Form 5500

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

Annual Return/Report of Employee Benefit Plan

This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6058(a) of the Internal Revenue Code (the Code).

▶ **Complete all entries in accordance with the instructions to the Form 5500.**

OMB Nos. 1210-0110
1210-0089

2011

This Form is Open to Public Inspection

Part I Annual Report Identification Information

For calendar plan year 2011 or fiscal plan year beginning 01/01/2011 and ending 12/31/2011

A This return/report is for:
- [ ] a multiemployer plan;
- [ ] a multiple-employer plan; or
- [X] a single-employer plan;
- [ ] a DFE (specify) ____

B This return/report is:
- [ ] the first return/report;
- [ ] the final return/report;
- [ ] an amended return/report;
- [ ] a short plan year return/report (less than 12 months).

C If the plan is a collectively-bargained plan, check here. . . . . ▶ [ ]

D Check box if filing under:
- [X] Form 5558;
- [ ] automatic extension;
- [ ] the DFVC program;
- [ ] special extension (enter description)

Part II Basic Plan Information—enter all requested information

1a Name of plan
APPLIED MEMBRANES INC. 401(K) PROFIT SHARING PLAN AND TRUST

1b Three-digit plan number (PN) ▶ 001

1c Effective date of plan 04/01/1987

2a Plan sponsor's name and address, including room or suite number (Employer, if for single-employer plan)

APPLIED MEMBRANES, INC.

2325 COUSTEAU COURT
VISTA, CA 92083

2b Employer Identification Number (EIN) 33-0157219

2c Sponsor's telephone number 760-727-0483

2d Business code (see instructions) 339900

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	10/15/2012	DANNY J WINN
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

3a Plan administrator's name and address (if same as plan sponsor, enter "Same")
APPLIED MEMBRANES, INC.

2325 COUSTEAU COURT
VISTA, CA 92083

3b Administrator's EIN
33-0157219

3c Administrator's telephone number
760-727-0483

4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report:

a Sponsor's name

4b EIN

4c PN

5	Total number of participants at the beginning of the plan year	**5**	140
6	Number of participants as of the end of the plan year (welfare plans complete only lines **6a, 6b, 6c,** and **6d**).		
a	Active participants	**6a**	134
b	Retired or separated participants receiving benefits	**6b**	0
c	Other retired or separated participants entitled to future benefits	**6c**	8
d	Subtotal. Add lines **6a**, **6b**, and **6c**	**6d**	142
e	Deceased participants whose beneficiaries are receiving or are entitled to receive benefits	**6e**	0
f	Total. Add lines **6d** and **6e**	**6f**	142
g	Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item)	**6g**	142
h	Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested	**6h**	0
7	Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	**7**	

8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristic Codes in the instructions:
2E 2F 2G 2J 2K 2T 3D

b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristic Codes in the instructions:

9a Plan funding arrangement (check all that apply)

(1)	X	Insurance
(2)		Code section 412(e)(3) insurance contracts
(3)	X	Trust
(4)		General assets of the sponsor

9b Plan benefit arrangement (check all that apply)

(1)	X	Insurance
(2)		Code section 412(e)(3) insurance contracts
(3)	X	Trust
(4)		General assets of the sponsor

10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

a Pension Schedules

(1)	X	**R** (Retirement Plan Information)
(2)		**MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary
(3)		**SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary

b General Schedules

(1)	X		**H** (Financial Information)
(2)			**I** (Financial Information – Small Plan)
(3)	X	1	**A** (Insurance Information)
(4)	X		**C** (Service Provider Information)
(5)			**D** (DFE/Participating Plan Information)
(6)			**G** (Financial Transaction Schedules)

SCHEDULE A (Form 5500)

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

Insurance Information

This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA).

▶ **File as an attachment to Form 5500.**

▶ Insurance companies are required to provide the information pursuant to ERISA section 103(a)(2).

OMB No. 1210-0110

2011

This Form is Open to Public Inspection

For calendar plan year 2011 or fiscal plan year beginning 01/01/2011 and ending 12/31/2011

A Name of plan
APPLIED MEMBRANES INC. 401(K) PROFIT SHARING PLAN AND TRUST

B Three-digit plan number (PN) ▶ 001

C Plan sponsor's name as shown on line 2a of Form 5500
APPLIED MEMBRANES, INC.

D Employer Identification Number (EIN)
33-0157219

Part I **Information Concerning Insurance Contract Coverage, Fees, and Commissions** Provide information for each contract on a separate Schedule A. Individual contracts grouped as a unit in Parts II and III can be reported on a single Schedule A.

1 Coverage Information:

(a) Name of insurance carrier
PRUDENTIAL RETIREMENT INSURANCE AND ANNUITY COMPANY

(b) EIN	**(c)** NAIC code	**(d)** Contract or identification number	**(e)** Approximate number of persons covered at end of policy or contract year	Policy or contract year	
				(f) From	**(g)** To
06-1050034	93629	040652	142	01/01/2011	12/31/2011

2 Insurance fee and commission information. Enter the total fees and total commissions paid. List in item 3 the agents, brokers, and other persons in descending order of the amount paid.

(a) Total amount of commissions paid	**(b)** Total amount of fees paid
0	0

3 Persons receiving commissions and fees. (Complete as many entries as needed to report all persons).

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		**(e)** Organization code
	(c) Amount	**(d)** Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		**(e)** Organization code
	(c) Amount	**(d)** Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		**(e)** Organization code
	(c) Amount	**(d)** Purpose	

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(b) Amount of sales and base commissions paid	Fees and other commissions paid		**(e)** Organization code
	(c) Amount	**(d)** Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		**(e)** Organization code
	(c) Amount	**(d)** Purpose	

Part II Investment and Annuity Contract Information

Where individual contracts are provided, the entire group of such individual contracts with each carrier may be treated as a unit for purposes of this report.

4	Current value of plan's interest under this contract in the general account at year end	4	107923
5	Current value of plan's interest under this contract in separate accounts at year end	5	

6 Contracts With Allocated Funds:

a State the basis of premium rates ▶

b	Premiums paid to carrier	6b	
c	Premiums due but unpaid at the end of the year	6c	
d	If the carrier, service, or other organization incurred any specific costs in connection with the acquisition or retention of the contract or policy, enter amount.	6d	

Specify nature of costs ▶

e Type of contract: (1) ☐ individual policies (2) ☐ group deferred annuity

(3) ☐ other (specify) ▶

f If contract purchased, in whole or in part, to distribute benefits from a terminating plan check here ▶ ☐

7 Contracts With Unallocated Funds (Do not include portions of these contracts maintained in separate accounts)

a Type of contract: (1) ☐ deposit administration (2) ☐ immediate participation guarantee

(3) ☐ guaranteed investment (4) ☒ other ▶ GUARANTEED GENERAL ACCOUNT CONTRACT

b	Balance at the end of the previous year			7b	103457
c	Additions: (1) Contributions deposited during the year	7c(1)	35602		
	(2) Dividends and credits	7c(2)			
	(3) Interest credited during the year	7c(3)	2712		
	(4) Transferred from separate account	7c(4)			
	(5) Other (specify below)	7c(5)	821		
	▶ TRANSFER IN, FORFEITURE IN, LN PMTS				
	(6) Total additions			7c(6)	39135
d	Total of balance and additions (add **b** and **c(6)**)			7d	142592
e	Deductions:				
	(1) Disbursed from fund to pay benefits or purchase annuities during year	7e(1)	1022		
	(2) Administration charge made by carrier	7e(2)	200		
	(3) Transferred to separate account	7e(3)			
	(4) Other (specify below)	7e(4)	33447		
	▶ TRANSFER OUT, LOAN INITIATIONS				
	(5) Total deductions			7e(5)	34669
f	Balance at the end of the current year (subtract **e(5)** from **d**)			7f	107923

Part III Welfare Benefit Contract Information

If more than one contract covers the same group of employees of the same employer(s) or members of the same employee organizations(s), the information may be combined for reporting purposes if such contracts are experience-rated as a unit. Where contracts cover individual employees, the entire group of such individual contracts with each carrier may be treated as a unit for purposes of this report.

8 Benefit and contract type (check all applicable boxes)

a ☐ Health (other than dental or vision) **b** ☐ Dental **c** ☐ Vision **d** ☐ Life insurance

e ☐ Temporary disability (accident and sickness) **f** ☐ Long-term disability **g** ☐ Supplemental unemployment **h** ☐ Prescription drug

i ☐ Stop loss (large deductible) **j** ☐ HMO contract **k** ☐ PPO contract **l** ☐ Indemnity contract

m ☐ Other (specify) ▶

9 Experience-rated contracts:				
a Premiums: (1) Amount received	**9a(1)**			
(2) Increase (decrease) in amount due but unpaid	**9a(2)**			
(3) Increase (decrease) in unearned premium reserve	**9a(3)**			
(4) Earned (**(1)** + **(2)** - **(3)**)			**9a(4)**	
b Benefit charges (1) Claims paid	**9b(1)**			
(2) Increase (decrease) in claim reserves	**9b(2)**			
(3) Incurred claims (add **(1)** and **(2)**)			**9b(3)**	
(4) Claims charged			**9b(4)**	
c Remainder of premium: (1) Retention charges (on an accrual basis) --				
(A) Commissions	**9c(1)(A)**			
(B) Administrative service or other fees	**9c(1)(B)**			
(C) Other specific acquisition costs	**9c(1)(C)**			
(D) Other expenses	**9c(1)(D)**			
(E) Taxes	**9c(1)(E)**			
(F) Charges for risks or other contingencies	**9c(1)(F)**			
(G) Other retention charges	**9c(1)(G)**			
(H) Total retention			**9c(1)(H)**	
(2) Dividends or retroactive rate refunds. (These amounts were ☐ paid in cash, or ☐ credited.)			**9c(2)**	
d Status of policyholder reserves at end of year: (1) Amount held to provide benefits after retirement			**9d(1)**	
(2) Claim reserves			**9d(2)**	
(3) Other reserves			**9d(3)**	
e Dividends or retroactive rate refunds due. (Do not include amount entered in **c(2)**.)			**9e**	
10 Nonexperience-rated contracts:				
a Total premiums or subscription charges paid to carrier			**10a**	
b If the carrier, service, or other organization incurred any specific costs in connection with the acquisition or retention of the contract or policy, other than reported in Part I, item 2 above, report amount.			**10b**	

Specify nature of costs ▶

Part IV Provision of Information

11 Did the insurance company fail to provide any information necessary to complete Schedule A? ☐ Yes ☒ No

12 If the answer to line 11 is "Yes," specify the information not provided. ▶

SCHEDULE C (Form 5500)	Service Provider Information	OMB No. 1210-0110
Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ▶ **File as an attachment to Form 5500.**	**2011** **This Form is Open to Public Inspection.**

For calendar plan year 2011 or fiscal plan year beginning 01/01/2011 and ending 12/31/2011

A Name of plan
APPLIED MEMBRANES INC. 401(K) PROFIT SHARING PLAN AND TRUST

B Three-digit plan number (PN) ▶ 001

C Plan sponsor's name as shown on line 2a of Form 5500
APPLIED MEMBRANES, INC.

D Employer Identification Number (EIN)
33-0157219

Part I Service Provider Information (see instructions)

You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, $5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions).. . . . . [X] Yes [ ] No

b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

PRUDENTIAL RETIREMENT INSURANCE AND

06-1050034

(b) Enter name and EIN or address of person who provided you disclosure on eligible indirect compensation

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2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, $5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

PRUDENTIAL RETIREMENT INSURANCE AND

06-1050034

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
15 37 50 60 64	NONE	420	Yes [X] No [ ]	Yes [X] No [ ]	0	Yes [X] No [ ]

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes [ ] No [ ]	Yes [ ] No [ ]		Yes [ ] No [ ]

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes [ ] No [ ]	Yes [ ] No [ ]		Yes [ ] No [ ]

2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, $5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received $1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	**(b)** Service Codes (see instructions)	**(c)** Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	**(e)** Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

(a) Enter service provider name as it appears on line 2	**(b)** Service Codes (see instructions)	**(c)** Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	**(e)** Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

(a) Enter service provider name as it appears on line 2	**(b)** Service Codes (see instructions)	**(c)** Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	**(e)** Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	**(b)** Nature of Service Code(s)	**(c)** Describe the information that the service provider failed or refused to provide

(a) Enter name and EIN or address of service provider (see instructions)	**(b)** Nature of Service Code(s)	**(c)** Describe the information that the service provider failed or refused to provide

(a) Enter name and EIN or address of service provider (see instructions)	**(b)** Nature of Service Code(s)	**(c)** Describe the information that the service provider failed or refused to provide

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(a) Enter name and EIN or address of service provider (see instructions)	**(b)** Nature of Service Code(s)	**(c)** Describe the information that the service provider failed or refused to provide

Part III Termination Information on Accountants and Enrolled Actuaries (see instructions)

(complete as many entries as needed)

a	Name:	**b** EIN:
c	Position:	
d	Address:	**e** Telephone:

Explanation:

a	Name:	**b** EIN:
c	Position:	
d	Address:	**e** Telephone:

Explanation:

a	Name:	**b** EIN:
c	Position:	
d	Address:	**e** Telephone:

Explanation:

a	Name:	**b** EIN:
c	Position:	
d	Address:	**e** Telephone:

Explanation:

a	Name:	**b** EIN:
c	Position:	
d	Address:	**e** Telephone:

Explanation:

SCHEDULE H (Form 5500)

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

Financial Information

This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code).

▶ **File as an attachment to Form 5500.**

OMB No. 1210-0110

2011

This Form is Open to Public Inspection

For calendar plan year 2011 or fiscal plan year beginning 01/01/2011 and ending 12/31/2011

A Name of plan
APPLIED MEMBRANES INC. 401(K) PROFIT SHARING PLAN AND TRUST

B Three-digit plan number (PN) ▶ 001

C Plan sponsor's name as shown on line 2a of Form 5500
APPLIED MEMBRANES, INC.

D Employer Identification Number (EIN)
33-0157219

Part I Asset and Liability Statement

1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash	1a		
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions	1b(1)		
(2) Participant contributions	1b(2)		
(3) Other	1b(3)		
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)		
(2) U.S. Government securities	1c(2)		
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)		
(B) All other	1c(3)(B)		
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)		
(B) Common	1c(4)(B)		
(5) Partnership/joint venture interests	1c(5)		
(6) Real estate (other than employer real property)	1c(6)		
(7) Loans (other than to participants)	1c(7)		
(8) Participant loans	1c(8)	2112	8168
(9) Value of interest in common/collective trusts	1c(9)		
(10) Value of interest in pooled separate accounts	1c(10)		
(11) Value of interest in master trust investment accounts	1c(11)		
(12) Value of interest in 103-12 investment entities	1c(12)		
(13) Value of interest in registered investment companies (e.g., mutual funds)	1c(13)	854737	892619
(14) Value of funds held in insurance company general account (unallocated contracts)	1c(14)	103457	107923
(15) Other	1c(15)		

		(a) Beginning of Year	(b) End of Year
1d Employer-related investments:			
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	960306	1008710
Liabilities			
g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through1j)	1k	0	0
Net Assets			
l Net assets (subtract line 1k from line 1f)	1l	960306	1008710

Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: **(A)** Employers	2a(1)(A)	8200	
(B) Participants	2a(1)(B)	80733	
(C) Others (including rollovers)	2a(1)(C)		
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines **2a(1)(A), (B), (C),** and line **2a(2)**	2a(3)		88933
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)		
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	125	
(F) Other	2b(1)(F)	2713	
(G) Total interest. Add lines **2b(1)(A)** through **(F)**	2b(1)(G)		2838
(2) Dividends: **(A)** Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	10342	
(D) Total dividends. Add lines **2b(2)(A)**, **(B)**, and **(C)**	2b(2)(D)		10342
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: **(A)** Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line **2b(4)(B)** from line **2b(4)(A)** and enter result	2b(4)(C)		0

		(a) Amount	(b) Total
2b (5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds)	2b(10)		-36017
c Other income	2c		
d Total income. Add all **income** amounts in column (b) and enter total	2d		66096
Expenses			
e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	1142	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		1142
f Corrective distributions (see instructions)	2f		11333
g Certain deemed distributions of participant loans (see instructions)	2g		4765
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)	452	
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		452
j Total expenses. Add all **expense** amounts in column (b) and enter total	2j		17692
Net Income and Reconciliation			
k Net income (loss). Subtract line 2j from line 2d	2k		48404
l Transfers of assets:			
(1) To this plan	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) [ ] Unqualified **(2)** [ ] Qualified **(3)** [X] Disclaimer **(4)** [ ] Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? [X] Yes [ ] No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: LEVITZACKS **(2)** EIN: 95-3159181

d The opinion of an independent qualified public accountant is **not attached** because:

(1) [ ] This form is filed for a CCT, PSA, or MTIA. **(2)** [ ] It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete 4j and 4l. MTIAs also do not complete 4l.

During the plan year:

		Yes	No	Amount
a	Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.) **4a**		X	
b	Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.) **4b**		X	
c	Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.) **4c**		X	
d	Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.) **4d**		X	
e	Was this plan covered by a fidelity bond? **4e**	X		100000
f	Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty? **4f**		X	
g	Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser? **4g**		X	
h	Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser? **4h**		X	
i	Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.) **4i**	X		
j	Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.) **4j**		X	
k	Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC? **4k**		X	
l	Has the plan failed to provide any benefit when due under the plan? **4l**		X	
m	If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.) **4m**		X	
n	If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3. **4n**			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year? If "Yes," enter the amount of any plan assets that reverted to the employer this year ☐ **Yes** ☒ **No** **Amount:**

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	**5b(2)** EIN(s)	**5b(3)** PN(s)

SCHEDULE R (Form 5500)

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

Retirement Plan Information

This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code).

▶ **File as an attachment to Form 5500.**

OMB No. 1210-0110

2011

This Form is Open to Public Inspection.

For calendar plan year 2011 or fiscal plan year beginning 01/01/2011 and ending 12/31/2011

A Name of plan
APPLIED MEMBRANES INC. 401(K) PROFIT SHARING PLAN AND TRUST

B Three-digit plan number (PN) ▶ 001

C Plan sponsor's name as shown on line 2a of Form 5500
APPLIED MEMBRANES, INC.

D Employer Identification Number (EIN)
33-0157219

Part I Distributions

All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions **1** 0

2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits):

EIN(s): 22-1211670

Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.

3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year. **3**

Part II Funding Information (If the plan is not subject to the minimum funding requirements of section of 412 of the Internal Revenue Code or ERISA section 302, skip this Part)

4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

If the plan is a defined benefit plan, go to line 8.

5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. **Date:** Month _____ Day _____ Year _____

If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.

6 **a** Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived) **6a**

b Enter the amount contributed by the employer to the plan for this plan year **6b**

c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount) **6c**

If you completed line 6c, skip lines 8 and 9.

7 Will the minimum funding amount reported on line 6c be met by the funding deadline? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

Part III Amendments

9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box. ..... ☐ **Increase** ☐ **Decrease** ☐ **Both** ☐ **No**

Part IV ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.

10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan? ..... ☐ **Yes** ☐ **No**

11 **a** Does the ESOP hold any preferred stock? ..... ☐ **Yes** ☐ **No**

b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.) ..... ☐ **Yes** ☐ **No**

12 Does the ESOP hold any stock that is not readily tradable on an established securities market? ..... ☐ **Yes** ☐ **No**

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN **c** Dollar amount contributed by employer

d Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

e Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

a Name of contributing employer

b EIN **c** Dollar amount contributed by employer

d Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

e Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

a Name of contributing employer

b EIN **c** Dollar amount contributed by employer

d Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

e Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

a Name of contributing employer

b EIN **c** Dollar amount contributed by employer

d Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

e Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

a Name of contributing employer

b EIN **c** Dollar amount contributed by employer

d Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

e Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

a Name of contributing employer

b EIN **c** Dollar amount contributed by employer

d Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

e Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

14 Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	**14a**	
b The plan year immediately preceding the current plan year	**14b**	
c The second preceding plan year	**14c**	

15 Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	**15a**	
b The corresponding number for the second preceding plan year	**15b**	

16 Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	**16a**	
b If item 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	**16b**	

17 If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

18 If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐

19 If the total number of participants is 1,000 or more, complete items (a) through (c)

a Enter the percentage of plan assets held as:
Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

b Provide the average duration of the combined investment-grade and high-yield debt:
☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

c What duration measure was used to calculate item 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify):

LEVITZACKS
CERTIFIED PUBLIC ACCOUNTANTS

THERESA M. DROUILLARD, CPA
MICHAEL C. FRIEDMAN, CPA
DANIEL I. LAVIS, MPA, CPA
VICTOR G. RAMSAUER, CPA
THOMAS E. REX, CPA
BRUCE A. STRUMLAUF, MS, CPA
KIM W. UFFORD, CPA, CFF, ABV, ASA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder
Applied Membranes, Inc.
Vista, California

We have audited the accompanying balance sheets of Applied Membranes, Inc. as of December 31, 2011 and 2010, and the related statements of operations and retained earnings, and cash flows for the years then ended. 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 financial position of Applied Membranes, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Levit Zacks

August 9, 2012

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701 B STREET #1300 • SAN DIEGO • CALIFORNIA 92101

Applied Membranes, Inc.
Financial Statements
Years Ended December 31, 2011 and 2010

LEVITZACKS
CERTIFIED PUBLIC ACCOUNTANTS

THERESA M. DROUILLARD, CPA
MICHAEL C. FRIEDMAN, CPA
DANIEL I. LAVIS, MPA, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder
Applied Membranes, Inc.
Vista, California

We have audited the accompanying balance sheets of Applied Membranes, Inc. as of December 31, 2011 and 2010, and the related statements of operations and retained earnings, and cash flows for the years then ended. 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 financial position of Applied Membranes, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Levit Zacks

August 9, 2012

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Applied Membranes, Inc.
Balance Sheets
December 31, 2011 and 2010

ASSETS

	2011	2010
Current Assets:		
Cash	$ 1,500	$ 888,666
Trade receivables, less allowance for doubtful accounts and sales returns of $35,304 in 2011 and 2010	719,698	1,355,245
Inventories	5,612,951	5,595,489
Prepaid expenses	148,750	494,465
Total current assets	6,482,899	8,333,865
Equipment and leasehold improvements, net	844,584	737,702
Other assets	30,078	66,163
Total assets	$ 7,357,561	$ 9,137,730

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities:		
Checks issued in excess of cash in bank	$ 134,074	$ -
Line of credit	450,000	-
Accounts payable	716,236	1,127,548
Accrued liabilities	1,108,514	1,396,232
Distributions payable	-	171,645
Current maturities of long-term debt	209,310	209,310
Current maturities of note payable to stockholder	76,718	184,848
Total current liabilities	2,694,852	3,089,583
Long term debt, net of current maturities	471,195	680,026
Note payable to stockholder, net of current maturities	26,077	-
Total liabilities	3,192,124	3,769,609
Stockholder's Equity:		
Common stock, no par value, 100,000 shares authorized and 10,000 shares issued and outstanding	1,000	1,000
Additional paid-in capital	214,441	214,441
Retained earnings	3,949,996	5,152,680
Total stockholder's equity	4,165,437	5,368,121
Total liabilities and stockholder's equity	$ 7,357,561	$ 9,137,730

See accompanying notes to financial statements.

Applied Membranes, Inc.
Statements of Operations and Retained Earnings
Years Ended December 31, 2011 and 2010

	2011	2010
Net sales	$ 18,170,018	$ 31,856,182
Cost of goods sold	13,992,262	23,689,533
Gross profit	4,177,756	8,166,649
Selling, general and administrative expenses	3,479,648	3,253,395
Income from operations	698,108	4,913,254
Other income (expenses):		
Litigation settlement	(503,600)	(200,000)
Interest expense	(84,578)	(76,993)
Other	(5,542)	2,509
Total other income (expenses)	(593,720)	(274,484)
Income before provision for income taxes	104,388	4,638,770
Provision for income tax	(3,800)	(35,000)
Net income	100,588	4,603,770
Retained earnings, beginning of year	5,152,680	2,905,827
Distributions	(1,303,272)	(2,356,917)
Retained earnings, end of year	$ 3,949,996	$ 5,152,680

See accompanying notes to financial statements.

Applied Membranes, Inc.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net income	$ 100,588	$ 4,603,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	237,944	167,063
(Increase) decrease in:		
Trade receivables	635,547	756,151
Inventories	(17,462)	(890,506)
Prepaid expenses and other assets	381,800	(353,369)
Increase (decrease) in:		
Accounts payable	(411,312)	(534,519)
Accrued liabilities	(285,218)	367,210
Net cash provided by operating activities	641,887	4,115,800
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(347,326)	(291,238)
Net cash used in investing activities	(347,326)	(291,238)
Cash flows from financing activities:		
Net advances (repayments) of line of credit	450,000	(328,244)
Increase (decrease) in checks issued in excess of cash in bank	134,074	(215,982)
Distributions	(1,474,917)	(2,185,272)
Principal repayments on long-term debt	(208,831)	(129,867)
Payments of note payable to stockholder	(82,053)	(78,031)
Net cash used in financing activities	(1,181,727)	(2,937,396)
Net change in cash	(887,166)	887,166
Cash, beginning of year	888,666	1,500
Cash, end of year	$ 1,500	$ 888,666

See accompanying notes to financial statements.

Applied Membranes, Inc.
Statements of Cash Flows
(Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 84,578	$ 76,933
Income taxes	$ -	$ 60,800
Supplemental schedule of non-cash financing activities:		
Distributions declared	$ 1,303,272	$ 2,356,917
Distributions payable at beginning of year	$ 171,645	$ -
Distributions payable at end of year	$ -	$ (171,645)
Distributions paid	$ 1,474,917	$ 2,185,272

During 2010 the Company refinanced $1,000,000 of the outstanding balance on their revolving line of credit with a note payable to a bank.

See accompanying notes to financial statements.

Note 1. DESCRIPTION OF THE COMPANY AND SUMMARY OF ITS SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Applied Membranes, Inc. (the "Company") sells and distributes parts and membranes for residential and industrial reverse osmosis water filtration systems. The Company's products are sold on a wholesale and retail basis. The Company manufactures replacement membranes under house and private labels, performs after-market services and repairs, and provides professional consulting services and seminars. The Company also designs and assembles reverse osmosis water purification and desalination systems for commercial, industrial and municipal users. The Company's revenue is derived primarily from the sales of membranes, followed by components with the balance of revenue derived from sales of water filtration systems. The principal markets for the Company's products and services are the United States with 77% of sales in 2011 and 84% in 2010, Asia with 6% of sales in 2011 and 3% in 2010, Latin America with 7% of sales in 2011 and 2% in 2010, the Middle East and Europe with 9% of sales in 2011 and 2010, Canada with 0% of sales in 2011 and 1% in 2010, and other countries with 1% of sales in 2011 and 2010. The Company generally invoices for products and services in U.S. dollars and extends credit to its customers in the form of unsecured trade receivables.

The following is a summary of significant accounting policies:

Revenue Recognition

Revenue from the sale of products is recognized upon shipment. Revenue from services is recognized when the service is provided. From time to time the Company will enter into a contract to build equipment which is accounted for under the percentage of completion method of accounting. Sales taxes collected from customers and remitted to various tax authorities are excluded from net sales.

Accounts Receivable and Doubtful Accounts

Trade receivables are stated at the amount management expects to collect from outstanding balances. The Company reserves for doubtful accounts based upon specific identification of aged receivables. Delinquent accounts receivable are written off when, in management's judgment, they are uncollectible. Management identifies delinquent accounts receivable based on violations of the terms of sale or on how recently payments have been received.

Note 1. DESCRIPTION OF THE COMPANY AND SUMMARY OF ITS SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories consist of raw materials, work-in-process and finished goods. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives, ranging from five to ten years. Leasehold improvements are amortized over the lesser of the life of the lease or the life of the improvement.

Warranty Costs

Certain of the Company's products are sold with a one-year warranty from the products' in-service date or three months from the shipment date, whichever occurs first. At the time the revenue is recognized, the Company records a liability for estimated costs that may be incurred under its warranties based on historical experience and any specific warranty issues that have been identified. The warranties require the Company to repair or replace defective products during the warranty period at no cost to the customer. The Company's warranty liability is included in accrued liabilities in the accompanying balance sheets.

Changes in the Company's product warranty liability for the years ended December 31 are as follows:

	2011	2010
Balance, beginning	$ 124,000	$ 55,000
Warranties issued	64,000	142,000
Settlements made in cash or in-kind	(64,000)	(73,000)
Balance, ending	$ 124,000	$ 124,000

Note 1. DESCRIPTION OF THE COMPANY AND SUMMARY OF ITS SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

The Company expenses all advertising costs as incurred. Advertising expense was $83,607 for the year ended December 31, 2011, and $88,788 for the year ended December 31, 2010.

Shipping and Handling

The Company records amounts billed to customers to ship its products as revenue. Shipping costs are recorded as cost of goods sold.

Income Taxes

The Company elected S corporation status effective April 1, 2003. Taxable earnings and losses after that date are included in the personal income tax return of the stockholder. Accordingly, the Company does not incur income tax obligations, except for California income taxes of 1.5%. Federal tax returns from 2008 to 2011 and California tax returns from 2007 to 2011 remain subject to examination by the taxing authorities as of December 31, 2011.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. The reclassifications did not affect total assets, total liabilities, retained earnings or net income (loss).

Note 2. INVENTORIES

Inventories as of December 31st consist of the following:

	2011	2010
Raw materials	$ 2,029,862	$ 1,818,464
Work-in-process	13,242	97,426
Finished goods	3,706,847	3,702,733
Inventory reserve	(137,000)	(23,134)
	$ 5,612,951	$ 5,595,489

Note 3. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements as of December 31st consist of the following:

	2011	2010
Fixtures and equipment	$ 1,558,123	$ 1,239,256
Leasehold improvements	318,954	292,995
Vehicles	77,685	77,685
	1,954,762	1,609,936
Less accumulated depreciation and amortization	(1,110,178)	(872,234)
	$ 844,584	$ 737,702

Note 4. LINE OF CREDIT

The Company has a revolving line of credit agreement with a commercial bank which allows for advances up to a maximum of $2,000,000 of which $450,000 was outstanding at December 31, 2011. There was no balance outstanding at December 31, 2010. Borrowings are limited to 80% of the Company's eligible accounts receivable plus the lesser of 30% of the Company's eligible inventory, as defined by the agreement, or $600,000. At December 31, 2011, the Company had $514,515 of availability remaining on the line. Borrowings under the line are due September 29, 2012 and bear interest at the bank's base rate (4% at December 31, 2011 and 2010) plus 0.5% or a minimum of 5%.

Note 4. LINE OF CREDIT (continued)

Borrowings under the line of credit facility and the term loan agreement (Note 6) are collateralized by a first priority interest in substantially all of the Company's assets and are personally guaranteed by the Company's stockholder.

In connection with the line of credit and the term loan agreement, the Company has agreed, among other things, to maintain certain financial ratios and amounts. Under terms of the agreement, the bank may call the loan or refuse to make further advances if the Company is in violation of any of the covenants. At December 31, 2011 the Company has failed to maintain the required financial ratios and amounts which was a breach of the loan agreement. The bank has waived that requirement of the agreement as of December 31, 2011.

The Company has a promissory note agreement with the stockholder that establishes a line of credit from the stockholder to the Company of up to $300,000. Advances under the promissory note bear interest at the Federal Short Term Rate existing on the date of the advance. The promissory note expires June 30, 2013. There were no advances outstanding under the promissory note at December 31, 2011 and 2010.

Note 5. ACCRUED LIABILITIES

	2011	2010
Customer deposits	$ 269,054	$ 735,046
Litigation settlement	503,600	200,000
Accrued payroll expense	83,767	120,150
Warranty expense allowance	124,000	124,000
Accrued vacation expense	64,423	104,045
Accrued insurance expense	-	77,978
Sales taxes payable	11,148	29,486
Deferred rent	26,580	-
Other	25,942	5,527
	$ 1,108,514	$ 1,396,232

Note 6. LONG-TERM DEBT

Long-term debt consists of the following:

	2011	2010
Note payable to a bank, bearing variable interest at the bank's base rate (4.00% at December 31, 2011) plus 1.5%, minimum of 5.5%; due in monthly principal installments of approximately $16,667plus interest (a)	$ 649,993	$ 849,997
Other	30,512	39,339
	680,505	889,336
Less current maturities	(209,310)	(209,310)
	$ 471,195	$ 680,026

(a) The note is subject to the same loan agreement covenants as the line of credit (Note 4). The note is collateralized by substantially all assets of the Company and is personally guaranteed by the Company's stockholder.

Principal payments of long-term debt, including notes payable to stockholder (Note 7) are due as follows:

Years Ending December 31	
2012	$ 286,028
2013	235,287
2014	205,764
2015	55,741
2016	480
	$ 783,300

Note 7. NOTE PAYABLE TO STOCKHOLDER

The Company had a note payable to stockholder which was due in monthly payments of $7,692, including interest at 6.28%, with a final payment of $131,359 due in August 2011. The note was subordinated to the line of credit (Note 4) and a note payable to a bank (Note 6). The Company recorded $7,237 and $24,148 of interest expense for the year ended December 31, 2011 and 2010, respectively.

The Company has a note payable to stockholder with a balance of $102,795 at December 31, 2011, which is due in monthly payments of $6,525, including interest at 2.33%, through May 2013. The note is subordinated to the line of credit (Note 4) and a note payable to a bank (Note 6). The Company recorded $212 of interest expense on this note for the year ended December 31, 2011.

Note 8. COMMITMENTS AND CONTINGENCIES

In November 2011, the Company guaranteed $1,033,651 of debt owed by the Company's sole stockholder. The guarantee is scheduled to expire in November 2014. The balance outstanding at December 31, 2011 was approximately $1,031,000.

The Company leases warehouse and office facilities from the Company's president and sole stockholder through December 31, 2015. The five year lease agreement calls for monthly lease payments of approximately $36,896 through December 2012, and increases of 3% per year thereafter. Insurance, taxes, utilities, and repairs and maintenance are paid separately by the Company. The Company has the option to extend the lease until December 31, 2020.

The Company also leases certain equipment under leases expiring on various dates through April 2014.

Total rent expense was $563,896 and $473,584 for the years ended December 31, 2011 and 2010, respectively, of which $429,852 and $417,336 was paid to the Company's president and sole stockholder for the years ended December 31, 2011 and 2010, respectively.

Note 8. COMMITMENTS AND CONTINGENCIES (continued)

Future minimum lease payments under noncancellable operating leases for years ending December 31st are as follows:

2012	$ 452,016
2013	464,522
2014	470,099
2015	483,804
	$ 1,870,441

The Company has accrued the settlement sum of $503,600 to a former employee as of December 31, 2011, which was agreed to by both parties in February 2012. The amount will be paid in ten installments through December 2012.

During 2011, the Company paid a settlement sum of $200,000 to a former employee which was accrued as of December 31, 2010.

Note 9. CONCENTRATIONS

The Company had two customers who accounted for approximately 29% of accounts receivable at December 31, 2011. There were no significant accounts receivable concentrations at December 31, 2010. There were no significant sales concentrations in 2011. The Company had two customers who accounted for approximately 46% of sales during the year ended December 31, 2010.

The Company maintains its cash balances at banks. The balances are insured up to the legal limit. The Company's cash balances may, at times, exceed insured limits.

Note 10. EMPLOYEE BENEFIT PLAN

The Company has a qualified 401(k) profit sharing plan (the "Plan") for all eligible employees. The Plan includes both a profit sharing component and deferred salary arrangement component. To be eligible to participate in the deferred salary arrangement, employees must be 21 years or older with a minimum of 90 days of service. To be eligible to participate in the profit sharing, employees must be 21 years or older with a minimum of one year of service. The Plan provides that the Company may contribute at the discretion of the board of directors up to 15% of eligible employees' compensation. The Company made contributions of $8,188 for the year ended December 31, 2011 and $7,339 for the year ended December 31, 2010.

Note 11. SUBSEQUENT EVENTS

Subsequent events were evaluated for accrual and disclosure through August 9, 2012, which is the date the 2011 financial statements were available to be issued.

RUN DATE: 01/05/12
CYCLE: 11DEC#B
PLAN NBR: 880184

PLAN NAME: APPLIED MEMBRANES , INC. 401(K)

PLAN SPONSOR EIN: 330157219

SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES FOR PLAN YEAR 2011

(a)	(b)	(c)	(d)	(e)
	IDENTITY OF ISSUE , BORROWER , LESSOR , OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE , RATE OF INTEREST ,COLLATERAL , PAR OR MATURITY VALUE	COST	CURRENT VALUE
*	PRUDENTIAL RETIREMENT INSURANCE AND ANNUITY COMPANY	GUARANTEED INCOME FUND	107,923	107,923
	PRUDENTIAL MUTUAL FUNDS	TEMP GLOBAL OPP A	5,156	4,715
	PRUDENTIAL MUTUAL FUNDS	FEDERATED MDT STK TRST SS	7,068	6,530
	PRUDENTIAL MUTUAL FUNDS	AMER CENT EQUITY INCOME	79,918	84,359
	PRUDENTIAL MUTUAL FUNDS	MFS VALUE FUND A	98,093	95,250
	PRUDENTIAL MUTUAL FUNDS	OPPEN INTNL GROW A	97,332	90,896
	PRUDENTIAL MUTUAL FUNDS	MFS MASS INVESTOR GROWTH	101,360	112,757
	PRUDENTIAL MUTUAL FUNDS	JANUS FUND CLASS S	45,242	55,082
	PRUDENTIAL MUTUAL FUNDS	JANUS ENTERPRISE FD S	55,128	85,242
	PRUDENTIAL MUTUAL FUNDS	JANUS WORLDWIDE CLASS S	42,709	50,942
	PRUDENTIAL MUTUAL FUNDS	INVESCO SMALL CAP VAL A	7,145	7,468
	PRUDENTIAL MUTUAL FUNDS	MASSACHUSETT INVEST TRUST	1,986	2,095
	PRUDENTIAL MUTUAL FUNDS	TEMPLETON FOREIGN FUND A	21,857	19,120
	PRUDENTIAL MUTUAL FUNDS	MFS BOND FUND A	37,138	40,642
	PRUDENTIAL MUTUAL FUNDS	VICTORY ESTABLISHED VALUE	28,231	30,659
	PRUDENTIAL MUTUAL FUNDS	FEDERATED US GOV 2-5 INST	17,834	17,493
	PRUDENTIAL MUTUAL FUNDS	FID ADV SMALL CAP T	52,069	50,201
	PRUDENTIAL MUTUAL FUNDS	FEDERATED HIGH YIELD TRUS	29,720	31,068
	PRUDENTIAL MUTUAL FUNDS	FEDERATED STR INC FD A	2,450	2,538
	PRUDENTIAL MUTUAL FUNDS	INVESCO VK AMER FRANCH A	120,659	105,562
	PARTICIPANT LOANS	4.25% - 9.00%	0	8,168

$$$% SIDE=NUFRONT ,END;