

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 MARCH 31, 2001.

Commission File Number: 0-27857

EYE DYNAMICS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction  
of incorporation or organization)

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

Yes    X                      No  
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The number of shares outstanding of the issuer's common stock as of March 31, 2001 was 11,691,313.

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

PART 1    FINANCIAL INFORMATION

ITEM 1.    Financial Statements

Harold Y. Spector, CPA  
80 South Lake Avenue, Suite 723  
Pasadena, CA 91101

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

I have reviewed the accompanying consolidated balance sheet of Eye Dynamics, Inc. (a Nevada corporation) and its wholly-owned subsidiary, Oculokinetics, Inc. (a California corporation), as of March 31, 2001, and the related consolidated

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statements of operations and cash flows for the three months ended March 31, 2001 and 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 management of Eye Dynamics, Inc.

A review consist principally of inquires 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 8 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. Management's plans regarding those matters are also described in Note 8. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Harold Y. Spector, CPA  
Pasadena, California  
May 7, 2001

3

EYE DYNAMICS, INC. & SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
March 31, 2001

ASSETS	
Current Assets	
Cash	\$ 35,620
Account Receivables	76,020
Employee Advance	49,489
Inventories	97,151
Unamortized Expense	4,000
	-----
Total Current Assets	262,280
	-----
Property and Equipment	
Furniture and Fixtures	1,432
Equipment - Telemed	13,331
	-----
	14,763
Less: Accumulated Depreciation	(10,931)
	-----
Total Property and Equipment	3,832
	-----
Other Assets	

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Deposits	13,239
	-----
Total Other Assets	13,239
	-----
TOTAL ASSETS	\$ 279,351
	=====

The accompanying notes are an integral part of the financial statements

4

EYE DYNAMICS, INC. & SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
March 31, 2001

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts Payable	\$ 48,170
Accrued Interest	279,630
Other Accrued Expenses	6,879
Income Taxes Payable	1,600
Line of Credit	9,931
Notes Payable, current Portion	417,249
	-----
Total Current Liabilities	763,459
	-----
Long-Term Liabilities	0
	-----
Total Liabilities	763,459
	-----
Stockholders' Deficit	
Common Stock, \$.001 par value, 50,000,000 shares authorized; 11,691,313 shares issued and outstanding	11,691
Paid-in Capital	2,986,269
Accumulated Deficit	(3,482,068)
	-----
Total Stockholders' Deficit	(484,108)
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 279,351
	=====

The accompanying notes are an integral part of the financial statements

5

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EYE DYNAMICS, INC. & SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
For Three Months ended March 31, 2001 and 2000

	2001	2000
	-----	-----
SALES	\$ 112,168	\$ 205,562
COST OF SALES	44,569	102,651
	-----	-----
GROSS PROFIT	67,599	102,911
OPERATING EXPENSES	256,353	120,246
	-----	-----
LOSS FROM OPERATIONS	(188,754)	(17,335)
	-----	-----
OTHER INCOME (EXPENSES)		
Interest Income	329	-
Interest Expense	(9,711)	(9,137)
	-----	-----
TOTAL OTHER INCOME (EXPENSES)	(9,382)	(9,137)
	-----	-----
LOSS BEFORE TAXES	(198,136)	(26,472)
PROVISION FOR INCOME TAXES	1,600	1,600
	-----	-----
NET LOSS	\$ (199,736)	\$ (28,072)
	=====	=====
Net Loss per share - Basic and Diluted	\$ (0.02)	\$ (0.00)
	=====	=====
Weighted Average Shares Outstanding	11,691,313	9,139,460
	=====	=====

The accompanying notes are an integral part of the financial statements

6

EYE DYNAMICS, INC. & SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For Three Months ended March 31, 2001 and 2000

	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (199,736)	\$ (28,072)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	652	667

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Issuance stock for investor relation	8,000	0
(Increase) Decrease in:		
Accounts Receivable	82,454	54,123
Employee Advance	(46,965)	0
Inventories	(37,419)	(4,930)
Prepaid Expenses and Others	66,469	2,671
Deposits	(1,275)	(405)
Increase (Decrease) in:		
Accounts Payable	20,899	4,423
Accrued Expenses	(4,678)	10,461
Income Tax Payable	1,600	1,600
	-----	-----
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(109,999)	40,538
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES	0	0
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuing common stock	50,000	0
Net Proceeds from Line of Credit	9,931	0
Net Payments to Notes Payable	0	(23,192)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	59,931	(23,192)
	-----	-----
NET INCREASE (DECREASE) IN CASH	(50,068)	17,346
BEGINNING OF PERIOD	85,688	50,580
	-----	-----
END OF PERIOD	\$ 35,620	\$ 67,926
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Cash Paid During the Period for:		
Interest	\$ 810	\$ 0
	=====	=====
Income Tax	\$ 0	\$ 0
	=====	=====
Noncash investing and financing activities:		
Issuance of common stock for investor relation expense	\$ 8,000	
	=====	

The accompanying notes are an integral part of the financial statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of Interim Information

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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 position as of March 31, 2001, and the results of operations and cash flows for the three months ended March 31, 2001 and 2000. 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, 2000.

### 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.

### Reclassification

Certain reclassifications have been made to the 2000 consolidated financial statements to conform with the 2001 consolidated financial statement presentation. Such reclassification had no effect on net loss as previously reported.

### NOTE 2 - EMPLOYEE ADVANCE

The Company has made advances to and on behalf of an employee and the employee has made repayments to the Company. The net receivable from the employee for these advances was \$49,489 on March 31, 2001. The Company converted these advances into a note receivable as of April 2, 2001. The note bears interest at 12% per annum and is collateralized by 2,660,000 shares of capital stock of Ingen Technologies, Inc., a privately held California corporation. The note is due on demand.

8

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

### NOTE 3 - LINE OF CREDIT

The Company maintained a \$65,000 operating line of credit with a 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 March 31, 2001, the balance due was \$9,931.

### NOTE 4 - COMMON STOCK TRANSACTIONS

In January 2001, the Company completed a self-underwritten offering of 1,000,000

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units, consisting of one share of common stock and two stock warrants at exercise prices of \$0.35 and \$0.75 per share. The Company received an aggregate of \$200,000 in proceeds, of which \$50,000 was received in year of 2001.

The Company issued 25,000 shares of common stock to a consultant as an incentive for development and execution of an investor relations program for the period from January 2001 through June 2001. The fair value of the stock at the time of issue was \$0.32 per share. The total cost of \$8,000 was capitalized and amortized over a six-month period. For three months ended March 31, 2001, \$4,000 was charged to operations.

The Company also granted warrants to the consultant to purchase up to 200,000 shares of the Company's common stock. Exercised prices determined for the warrants are 66,666 shares at \$0.32 per share; 66,666 shares at \$0.82 per share; and 66,668 shares at \$1.32 per share. The warrants will expire on January 3, 2004

### NOTE 5 - NET LOSS PER SHARE

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 three months ended March 31, 2001 and 2000 was \$0.02 and \$0.00, respectively. Net loss per share does not include options and warrants as they would be anti-dilutive in 2001 and 2000 due to the net loss in those periods.

### NOTE 6 - 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 2001 or 2000, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

9

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

### NOTE 7 - RELATED PARTY TRANSACTION

The Company had notes payable to the officers in the amount of \$278 as of March 31, 2001. As of that date, balance of accrued interest related to the notes was \$65,143. Interest expense charged on these notes totaled \$1,601 for three months ended March 31, 2001.

### NOTE 8 - 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 \$199,736 and \$28,072 for three months ended March 31, 2001 and 2000, and as of March 31, 2001, the Company had accumulated deficit of \$3,482,068, a working capital deficiency of \$501,179 and a deficit in net worth of \$484,108.

A plan commenced in late 2000 to publicize the Company's SafetyScope product. Funds for this program were secured through equity financing as discussed in

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Note 4. Additional financing will be required to implement a business plan that address the final engineering, tooling and marketing costs to fully commercialize the SafetyScope product. Management is currently seeking such financing and is in discussion with several potential funding sources.

Management is also 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 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.

10

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

The first quarter of 2001 saw an increase in publicity and awareness of the SafetyScope product. Print, broadcast and internet exposure have brought inquiries from interested parties from many parts of the world. This increased exposure to the market is the first step in commercializing the product. However, substantial financial resources will be required and a business strategy and plan has been generated with the goal of raising three to five million dollars in capital to fully implement the commercialization plan. Initial contacts with financing sources have been made and discussions are ongoing.

Revenue from medical product sales in the first quarter was \$112,000, as opposed to \$206,000 for the same period in 2000. Two factors caused the reduced revenues. The collapse of our private label ENG customer during the fourth quarter of 2000 continued through the first quarter of 2001, with no purchases at all. One of the principals of the private label customer formed a new company and asked Eye Dynamics to supply product to him. An agreement was reached, and the first purchase order for the revised product has been placed and will be shipped in mid May, 2001. It is anticipated that this sales pattern will increase to the level of the prior year, which averaged three systems monthly and would, if sustained, be the annual equivalent of \$300,000 in revenue.

The second factor was the overall economy and uncertainty in the first quarter causing customers to defer purchases until comfort regarding economic stability returned. Because our customers rely heavily on Medicare reimbursements for revenue, the political change with a new President caused great concern regarding the prospect of reduced Medicare reimbursements. This has been clarified with a new Medicare reimbursement schedule for 2001, which includes a modest increase. In the second quarter, it appears that certain purchase/sales opportunities are now unfolding.

Competitors also report similar revenue reductions in the first quarter, so it is reassuring that our marketing efforts and product configurations were not the cause of the decreased revenues for the period.

Gross profit on sales for the quarter was 60%, which is improved from 50% for the same period one year ago. But, sales being reduced by 45% from one year ago did not allow adequate generation of gross profit, so an operating loss of \$39,207 was incurred. Also, an additional loss of \$160,529 was recorded related to the pre-commercialization publicity and marketing program for the SafetyScope product. Total loss for the quarter was \$199,736 compared to a \$28,072 loss for the same period in 2000.



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We continue to search out and evaluate other products to bring into the company to augment our revenues. However, none are currently in the offing that we have found suitable. This search for new products is an ongoing project.

### 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

None.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITES

The Company is the obligor on an outstanding \$400,000 promissory note payable to a former distributor, and has certain obligations to the former distributor in connection with the resale of certain inventory returned by the distributor. The note bears interest at 7% per annum, and came due on December 31, 1999. As of March 31, 2001, the total amount due, including the principal of the note, accrued interest, and the obligations with respect to the returned inventory, was \$693,000. The Company is engaged in negotiations with the former distributor concerning possible restructuring of the obligation, but the holder has not declared a default or demanded payment. Settlement discussions include a possible conversion of the obligations into common stock and a possible new payment schedule based on revenues from the SafetyScope commercialization project. When financing for the SafetyScope project is achieved, a final definition of the settlement method will be decided between the company and the former distributor.

11

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

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

#### ITEM 5. OTHER INFORMATION

None.

#### 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

#### SIGNATURES

In accordance with Section 13 or 15(d) 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

