APPLIED BIOMETRICS INC
Form 10-K
May 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

COMMISSION FILE NUMBER: 0-22146

APPLIED BIOMETRICS, INC.
(Exact name of Registrant as specified in its charter)

MINNESOTA (State or Other Jurisdiction of Incorporation or Organization)	41-1508112 (I.R.S. Employer Identification No.)
P.O. BOX 583457 MINNEAPOLIS, MINNESOTA (Address of Principal Executive Offices)	55458-3457 (Zip Code)

(612) 338-4722
(Registrant's Telephone Number, including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, $.01 PAR VALUE

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]

The registrant has adopted liquidation basis accounting as of September 1, 2000.

As of April 15, 2002, 5,883,404 shares of common stock of the registrant were outstanding, and the aggregate market value of the registrant's outstanding common stock (based upon the last reported sale price of the common stock on the

Over-The-Counter Bulletin Board) excluding outstanding shares owned beneficially by executive officers, directors and principal shareholders, was approximately $294,170.

==

CERTAIN STATEMENTS CONTAINED IN THIS FORM 10-K INCLUDE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS MAY BE IDENTIFIED BY THE USE OF WORDS SUCH AS "EXPECT," ANTICIPATE," "PLAN," "MAY," "ESTIMATE" OR OTHER SIMILAR EXPRESSIONS. SUCH STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULT TO DIFFER MATERIALLY FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED IN OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SEE ITEM 6 "MANAGEMENT'S DISCUSSION AND ANALYSIS - CERTAIN FACTORS" FOR IMPORTANT FACTORS KNOWN TO US THAT COULD CAUSE SUCH MATERIAL DIFFERENCES.

PART I

ITEM 1: DESCRIPTION OF BUSINESS

INTRODUCTION

Applied Biometrics, Inc. ("Applied Biometrics" or the "Company"), a corporation founded in 1984 to develop and market a cardiac output monitoring system, ceased its ongoing business operations in August 2000 because the Company determined that it would be unable to complete the development of its primary product, the Basis Cardiac Output Monitor and RealFlow Cardiac Output Probe (collectively, the "Basis System"), for market and sale.

CESSATION OF BUSINESS OPERATIONS

In connection with its decision to cease business operations, in August 2000 the Company's Chief Executive Officer resigned, all other employees were laid off and all but two of the Company's directors resigned. At that time, the Board of Directors retained Manchester Companies, Inc. ("Manchester"), a Minneapolis, Minnesota investment banking firm, to provide management services to facilitate the winding down and liquidation of the Company, and to act as the Company's exclusive agent to assist it with a merger, sale, exchange, combination or any similar transaction related to the Company. As part of the engagement of Manchester, the Board of Directors appointed James D. Bonneville as the Acting Chief Executive Officer, Chief Financial Officer and Secretary of the Company. During the latter part of 2000, the Company wound down its business operations, eliminated most expenses and negotiated the termination or satisfaction of all of its obligations. This process was essentially completed in January 2001. In April 2001, the remaining two members of the Company's Board of Directors resigned.

As part of its engagement by the Company's Board of Directors, Manchester has been actively seeking merger candidates for the Company. In connection with these activities and since the resignation of the remaining board members in April 2001, Manchester and Mr. Bonneville have consulted from time to time with David B. Johnson, the only beneficial owner who holds more than 5% of the Common Stock of the Company. To date, no candidate or transaction has emerged as a viable option for merging with the Company. Because no acceptable merger candidate has emerged, Mr. Johnson has requested that the Company liquidate and dissolve and distribute the remaining assets to the shareholders of the Company.

In furtherance of this request, on May 13, 2002 the Company received a formal notice from shareholders holding more than 10% of the Company's outstanding stock, including Mr. Johnson, requesting that the Company call and hold a shareholder meeting for the purposes of:

* approving a plan of complete liquidation and dissolution of the Company;
* setting the number of members of the Board of Directors at one;

* electing one director, Richard Nigon, to serve until dissolution of the Company (or, if the Company is not dissolved for any reason, for a term ending at the next annual shareholder meeting or until his successor is elected and qualified); and
* ratifying, approving and confirming the engagement of Manchester, pursuant to the terms of its current engagement agreement with the Company, to take all appropriate actions, on behalf of the Company, in connection with the liquidation and dissolution of the Company.

The Company no longer occupies any office space. The Company can be contacted at P.O. Box 583457, Minneapolis, MN 55458-3457 or by telephone at (612) 338-4722.

CLINICAL USE OF CARDIAC OUTPUT

Cardiac output (or "CO") is a measure of the volume of blood pumped by the heart into the aorta and is one of the most basic physiological parameters of the body's hemodynamic system. There are typically two types of parameters measured in the heart for diagnostic and monitoring purposes: electro-physiological, such as the electrocardiogram ("ECG"), and hemodynamic, such as heart rate, blood pressure and cardiac output. In many cases, ECG, heart rate and pressures are used as a proxy to understand cardiac output. Surgical, electrical and drug therapies, as well as life support systems, such as bypass machines and heart assist devices, are often designed to develop and sustain a specified level of cardiac output.

Since the advent of open-heart surgery, surgeons, anesthesiologists and intensivists have desired a reliable, accurate, continuous and real-time measure of cardiac output. The Company believed that medical practitioners recognize the importance of measuring cardiac output and that there is significant demand for accurate, real-time cardiac output capability, especially for intra-operative and post-operative heart surgery settings. In these settings, surgeons, anesthesiologists and intensivists require continuous, real-time information about cardiac output to guide surgery, drug delivery and life support systems. The Company believed that practitioners were particularly interested in immediate cardiac output data for certain patients undergoing cardiac surgery, including heart transplant and coronary artery bypass surgeries, where the ability to provide real-time, beat-to-beat, continuous cardiac output data can allow surgeons, cardiologists and anesthesiologists to react quickly to changes in a patient's condition.

PRODUCTS

Prior to deciding to cease its business operations, the Company was developing a system designed to measure CO on a continuous and real-time basis during and after cardiac surgery called the Basis System. The Basis System was designed for use on a broad range of aortic diameters in both adults and children. By using ultrasound to monitor CO directly from the ascending aorta, the Basis System was expected to provide real-time accuracy never before available. In contrast to conventional CO techniques, the Basis System was designed to directly measure the patient's aortic diameter and blood velocity 44 times each second for a true, real-time view of cardiac output.

The Basis System consisted of the patented, disposable, ultrasonic RealFlow Probe and the Basis Cardiac Output Monitor. The RealFlow Probe consisted of an ultrasound sensor mounted in the probe head, a power cable and an integrated release mechanism. The release mechanism involved two nitinol "release" wires integrated into the sensor head, which the surgeon sutures to the patient's aorta during open-heart surgery. Later, after the chest cavity has been closed, the physician released the sutures by withdrawing the release wires, permitting the probe to be removed from the chest without additional surgical intervention.

2

The Basis System monitor consisted of both software and electronic hardware and display, which energized the Basis System's RealFlow probe, senses the probe's signal, determines cardiac output and provides a graphical and numeric display to the physician. The electro-luminescent flat panel display provided numerical, waveform and trend information of the patient's cardiac output, stroke volume, blood velocity, aortic diameter and blood velocity. The monitor was designed to be automatic, requiring no user calibration, and to automatically adjust its analysis and readout to each individual patient.

The Basis System was specifically designed to address the need for continuous, real-time, cardiac output data in surgical and post-operative settings by reporting cardiac output accurately and without subjective user intervention. The Basis System readings were thought to be used to guide cardiac surgeons during surgical procedures and to assist intensivists and anesthesiologists by monitoring vital signs and managing life support systems both during and after the procedures.

In July of 2000, the Company determined that significant technical issues faced the Basis System which made commercialization of the Basis System unlikely in the near term. Two significant issues were identified. The first issue involved the Basis System's ability to work successfully in the event of considerable variability or turbulence in a patient's blood flow. The second issue involved errors arising from the positioning of the Basis System's probe during and after surgical procedures. Both of these problems significantly impacted the performance, reliability and market potential of the Basis System.

RESEARCH AND DEVELOPMENT

Prior to deciding to cease its business operations, the Company's professionals researched and developed proprietary competencies in ultrasound transducers, signal processing, cardiac anatomy and pathology and the fluid dynamics of blood flow. These funds were used primarily to develop the Basis System and its underlying core technologies.

PATENTS AND PROPRIETARY RIGHTS

The Company developed extensive proprietary technology and knowledge in a variety of fields that relate to cardiac output, blood flow and associated diagnostic and monitoring products. These include ultrasound transducer design and manufacturing, signal processing, cardiac anatomy, pathology and clinical procedures, the fluid dynamics of blood flow and acoustic properties of the human anatomy.

The Company obtained U.S. and foreign patents and patents pending, which relate to devices and methods used to measure blood flow through a major mammalian artery using ultrasound technology, the release mechanism employed by the RealFlow probe, and certain methods and techniques which relate to minimally invasive surgery, beating heart surgery and advanced signal processing. In addition to its patented technology, the Company relied heavily on trade secrets and unprotected proprietary technology. The Company always maintained the confidentiality of such information through its internal security and secrecy measures and the employment agreements requiring employees and agents of the Company to maintain the confidentiality of Company information and to assign to the Company inventions developed in the course of work for the Company.

On January 31, 2001, as part of its decision to cease business operations, the Company sold certain patented technology to Transonic Systems, Inc. for a purchase price of $23,000. This patented technology consisted of technology that relates to devices and methods used to measure blood flow through arteries using ultrasound technology, and certain methods and techniques which relate to minimally invasive surgery, beating heart surgery and advanced signal processing.

EMPLOYEES

As of December 31, 2001, the Company had no employees. James D. Bonneville, the Company's Acting Chief Executive Officer, Chief Financial Officer and Secretary is an employee of Manchester who is performing these functions pursuant to the agreement between the Company and Manchester.

ITEM 2: PROPERTIES

The Company does not currently occupy any space.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fiscal year covered by this Report.

ITEM 4A: EXECUTIVE OFFICERS OF THE REGISTRANT

As of April 15, 2002, the Company, through its engagement of Manchester, has one individual who is serving as its Acting Chief Executive and Chief Financial Officer. His age and biographical information is as follows:

NAME	AGE	POSITION WITH COMPANY
James D. Bonneville	62	Acting Chief Executive Office, Chief Financial Officer and Secretary

JAMES D. BONNEVILLE - Mr. Bonneville has been a Vice President at Manchester Companies since March 2000. Mr. Bonneville served as the Chief Executive Officer of Linguistic Technologies, Inc. from March 1999 to January 2000. During 1999 Mr. Bonneville served as a consultant to MinCorp Investment Network. From 1993 to 1998 Mr. Bonneville served as the President and Chief Operating Officer of Connect Computer Company, which merged into Norstan in 1996.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock has traded in the over-the-counter market on the OTC Bulletin Board, under the symbol "ABIO," since November 30, 2000. Prior to November 30, 2000, the Company's Common Stock was traded on the Nasdaq SmallCap Market under the symbol "ABIO."

The following table sets forth, for the periods indicated, the high and low sale prices for each calendar quarter indicated, as reported by the OTC Bulletin Board and the Nasdaq SmallCap Market. The prices in the table may not represent actual transactions. These quotations reflect inter-dealer prices without retail mark up, mark down or commissions and may not represent actual transactions.

OTC BULLETIN BOARD

2001	HIGH	LOW
First Quarter..............	$0.10	$0.05
Second Quarter.............	$0.10	$0.06
Third Quarter..............	$0.14	$0.07
Fourth Quarter.............	$0.21	$0.06

NASDAQ SMALLCAP MARKET

2000	HIGH	LOW
First Quarter..............	$4.00	$2.28
Second Quarter.............	$3.50	$2.38
Third Quarter..............	$2.19	$0.25
Fourth Quarter.............	$0.34	$0.09

The Company has not declared or paid any cash dividends on its Common Stock since its inception. As of January 16, 2002, there were approximately 562 beneficial owners of the Company's Common Stock.

ITEM 6: SELECTED FINANCIAL DATA

SUMMARY STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION DATA:

	TWELVE MONTHS ENDED DECEMBER 31, 2001	FOUR MONTHS ENDED DECEMBER 31, 2000
Net assets in liquidation, beginning of period	$ 732,527	$ 925,557
Changes in nets assets in liquidation	(40,653)	(193,030)

Net assets in liquidation, end of period	$ 691,874	$ 732,527
	=========	=========

SUMMARY STATEMENTS OF OPERATIONS DATA:

	EIGHT MONTHS ENDED AUGUST 31	YEARS ENDED DECEMBER 31,		
	2000(2)	1999	1998	1997(1)
Net revenue	$ --	$ --	$ --	$ 64,9
Gross margin	--	--	--	32,7
Operating Expenses:				
Selling, general & administrative	911,766	1,028,065	946,721	1,061,5
Research & development	1,500,337	1,469,001	805,459	1,409,2
Net Loss from continuing operations	(2,354,876)	(2,445,942)	(1,563,991)	(2,134,6
Discontinued Operations:				
Loss from operations of Trans-catheter closure business .	--	--	(1,838,147)	(457,8
Net Loss	--	--	(3,402,138)	(2,592,4
Basic and diluted loss per share				
Continuing operations	$ (0.42)	$ (0.52)	$ (0.36)	$ (0.
Discontinued operations	--	--	$ (0.43)	$ (0.
	$ (0.42)	$ (0.52)	$ (0.79)	$ (0.
Weighted average shares outstanding, basic and diluted	5,655,380	4,659,300	4,312,077	4,186,8

---

(1) In 1997, the Company ceased marketing efforts of two cardiac output devices: one that was integrated into an endotrachial tube, and the other a predecessor to the Basis System.

(2) The Company's weighted average shares outstanding were increased by the issuance of 525,000 shares of Common Stock from two private placements in April 2000.

6

SUMMARY BALANCE SHEET DATA:

	AT DECEMBER 31,				
	2001	2000	1999	1998	1997
Cash, cash equivalents & short-					

term investments	$ 909,510	$1,109,537	$1,910,356	$2,369,413	$4,420,
Total assets	937,010	1,218,263	2,827,739	3,296,711	5,437,
Net assets in liquidation	691,874	732,527	--	--	
Shareholders' equity	--	--	2,516,625	2,151,564	5,271,

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

The Company ceased its ongoing business operations in August 2000 because the Company determined it would be unable to complete the development of its primary product, the Basis System, for market and sale. In August 2000 the Company's Chief Executive Officer resigned, all other employees were laid off and all but two of the Company's directors resigned. At that time, the Board of Directors retained Manchester Companies, Inc. to provide management services to facilitate the winding down or liquidation of the Company, and to act as the Company's exclusive agent to assist it with a merger, sale, exchange, combination or any similar transaction related to the Company. As part of the engagement of Manchester, the Board of Directors appointed James D. Bonneville as the Acting Chief Executive Officer, Chief Financial Officer and Secretary of the Company. During the latter part of 2000, the Company wound down its business operations, eliminated most expenses and negotiated the termination or satisfaction of all of its obligations. This process was essentially completed in January 2001. Since August 2000, the Company's management and accounting functions have been performed through Manchester. In April 2001, the remaining two members of the Company's Board of Directors resigned.

The Company adopted liquidation basis accounting as of September 1, 2000. This basis of accounting is considered appropriate when liquidation of a company appears imminent and the net realizable value of its assets are reasonably determinable. Under this basis of accounting, assets and liabilities are stated at their net realizable value and estimated costs through the liquidation date are provided to the extent reasonably determinable.

As part of its engagement by the Company's Board of Directors, Manchester has been actively seeking merger candidates for the Company. In connection with these activities and since the resignation of the remaining board members in April 2001, Manchester and Mr. Bonneville have consulted from time to time with David B. Johnson, the only beneficial owner who holds more than 5% of the Common Stock of the Company. To date, no candidate or transaction has emerged as a viable option for merging with the Company. Because no acceptable merger candidate has emerged, shareholders holding more than 10% of the Company's outstanding stock, including Mr. Johnson, have requested that the Company call and hold a shareholder meeting for the purposes of (a) approving a plan of complete liquidation and dissolution of the Company, which will include distributing the Company's remaining assets to the shareholders; (b) setting the number of directors at one and electing a director to serve until dissolution of the Company; and (c) ratifying and approving the engagement of Manchester, pursuant to the terms of its current engagement agreement with the Company, to take all appropriate actions, on behalf of the Company, in connection with the liquidation and dissolution of the Company.

7

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, net assets in liquidation were $691,874. Cash, cash equivalents and marketable securities were $909,510 as of December 31, 2001 as compared to $1,109,537 at December 31, 2000, a decrease of $200,027.

Net cash provided by investing activities was $20,700 for the year ended December 31, 2001 as compared to $193,000 provided by investing activities for the year ended December 31, 2000.

Based on its expected rate of spending the Company believes that its existing cash and cash equivalents will be more than sufficient to fund any further expenses related to the Company for several years.

RESULTS OF OPERATIONS

EIGHT MONTHS ENDED AUGUST 31, 2000 AND TWELVE MONTHS OF 1999

Selling costs and general and administrative expenses were $912,000 for the first eight months of 2000, compared to selling costs and general and administrative expenses of $1,028,000 for the twelve months ended December 31, 1999. One-time expenses in the first eight months of 2000 were $100,000 from termination costs and a non-cash compensation charge of $153,000 related to stock granted to the Company's three non-employee directors for prior and current Board service. There were no selling costs for this period.

Research and development costs for the first eight months of 2000 were $1,500,000 compared to $1,469,000 for the twelve months ended December 31, 2000. These expenses increased for the first eight months of 2000 because of a $100,000 of employee termination costs related to the Company's termination of operations and, a second quarter write-off by the Company of $210,000 of its monitor and probe component inventory.

Other income, primarily interest, earned was $57,000 for the first eight months of 2000 compared to $51,000 for the twelve months ended December 31, 1999.

The net loss for the first eight months of 2000 was $2,355,000, or $0.40 per share, as compared to a net loss of $2,446,000, or $0.52 per share, in the twelve-month period ending December 31, 1999.

INFLATION

Management believes inflation has not had a material effect on the Company's financial condition.

CERTAIN FACTORS

CESSATION OF BUSINESS OPERATIONS; NOT A GOING CONCERN.

As indicated, the Company has terminated its business operations due to technical difficulties with its sole product, the Basis System. The Company has attempted to position itself for a sale or liquidation. Although the Company may seek to complete a merger of the Company with another operating entity, there can be no assurance as to the Company's ability to conclude such a transaction or the business, financial condition or results of operations of any successor entity.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements can be found on pages 15 to 24 of this Report. The index to such items is included on page 13 in Item 14(a)(1).

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANT ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Directors of the Registrant.

Messrs. Andrew M. Weiss and Jeffrey Green, the last two remaining directors of the Company resigned as directors in April of 2001. Currently, there are no members of the Board of Directors.

(b) Executive Officers of the Registrant.

Information concerning Executive Officers of the Company is included in this Report under Item 4A, "Executive Officers of the Registrant."

(c) Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of the Company's Common Stock, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Executive officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company during, or with respect to, the period ended December 31, 2001, the Company's directors, executive officers and greater than 10% shareholders complied with the applicable Section 16(a) filing requirements.

ITEM 11: EXECUTIVE COMPENSATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table shows, for the fiscal years ending December 31, 2001 and 2000, the compensation paid by the Company, as well as certain other compensation paid or accrued for those years, to each person serving as the Company's President and Acting Chief Executive Officer during 2001 and each executive officer who received more than $100,000 in compensation during 2001.

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION	LONG-TERM COMPENSATION
		SECURITIES

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	UNDERLYING OPTIONS (#)
James D. Bonneville (1).................	2001	$60,000	--	--
ACTING CHIEF EXECUTIVE OFFICER	2000	45,000	--	--

(1) The services of Mr. Bonneville as Acting Chief Executive Officer and Chief Financial Officer and Secretary are provided through the agreement between the Company and Manchester, pursuant to which the Company paid Manchester a monthly fee equal to $10,000 for the months of August 2000 through November 2000 and $5,000 for each month from December 2000 to December 2001. Manchester received a commission payment in 2000 of $24,000 under the agreement with the Company. Mr. Bonneville is an employee of Manchester and therefore does not directly receive the payments made to Manchester by the Company.

OPTION GRANTED

The following tables summarize individual grants of options to purchase shares of Common Stock during fiscal 2001 to each of the executive officers named in the Summary Compensation Table above and the value of the options held by such persons at December 31, 2001.

	OPTIONS GRANTED IN LAST FISCAL YEAR INDIVIDUAL GRANTS (1)				POT ANN PRIC
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	5%
James D. Bonneville(2)	--	--	--	--	--

(1) Potential realizable value is calculated based on an assumption that the price of the Company's Common Stock will appreciate at the assumed annual rates shown (5% and 10%), compounded annually from the date of grant of the option until the end of the option term. These assumed rates are applied pursuant to the Securities and Exchange Commission rules and therefore are not intended to forecast possible future appreciation, if any, of the Common Stock. Actual gains, if any, on stock option exercises are dependent upon the future performance

of the Common Stock, overall market conditions and continued employment of the named executive by the Company. There can be no assurance that the amounts reflected in this table will be realized.

(2) The services of Mr. Bonneville as Acting Chief Executive Officer and Chief Financial Officer and Secretary are provided through the agreement between the Company and Manchester. Mr. Bonneville is an employee of Manchester and therefore does not directly receive the payments made to Manchester by the

Company.

OPTIONS EXERCISED

No options were exercised by the named executive officer during fiscal 2001. Options granted under the Company's 1994, 1996 and 1998 Stock Plans (collectively, the "Stock Plans") terminated three months after the termination of the employees, unless otherwise agreed to by the Company and the terminated employee. The Company's option plans generally provide that the exercise price of options must be paid in cash, except that the Compensation Committee, in its sole discretion, could have allowed payment by delivery of shares of Common Stock having an aggregate fair market value equal to the exercise price or may allow the exercise price to be financed by the Company upon such terms and conditions as the Compensation Committee may determine. Based upon the difference between the fair market value of one share of Common Stock on the date exercised and the exercise price of the options exercised.

COMPENSATION COMMITTEE

Since the Company has ceased doing business, the Company no longer has a Compensation Committee.

SECTION 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), limits the deductibility of certain compensation paid to each of the executive officer and four other of the most highly compensated executives of a publicly held corporation to $1,000,000. In fiscal 2001, the Company did not pay "compensation" within the meaning of Section 162(m) to such executive officers in excess of $1,000,000 and it will not do so in the future. Therefore, the Company does not have a policy at this time regarding qualifying compensation paid to its executive officers for deductibility under Section 162(m).

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of March 15, 2001 the number and percentage of outstanding shares of Common Stock beneficially owned by each person who is known to the Company to beneficially own more than five percent (5%) of the Common Stock, by each director of the Company, by each executive officer named in the Summary Compensation Table, and by all directors and executive officers of the Company as a group:

BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED(1)	PERCENTAGE OWNERSHIP(2)
David B. Johnson (3) c/o Miller, Johnson & Kuehn, Incorporated Suite 800 - Eighth Floor 5500 Wayzata Boulevard Minneapolis, MN 55416	516,511	8.7%
James D. Bonneville	0	--

----

(1) Unless otherwise indicated, each person has sole voting and dispositive power over such shares. Shares not outstanding but deemed beneficially owned by virtue of the right of a person or member of a group to acquire

them within 60 days are treated as outstanding only when determining the amount and percent owned by such person or group.

(2) As of April 15, 2002, there were 5,883,404 shares of Common Stock outstanding.

(3) Based on an amended Schedule 13G dated February 14, 2002 filed with the Securities and Exchange Commission. Of the 516,511 shares reported, Mr. Johnson has sole voting and dispositive power with respect to 141,002 shares and shares voting and dispositive power with respect to 375,509 shares.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

RELATED TRANSACTION

In August 2000, the Company entered into a six month Engagement Agreement with Manchester, pursuant to which Manchester agreed to provide management services to facilitate the winding down or liquidation of the Company. Under the Engagement Agreement, the Company has retained Manchester as the Company's exclusive agent to assist it with a merger, sale, exchange, combination or any similar transaction related to the Company. In the event the Board of Directors of the Company approves a liquidation of the Company, Manchester is entitled under the Engagement Agreement to receive a $25,000 payment upon the final dissolution of the Company. Pursuant to the terms of the Engagement Agreement, Mr. Bonneville was elected by the Board of Directors to serve as the Company's Acting Chief Executive Officer and Chief Financial Officer. During 2001, the Company paid Manchester monthly fees totaling $60,000. The Engagement Agreement expired in February 2001. Currently the Company and Manchester have been operating on a month-to-month basis.

David B. Johnson, a beneficial owner of more than 5% of the Company's Common Stock, is a principal shareholder in the firm of Miller Johnson Steichen Kinnard, Inc., formerly known as Miller, Johnson & Kuehn, Incorporated ("MJK"). During 2000, the Company engaged MJK as its sales agent in connection with a private placement of 525,000 shares of Common Stock and warrants to purchase 525,000 shares of Common Stock. In consideration of MJK's services, the Company paid MJK selling commissions of $170,625 equal to 10% of the aggregate price of the shares of Common Stock sold by MJK in the private placement, and issued MJK five-year warrants to purchase 52,500 shares of Common Stock at an exercise price of $3.25 per share. Subsequent to the closing of the placement, MJK transferred these warrants to Mr. Johnson. The Company also provided MJK with a non-accountable expense allowance equal to 1% of the aggregate price of the shares sold by MJK, and reimbursed MJK for its legal fees in connection with the placement.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

(1) Financial Statements

The following financial statements are included hereinafter contained on pages 15 to 24 in this Annual Report on Form 10-K:

Report of Independent Auditors

Statements of Net Assets in Liquidation as of December 31, 2001 and 2000

Statements of Changes in Net Assets in Liquidation for the year ended December 31, 2001 and for the period from September 1, 2000 to December 31, 2000

Statements of Operations for the Eight Months Ended August 31, 2000 and the Year Ended December 31, 1999

Statements of Cash Flows for the year ended December 31, 2001, the Four Months Ended December 31, 2000, Eight Months Ended August 31, 2000 and Year Ended December 31, 1999

Notes to Financial Statements

(2) Financial Statement Schedules

All information required by this section that is applicable to the Company is included in the Financial Statements or Notes thereto.

(3) Exhibits:

The exhibits to this Annual Report on Form 10-K are listed in the Exhibit Index hereinafter contained on page E-1 of this Annual Report on Form 10-K. The Company will furnish a copy of this report and any exhibit to a shareholder who requests a copy in writing upon payment to the Company of a fee of $5.00 per exhibit. Requests should be sent to: James D. Bonneville, c/o Manchester Companies, Inc. at P.O. Box 583457 Minneapolis, Minnesota 55458-3457.

The following is a list of each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Report pursuant to Item 14(c):

A. Applied Biometrics 1996 Stock Option Plan, amended July 2, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999).

B. Applied Biometrics Amended 1994 Stock Option Plan, amended July 2, 1999 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999).

C. Applied Biometrics 1998 Stock Plan, amended January 1, 2000 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000).

D. Engagement Agreement, dated August 24, 2000, by and between Manchester Companies, Inc. and Applied Biometrics, Inc (incorporated by reference to Exhibit 10.1 to the Company's

Report on Form 8-K/A filed on January 8, 2001).

(b) Reports on Form 8-K

On January 8, 2001 the Company filed an amendment to its Current Report on Form 8-K filed on September 8, 2000.

(c) Exhibits

The response to this portion of Item 14 is included as a separate section of this Report. See the Exhibit Index on page E-1 of this report.

(d) Financial Statement Schedules

The response to this portion of Item 14 is included as a separate section of this Report.

REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND SHAREHOLDERS
APPLIED BIOMETRICS, INC.

We have audited the accompanying statements of operations, shareholders' equity, and cash flows of Applied Biometrics, Inc. for the eight months ended August 31, 2000 and for the year ended December 31, 1999. In addition, we have audited the statement of net assets in liquidation as of December 31, 2001 and 2000 and the related statements of changes in net assets in liquidation and cash flows in liquidation for the year ended December 31, 2001 and the period from September 1, 2000 to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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.

As described in Note 1 to the financial statements, the Company decided to liquidate in the third quarter of 2000 and commenced liquidation shortly thereafter. As a result, the Company has changed its basis of accounting for periods subsequent to August 31, 2000 from the going concern basis to the liquidation basis.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and its cash flows of Applied Biometrics, Inc. for the eight months ended August 31, 2000 and for the year ended December 31, 1999, the net assets in liquidation as of December 31, 2001 and 2000 and the changes in net assets in liquidation and cash flows in liquidation for the year ended December 31, 2001 and the period from September 1, 2000 to December 31, 2000, in conformity with accounting principles generally accepted in the United States applied on the basis described in the preceding paragraph.

Ernst & Young LLP

Minneapolis, Minnesota
April 23, 2002

APPLIED BIOMETRICS, INC.
STATEMENT OF NET ASSETS IN LIQUIDATION AS OF DECEMBER 31, 2001
AND DECEMBER 31, 2000

	DECEMBER 31, 2001	DECEMBER 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 909,510	$1,107,537
Prepaid expenses and other current assets	27,500	85,726
Patents and other intangibles, net	--	23,000
Total current assets	$ 937,010	$1,218,263
LIABILITIES		
Accounts payable	$ 35,510	$ 119,954
Other current liabilities	29,199	40,007
Reserve for estimated costs during period of liquidation	167,666	272,250
Short-term obligations	12,761	53,525
Total current liabilities	245,136	485,736
Net assets in liquidation	$ 691,874	$ 732,527

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

APPLIED BIOMETRICS, INC.
STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION
PERIOD FROM JANUARY 1, 2001 THROUGH DECEMBER 31, 2001

Net assets in liquidation as of January 1, 2001 .	$ 732,527
Change in net assets in liquidation	(40,653)
Net assets in liquidation as of December 31, 2001	$ 691,874

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

17

APPLIED BIOMETRICS, INC.
STATEMENTS OF OPERATIONS
FOR EIGHT MONTHS ENDED AUGUST 31, 2000 AND YEAR
ENDED DECEMBER 31, 1999
(GOING CONCERN BASIS)

	EIGHT MONTHS ENDED AUGUST 31, 2000	YEAR ENDED DECEMBER 31, 1999
Operating expenses:		
Selling, general and administrative .	$ 911,766	$ 1,028,065
Research and development	1,500,337	1,469,001
Operating loss	(2,412,103)	(2,497,066)
Other income, net	57,227	51,124
Net loss	$(2,354,876)	$(2,445,942)
Basic and diluted net loss per share:		
Weighted average common shares outstanding	5,655,380	4,659,300

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

18

APPLIED BIOMETRICS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001,
FOUR MONTHS ENDED DECEMBER 31, 2000,
EIGHT MONTHS ENDED AUGUST 31, 2000 AND
THE YEAR ENDED DECEMBER 31, 1999

	YEAR ENDED DECEMBER 31, 2001 (Liquidation Basis)	FOUR MONTHS ENDED DECEMBER 31, 2000 (Liquidation Basis)	EIGHT M ENDE AUGUST 2000 (Going C Basi
CASH FLOWS FROM OPERATING ACTIVITIES:			
Increase (decrease) in net assets in liquidation	$ (40,653)	$ 911,766	
Net loss	--	--	$(2,354
Net loss from discontinued operations	--	--	
Loss from continuing operations	--	--	(2,354
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:			
Depreciation and amortization of capital leases	--	--	152
Amortization of patents and other intangible assets	--	--	27
Value of common stock issued in lieu of cash compensation	--	--	153
Value of stock options and warrants issued in lieu of cash	--	--	11
(Gain) loss on disposal of assets	2,300	4,047	(1
Changes in operating assets and liabilities:			
Inventories	--	--	167
Prepaid expenses, other current assets and other assets	58,226	(11,936)	57
Accounts payable and accrued expenses	(240,600)	(394,107)	(103
Net cash used in continuing operations	--	(595,026)	(1,890
Net cash used in discontinued operations	--	--	
Net cash used in operating activities	(220,727)	(595,026)	(1,890

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

19

APPLIED BIOMETRICS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001, FOUR MONTHS ENDED DECEMBER 31, 2000, EIGHT MONTHS ENDED AUGUST 31, 2000 AND THE YEAR ENDED DECEMBER 31, 1999 (CONTINUED)

	YEAR ENDED	FOUR MONTHS ENDED	EIGHT M ENDE

	DECEMBER 31, 2001 (Liquidation Basis)	DECEMBER 31, 2000 (Liquidation Basis)	AUGUST 2000 (Going Ba
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity of marketable securities	--	--	
Purchase of equipment and improvements	--	--	(25
Proceeds from sale of furniture, equipment and machinery	20,700	238,382	
Investments in patents and trademarks	--	--	(19
Investment in marketable securities	--	--	
Discontinued operations, net	--	--	
Net cash provided by (used in) investing activities	20,700	238,382	(45
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the issuance of common stock, net of expenses	--	--	1,490
Proceeds from exercise of stock options	--		26
Repayment of capital lease obligations	--	(20,413)	(4
Net cash provided by financing activities	--	(20,413)	1,512
Net increase (decrease) in cash and cash equivalents	(200,027)	(377,057)	(423
Cash and cash equivalents at beginning of year	1,109,537	1,486,594	1,910
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 909,510	$ 1,109,537	$ 1,486

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

20

APPLIED BIOMETRICS, INC.
NOTES TO FINANCIAL STATEMENTS

(1) BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS DESCRIPTION:

Applied Biometrics, Inc. ("Applied Biometrics" or the "Company") is a medical device company that was engaged in the research and development of advanced cardio-vascular and hemodynamic diagnostic and monitoring systems.

LIQUIDATION BASIS OF ACCOUNTING:

The consolidated financial statements for fiscal 1999 and for the eight months ended August 31, 2000 were prepared on the going concern basis of accounting which contemplates realization of assets and satisfaction of liabilities in the normal course of business. As a result of the Company's plans to cease operations, the Company adopted the liquidation basis of accounting effective September 1, 2000. This basis of accounting is considered appropriate when, among other things, liquidation of a company appears imminent and the net realizable value of assets are reasonably determinable. Under this basis of accounting, assets are valued at their estimated net realizable values and liabilities are valued at their estimated settlement amounts. At December 31, 2001, the Company has recorded a reserve of $167,666 for costs to be incurred during the liquidation period.

USE OF ESTIMATES:

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

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of cash and highly liquid investments purchased with an original maturity of three months or less. Cash at December 31, 2001 and 2000 was primarily invested in a money market fund.

INVENTORIES:

Inventories were comprised of component parts and were valued at the lower of first-in, first-out (FIFO) cost or market. In 2000, the Company wrote-off the inventories because of its determination that near term commercialization of the Company's product was unlikely.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS:

During 2000, all of the Company's equipment and leasehold improvements were either sold or abandoned upon the adoption of the liquidation basis of accounting. Upon the adoption of the liquidation basis, the Company recorded a write-down of $198,456 to record the equipment and leasehold improvements at their net realizable value.

LONG-LIVED ASSETS:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset in question may not be recoverable. Impairment losses are recorded whenever indicators of impairment are present.

PATENTS AND OTHER INTANGIBLE ASSETS:

Patents and other intangible assets are recorded at cost and are amortized using the straight-line method over their estimated useful lives ranging from ten to fifteen years. In 2001, the Company sold to a third party its rights in all of its patents.

RESEARCH AND DEVELOPMENT:

Research and development costs are expensed as incurred.

STOCK-BASED COMPENSATION:

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION. The Company continues to account for employee stock-based compensation using the intrinsic value method as prescribed under Accounting Principles Board Opinion ("APB") No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations.

INCOME TAXES:

The Company accounts for income taxes using the asset and liability method. The asset and liability method provides that deferred tax assets and liabilities are recorded based on the differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes ("temporary differences").

LOSS PER COMMON SHARE:

Upon the adoption of the liquidation basis of accounting on September 1, 2000, the presentation of per common share information was not considered to be meaningful and has been omitted.

The basic loss per common share, for periods prior to September 1, 2000 was computed based upon the weighted average number of common shares outstanding. All outstanding options have been excluded from the calculation since the effect of their inclusion would have been anti-dilutive.

(2) INCOME TAXES:

The Company has approximately $23,000,000 of net operating loss carryforwards that begin to expire in 2003 and $450,000 of research and experimentation credits. As a result of limitations imposed under ss.382 and ss.383 of the Internal Revenue Code of 1986, both the annual amount and timing of the utilization of these carryforwards will be limited. As the Company issues additional common stock, the Company's carryforwards may be subject to further limitation. A valuation allowance has been established that offsets the Company's entire net deferred tax asset, as the realization of the deferred tax asset is uncertain.

(3) SHAREHOLDERS' EQUITY:

The Company's authorized capital stock consists of 20,000,000 shares of common stock and 5,000,000 shares of undesignated stock.

At December 31, 2001 and 2000, the Company had 5,833,40 shares of common stock outstanding, respectively.

In 2000, the Company sold 525,000 units, resulting in net proceeds to the Company of approximately $1,491,000. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at an exercise price of $3.625 per share. The warrants are exercisable for a period of five years after the date of grant. In connection with the sale of units, the Company issued the private placement agent a warrant to purchase 52,500 shares of common stock at an exercise price of $3.25 per share. The warrant expires in April 2005.

Also in 2000, the Company granted a total of 50,000 shares of common stock to its three non-employee members of its Board of Directors for prior and current board service. In connection with this issuance, the Company recorded approximately $153,000 of non-cash compensation expense. In addition, during 2000, the Company recorded approximately $11,900 of expense related to the granting of warrants and options for services.

SFAS NO. 123 DISCLOSURE:

For the year ended December 31, 1999 the Company did not record any compensation expense for stock-based compensation awards.

Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with SFAS No. 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	1999
Net loss	
As reported	$ (2,445,942)
Pro forma	(3,388,707)
Basic and diluted loss per share	
As reported	(.52)
Pro forma	(.73)

The weighted average fair value per option granted during 1999 was $ 2.41. The weighted average fair value was calculated by using the fair value of each option on the date of grant. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1999
Expected option term	3 years
Expected volatility factor	63%
Expected dividend yield	0.0%
Risk-free interest rate	5.2%

(4) EMPLOYEE BENEFIT PLAN:

SALARY REDUCTION PLAN:

During 1999, the Company established a salary reduction plan for all full-time employees, which qualify under Section 401(k) of the Internal Revenue Code. Employee contributions are limited to 20% of their annual compensation, subject to annual limitations. At its discretion, the Company may make matching contributions equal to a percentage of the salary reduction or other discretionary amount. The Company has made no contributions to the plan during 2001, 2000 and 1999.

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.

Dated: May 13, 2002

APPLIED BIOMETRICS, INC.

By: /s/ James D. Bonneville

James D. Bonneville
Acting Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on May 13, 2002 by the following persons on behalf of the Registrant and in the capacities indicated.

NAME AND SIGNATURE	TITLE
/s/ James D. Bonneville James D. Bonneville	Acting Chief Executive Officer (Principal Executive Officer/Principal Financial and Accounting Officer)

APPLIED BIOMETRICS, INC.
EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2001

EXHIBIT NO.	EXHIBIT	METHOD OF FILING

3.1	Restated Articles of Incorporation of the Company, as amended...........	Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999
3.2	Bylaws of the Company................	Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 (Commission File No. 33-63754C)
10.1	Applied Biometrics 1996 Stock Plan, amended July 2, 1999.................	Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999
10.2	Applied Biometrics Amended 1994 Stock Plan, amended July 2, 1999...........	Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999
10.3	Applied Biometrics 1998 Stock Plan, amended January 1, 2000..............	Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000

10.4	Engagement Agreement, dated August 24, 2000, by and between Manchester Companies, Inc. and Applied Biometrics, Inc......................	Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K/A filed on January 8, 2001
10.5	Master Lease dated October 18, 1999 by and between the Company and Dexxon Capital Corporation...........	Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q filed June 30, 2000
10.6	Amendment to Lease Agreement dated April 10, 2000 by and between the Company and Dexxon Capital Corporation.........................	Incorporated by reference to Exhibit 10.3 to the Company's Report on Form

		10-Q filed June 30, 2000
10.7	Asset Purchase Agreement dated January 31, 2001 by and between the Company and Transonic Systems, Inc...	Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed April 17, 2001