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ARRHYTHMIA RESEARCH TECHNOLOGY INC /DE/  
Form 10-Q  
May 15, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended MARCH 31, 2001 or  
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Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

1-9731  
(Commission file No.)

ARRHYTHMIA RESEARCH TECHNOLOGY, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

72-0925679  
(I.R.S. employer identification no.)

1101 SOUTH CAPITAL OF TEXAS HIGHWAY  
BUILDING G - SUITE 200  
AUSTIN, TEXAS  
(Address of principal executive office)

78746  
(Zip code)

(512) 347-9640  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No .

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As of May 7, 2001 there were 3,017,785 shares of common stock outstanding.

This report consists of 9 pages.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC.

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents.....	\$
Trade and other accounts receivable, net of allowance for doubtful accounts..... of \$49,074 and \$52,827.....	
Inventories, net.....	
Deposits, prepaid expenses and other current assets.....	
Income tax recoverable.....	
Total current assets.....	

Property and equipment, net of accumulated depreciation of \$4,194,686 and \$4,028,956.....	
Goodwill, net of accumulated amortization of \$1,048,965 and \$1,016,493.....	
Other intangibles, net of accumulated amortization of \$564,502 and \$558,419.....	
Deferred income taxes, net.....	
Other assets.....	
Total assets.....	\$

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of capital lease obligations.....	\$
Current maturities of bonds payable and other long-term debt.....	
Accounts payable.....	
Accrued expenses.....	

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Total current liabilities.....	
Bonds payable, and other long-term debt, net of current maturities.....	
Deferred revenue.....	
Total liabilities.....	
Shareholders' equity:	
Preferred stock, \$1 par value; 2,000,000 shares authorized, none issued.....	
Common stock, \$.01 par value; 10,000,000 shares authorized; 3,729,681 issued.....	
Additional paid-in-capital.....	
Common stock held in treasury, 690,446 and 563,446 shares at cost.....	
Retained earnings.....	
Total shareholders' equity.....	
Total liabilities and shareholders' equity.....	\$

The accompanying notes are an integral part of the consolidated financial statements.

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

	Three Months
	ended
	2001
Revenues.....	\$ 1,753,9
Cost of sales.....	1,249,4
Gross profit.....	504,5
Selling and marketing.....	23,7
General and administrative.....	360,0
Research and development.....	44,1
Amortization of goodwill.....	32,4
Total expenses.....	460,3
Income from operations.....	44,1
Other income (expense):	
Interest expense.....	(5
Other income (expense), net.....	(1,5
Income before income taxes.....	42,0
Income taxes.....	8,0
Net income.....	\$ 34,0
Net income per share - basic.....	\$ 0.

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Weighted average number of common shares outstanding.....	3,111,5
Net income per share - dilutive.....	\$ 0.
Dilutive average number of common equivalent shares outstanding.....	3,233,0

The accompanying notes are an integral part of the consolidated financial statements.

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ARRHYTHMIA RESEARCH TECHNOLOGY, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

	Common Shares		Additional	Treasury	Unearned
	Number	Amount	Paid-in Capital	Stock	ESOP Compensat
December 31, 1997.....	3,679,216	\$ 36,792	\$ 8,909,307	\$ (878,787)	\$ (82,1
Treasury stock purchase of 28,400 shares.....				(34,297)	
ESOP payments.....					42,8
Net (loss).....					
December 31, 1998.....	3,679,216	36,792	8,909,307	(913,084)	(39,2
Issuance of common stock .	32,667	327	36,986		
Treasury stock purchase of 153,891 shares.....				(238,808)	
ESOP payments.....					39,2
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 with bond renewal.....			194,000		
Net income.....					
December 31, 2000.....	3,729,681	37,297	9,166,615	(1,654,664)	
Treasury stock purchase of 127,000 shares.....				(252,986)	
Net income.....					
March 31, 2001.....	3,729,681	\$ 37,297	\$ 9,166,615	\$ (1,907,650)	\$

The accompanying notes are an integral part of the consolidated financial

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

Cash flows from operating activities:	
Net income.....	\$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation.....	
Amortization.....	
Changes in assets and liabilities:	
Trade and other accounts receivable.....	
Inventories.....	
Deposits, prepaid expenses and other assets.....	
Accounts payable, accrued expenses and other current liabilities.....	
Net cash provided by operating activities.....	
Cash flows from investing activities:	
Capital expenditures, net of disposals.....	
Deposits on capital equipment, acquisitions and other.....	
Patent and software development expenditures.....	
Net cash used in investing activities.....	
Cash flows from financing activities:	
Principal payments on long-term debt, net.....	
Purchase of treasury stock.....	
Net cash used in financing activities.....	
Net increase in cash and cash equivalents.....	
Cash and cash equivalents at beginning of period.....	
Cash and cash equivalents at end of period.....	\$

The accompanying notes are an integral part of the consolidated financial statements.

SUPPLEMENTAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements and related

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notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Form 10-K covering the year ended December 31, 2000.

The information furnished reflects, in the opinion of the management of Arrhythmia Research Technology, Inc. ("ART"), all adjustments necessary for a fair presentation of the financial results for the interim period presented.

Interim results are subject to year-end adjustments and audit by independent certified public accountants.

### Reclassifications:

Certain accounts in the 2000 financial statements have been reclassified to conform with the 2001 presentation.

### Inventories:

Inventories consist of the following as of:

	MARCH 31, 2001	DECEMBER 31, 2000
Raw materials.....	\$ 154,630	\$ 123,962
Work-in-process.....	185,929	197,254
Finished goods.....	594,336	538,945
Total.....	\$ 934,895	\$ 860,161

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Liquidity and Capital Resources

The Company had working capital of \$3,568,455 at March 31, 2001 compared to \$3,671,443 at December 31, 2000. The slight decrease in working capital is attributed to \$252,986 of purchases of the Company's Common Stock in the first quarter of 2001. In March, the Company announced the continuation of its Stock Buy Back Program following an approval by the Board of Directors to purchase up to 200,000 additional shares of the Company's Common Stock.

Capital expenditures (before disposals) were \$101,048 in the first quarter of 2001. These expenditures were part of a program to upgrade equipment at the Micron division and expand its manufacturing capacity of ECG sensors. The total capital expenditures for 2001 are forecast to approximate \$500,000, which is planned to be funded from operating cash flows.

The Company has available \$800,000 from a revolving credit facility with a bank, which is renewable in June 2001. Any borrowings on the credit facility are collateralized by accounts receivable and inventory. However, the Company has yet to make any borrowings under the credit facility due to the high liquidity provided by its operating cash flows.

### Results of Operations

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Revenues for the first quarter ended March 31, 2001 were \$1,753,974 or a decrease of 31% from revenues of \$2,543,826 for the first quarter of 2000. Sales of ECG sensors represented a majority of the decrease as two of Micron's major customers went through management and ownership changes that led to a balancing of inventory levels. Sales of metal snaps distributed by Micron also represented a significant portion of the decrease due to a large customer who has initiated direct purchases from the manufacturer. ART exhibited its Windows version Predictor(R) 7 software at the recent American Cardiologist College convention and received a number of inquires about the purchase or license of the Predictor(R) 7 products.

Domestic and foreign sales for the first quarter are as follows:

	FIRST QUARTER			
	2001	%	2000	%
	-----	---	-----	---
Domestic.....	\$ 340,859	19	\$ 791,588	31
Foreign.....	1,413,115	81	1,752,238	69
Total.....	\$1,753,974	100	\$2,543,826	100
	=====	===	=====	===

The lower percentage of U.S. sales in 2001 reflects the transfer of a major Micron customer who closed a plant in the U.S. and moved substantially all its volume to Canada.

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Cost of sales was 71% for the quarter ended March 31, 2001 compared to 68% for the same period in 2000. Actual overhead spending for the quarter decreased by approximately \$40,000, however, the decrease in sales of Micron's manufactured sensors resulted in higher unit costs due to fixed overhead expenses such as depreciation, salaried payroll and group insurance benefits.

Selling and marketing expenses were \$23,738 in the first quarter of 2001, which is \$81,842 lower than the same period for 2000. ART's direct sales staff and related customer support costs were reduced significantly in 2000 while more modern software applications for ART's ECG signal-averaged products were being completed.

General and administrative expenses decreased \$65,096 in the first quarter ended March 31, 2001 as compared to the same period in 2000. The key factors in this decrease of general and administrative expenses are the absence of legal and consulting expenses of \$44,540 in 2000 incurred in connection with an environmental investigation by the Attorney General's office of Massachusetts which was closed out in 2000, and savings of \$15,238 from the contraction of the operations in the Texas facility.

Research and development expense decreased \$8,798 for the first quarter ended March 31, 2001 as compared to the same period in 2000.

Other income (expenses) were \$33,270 more favorable in the three months ended March 31, 2001 compared to the three months ended March 31, 2000. This is principally due to \$25,644 of greater interest income in 2001 earned on approximately \$1,700,000 of cash invested in highly liquid investments. The large cash balance was a result of a one-time payment of \$1,000,000 related to the termination of a commission agreement and operating funds generated in the second half of 2000.

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Safe Harbor Under the Private Securities Litigation Reform Act of 1995.  
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Any forward looking statements made herein are based on current expectations of the Company that involves a number of risks and uncertainties and should not be considered as guarantees of future performance. These statements are made under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. The factors that could cause actual results to differ materially include: interruptions or cancellation of existing contracts, impact of competitive products and pricing, product demand and market acceptance risks, the presence of competitors with greater financial resources than the Company, product development and commercialization risks and an inability to arrange additional debt or equity financing.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings - In 1997, ART acquired assets from Astro-Med Inc. relating to a hemodynamics system for cardiac catheterization monitoring (Cath Lab Systems). Included as part of the purchase price of \$350,000 was a Promissory Note for \$300,000. In 1999, ART discontinued the sales of the Cath Lab Systems due to major deficiencies in the Astro-Med products and subsequently stopped payments under the Note. In 2000, Astro-Med filed a complaint in the Rhode Island Superior Court, which was removed by ART to the United States District Court in Rhode Island to have the Note enforced. ART contested the complaint claiming breach of obligations under the Asset Purchase Agreement and ART filed a Counterclaim against Astro-Med. In May, 2001, the matter was satisfactorily settled with both parties agreeing to voluntarily dismiss all litigation and the Company making a settlement payment on its obligations to Astro-Med.

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K - The Company filed a Form 8-K dated March 2, 2001 related to the adoption of the Company's Stock Buy-Back Program.

SIGNATURES

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

Arrhythmia Research Technology, Inc.  
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/s/ E. P. Marinos  
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Chairman of the Board of Arrhythmia  
Research Technology, Inc.

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and Acting Chief Executive Officer

May 15, 2001