annual test for impairment. The Company is in the process of evaluating the full effect of SFAS 142 on its financial statements.

DESCRIPTION OF BUSINESS

Micron Products, Inc.

Silver Plated Sensors

Micron is a manufacturer and distributor of silver plated sensors for use in the manufacture of disposable electrodes for ECG diagnostic, monitoring and related instrumentation. The disposable electrode has proven to be more accurate and reliable than the reusable electrodes available in the market. Additionally, disposable electrodes are faster and easier to use as compared to reusable electrodes, which require cleaning after each use. The type of sensor manufactured by Micron consists of a molded plastic substrate plated with a silver/silver chloride surface, which is a highly sensitive conductor of electrical signals. Silver/silver chloride-plated disposable electrodes are utilized in coronary care units and for other monitoring purposes. In addition to the traditional ECG tests, disposable electrodes incorporating Micron's sensor are used in connection with stress and "Holter" tests.

Micron also manufactures sensors and conductive plastic studs used in the manufacture of radiotranslucent electrodes. The radiotranslucent electrodes are virtually invisible to X-rays and are preferred in some applications such as nuclear medicine, cath labs, ICU/CCU and certain stress and Holter procedures.

Metal Snap Fasteners

Metal snap fasteners are used to attach the disposable electrode to the lead wires of an ECG machine. Micron purchases the metal snap fasteners for resale from a supplier and performs additional quality control tests, repackaging and inventory stocking for its customers who can purchase the snaps along with Micron sensors.

High Speed Electrode Assembly Machine

Pursuant to a purchase agreement, dated March 5, 1997, Micron acquired from Newmark, Inc. substantially all its assets used in the business of manufacturing, leasing and selling medical sensor and snap application machines. Electrode assembly machines provide Micron with a complimentary product to sell to existing sensor and snap customers.

Arrhythmia Research Technology, Inc.

Signal-Averaging Electrocardiographic (SAECG) Products

Sudden cardiac death afflicts over 400,000 individuals in the United States each year. As described in an Expert Consensus on Signal-Averaged Electrocardiography published in the Journal of the American College of Cardiology (Vol. 27, No. 1, 1996), these occurrences are due to sustained ventricular tachycardia (abnormally rapid heartbeat) or ventricular fibrillation (very fast, completely irregular heartbeat), which severely affect the capability of the heart's pumping chambers or ventricles. The electric signals that emanate from the heart are used to detect the presence of late potentials which indicate the risk of life threatening ventricular arrhythmias. The SAECG processes enable late potentials to be amplified and enhanced, while eliminating undesired electrical noise in these crucial tests.

Predictor(R) 7 and Tri-Pac

Predictor(R) 7 consists of a computer, digitizing hardware, programmable amplifiers, QSR detection hardware/firmware and preamplifiers that can be attached to a printer to produce a hard copy of the signal averaged test. The acquisition device developed by NORAV Medical Ltd. is combined with the Windows compatible Predictor(R) 7 software to provide data for ECG testing. The Tri-Pac is a system which performs resting ECG, signal averaged ECG and stress ECG's using the same data acquisition device.

LP-Pac Q(TM)

The LP-Pac Q(TM) is a low-cost signal-averaging kit for MS-DOS based personal computers which consists of a "smart" SAECG pre-amplifier/patient cable, lead wires, a data acquisition system (DAS) card to receive ECG signals in real-time, time domain late-potential analysis software and an isolation safety transformer. The LP-Pac Q(TM) uses the patented Simson bi-directional Butterworth filtering technique, the recognized standard for the detection of late potentials .

EPSoft(TM) Software Library

The Early Potential Analysis software has been designed specifically for P wave-triggered SAECG acquisition and analysis and is used as a research tool in assessing patients at risk for atrial fibrillation and flutter. These optional signal-averaging software packages are not approved by the FDA and are for research purposes, not clinical diagnosis.

IntraSpect(TM) is also not approved by the FDA and is for research purposes, not clinical diagnosis. This software package permits visualization and quantification of electrical fragmentation within the entire QRS complex (entire ventricular depolarization cycle), using individual-lead Acceleration Spectrum Analysis (ASA). Hence, micropotential detection is no longer limited to the 'late potential' region. Furthermore, patients with conduction delay problems (i.e. "bundle branch block") can have SAECG analysis performed on them.

ART also offers the PREDICTOR Heart Rate Variability ECG software ("PREDICTOR HRVECG"), which is marketed under a 510(k) granted by the FDA in 1989. PREDICTOR HRVECG provides time and frequency domain mathematical tools for the non-invasive assessment of R wave to R wave in sequential QRS complexes. PREDICTOR HRVECG can be used alone or in conjunction with a PREDICTOR(R) 7 and the LP-Pac Q(TM) signal-averaging systems.

GENERAL

Customers and Sales

Micron manufactures its sensors against customer purchase orders and in accordance with supply agreements with electrode manufacturers. There are approximately 30 significant manufacturers of silver plated disposable electrodes worldwide. Micron sells its sensors to most of these manufacturers. During the year ended December 31, 2001, three major customers accounted for 38%, 22% and 18% respectively, of sales of Micron. Sales backlog is not material to Micron's business.

The following table sets forth, for the periods indicated, the approximate consolidated revenues and percentages of revenues derived from the sales of the Company's products in its geographic markets:

	Revenues for theYears Ended December 31,					
	2001	%	2000	%	1999	%
Canada	$2,765,531	38	$2,756,886	32	$ 2,732,662	27
Europe	1,421,798	20	1,427,494	17	1,574,323	15
United Kingdom	1,397,856	19	1,560,065	18	1,377,474	13
United States	1,311,334	18	2,422,711	29	3,349,427	32
Other	323,169	5	354,707	4	1,345,698	13
Sub Total	$7,219,688	100	$8,521,863	100	$10,379,584	100
GE/Prucka termination payment			1,000,000			
Total			$9,521,863			

The continued lower percentage of U.S. sales in 2001 resulted from the transfers of the manufacturing operations in 1999 and 2000 of two major Micron customers from U.S. plants to Canada.

Marketing and Competition

Sensors and Snaps

Micron sells its sensors to manufacturers of disposable silver plated ECG electrodes. Micron employs one salesperson for sensors and snaps. The Company believes that it has one major competitor for sensors and that its sales of sensors exceed those of its competition.

Product Suppliers and Manufacturing

Sensors and Snaps

Micron manufactures its sensors at its Fitchburg, Massachusetts facility employing a proprietary non-patented multi-step process. The raw materials used by Micron are (1) plastic resins used to mold the substrates and (2) silver/silver chloride chemical solutions for plating the molded plastic substrates. Both the plastic used by Micron and the silver/silver chloride solutions are in adequate supply. Fluctuations in the price of silver are contractually passed on to customers.

Micron's medical snap fasteners are manufactured by Newmark, Inc. Micron buys the snaps in bulk, performs additional quality control tests, and stocks inventory for its customers who can purchase the snaps along with Micron sensors.

Research and Development

During fiscal year 2001, ART's research and development efforts focused primarily on converting DOS software packages in the SAECG product lines into a Windows environment. For the fiscal years ended December 31, 2001, 2000, and 1999, ART had research and development expenses of approximately $215,000, $229,000, and $298,000, respectively, which consisted principally of the salaries of its employees and programming consultants.

Micron did not devote any significant time or money to research and development efforts for the years 2001, 2000 and 1999. However, in 2002 Micron has budgeted $50,000 for research and development related to a new type of silver plated sensor which the Company expects will also allow it to expand its volume primarily in the Pacific Rim region.

Patents and Proprietary Technology

ART

ART holds an exclusive license under the Simson Patent, which covers the signal-averaging and filtering technologies which are utilized in the PREDICTOR(R) 7, the Tri-Pac and the LP-Pac Q(TM). The Simson technology is also coupled to a patented process (Mortara) that is used by ART products and this patent extends beyond the Simson license which expires in 2002. ART believes that patent protection is important to its business and anticipates that it will apply for additional patents or extensions as deemed appropriate.

As part of the purchase of substantially all the assets of Corazonix in 1993, ART acquired three patents related to time and frequency domain analysis of electrocardiogram signals. ART acquired U.S. Patent No. 5,117,833 entitled "Bi-Spectral Filtering of Electrocardiogram Signals to Determine Selected QRS Potentials," (the "Bi-Spec Patent") which expires in 2009. ART also acquired three additional patents which cover the spectral-temporal, mapping post-processing software packages sold by ART. United States Patent No. 5,609,158 entitled "Apparatus and Method for Predicting Cardiac Arrhythmia by Detection of Micropotentials and Analysis of all ECG Segments and Intervals", which covers a frequency domain analysis technique for SAECG data, was granted by the U.S. Patent Office in March 1997. The Corazonix patents are also utilized in the current version of Predictor(R) 7.

The Company believes that ART's products do not and will not infringe on patents or violate proprietary rights of others. In the event that ART's

products infringe patents or proprietary rights of others, ART may be required to modify the design of its products or obtain a license. There can be no assurance that ART will be able to do so in a timely manner upon acceptable terms and conditions. In addition, there can be no assurance that ART will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if ART's products infringe patents or proprietary rights of others, ART could, under certain circumstances, become liable for damages, which could have a material adverse effect on ART.

Micron

Micron employs a highly complex, proprietary non-patented multi-step manufacturing process for its silver/silver chloride-plated sensors. Key employees have executed nondisclosure and non-competition agreements. To maintain its leadership as a major supplier of sensors and snaps to the manufacturers of disposable silver plated ECG electrodes, Micron received a patent for a radiographically translucent snap that is manufactured from a flexible electrically conductive thermoplastic polymeric compound in 1995.

Government Regulation

ART believes that its products sold in the United States have all necessary governmental clearances required as well as in each of the countries in which its products are sold.

Federal legislation relating to medical devices could cause compliance with the pre-market clearance and approval processes to be more time consuming, difficult and expensive. It is not anticipated that ART's products will be subject to special controls or regulation, but there can be no assurance that the FDA will not impose special controls or regulation.

Environmental Regulation

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 periodically review, monitor and upgrade its air and waste water treatment activities. As a result, Micron believes that the operation of its manufacturing facility is in compliance with currently applicable safety, health and environmental laws and regulations.

Insurance

The Company may be exposed to potential product liability claims by patients who use the Company's products. The Company maintains a general liability insurance policy, which includes product liability coverage of $1,000,000 per occurrence and $2,000,000 per year in the aggregate. The Company also has an umbrella policy to $5,000,000. To date, there have been no asserted or threatened claims against the Company relating to the sale or use of its products. Although Company management believes the present insurance coverage is adequate for the types of products marketed by the Company, there can be no assurance that such insurance will be sufficient to cover potential claims or that the present level of coverage will be available in the future at a reasonable cost.

The Company has directors and officers' liability insurance with coverage in the amount of $3,000,000 per occurrence and $3,000,000 per year in the aggregate.

Employees

The Company has 48 full-time employees including 12 administrative, sales and supervisory personnel, 10 quality control personnel and 24 production personnel. None of the employees of the Company are represented by a union.

Item 2. PROPERTIES

The manufacturing facility and offices of the Company are located in two buildings in an industrial area in Fitchburg, Massachusetts. The first building, which was purchased in April 1994, consists of a 22,000 square foot, six story building. The second building, which was purchased in September 1996, is a 94,000 square foot, two story building.

Item 3. LEGAL PROCEEDINGS

There are currently no material legal proceedings to which the Company is a party.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a. Annual meeting of shareholders was held on October 5, 2001.

b. E.P. Marinos and Julius Tabin were elected as directors of the Company at the meeting. Russell C. Chambers, and Paul F. Walter continued to serve as directors.

E.P.Marinos 2,314,788 FOR 70,395 WITHHELD

Julius Tabin 2,312,746 FOR 72,437 WITHHELD

c. BDO Seidman, LLP, was appointed to audit the consolidated financial statements of the Company for the year ended December 31, 2001

2,369,277 FOR 14,649 WITHHELD 1,257 ABSTAINED

d. The 2001 Stock Option Plan was adopted reserving 200.000 shares of the Company's common stock for issuance thereunder

2,157,224 FOR 8,921 WITHHELD 219,038 ABSTAINED

PART II

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

ART's Common Stock is listed on the American Stock Exchange and trades under the ticker symbol HRT.

The following table sets forth, for the period indicated, the high and low closing prices per share for ART's Common Stock as quoted by the American Stock Exchange.

	High	Low

Year Ended December 31, 2001		
1st Quarter.....	$2.25	$1.81
2nd Quarter.....	3.19	1.95
3rd Quarter.....	3.10	2.40
4th Quarter.....	2.95	2.62
Year Ended December 31, 2000		
1st Quarter.....	$4.50	$1.50
2nd Quarter.....	2.62	1.88
3rd Quarter.....	2.38	1.75
4th Quarter.....	2.00	1.44

As of February 28, 2002, the number of record holders of ART's Common Stock was approximately 1,100. On February 28, 2002, the closing price for the Common Stock on the American Stock Exchange was $3.03.

DIVIDEND POLICY

To date, ART has not paid any dividends on its Common Stock. The Company's revolving credit agreement contains various restrictions and conditions including restrictions regarding the payment of dividends. ART does not intend to declare any dividends in the foreseeable future, but instead intends to retain all earnings, if any, for use in the Company's business.

Item 6. SELECTED FINANCIAL DATA
(In thousands, except per share data)

The selected financial data presented below for each of the years ended December 31 has been derived from the Company's audited consolidated financial statements. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements, including the notes thereto, appearing elsewhere in this report.

Statements of Operations Data:	Years ended December 31,				
	2001	2000	1999	1998	1997
Net sales	$7,220	$8,522	$ 9,995	$8,875	$10,555
Commissions and related revenues	--	1,000	385	485	1,332
Total revenue	7,220	9,522	10,380	9,360	11,887
Cost of sales	5,030	6,249	7,008	6,367	8,162
Gross profit	2,190	3,273	3,372	2,993	3,725
Selling and marketing	59	193	393	247	499
General and administrative	1,480	1,908	1,893	1,901	2,261
Research and development	215	229	298	343	371
Amortization of goodwill	131	130	130	130	134
Write-down of assets	--	--	--	192	--
Income from operations	305	813	658	180	460
Interest and other expenses, net	(72)	(148)	(213)	(117)	(378)

Income before income taxes		233	665	445	63	82
Income tax expense		10	45	20	199	50
Net income (loss)		$ 223	$ 620	$ 425	$ (136)	$ 32
Net income (loss) per share	- basic	$ .07	$ .19	$ .12	$ (.04)	$ .01
	- diluted	$ .07	$ .18	$ .12	$ (.04)	$ .01
Weighted average number of shares outstanding	- basic	3,010	3,333	3,489	3,561	3,563
	- diluted	3,156	3,430	3,549	3,561	3,563

Balance Sheet Data:	December 31,				
	2001	2000	1999	1998	1997
Total assets	$8,684	$9,919	$9,702	$9,990	$11,832
Long-term obligations (including current portion)	$ 113	$ 602	$ 808	$1,000	$ 1,466
Working capital	$2,869	$3,671	$2,174	$2,282	$ 2,293
Shareholders' equity	$7,913	$8,560	$8,222	$7,959	$ 8,087

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

Results of Operations

The following table sets forth for the periods indicated, the percentages of the net sales represented by certain items reflected in the Company's statements of operations.

	Years ended December 31,		
	2001	2000	1999
Net sales	100.0%	100.0%	100.0%
Cost of sales	69.7	73.3	67.5
Gross profit	30.3	26.7	32.5
Selling and marketing	0.8	2.3	3.8
General and administrative	20.5	22.4	18.2
Research and development	3.0	2.7	2.9
Amortization of goodwill	1.8	1.5	1.3
Other (expense), net	(1.0)	(1.7)	(2.0)
GE/Prucka lump sum termination payment	--	11.7	--
Income before income taxes	3.2	7.8	4.3
Income tax provision	(0.1)	(.5)	(0.2)

Net income	3.1%	7.3%	4.1%

Revenue

Total revenue in 2001 declined $2,302,175 from total revenue in 2000. Revenue in 2000 included a $1,000,000 lump sum payment to buy out a sales commission agreement between ART and Prucka Engineering, Inc. (now GE Marquette Medical Systems, Inc.). Net sales of snap fasteners distributed by Micron were lower by $840,364 in 2001 compared to 2000. This loss of snap sales was due to a major customer purchasing snaps directly from the original manufacturer beginning in 2000.

Net sales of Micron silver plated sensors for disposable ECG electrodes were $439,175 or 6% lower in 2001 than 2000. Sensor sales in the first quarter of 2000 were approximately $400,000 higher than the first quarter of 2001 a condition attributed to the Y2K concerns that carried over into early 2000.

Excluding revenues attributed to the GE/Prucka commission agreement, the revenues from ongoing operations decreased $1,473,132 or 15% for the year ended December 31, 2000 compared to 1999. Revenues in 2000 from the sales of Micron sensors and snap fasteners decreased $1,192,000 or 13% compared to 1999. Sales in 1999 related to (Y2K) concerns were abnormally high for Micron, especially at year-end. As a result, orders for sensors dropped in the first half of 2000 but have resumed to more normal rates in the second half of 2000. Orders for snap fasteners decreased approximately $400,000 or 23% in 2000 and the lower sales volume is projected to continue due to the loss of a major customer.

Revenues for 2001, 2000 and 1999 derived from sales of ART's products were not material except for the $1,000,000 payment in 2000 to buy out a CardioLab commission agreement that was due to expire December 31, 2002.

	Years ended December 31,					
	2001		2000	%	1999	%
Sensors	$6,388,003	88	$6,827,178	72	$ 7,583,530	73
Snaps & Snap Machines	689,948	10	1,515,074	16	1,951,039	19
CardioLab & CardioMapp	--	--	1,000,000	11	384,598	4
SAECG equipment	141,737	2	114,823	1	276,578	2
Polymers	--	--	64,788	--	183,839	2
Total.....	$7,219,688	100	$9,521,863	100	$10,379,584	100

Cost of Sales

Cost of sales as a percent of revenues was 69.7% in 2001 compared to 73.3% in 2000. The reduction in cost of sales in 2001 is primarily attributed to the lower sales mix of snaps in 2001 that are purchased for resale with a higher cost than Micron's manufactured sensors. The costs in 2001 for Micron to manufacture its silver plated sensors has remained comparable to those of the prior year.

Cost of sales as a percent of revenues excluding the effect of GE/Prucka commissions and termination payment was 73.3% in 2000 compared to 67.5% in 1999. The percentage increase was primarily due to unabsorbed fixed manufacturing

expenses, such as depreciation, utilities and salaried employees, associated with the lower volume of sensor sales.

Selling and Marketing

Selling and marketing expenses decreased $133,877 or 69% in 2001 compared to 2000 reflecting the decision to eliminate direct sales and sales support personnel engaged in promoting ART SAECG Products being converted to Windows based versions. The conversion of the Predictor series, which offers either ART's licensed Simson bi-directional Butterworth filter technique or the patented Corazonix Bi Spec filter technique for signal-averaging ECGs, is now available in a Windows version. The Company hopes to market ART's software through license or outright sales agreements that would avoid future expenses by ART on sales and marketing services.

Selling and marketing expenses as a percent of revenues decreased from 3.8% in 1999 to 2.3% in 2000. The decrease reflects reductions in direct sales staff and marketing support for ART products until a new generation of signal-averaging ECG products is available for market introduction now scheduled to commence mid-year 2001.

General and Administrative Expenses

General and administrative expenses were $427,967 lower in 2001 than in 2000. The savings in 2001 result primary from the severance of three officers of the Company in 2000 and the assignment of their duties to other management personnel or outside consultants in 2001. Savings in 2001 related to reduced costs associated with the office of the Presidency were approximately $102,000, reduced costs associated with SEC compliance were approximately $53,000 and non-recurring severance pay was approximately $137,500. Additionally, legal expenses were $74,000 less in 2001 as a result of the completion of an environmental investigation concerning Micron facilities with no adverse actions.

General and administrative expenses as a percent of revenues was 22.4% in 2000 compared to 18.2% in 1999. As general and administrative expenses only increased $15,610 in 2000 over 1999, the higher percent than 1999 is strictly a function of the lower sales in 2000. Included in expenses in 2000 are $137,500 of severance costs related to two executives of the Company, and approximately $120,000 of legal expenses which were incurred in connection with an environmental investigation of Micron by the Attorney General's office of Massachusetts. Micron has been informed the investigation has concluded in 2000 with no adverse actions. These one-time costs were mostly offset by the continuing reduction in costs associated with the Austin headquarters operation.

Research and Development

Research and development costs decreased from $229,659 in 2000 to $214,872 in 2001 due to the termination of ART's full time technician. Included in the costs for 2001 was $71,000 related to an outside programming service used to complete the Predictor(R)7 conversion which are not expected to recur in 2002.

Research and development costs decreased from $297,568 in 1999 to $229,659 in 2000. The decrease was due to fewer full time employees engaged in ART's R&D activities, somewhat replaced by outside programming services. Ongoing research and development for Micron's products and manufacturing processes is part of its manufacturing overhead.

Interest Expense

Interest expense was $64,412 in 2001 compared to $91,477 in 2000. Included in interest expense is interest of $48,055 in 2001 and $63,250 in 2000 related

to the 11% Bonds, a majority of which were redeemed in 2001. Bonds with a face value of $125,000 remain outstanding and will mature in May 2002. In addition, interest expense of $24,000 was reported in 2000 on a note payable that was paid in early 2001.

Interest expense was $91,477 in 2000 compared to $132,919 in 1999. The Company had no bank borrowings of its credit line during 2000 and interest expense in 2000 was accrued on Bonds Payable and Long Term Debt. Bank borrowings were not required in 2000 due to approximately $2,377,000 of cash generation from operations which included the $1,000,000 for the termination of the GE/Prucka commission agreement, $295,000 from the sale of a polymer extruder and $229,000 from the refund of prior year's income taxes.

Other Income (Expense)

Included in other income (expense) is amortization expense in 2001 of $138,538, in 2000 of $63,490 and in 1999 of $46,065 for the discount recorded on the 11% Bonds payable. The increase in amortization expense of $75,048 was caused by the early redemption of bonds totaling $425,000 that were due to mature May 2002. As a result of the acceleration of bond discount in 2001, bond discount amortization expense in 2002 will be $11,972.

Income Taxes

Income taxes as a percent of income before income taxes was 4.3% in 2001 compared to 6.8% in 2000. In both years the Company has no Federal income tax expense due to Net Operating Loss Carryforwards and available deferred tax assets. In 2001 and 2000, the tax expense shown is for state taxes, principally in Massachusetts where Micron is located.

For the year ended December 31, 2000, income tax as a percent of income before taxes was 6.8%, primarily due to the state tax of 9.5% on Micron's Massachusetts earnings similar to 1999. The low Federal income tax reflects the higher than estimated utilization of deferred tax deductions available for 2000 and future periods that generate taxable income.

Liquidity and Capital Resources

Working capital was $2,869,344 as of December 31, 2001 compared to $3,671,443 at December 31, 2000. The $802,099 decrease in working capital in 2001 is mainly attributed to $622,030 of payments to retire the principal and repurchase the associated warrants of the 11% Bonds in 2001 that were due to mature in 2002. In addition to the early bond redemptions, the announced program of acquiring the Company's common stock resulted in a non-operating use of funds aggregating $702,615 (305,859 shares) in 2001 compared to $502,772 (265,040) shares in 2000. The Company expects to continue the Stock Buy Back Program in 2002.

The Company had working capital of $3,671,443 at December 31, 2000 compared to $2,173,947 at December 31, 1999. The increase of $1,497,496 is basically the result of two events: (1) The receipt from GE/Prucka of a $1,000,000 termination payment related to a commission agreement and (2) the classification of $580,000 of bonds that were included in current liabilities in 1999 and now are included in long term debt. The bonds were originally scheduled to mature May, 2000 have been renewed to mature in May 2002.

Net cash provided by operating activities was $2,033,166 in 2001, $2,377,357 in 2000 and $919,349 in 1999. The large amount of cash funds in 2000

was due to the $1,000,000 lump sum payment received from GE/Prucka to terminate a multi year sales agreement. Accounts receivable balances contributed $751,542 to the cash provided by operations in 2001 as one account with past due amounts of approximately $400,000 at the end of 2000 was collected in 2001. The major source of cash provided by operations is the net income of the Company after adjustment for the large non-cash items of depreciation and amortization.

Net cash used in investing activities is principally for capital equipment at Micron. Capital equipment expenditures were $675,111 in 2001, $246,658 in 2000 and $540,713 in 1999. The increase in capital spending in 2001 reflects the addition of 4 new, larger capacity molding machines with higher volumes and efficiencies than the other equipment in the plant. The Company plans to expend approximately $400,000 for capital equipment in 2002.

Cash and cash equivalents were $1,860,822, $1,999,282 and $455,674 at December 31, 2001, 2000 and 1999, respectively. The increase in cash in 2000 from 1999 reflects the receipt of the $1,000,000 lump sum payment. Substantially all cash and cash equivalents are invested in fixed rate bank instruments that are highly liquid.

During 2001, the Company had a $1 million line of credit with a bank that has been renewed through June 2002. There were no borrowings under the line of credit in 2001 or 2000. The Company anticipates the line of credit will be renewed again in 2002.

Recently Issued Accounting Standard

In August 2001, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standard No. 144 ("SFAS 144") Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS 144 supersedes the Statement of Financial Accounting Standard No. 121 ("SFAS 121"), Accounting for the Impairment of Long-Lived Assets to Be Disposed of, it retains many of the fundamental provisions of SFAS 121. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30"), Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in APB 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of, by sale, abandonment, or in a distribution to owners, or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of SFAS 144 is not expected to have significant effect on the Company's consolidated financial statements. See Item 1 ("Business") for discussion of new accounting standards related to Goodwill (SFAS 141 and SFAS 142).

Inflation

The Company does not believe that inflation in the United States or international markets in recent years has had a significant effect on its results of operations.

Safe Harbor Under the Private Securities Litigation Reform Act of 1995.

Cautionary statements under the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995. This Form 10-K contains certain

statements of a forward-looking nature relating to future events or the future financial performance of the Company. Such forward-looking statements are only predictions and are subject to risks and uncertainties that could cause actual results or events to differ materially and adversely from the results discussed in the forward-looking statements. When used in this Form 10-K, the words or phrases "believes," "anticipates," "expects," intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify predictions and the actual events or results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, risks regarding demand for new and existing products; the success of new product development efforts; the uncertainty as to whether certain products will receive approval for sale in the United States; the Company's highly competitive industry and rapid technological change within the industry and the fact that the industry is dominated by large companies with much greater resources than the Company; and the reliance on key personnel.

The Company cautions investors and others to review the cautionary statements set forth in this Form 10-K and cautions that other factors may prove to be more important in affecting the Company's business and results of operations. These forward-looking statements speak only as of the date of this report. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of anticipated events.

Item 7A. Quantification and Qualitative Disclosures About Market Risk

The Company is not exposed to foreign currency exchange risk as all business is conducted based on U.S. Dollars.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Report

To the Shareholders of

Arrhythmia Research Technology, Inc.

We have audited the accompanying consolidated balance sheets of Arrhythmia

Research Technology, Inc. and Subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 audit 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/BDO Seidman, LLP

Gardner, Massachusetts

February 23, 2002

Arrhythmia Research Technology, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 1,860,822	$ 1,999,292
Trade and other accounts receivable, net of allowance for doubtful accounts of $51,000 and $52,827	854,426	1,604,141
Inventories (Note 3)	897,087	860,161
Deposits, prepaid expenses and other current assets	27,887	62,728
Income taxes recoverable	--	100,000
Total current assets	3,640,222	4,626,322
Property, plant and equipment, net (Note 4)	3,272,592	3,310,958
Goodwill, net of accumulated amortization (Note 5)	1,326,000	1,456,833
Other intangibles, net of accumulated amortization	--	48,030
Deferred income taxes, net (Note 7)	444,923	444,923
Other assets	--	31,518
Total assets	$ 8,683,737	$ 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 6)	113,028	178,279
Accounts payable	343,010	344,821
Accrued expenses	314,840	407,897
Total current liabilities	770,878	954,879
Bonds payable, net of current maturities (Note 6)	--	399,490
Deferred revenue	--	4,621
Total liabilities	770,878	1,358,990
Commitments and contingencies (Notes 6, 8, 9 and 12):		
Shareholders' equity (Note 12):		
Preferred stock, $1 par value; 2,000,000 shares authorized; none issued	--	--
Common stock, $.01 par value; 10,000,000 shares authorized; 3,758,181 and 3,729,681 issued, respectively	37,582	37,297
Additional paid-in-capital	8,999,581	9,166,615
Common stock held in treasury, 869,305 and 563,446 shares at cost	(2,357,279)	(1,654,664
Retained earnings	1,232,975	1,010,346
Total shareholders' equity	7,912,859	8,559,594
Total liabilities and shareholders' equity	$ 8,683,737	$ 9,918,584

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc. and Subsidiary

Consolidated Statements of Income

Years ended December 31,	2001	2000	1999
Net sales	$7,219,688	$8,521,863	$ 9,994,986
Commission and related revenue (Note 9)	--	1,000,000	384,598
Total revenue (Note 13)	7,219,688	9,521,863	10,379,584
Cost of sales	5,029,922	6,248,579	7,007,519
Gross profit	2,189,766	3,273,284	3,372,065
Selling and marketing	58,985	192,862	392,851
General and administrative	1,480,250	1,908,217	1,892,607
Research and development	214,872	229,659	297,568
Amortization of goodwill	130,833	129,889	130,519
Income from operations	304,826	812,657	658,520
Other income (expense):			

Interest expense	(64,412)	(91,477)	(132,919)
Other income (expense), net	(7,785)	(56,053)	(80,243)
Total other expense, net	(72,197)	(147,530)	(213,162)
Income before income taxes	232,629	665,127	445,358
Income tax provision (Note 7):			
Current	10,000	66,000	69,313
Deferred	--	(21,000)	(49,000)
	10,000	45,000	20,313
Net income	$ 222,629	$ 620,127	$ 425,045
Net income per share (Note 2):			
Basic	$ 0.07	$ 0.19	$ 0.12
Diluted	$ 0.07	$ 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 6, 8 and 12)

	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Unearned ESOP Compensation
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)	--
Issuance of common stock	28,500	285	29,996	--	--
Treasury stock purchase of 305,859 shares	--	--	--	(702,615)	--
Warrants repurchased	--	--	(197,030)	--	--
Net income	--	--	--	--	--
December 31, 2001	3,758,181	$37,582	$8,999,581	$(2,357,279)	$ --

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc.and Subsidiary

Consolidated Statements of Cash Flows

(Note 10)

Years ended December 31,	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 222,629	$ 620,127	$ 425,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Director fees paid in stock	--	26,500	37,313
Depreciation	713,477	771,531	693,648
Provision for doubtful accounts	(1,827)	(30,376)	11,011
Amortization	317,401	277,087	194,092
Deferred income tax provision	--	(21,000)	(49,000)
Deferred revenue	(4,621)	(4,059)	(18,356)
Changes in operating assets and liabilities:			
Trade and other accounts receivable	751,542	79,333	(356,441)
Inventories	(36,926)	222,356	390,209
Deposits, prepaid expenses and other assets	66,359	117,379	(1,147)
Income taxes recoverable	100,000	229,408	(66,598)
Accounts payable and accrued expenses	(94,868)	89,071	(340,427)
Net cash provided by operating activities	2,033,166	2,377,357	919,349
Cash flows from investing activities:			
Capital expenditures	(675,111)	(246,658)	(540,713)
Other intangibles	--	(8,850)	(42,397)
Net cash used in investing activities	(675,111)	(255,508)	(583,110)
Cash flows from financing activities:			
Issuance of common stock	30,281	--	--
Purchase of warrants	(197,030)	(50,000)	--
Payments on long-term debt and capital leases	(627,161)	(25,459)	(238,567)
Purchase of treasury stock	(702,615)	(502,772)	(238,808)
Reduction of unearned ESOP compensation	--	--	39,277
Net cash used in financing activities	(1,496,525)	(578,231)	(438,098)
Net increase (decrease) in cash and cash equivalents	(138,470)	1,543,618	(101,859)
Cash and cash equivalents, beginning of year	1,999,292	455,674	557,533
Cash and cash equivalents, end of year	$ 1,860,822	$ 1,999,292	$ 455,674

See accompanying notes to consolidated financial statements.

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 sales and licensing of medical software 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 primarily used in the manufacture of disposable medical electrodes designed for electrocardiograph ("ECG"). 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 and cash and cash equivalents. ART's customer base for ECG 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.

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 $4,000, $16,000 and $52,000 in 2001, 2000 and 1999, respectively.

2. Accounting Policies (Continued)

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.

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations ("SFAS 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applied to all business

combinations initiated on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142, requires that the Company identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidelines in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of December 31, 2001 the net carrying amount of goodwill is $1,326,000. Amortization expense during the year ended December 31, 2001, was approximately $131,000. Currently, the Company is assessing but has not yet determined how the adoption of SFAS 141 and SFAS 142 will impact its financial position and results of operations.

Arrhythmia Research Technology, Inc.and Subsidiary

Notes to Consolidated Financial Statements

2. Accounting Policies (Continued)

Other Intangibles

Direct costs to acquire patent technology and legal costs associated with securing patents are capitalized and amortized using the straight-line method over the remaining useful life of the patents.

Certain software costs to establish the technological feasibility of the product are expensed as research and development.

Other intangibles as of December 31, 2001 have

	been fully amortized.
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.
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 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.

Arrhythmia Research Technology, Inc.and Subsidiary

Notes to Consolidated Financial Statements

2. Accounting Policies (Continued)

Net Income Per Share Data (Continued)	Basic and diluted EPS computation for the years ended December 31, 2001, 2000, and 1999 are as follows:

Years ended December 31,	2001	2000	1999
Net income available to common shareholders	$ 222,629	$ 620,127	$ 425,045

Weighted average common shares outstanding	3,009,823	3,333,317	3,488,650
Basic EPS	$ 0.07	$ 0.19	$ 0.12
Diluted EPS:			
Net income available to common shareholders	$ 222,629	$ 620,127	$ 425,045
Weighted average common share outstanding	3,009,823	3,333,317	3,488,650
Assumed conversion of common shares issuable under stock option plans	146,424	97,084	60,544
Weighted average common and common equivalent shares outstanding	3,156,247	3,430,401	3,549,194
Diluted EPS	$ 0.07	$ 0.18	$ 0.12

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,	2001	2000	1999
Stock options	4,000	7,000	14,000
Stock warrants	--	--	279,000

2. Accounting Policies (Continued)

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 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, 2001, 2000 and 1999.
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.
Shipping and Handling Costs	Shipping and handling costs include primarily freight and are classified as a cost of sales in the consolidated statements of income.

2. Accounting Policies
(Continued)

	Derivative Instruments	The Company follows the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives Instruments and Hedging Activities" ("SFAS No. 133") which requires companies to recognize all derivative 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. Historically, the Company has not entered into derivative contracts either to hedge existing risks or for speculative purposes.
	Recently Issued Accounting Standard	In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 ("SFAS 144") Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS 144 supersedes Statement of Financial Accounting Standard No. 121 ("SFAS 121"), Accounting for the Impairment of Long-Lived Assets to Be Disposed of, it retains many of the fundamental provisions of SFAS 121. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30"), Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in APB 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of, by sale, abandonment, or in a distribution to owners, or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of SFAS 144 is not expected to have significant effect on the Company's consolidated financial statements.
	Reclassifications	Certain amounts in the 2000 and the 1999 consolidated financial statements have been reclassified to conform with the 2001 presentation.
3.	Inventories	Inventories consist of the following:

December 31,	2001	2000

Raw materials	$166,835	$123,962
Work-in-process	318,070	197,254
Finished goods	412,182	538,945
Total	$897,087	$860,161

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

4. Property, Plant and Equipment

Property, plant and equipment consist of the following:

December 31,	Asset Lives	2001	
Machinery and equipment	5 to 15 years	$ 5,102,745	$
Equipment held for lease	10 years	340,743	
Building and improvements	20 years	1,852,875	
Vehicles	3 to 5 years	24,445	
Furniture and fixtures	3 to 5 years	310,738	
		7,631,546	
Less accumulated depreciation		(4,358,954)	
Net property, plant and equipment		$ 3,272,592	$

The Company had $87,770 of assets under capital leases, included in machinery and equipment, at December 31, 2001 and 2000. Accumulated depreciation on these assets was $30,720 and $24,868 at December 31, 2001 and 2000, 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 $129,758 and $113,936 at December 31, 2001 and 2000.

5. Goodwill

Goodwill consists of the following:

December 31,	2001

Goodwill	$ 2,473,326	$
Accumulated amortization	(1,147,326)	
Net goodwill	$ 1,326,000	$

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

6. Debt

Revolving Credit Facility

The Company has available $1,000,000 from a revolving credit facility with a bank, which is renewable in June 2002. 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, 2001 and 2000 and no borrowings during 2001 and 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,	2001
11% Bonds payable	$113,028
Note payable paid in 2001	--
	113,028
Less current maturities	113,028
Long-term bonds payable and debt	$ --

Bonds Payable

In 2000, the Company renewed $550,000 of a private bond placement 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 was 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.

In 2001, the Company redeemed bonds with a face value of $425,000 and re-purchased the 197,030 associated warrants for $197,030.

For the years 2001, 2000 and 1999, the Company recorded amortization of bond discount of $138,538, $63,490 and $46,065, respectively and interest expense of $48,055, $63,250 and $66,000 in 2001, 2000 and 1999. The unamortized bond discount as of December 31, 2001 and 2000 was $11,972 and $150,510, respectively.

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

7. Income Taxes

The income tax provision for each of the three years in the period ended December 31, 2001 consists of the following:

	2001	2000
Current:		
Federal	$ --	$ --
State	10,000	66,000
Total	10,000	66,000
Deferred	--	(21,000)
Total income tax expense	$10,000	$ 45,000

The Company's federal net operating loss ("NOL") carryforwards were approximately $1,750,000 at December 31, 2001 and 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:

2001

Deferred income taxes:	
Inventories	$ 51,306
Property, plant and equipment	68,585
Patents	237,244
Other	111,234
Net operating loss carryforwards	595,000
Valuation allowance	(618,446)
Deferred income taxes	$ 444,923

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.

7. Income Taxes (Continued)

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:

	2001	2000	1999
Tax provision computed at statutory rate	$ 79,094	$ 226,143	$ 151,42
Increases (reductions) due to:			
Nondeductible expenses	--	5,358	3,85
Amortization of goodwill	39,054	39,054	39,05
State income taxes net of federal benefit	6,600	43,560	45,74
Changes in valuation allowance estimates	(130,790)	(306,880)	(240,17
Other	16,042	37,765	20,41
Income tax expense	$ 10,000	$ 45,000	$ 20,31

8. 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, $0 and $39,277 during the years ended December 31, 2001, 2000 and 1999, 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, 2001, 2000 and 1999.

9. 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 $30,000 for each of 2001, 2000 and 1999, respectively. The license expires in February 2002.

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 distribution of the Products. The agreement provided for ART to receive a 3% commission on CardioLab sales through December 31, 2002. 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. The commissions earned were approximately $385,000 in 1999.

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. Based on the Company's analyses and subject to the difficulty in estimating these future costs, the Company does not expect future costs in connection with environmental matters to have a material adverse effect on financial condition, result of operations or liquidity. At December 31, 2001 and 2000, the consolidated balance sheets include an accrual for these costs of $50,000.
Employment Agreements	The Company has employment agreements with certain executives extending through September 2006. The agreements provide for a base compensation and certain other benefits. The agreements also contain other terms and conditions of employment, including termination payments under certain circumstances.

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

9. 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 $77,000, $117,000 and $115,000 in 2001, 2000 and 1999, respectively Future minimum operating lease payments as of December 31, 2001 are approximately as follows:

Year	Amount
2002	$36,000
2003	14,000
2004	7,000

Total	$57,000

10. Supplemental Cash Flow Information

Cash paid for income taxes and interest for the years ended December 31 are:

	2001	2000	1999
Income taxes	$13,185	$ 59,091	$110,172
Interest	$78,428	$ 68,889	$139,060
Non-cash activities:			
Bond discount resulting from bond and stock warrant renewal	$ --	$194,000	$ --
Directors fees paid in stock	$ --	$ 26,500	$ 37,313

11. 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 $25,000, $37,700 and $41,000 for years 2001, 2000 and 1999, respectively. The amounts owed to this firm at December 31, 2001 and 2000 were approximately $6,000 and $4,000, respectively.

Cardio Digital Inc. ("CDI") has four shareholders who are also shareholders of the Company. Royalties paid CDI were $450, $6,100 and $15,700 for years 2001, 2000 and 1999, respectively. The amounts owed to CDI at December 31, 2001 and 2000 were $0 and $300, respectively.

During the years 2001, 2000 and 1999 healthcare coverage premiums of approximately $7,800, $11,670 and $8,500, 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. Fees paid to this Director during the years 2001, 2000 and 1999 were $8,048, $0 and $0 respectively.

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

1. Stock Options

2001 Stock Option Plan

In October 2001, the shareholders approved the adoption of the 2001 Stock Option Plan (the "Option Plan") and reserved 200,000 shares of the

Company's common stock for issuance under the new Option Plan. Under the Option Plan, options become exercisable commencing one year from the date of grant at the rate of 20% of the amount granted per year and expire six years from the date of grant. The exercise price is the fair market value of the common stock on the date of the grant.

In 2001, options for 60,000 shares were granted to two officers at an exercise price of $2.00. None of the options were exercisable at December 31, 2001 and 140,000 were available for future grants. The weighted average fair market value on the date of grant of the options granted was $1.31.

Incentive Stock Option Plan

The Company had reserved 250,000 shares of its common stock for issuance to officers and key employees pursuant to an Incentive Stock Option Plan (the "ISO Plan"). Under the ISO 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 ISO Plan with a weighted average exercise price of $1.55 per share and weighted average remaining life of 3.6 years. The ISO Plan was terminated for additional grants in 2001.

Transactions under the ISO Plan are summarized as follows:

	2001	2000	1999
Options outstanding at beginning of year	51,000	107,500	110,0
Exercised	(8,000)	--	
Cancelled/expired	(15,000)	(56,500)	(2,5
Options outstanding at end of year	28,000	51,000	107,5
Options exercised to date	12,500	4,500	2,0
Available for grant at end of year	--	194,500	140,5
Exercisable at end of year	28,000	51,000	102,7
Weighted-average fair value of options granted	$ --	$ --	$

Notes to Consolidated Financial Statements

12. 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. 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. At December 31, 2001, 72,000 options remain outstanding with an exercise price of $1.06. In January 2002, all 72,000 shares were exercised.

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

	2001	2000
Options outstanding at beginning of year	90,000	99,000
Exercised	(18,000)	--
Cancelled/expired	--	(9,000
Options outstanding at end of year	72,000	90,000
Exercisable at end of year	72,000	90,000

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 net income would have been adjusted to the pro forma amounts as indicated below:

	2001	2000
Net income - as reported	$222,629	$620,127
Net income - pro forma	$222,629	$614,685
Basic income per share - as reported	$ .07	$ 0.19

Diluted income per share - as reported	$ .07	$ 0.18
Basic and diluted income per share - pro forma	$ .07	$ 0.18

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

12. Stock Options (Continued)

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.

The assumptions used for the 60,000 options issued in 2001 were a dividend yield of 0%, expected volatility of .8 and a risk free rate of 3%.

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. In 2001, warrants to purchase an aggregate of 197,030 shares of common stock were acquired by the Company. As of December 31, 2001, warrants to purchase 57,590 shares of common stock at $1.50 per share were outstanding.

Arrhythmia Research Technology, Inc.and Subsidiary
Notes to Consolidated Financial Statements

13. Industry and Geographic Segments

The Company's operations are classified into two business segments: medical electrode components 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, 2001, 2000 and 1999:

	Medical Electrode Components	Computerized Medical Instruments	Corporate	Consol

Year ended December 31, 2001				
Sales	$7,077,951	$ 141,737	$ --	$ 7,21
Operating income (loss)	$ 838,239	$ (402,580)	$ (130,833)	$ 30
Capital Expenditures	$ 675,111	$ --	$ --	$ 67
Depreciation and Amortization	$ 725,678	$ 3,463	$ 301,737	$ 1,03
Identifiable assets at December 31, 2001	$5,395,525	$ 17,248	$3,270,964	$ 8,68
Year ended December 31, 2000				
Sales	$8,407,040	$ 1,114,823 (A)	$ --	$ 9,52
Operating income (loss)	$ 589,402	$ 353,144	$ (129,889)	$ 81
Capital Expenditures	$ 246,658	$ --	$ --	$ 24
Depreciation and Amortization	$ 777,576	$ 12,778	$ 258,264	$ 1,04
Identifiable assets at December 31, 2000	$6,079,844	$ 227,819	$3,610,921	$ 9,91
Year ended December 31, 1999				
Sales	$9,718,408	$ 661,176	$ --	$10,37
Operating income (loss)	$1,529,928	$ (740,889)	$ (130,519)	$ 65
Capital Expenditures	$ 504,817	$ --	$ 35,896	$ 54
Depreciation and Amortization	$ 637,381	$ 13,975	$ 236,384	$ 88
Identifiable assets at December 31, 1999	$7,076,354	$ 473,374	$2,151,958	$ 9,70

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

13. Industry and Geographic Segments (Continued)

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

	2001	2000

Canada	$2,765,531	$2,756,886
Europe	1,421,798	1,427,494
United Kingdom	1,397,856	1,560,065
United States	1,311,334	3,422,711(A)
Other	323,169	354,707
Net Sales	$7,219,688	$9,521,863

(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	2001	2000
A	38%	36%
B	18%	25%
C	22%	14%

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 and 1999, this was 90% and 58% of computerized medical instrument net sales, respectively.

14. Quarterly Financial Data

	First Quarter	Second Quarter	Third Quarter
2001			
Net sales	$1,753,974	$ 1,874,662	$1,637,050
Gross profit	504,507	634,667	456,152
Net income	34,052	102,652	80,766
Net income per share	.01	.03	.03
2000			
Net sales	$2,543,826	$ 2,863,091	$2,108,247
Gross profit	805,192	1,508,495	527,157
Net income(loss)	101,731	644,842	21,933
Net income(loss) per share	.03	.19	.01

The second quarter results in 2000 include $1,000,000 of revenue and gross profit ($760,000 net of tax) 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 were charged to expense. In addition, $106,000 of severance costs were provided for in the fourth quarter of 2000.

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors and Executive Officers

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

Name	Age	Position with the Company
E.P. Marinos	60	Chairman of the Board of Directors, Director
Julius Tabin, Ph.D	82	Director
Paul F. Walter, MD	64	Director
Russell C. Chambers, MD	58	Director
James E. Rouse	47	President and Chief Operating Officer
Richard A. Campbell	59	Vice President of Finance

The directors are divided into two classes with rotating two-year terms. Mr. Marinos, Dr. Tabin and Dr. Walter have been elected to serve until the 2003 annual meeting of shareholders while Dr. Chambers was elected to serve as a director until the 2002 annual meeting of shareholders. The Company's executive officers are appointed by the Board of Directors and serve at the pleasure of the Board.

Each non-employee director receives compensation of $1,000 per quarter. Additionally, each non-employee director receives $500 for each meeting at which such director is present in person and $250 for each meeting at which such director is present by telephone. Employee directors do not receive compensation.

E.P. (Lou) Marinos was appointed President and Chief Executive Officer of the Company in March 1995 and resigned in May, 1997. Mr. Marinos, until he resigned, also served in the capacity of Chief Financial Officer and Chief Operating Officer since joining the Company in May, 1994. From June 1997 until June 2001, Mr. Marinos was principally employed as a senior executive officer with Midcoast Interstate Transmission Inc. Mr. Marinos has been CEO of AMT/EPM Associates, a consulting company, since June, 2001. Mr. Marinos has been a director of the Company since March, 1996 and was appointed Chairman of the Board of Directors

and Chairman of the Audit Committee in October, 2001.

Julius Tabin, Ph.D. has been a director of the Company since its inception. Since 1949, Dr. Tabin has been a partner in the law firm of Fitch, Even, Tabin & Flannery.

Paul F. Walter, MD. has been a director of the Company since its inception. Dr. Walter is a Professor of Medicine at Emory University where he has been on the faculty since 1971.

Russell C. Chambers, MD. has been a director of the Company since its inception and served as the Company's Chairman of the Board until August 1990. For more than the past five years, Dr. Chambers has been primarily engaged in the management of his personal investments.

James E. Rouse was appointed President and Chief Operating Officer of the Company in October, 2001. Mr. Rouse has been employed by Micron since 1996.

Richard A. Campbell was appointed Vice President of Finance of the Company in October 2001 and was employed as CFO of Micron in May 2000. From 1992 until 1998, Mr. Campbell served as Vice President of Finance for Nichols & Stone Company. Before joining Micron, Mr. Campbell devoted his time to managing his personal finances.

Item 11. EXECUTIVE COMPENSATION

The following tables set forth certain information concerning compensation of and stock options held by the Company's President and Chief Operating Officer and the President of the Company's subsidiary, Micron:

SUMMARY COMPENSATION TABLE

						Long-term Compensation	
		Annual Compensation			Awards	Payo	
Name and Principal Position	Year	Salary	Bonus	Options	Stock Options (sh)	Long-Incent Payo	
James E. Rouse, President	2001	$100,000	--		30,000	--	
Anthony A. Cetrone, President Micron Products Inc. (1)	2000	$ 66,353	--	--	--	--	
Nancy C. Arnold, President Arrhythmia Research Technology, Inc. (2)	2000	$ 72,188	--	--	--	--	
Anthony A. Cetrone, President, Micron Products, Inc.	1999	$110,000	$15,651	--	--	--	
Nancy C. Arnold, President, Arrhythmia Research Technology, Inc.	1999	$ 82,500	$ 500	--	--	--	

(1) Mr. Cetrone retired from the Company and resigned his position as Chairman of the Board and Chief Executive Officer in July, 2000.
(2) Ms. Arnold terminated her employment with the Company in November,

2000.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants			
Name	Options Granted(1)	% of Total Options Granted to Employees in 2001	Exercise Price	Expiration Date
James E. Rouse	30,000	50%	$ 2.00	March 21, 2007

(1) Mr. Rouse was granted 30,000 options under the 2001 Stock Option Plan. The shares vest at the rate of 20% per year for five years until fully vested. The exercise price equals the market price on the date of grant. The market price at the date of grant was $2.00 per share.

Aggregated Option Exercises and Fiscal Year-End Options Values Table

The realized value of aggregated option exercises during 2001 and the value of unexercised in-the-money options at December 31, 2001 held by the Named Executive Officers are shown in the following table:

OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUES

			Number of Unexercised Options Held at December 31, 2001		Value of Une Money O December
Name	Shares Acquired on Exercise	Value Realized (Market Price at Exercise Less Exercise Price)	Exercisable	Unexercisable	Exercisable
James E. Rouse	--	$--	--	30,000	$--

(1) Calculated on the basis of the closing price per share for the Common Stock on the American Stock Exchange of $2.50 on December 31, 2001

Employment Agreement

Mr. Rouse has entered into a five year employment agreement with the Company effective October 5, 2001 which provides for his employment as an officer of the Company at a base salary of $100,000. Mr. Rouse is also covered by an incentive

arrangement for 2002 that provides for a bonus of up to 20% of his base salary dependent upon the earnings of the Company.

REPORT OF THE COMPENSATION COMMITTEE

The following report of the Compensation Committee (the "Committee"), as well as the Performance Table set forth herein, are not soliciting materials, are not deemed filed with the Securities and Exchange Commission (the "SEC") and are not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether made before or after the date of this Form 10-K and irrespective of any general incorporation language in any such filing.

The Compensation Committee is responsible for establishing and reviewing the Company's executive compensation policies, advising the full Board of Directors on all compensation matters and administering the Company's stock option plans. The Committee relating to compensation of the President and Chief Executive Officer are reviewed and approved by the other non-employee Directors.

Compensation Policy

The Company's executive compensation policies are designed to foster the Company's business goals of achieving profitable growth and premium returns to Stockholders. The principal objectives of these policies are as follows: (1) to attract, motivate and retain executives of outstanding ability and character; (2) to provide rewards that are closely related to the performance of the Company and the individual executive by placing a portion of compensation at risk; and (3) to align the interests of executives and Stockholders through long-term, equity-based incentives and programs to encourage and reward stock ownership.

This report discusses the manner in which base salaries, short-term incentive compensation and long-term, equity-based incentives for the Company's President and Chief Executive Officer and other executive officers were determined for the 2001 fiscal year.

Executive Compensation

The key components of executive compensation are base salary, short-term incentive compensation and long-term, equity-based incentives. Base salaries are generally targeted to be competitive with the average salaries paid at other companies of similar size and complexity both within and outside the medical device distribution and manufacturing industries.

Base Salary

Salary level targets are established so that the Company can attract and retain the most qualified employees. The Compensation Committee approves the individual salaries of executive officers. In determining an executive officer's salary, the Compensation Committee considers, but does not assign specific weights to, the following factors: internal factors involving the executive's level of responsibility, experience, individual performance, and equity issues relating to pay for other Company executives, as well as external factors involving competitive positioning, overall corporate performance, and general economic conditions. No specific formula is applied to determine the weight of each factor.

Incentive Compensation Program

The Company maintains an incentive compensation program for substantially all officers and executives designed to reward such individuals for their contributions to corporate and individual objectives. In the past, the programs have provided additional compensation based on performance and profits of those operations for which the various executives have responsibility. No bonuses were earned by any executive officers named in the Summary Compensation Table, in 2001.

Long-Term Incentive Compensation

The Company also grants stock options and other equity incentives in order to link compensation to the Company's long-term growth and performance and to increases in Stockholder value. The Committee has broad discretion to establish the terms of such grants. The Company grants awards to designated employees upon commencement of employment or following a significant change in an employee's responsibility or title. Awards are based on guidelines relating to the employee's position in the Company which are set by the Committee, as well as the employee's current performance and anticipated future contributions. The Committee also considers the amount and terms of stock options previously granted to each of the employees. The Committee individually evaluates these factors with respect to each executive and then the Committee reaches a consensus on the appropriate award. During fiscal year 2001, the Committee recommend the grant of options to purchase 30,000 shares of the Company's Common Stock to each of James E. Rouse and Richard A. Campbell.

Compensation of President and Chief Executive Officer

James E. Rouse was named President and Chief Operating Officer in October, 2001. His annual rate of compensation in 2001 was $100,000. Anthony A. Cetrone served as President and Chief Executive Officer of the Company until November, 1999, however, he continued as Chairman of the Board and Chief Operating Officer of Micron. Mr. Cetrone retired from the Company and resigned his position as Chairman of the Board and Chief Operating Officer of the Company in July, 2000. Prior to his retirement, his annual rate of base compensation was $110,000. Nancy C. Arnold was named President in November, 1999. Ms. Arnold served as President and General Counsel until she terminated her employment with the Company in November, 2000. Prior to her termination, her annual rate of compensation was $82,500.

This report on executive compensation is made by and on behalf of the Company's Compensation Committee.

Russell C. Chambers, M.D.

Paul F. Walter M.D.

STOCK PERFORMANCE INFORMATION

The following Performance Table compares the Company's cumulative total shareholder return on its Common Stock for a five-year period (from December 31, 1996 to December 31, 2001), with the cumulative total return of the Standard & Poor's 500 Stock Index ("S&P 500") (which does not include the Company), and the Standard & Poor's Medical Products and Supplies Stock Index (which includes the Company) ("S&P Med"). Dividend reinvestment has been assumed. The Performance Table assumes $100 invested in December 31, 1996 in the Company's Common Stock, S&P 500, and S&P Medical Products and Supplies Stock Index.

[CHART]

	Cumulative Total Return				
	12/96	12/97	12/98	12/99	12/00
ARRHYTHMIA RESEARCH TECHNOLOGY, INC	100.00	62.50	52.50	65.00	65.00
S & P 500	100.00	133.36	171.47	207.56	188.66
S & P HEALTH CARE (MEDICAL PRODUCTS & SUPPLIES)	100.00	124.67	179.70	166.45	240.09

Compliance with Section 16(a) of the Securities Exchange Act

Based solely upon the Company's review of the copies of such forms it has received, the Company believes that all its officers, directors and greater than ten percent beneficial owners complied with the filing requirements applicable to them pursuant to Section 16(a) of the Securities Exchange Act during 2001.

Stock Options

2001 Stock Option Plan

In 2001, the Company adopted the 2001 Stock Option Plan (the "Option Plan") pursuant to which 200,000 shares of Common Stock have been reserved for issuance to officers and other key employees. The exercise price of any stock option granted to an eligible employee may not be less than 100% of the fair market value of the shares underlying such option on the date of grant. The term of each option and the manner in which it may be exercised is determined by the Board of Directors provided that no option is exercisable more than 6 years after the date of grant. Generally, 20% of options become exercisable or "vest" one year from the date of grant and an additional 20% becomes exercisable each year thereafter. Options are not transferable, except upon death of the option holder.

Options to purchase an aggregate of 60,000 shares of Common Stock at an exercise price of $2.00 per share have been granted under the Option Plan to two current officers of the Company. None of these options were exercisable as of December 31, 2001.

1987 Incentive Stock Option Plan

In 1987, the Company adopted an incentive stock option plan (the "ISO Plan") pursuant to which 250,000 shares of Common Stock were reserved for issuance to officers and other key employees. Options were designated as "incentive stock options" within the meaning of the Internal Revenue Code of 1986, as amended. The exercise price of any stock option granted to an eligible employee could not be less than 100% of the fair market value of the shares underlying such option on the date of grant, unless such employee owns more than 10% of the outstanding Common Stock, in which case the exercise price of any incentive stock option could not be less than 110% of such fair market value. The term of each option and the manner in which it may be exercised was determined by the Board of Directors provided that no option was exercisable more than 10 years after the date of grant and, in the case of a stock option granted to an eligible employee owning more than 10% of the Common Stock, no more than five years. Generally, options became exercisable one year from the date of grant and each year thereafter at a rate of 20% per year. Options were not transferable, except upon death of the option holder. The 1987 ISO Plan was terminated for new grants in 2001. Options outstanding under the ISO Plan continue to be exercisable on the terms of the original option grants.

Under the 1987 ISO Plan, options to purchase 28,000 shares of common stock at exercises prices between $1.06 and $6.00 per share were exercisable as of December 31, 2001. During 2001, 8,000 shares were exercised and 15,000 shares lapsed.

Other Options

In October 1994, options for 144,000 shares, expiring in 2004, at an exercise price of $3.00, were granted to eight Directors. The shares were immediately exercisable. In September 1998, the Board of Directors adjusted the exercise price of the options to reflect the current fair market value of the stock, which was $1.06 per share. Options to purchase 18,000 shares were exercised in 2001. Options to purchase 72,000 shares were exercised in January 2002. Options for 54,000 shares have been terminated or forfeited.

Medical Consultants

From time to time, the Company consults with medical advisors who report on advances in technology and on developments in their respective fields. During 2001, 2000 and 1999, the Company used consultants on a specific project basis. Amounts paid to consultants during 2001, 2000 and 1999 were not material.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of February 28, 2002 based on information obtained from the persons named below, with respect to the beneficial ownership of shares of Common Stock by (i) each person known by the Company to be the owner of more than five percent of the outstanding shares of Common Stock, (ii) each director of the Company and (iii) all officers and directors as a group.

	Beneficial Ownership (1)	
Name of Beneficial Owner	Number	Percent
Russell C. Chambers, M.D. (2).....	491,213	16.84
Julius Tabin, Ph.D.....	138,824	4.76
Paul F. Walter, M.D.....	82,055	2.81
E.P. Marinos (3).....	60,426	2.07
All officers and directors as a group (4)	816,298	27.98

1. Unless otherwise noted, each person has sole voting and investment power with respect to the shares of Common Stock beneficially owned.

2. Includes 2,500 shares over which Dr. Chambers has voting power pursuant to an agreement, 12,500 shares held as custodian for his son and 2,500 shares held as custodian for a niece. Excludes Company shares owned by two trusts of which Dr. Chambers' son and Dr. Chambers' wife have a beneficial interest. Dr. Chambers is neither a beneficiary nor a trustee of the two trusts and disclaims any beneficial ownership of the common stock held by

the trusts. Excludes 23,802 shares owned by a Foundation of which Dr. Chambers is a co-trustee and has shared voting power but has no beneficial interest.

3. Includes options to purchase 24,000 shares of Common Stock, all of which are exercisable at December 31, 2001.

4. Includes 43,780 shares held by the Micron Employee Stock Ownership Plan over which an Officer of the Company has power as Trustee.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

To date, all transactions between the Company and its officers, directors, or their affiliates have been approved or ratified by a majority of the directors who did not have an interest in, and who were not employed by the Company at the time of, such transaction. The Company's Board of Directors adopted resolutions providing that any transaction between the Company and its officers, directors or their affiliates must be approved by a majority of the Board of Directors who do not have an interest in, and who are not employed by the Company at the time of, such transaction. The Company believes that all transactions entered into with affiliates of the Company were on terms no less favorable than could have been obtained from unaffiliated third parties.

In May 1983, ART entered into an agreement with Cardiodigital Industries, Inc., a Texas corporation ("CDI"), pursuant to which ART granted an exclusive license to CDI to use the technology covered by the Simson Patent in connection with research and development of signal-averaging devices. Dr. Julius Tabin, is a director of ART and a shareholder of CDI. In addition, the estate of G. Russell Chambers (Dr. Chambers' father), is a principal shareholder of CDI. Royalty fees paid for the years ended December 31, 2001, 2000 and 1999 were $450, $6,100 and $15,700, respectively.

Dr. Julius Tabin, a member of the law firm of Fitch, Even, Tabin & Flannery, the Company's patent counsel, has been a director of the Company since its inception and he and other members of the firm are shareholders of the Company. For the years ended December 31, 2001, 2000 and 1999, the law firm billed the Company approximately $29,200, $19,300 and $40,600, respectively, for legal services rendered and patent prosecution costs. The amounts owed to the firm at December 31, 2001, 2000 and 1999 were approximately $6,000, $4,000, and $31,000, respectively.

Dr. Russell C. Chambers, a director and shareholder of the Company, is engaged as a consultant to the Company. For the years ended December 31, 2001, 2000 and 1999, health insurance premiums paid on Dr. Chambers behalf amounted to approximately $ 7,800, $11,670, and $8,500, respectively.

The Company obtains consulting services, with respect to acquisitions and other negotiations, from Mr. E. P. Marinos, a shareholder and Director of the Company. Fees for services were paid to this Director for years 2001, 2000 and 1999, were $8,048, $0, and $ 0 respectively. The amounts owed to the Director were approximately $3,325, $4,275 and $0 for December 31, 2001, 2000 and 1999, respectively.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) List of documents filed as a part of this report:

(1) All Financial Statements

See index to financial statements on page 14 for a list of all financial statements filed as part of this report.

(2) Financial Statement Schedules

(A) Schedule II

All schedules for which provision is made in Regulation S-X of the Securities and Exchange Commission not included here are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

(3) Exhibits - None

(b) Reports filed in the fourth quarter on Form 8-K:

None

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.

BY /s/ James E. Rouse

James E. Rouse, President and Chief Operating Officer

BY /s/ Richard A. Campbell

Richard A. Campbell, Vice President of Finance

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ E. P. Marinos E. P. Marinos	Chairman of the Board	March 28, 2002
/s/ Russell C. Chambers Russell C. Chambers	Director	March 28, 2002
/s/ Julius Tabin	Director	March 28, 2002

Julius Tabin

/s/ Paul F. Walter — Director — March 28, 2002

Paul F. Walter

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.0	Articles of Incorporation
3.1	By-laws
3.2	Certificate of Agreement of Merger of Arrhythmia Research Technology, Inc., a Louisiana Corporation, and Arrhythmia Research Technology, Inc., a Delaware Corporation
3.3	Articles of Merger of Arrhythmia Research Technology, Inc., a Louisiana Corporation, an Arrhythmia Research Technology, Inc., a Delaware corporation
4.0	Form of Certificate evidencing shares of the Company's Common Stock
4.2	Form of Option to purchase Company Common Stock under the 1987 Incentive Stock Option P
4.4	Bond Indenture and Bond Form
4.5	Form of Option for E.P. (Lou) Marinos under 1995 Key Employees Stock Option Plan
10.2	Lockup Agreement
10.3	Manufacturing Agreement by and between ART and Mortara Instrument, Inc. dated March 8,
10.4	Amendment to Manufacturing agreement dated June 15, 1987
10.5	Letter agreement by and between ART and Mortara Instrument, Inc. dated October 26, 1989
10.6	Letter agreement by and between ART and Mortara Instrument, Inc. dated February 21, 199
10.7	Letter agreement by and between ART and Mortara Instrument, Inc. dated February 21, 19
10.8	Letter agreement by and between ART and Mortara Instrument, Inc. dated July 31, 1990
10.9	License Agreement dated November 15, 1981 by and between University Patents, Inc., and
10.10	Amendment to License Agreement dated June 1, 1985
10.11	License of Cardiac Signal Average and Base Technology by ART to Cardiodigital Industrie ART
10.12	Grant of Option to Acquire Exclusive License for Use of Signal Averaging Technology fro Cardiodigital Industries, Inc. to ART
10.13	Agreement and Plan of Merger executed by ART and Arrhythmia Research Technology, Inc., Louisiana corporation
10.16	Amendment No. 2 to License Agreement between ART and University Patents, Inc. dated Feb 6, 1991
10.22	Asset Purchase Agreement, dated February 17, 1993, by and among Hubbard, Thurman, Tucker & Harris, L.L.P. and ART related to Corazonix
10.23	Agreement and Plan of Merger, dated November 25, 1992, among Arrhythmia Research Technology, Inc., ART Merger Subsidiary II, Inc., Micron Products, Inc. and Micron Medi Products, Inc
10.24	Merger Agreement, dated November 25, 1992, between ART Merger Subsidiary II, Inc. and M Products, Inc
10.25	Asset Purchase Agreement, dated July 9, 1993, between Arrhythmia Research Technology, I Corazonix Corporation
10.26	Amendment to Asset Purchase Agreement, dated November 5, 1993, between Arrhythmia Resea Technology, Inc. and Corazonix Corporation
10.34	Asset Purchase Agreement, dated March 5, 1997, between Micron Products, Inc. and Newmar
99.1	Subsidiaries
99.2	1987 Incentive Stock Option Plan
99.3	Merger Agreement, dated December 26, 1993, between Micron Products, Inc. and Micron Med Products, Inc

(a) Incorporated herein by reference from a Registration Statement on Form S-18 as filed with the Commission in April 1988, Registration Statement No. 33-20945-FW.
(e) Incorporated by reference from Form 8-K as filed with the Commission on December 10, 1992.
(f) Incorporated herein by reference from a Form 10-K as filed with the Commission in March 1993.
(g) Incorporated by reference from Form 8-K as filed with the Commission on July 15, 1993.
(h) Incorporated by reference from Form 8-K as filed with the Commission on November 22, 1993.
(i) Incorporated by reference from Form 8-K as filed with the Commission of June 30, 1998.

Arrhythmia Research Technology, Inc.

and Subsidiary

Schedule II

REPORT OF INDEPENDENT ACCOUNTANTS ON SCHEDULE

To the Shareholders
Arrhythmia Research Technology, Inc.

The audits referred to in our report dated February 23, 2002 relating to the consolidated financial statements of Arrhythmia Research Technology, Inc. and Subsidiary, which is contained in Item 8 of this form 10-K included the audit of the financial statement schedule for the years ended December 31, 2001, 2000 and 1999 listed in Item 14 (a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion such financial statement schedule presents fairly, in all material respects, the information set forth therein for the years ended December 31, 2001, 2000 and 1999.

/s/ BDO Seidman, LLP
Gardner,
Massachusetts
February 23, 2002

Arrhythmia Research Technology, Inc.

And Subsidiary

Schedule II

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions	Balance at End of Year
Allowance for doubtful accounts:				
2001	$ 52,827	$35,978	$ 37,805	$ 51,000
2000	$ 83,203	$56,918	$ 87,294	$ 52,827
1999	$ 72,192	$48,375	$ 37,364	$ 83,203
Allow ance for slow-moving inventories:				
2001	$ 150,487	$ --	$ 38,833	$111,654
2000	$ 458,500	$24,433	$332,446	$150,487
1999	$1,022,835	$ --	$564,335	$ 458,50