

Edgar Filing: EYE DYNAMICS INC - Form 10QSB/A

EYE DYNAMICS INC
Form 10QSB/A
November 27, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-QSB/A

(X) Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended SEPTEMBER 30, 2000.

EYE DYNAMICS, INC.
(Name of small business issuer in its charter)

Nevada
(State or other jurisdiction
of incorporation)

88-0249812
(I.R.S. Employer Identification No.)

2301 W. 205th Street, #106,
(Address of principal executive offices)

Torrance, CA 90501
(City, state and ZIP)

Issuer's telephone number 310-328-0477

Check whether the issuer (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 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 []

The number of shares outstanding of the issuer's common stock as of September 30, 2000 was 11,416,313.

Transitional Small Business Disclosure Format (check one) () Yes; (X) No.

PART 1 FINANCIAL INFORMATION

ITEM 1. Financial Statements

To the Board of Directors and Stockholders
Eye Dynamics, Inc.
Torrance, California

I have reviewed the accompanying consolidated balance sheets of Eye Dynamics, Inc. (a Nevada corporation) and its wholly-owned subsidiary, Oculokinetics, Inc. (a California corporation), as of September 30, 2000, and the related consolidated statements of operations for the three and nine months ended September 30, 2000, and cash flows for the nine months ended September 30, 2000, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the

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management of Eye Dynamics, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on our review, I am not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to the consolidated financial statements, the Company's significant operating losses, working capital deficiency and deficit in stockholders' equity raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The accompanying financial statements for the nine months ended September 30, 1999 were compiled by me in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the 1999 financial statements and, accordingly, I do not express an opinion or any other form of assurance on them.

/S/ Harold Y. Spector, CPA

Harold Y. Spector, CPA
Pasadena, California
October 30, 2000

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EYE DYNAMICS, INC. & SUBSIDIARY CONSOLIDATED BALANCE SHEETS September 30, 2000 (Reviewed) and 1999 (Compiled)

	ASSETS	
	2000	1999
	-----	-----
Current Assets		
Cash	\$ 53,310	\$ 51,949
Certificate of Deposit	100,000	0
Account Receivables	95,153	88,540
Inventories	44,723	54,451
Prepaid Expenses and Others	1,815	0
	-----	-----
Total Current Assets	295,001	194,940
	-----	-----
Property and Equipment		
Furniture and Fixtures	1,432	1,432

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Equipment - Telemed	13,331	12,632
	-----	-----
	14,763	14,064
Less: Accumulated Depreciation	(9,613)	(6,910)
	-----	-----
Total Property and Equipment	5,150	7,154
	-----	-----
Other Assets		
Receivable - Consigned Inventory	10,250	10,250
Consigned Inventory	41,000	51,250
Deposits	22,406	11,072
	-----	-----
Total Other Assets	73,656	72,572
	-----	-----
TOTAL ASSETS	\$ 373,807	\$ 274,666
	=====	=====

The accompanying notes are an integral part of the financial statements

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EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
September 30, 2000 (Reviewed) and 1999 (Compiled)

LIABILITIES AND STOCKHOLDERS' DEFICIT

	2000	1999
	-----	-----
Current Liabilities		
Accounts Payable	\$ 28,484	\$ 64,145
Accrued Expenses	10,008	24,871
Accrued Interest	261,860	225,817
Consigned Inventory	61,500	61,500
Deposit from Shareholders	7,758	7,758
Line of Credit	0	12
Notes Payable, current Portion	406,999	430,191
	-----	-----
Total Current Liabilities	776,609	814,294
	-----	-----
Long-Term Liabilities		
Long-term debt	0	0
	-----	-----
Total Liabilities	776,609	814,294
	-----	-----
Stockholders' Deficit		
Common Stock, \$.001 par value, 50,000,000 shares authorized; 11,416,313 shares issued and outstanding in 2000, and 9,139,460 in 1999	11,416	9,139
Paid-in Capital	2,716,286	2,459,063

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Accumulated Deficit	(3,130,504)	(3,007,830)
	-----	-----
Total Stockholders' Deficit	(402,802)	(539,628)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 373,807	\$ 274,666
	=====	=====

The accompanying notes are an integral part of the financial statements

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EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For Three and Nine months ended September 30, 2000 (Reviewed)
and 1999 (Compiled)

	Three Months ended September 30,		Nine Months ended September 30,	
	2000	1999	2000	1999
	-----	-----	-----	-----
SALES	\$ 163,369	\$ 260,723	\$ 513,219	\$ 601,928
COST OF SALES	65,460	114,196	232,814	279,491
	-----	-----	-----	-----
GROSS PROFIT	97,909	146,527	280,405	322,437
OPERATING EXPENSES	98,652	117,624	322,652	365,421
	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	(743)	28,903	(42,247)	(42,984)
	-----	-----	-----	-----
NONOPERATING EXPENSES				
Interest Expenses	(8,831)	(9,327)	(26,855)	(29,111)
Consulting Expenses	0	0	(80,000)	0
	-----	-----	-----	-----
Total Nonoperating Expenses	(8,831)	(9,327)	(106,855)	(29,111)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE TAXES	(9,574)	19,576	(149,102)	(72,095)
PROVISION FOR INCOME TAXES	0	0	1,600	1,600
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (9,574)	\$ 19,576	\$ (150,702)	\$ (73,695)
	=====	=====	=====	=====
Net Loss per share - Basic	\$ (0.00)	\$ 0.00	\$ (0.02)	\$ (0.01)
	=====	=====	=====	=====

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Weighted Average Shares				
Outstanding - Basic	10,216,313	9,139,460	9,657,362	8,956,460
	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements

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	2000	1999
	-----	-----
EYE DYNAMICS, INC. & SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS Nine months ended September 30, 2000 (Reviewed) and 1999 (Compiled)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (150,702)	\$ (73,695)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,001	1,895
Issuance stock for consulting fee	90,000	33,125
(Increase) Decrease in:		
Accounts Receivable	24,075	30,080
Inventories	5,360	5,812
Prepaid Expenses and Others	3,137	0
Consigned Inventory	10,250	0
Deposits	(6,414)	(4,931)
Increase (Decrease) in:		
Accounts Payable	(18,007)	(28,383)
Accrued Expenses	16,222	(4,913)
	-----	-----
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(24,078)	(41,010)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Certificate of Deposit	(100,000)	0
	-----	-----
NET CASH (USED) BY INVESTING ACTIVITIES	(100,000)	0
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuing common stock	150,000	93,750
Deposits from Stockholders	0	7,758
Payments to Line of Credit	0	(45,001)
Payments to Officers' Loan	(23,192)	0
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	126,808	56,507
	-----	-----
NET INCREASE (DECREASE) IN CASH	2,730	15,497
BEGINNING OF PERIOD	50,580	36,452
	-----	-----
END OF PERIOD	\$ 53,310	\$ 51,949
	=====	=====

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SUPPLEMENTAL DISCLOSURES:

Cash Paid During the Period for:

Interest	\$	95	\$	1,560
		=====		=====
Income Tax	\$	1,600	\$	1,600
		=====		=====

Noncash investing and financing activities:

Issuance of common stock for reduction in consulting fee payable			\$	19,500
				=====

Issuance of common stock for stock offering commission:

Common Stock			\$	1,000
Paid-in Capital				(1,000)

	\$			0
				=====

The accompanying notes are an integral part of the financial statements

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EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of Interim Information

In the Opinion of the management of Eye Dynamics, Inc. & Subsidiary (the Company), the accompanying unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial positions as of September 30, 2000 and 1999, and the results of operations for the three months and nine months ended September 30, 2000 and 1999, and cash flows for the nine months ended September 30, 2000 and 1999. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company's audited consolidated financial statements and notes for the fiscal year ended December 31, 1999.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Oculokinetics, Inc. (a California corporation), after elimination of all material intercompany accounts and transactions.

Use of estimates

The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

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Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Management of the Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made. There was no bad debt expense for 2000 or 1999.

Inventories

Inventories consist of finished goods and are stated at the lower of cost or market, using the first-in, first-out method.

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EYE DYNAMICS, INC. & SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and Equipment are valued at cost. Maintenance and repair costs are charged to expenses as incurred. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets. Depreciation expense was \$2,001 and \$1,895 for 2000 and 1999, respectively.

Income Taxes

The Company accounts income taxes in accordance with Financial Accounting standards Board Statement No. 109 "Accounting For Income Taxes" (SFAS No. 109). SFAS No. 109 requires a company to recognize deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

Reclassification

Certain reclassifications have been made to the 1999 consolidated financial statements to conform with the 2000 consolidated financial statement presentation. Such reclassification had no effect on net loss as previously reported.

NOTE 2 - LINE OF CREDIT

In 1998, the Company established a \$65,000 operating line of credit with Wells Fargo Bank at the bank's prime rate plus 2.75%. This line of credit is payable on demand and is secured by all assets of the Company. As of September 30, 2000 and 1999, the balance due was \$0 and \$12, respectively.

NOTE 3 - NOTES PAYABLE

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Notes Payable consist of the following at September 30,

	2000	1999
a.) Notes to Officers, interest at 10%, accrued semi-monthly; due 60 days after dates of notes; unsecured	\$ 278	\$ 23,470
b.) Notes to Others, interest at 12%, due on demand, unsecured	10,000	10,000

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EYE DYNAMICS, INC. & SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - NOTES PAYABLE (Continued)

	2000	1999
c.) Note to TESA Corporation, interest at 7% payable on maturity date, December 31, 1999; maturing 11% of gross revenues, collateralized by accounts receivable, inventories, patents and a licensing agreement	396,721	396,721
	406,999	430,191
Less current maturities	406,999	430,191
	-----	-----
Long-term debt, net	\$ 0	\$ 0
	=====	=====

NOTE 4 - INCOME TAXES

Provision for income taxes in the consolidated statements of operations for nine months ended September 30, 2000 and 1999 consist of \$1,600 minimum state income taxes in each year, \$800 for each corporation.

The Company has net operating loss carryforwards of \$539,648 to reduce future taxable income. The subsidiary has NOL carryforwards of \$1,481,264. To the extent not utilized, both carryforwards will begin to expire through 2019. The Company's ability to utilize its net operating loss carryforwards is uncertain and thus a valuation reserve has been provided against the Company's net deferred tax assets.

NOTE 5 - PRIVATE PLACEMENT OFFERING

In August 2000, the Company conducted a self-underwritten offering of 1,000,000 units, consisting of one share of common stock and two stock warrants at \$0.20 per unit. One warrant to be for purchase of one share of common stock at \$.35 per share and the second warrant to be for purchase of one share of common stock at \$.75 per share. The warrants expire in one year after purchase of the above described unit. As of September 30, 2000, the Company sold 750,000 units and received \$150,000 in proceeds.

NOTE 6 - COMMON STOCK TRANSACTIONS

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In September 2000, the Company issued 1,000,000 shares of common stock to a private placement agent as a stock offering commission (See Note 5). The cost was deducted from the proceeds of the offering and charged to paid-in capital.

The Company also issued 50,000 shares of common stock at \$.20 per share to a consultant as an incentive for development and execution of a public relations program. The total cost of \$10,000 was charged to operations.

In April 2000, the Company issued 400,000 shares of common stock to a financial advisor in the amount of \$80,000 for his service rendered.

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EYE DYNAMICS, INC. & SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - COMMON STOCK TRANSACTIONS (Continued)

The Company also issued 76,853 shares to reduce a consulting fee payable of \$19,500.

In April 1999, the Company issued 88,833 shares of common stock to a consultant in the amount of \$45,333 for his service rendered.

NOTE 7 - STOCKS OPTIONS AND WARRANTS

As discussed in Note 5, the Company sold warrants in a private placement offering to purchase up to 1,500,000 shares of common stock at exercise prices of \$.35 or \$.75 per share. These warrants will expire in August 2001.

In February 2000, the Company granted 150,000 non-qualified stock options to officers in lieu of salary at fifteen cents (\$.15) per share through February 2003.

In 1999, the Company granted 30,000 non-qualified stock options to employees at fifty-four cents (\$.54) per share through September 2001.

There were 750,000 shares of options exercised at \$.125 per share in 1999. None were in 2000.

A summary of options and warrants outstanding as of September 30, 2000 is shown as follows:

Exercise Price	No. of shares Outstanding	Expiration Date
-----	-----	-----
\$.75	750,000	8/2001
\$.35	750,000	8/2001
\$.54	60,000	9/2001
\$.25	1,000,000	11/2001
\$.375	1,000,000	11/2001
\$.001	100,000	11/2001
\$.15	150,000	2/2003

	3,810,000	
	=====	

NOTE 8 - NET LOSS PER SHARE

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Net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period. Basic net loss per share for nine months ended September 30, 2000 and 1999 is \$0.02 and \$0.01, respectively. Net loss per share does not include options as they would be anti-dilutive in 2000 and 1999 due to the net loss in those periods.

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EYE DYNAMICS, INC. & SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - SEGMENT INFORMATION

SFAS No. 131 "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION" requires that a publicly traded company must disclose information about its operating segments when it presents a complete set of financial statements. Since the subsidiary did not have any operations in 2000 or 1999, all revenue was derived from the Company; accordingly, detailed information of the reportable segment is not presented.

NOTE 10 - GOING CONCERN

The accompanying consolidated financial statements are presented on the basis that the Companies are going concerns. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. As shown in the accompanying consolidated financial statements, the Company incurred net losses of \$150,702 and \$73,695 for the nine months ended September 30, 2000 and 1999, and as of September 30, 2000, the Company had an accumulated deficit of \$3,130,504, a working capital deficiency of \$481,608, and a deficit in net worth of \$402,802.

Management is currently involved in active negotiations to convert a note payable of \$396,721 into equity, and actively increasing marketing efforts to increase revenues. The Company's continued existence depends on its ability to meet its financing requirements and the success of its future operations. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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ITEM 2. Management's Discussion and Analysis or Plan of Operation

The new 'Windows' based software for the Infrared/Video ENG System was first shipped in late August. The delay in completing development and shipping affected our sales in July and August as customers were waiting to take delivery and/or place orders until the new software was released for shipment. Sales in July and August were further affected by the seasonal slowness of the medical capital equipment market during the summer months. After shipment of the new software product commenced, September sales bounced back to almost \$100,000 for the month. Sales of this product remained strong in October, with shipments exceeding \$140,000 for that month. Nevertheless, sales for the three months ended September 30, 2000 were only \$163,000, compared to \$260,000 in 1999 for the same quarter.

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Operating profit for the two comparative quarters was almost breakeven, with only a \$743 loss for the current period. Total income for the quarter was a loss of \$9,574 after taking into account non-operating expenses. Because of the lower sales in the quarter, the year to date sales are \$88,000 behind the same period in 1999, or 15% lower than in 1999.

Management believes that strong October sales are indicative of good fourth quarter.

With funds from the private placement, we have begun a wide-ranging program to market and publicize our Impairment Detection device, formerly known as the EPS-100. It has been renamed the "SafetyScope", a brand which better communicates its function and potential.

Our private label ENG business was also slow during the third quarter, but has improved with shipments of three systems in each of September and October. In addition, our customer is forecasting 5 to 7 systems each month for November and December.

We continue to evaluate various opportunities to augment our current product line. We have looked at many items, but have not found anything yet that is suitable. This search will continue throughout the year.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Company is a party or to which the property interests of the Company are subject.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period the Company conducted a private placement of 750,000 units, each unit consisting of one share of common stock and two stock purchase

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warrants. The units were issued at \$0.20 per unit. The first warrant entitles the holder to purchase one share of common stock at \$.35 per share, and the second warrant entitles the holder to purchase one share of common stock at \$.75 per share. The warrants expire one year after issuance. The gross proceeds of the issuance of the units were \$150,000. The Company also issued 1,000,000 shares of common stock to a private placement agent as a fee for conducting the private placement.

The Company also issued 50,000 shares of common stock to a consultant as an incentive for development and execution of a public relations program.

The Company believes each of the foregoing issuances was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended

ITEM 3. DEFAULTS UPON SENIOR SECURITES

None.

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

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There were no matters submitted to the vote of security holders during this quarterly reporting period.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) The following exhibits are included herein or incorporated by reference:

15 Letter On Unaudited Interim Financial Information

(B) No reports on Form 8-K were filed during the period

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eye Dynamics, Inc.

Date: November 21, 2001

By /s/ Charles E. Phillips

Charles E. Phillips, President
and Chief Financial Officer