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VISIJET INC  
Form 10QSB/A  
January 28, 2005

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

AMENDED  
FORM 10-QSB

Quarterly report under Section 13 or 15(d) of the Securities Exchange  
Act of 1934

For the quarterly period ended September 30, 2004

VisiJet, Inc.

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

|                          |                             |                                      |
|--------------------------|-----------------------------|--------------------------------------|
| Delaware                 | 0-256111                    | 33-0838660                           |
| (State of Incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification No.) |

192 Technology Drive, Suite Q  
Irvine, California 92618  
(Address of principal executive offices)

Issuer's telephone number, including area code:  
949-450-1660

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$.001 par value  
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act 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  No

As of November 11, 2004 there were 28,677,520 shares of the  
registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VisiJet, Inc.  
Balance Sheets

ASSETS

Current assets:

- Cash and cash equivalents
- Accounts receivable
- Inventory
- Prepaid expenses
- Prepaid royalty

Total current assets

- Property and equipment, net
- Distribution agreement, net
- Patents and trademarks, net

Total assets

LIABILITIES AND SHAREHOLDER'S DEFICIT

Current liabilities:

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Accounts payable  
 Customer deposits  
 Compensation settlement agreement - current portion  
 Accrued interest  
 Accrued expenses  
 Royalty payable  
 Notes payable to related parties  
 Notes payable  
 Convertible debenture debt, net  
 Secured debenture debt, net

Total current liabilities

Compensation settlement agreement, net of current portion  
 Notes payable to related parties, net of current portion  
 Convertible debenture debt - long term, net

Total liabilities

Shareholders' deficit:

Common stock, 50,000,000 shares authorized, \$.001 par value,  
 27,879,663 shares issued and outstanding at September 30, 2004, and 21,691,163  
 shares issued and outstanding at  
 December 31, 2003  
 Preferred stock, 10,000,000 shares authorized, \$.001 par value,  
 no shares outstanding at September 30, 2004 or at December 31, 2003  
 Additional paid in capital  
 Common stock subscriptions  
 Accumulated deficit

Shareholders' deficit

Total liabilities and shareholders' deficit

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

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VisiJet, Inc.  
 Statements of Operations  
 (Unaudited)

|                       | Three months<br>ended<br>September 30, 2004 | Three months<br>ended<br>September 30, 2003 | Nine<br>e<br>September |
|-----------------------|---|---|------------------------|
|                       | -----                                       | -----                                       | -----                  |
| Sales - International | \$ 982,567                                  | \$ --                                       | \$                     |
| Cost of Goods Sold    | 456,400                                     | --  |                        |
| Gross Profit          | -----<br>526,167<br>-----                   | -----<br>--<br>-----                        | -----                  |

Operating expenses:

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|   |                |                |
|---|----------------|----------------|
| General and administrative expenses                                       | 1,400,569      | 680,639        |
| Research and development expenses   | 182,414        | 559,098        |
|   | -----          | -----          |
| Total operating expenses  | 1,582,983      | 1,239,737      |
|   | -----          | -----          |
| Loss from operations  | (1,056,816)    | (1,239,737)    |
| Other income (expense):   |                |                |
| Interest income   | --             | --             |
| Amortization of debt discount   | (328,670)      | --             |
| Interest expense  | (388,515)      | (5,944)        |
| Gain on debt restructure  | --             | 90,303         |
|   | -----          | -----          |
| Total other expense   | (717,185)      | 84,359         |
|   | -----          | -----          |
| Loss before provision for taxes   | (1,774,001)    | (1,155,378)    |
| Provision for Income taxes  | --             | --             |
|   | -----          | -----          |
| Net loss  | \$ (1,774,001) | \$ (1,155,378) |
|   | =====          | =====          |
| Net loss per common share - basic and diluted                             | \$ (0.06)      | \$ (0.06)      |
|   | =====          | =====          |
| Basic and diluted weighted average<br>number of common shares outstanding | 29,429,663     | 20,468,856     |
|   | =====          | =====          |

The accompanying notes are an integral part of these financial statements

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VisiJet, Inc.  
Statements of Cash Flows  
(Unaudited)

|   | Nine months ended<br>2004<br>---- |
|---|-----------------------------------|
| Cash flows from operating activities  |                                   |
| Net loss  | \$ (8,420,653)                    |
| Adjustment to reconcile net loss to net cash used by operating activities:        |                                   |
| Depreciation and amortization   | 182,728                           |
| Debt discount amortization  | 903,802                           |
| Interest expense associated with the beneficial<br>conversion of convertible debt | 821,139                           |
| Common stock, options, warrants issued for services                               | 2,894,335                         |
| Fee paid for guarantee  | 546,403                           |
| Gain from debt restructure  | --                                |
| Changes in assets and liabilities:  |                                   |
| Accounts receivable   | (332,105)                         |
| Prepaid expenses  | (309,199)                         |
| Inventory   | (317,003)                         |

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|  |             |
|--|-------------|
| Accounts payable   | 416,311     |
| Customer deposits  | 16,720      |
| Compensation settlement agreement                        | (35,604)    |
| Royalties payable  | (15,000)    |
| Other accrued expenses                                   | 537,074     |
| Accrued interest   | 161,952     |
|  | -----       |
| Net cash used by operating activities                    | (2,949,100) |
|  | -----       |
| Cash flows from investing activities:                    |             |
| Acquisition of property and equipment                    | (15,611)    |
| Purchase of distribution agreement                       | (1,188,900) |
|  | -----       |
| Net cash used in investing activities                    | (1,204,511) |
|  | -----       |
| Cash flows from financing activities:                    |             |
| Advance from related party                               | 229,361     |
| Repayment of advances from related parties               | (200,600)   |
| Repayment of notes payable                               | (4,000)     |
| Proceeds from secured debenture                          | 1,109,688   |
| Proceeds form convertible debt                           | 2,471,125   |
| Proceeds from private placements                         | 526,500     |
| Cash acquired in reverse merger                          | --          |
| Interest converted to equity in connection with merger   | --          |
|  | -----       |
| Net cash provided by financing activities                | 4,132,074   |
|  | -----       |
| Net increase/(decrease) in cash                          | (21,537)    |
| Cash, beginning of period                                | 35,879      |
|  | -----       |
| Cash, end of period                                      | \$ 14,342   |
|  | =====       |
| Supplemental disclosures of cash flow information        |             |
| Interest paid  | \$ 90,214   |
| Taxes paid   | 800         |
| Debenture costs and fees                                 | 534,190     |
| Non-cash transactions                                    |             |
| Reclass of interest to current liability                 | 80,313      |
| Warrants issued in connection with secured debenture     | 1,195,290   |
| Common Stock issued in connection with secured debenture | 106,350     |
| Common Stock issued as collateral                        | 1,100       |

The accompanying notes are an integral part of these financial statements

VISIJET, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

FORWARD LOOKING STATEMENTS

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This Form 10-QSB, press releases and certain information provided periodically in writing or orally by our officers or our agents contain forward-looking statements that involve risks and uncertainties within the meaning of Sections 27A of the Securities Act, as amended; Section 21E of the Securities Exchange Act of 1934; and the Private Securities Litigation Reform Act of 1995. The words, such as "may," "would," "could," "anticipate," "estimate," "plans," "potential," "projects," "continuing," "ongoing," "expects," "believe," "intend" and similar expressions and variations thereof are intended to identify forward-looking statements. These statements appear in a number of places in this Form 10-QSB and include all statements that are not statements of historical fact regarding intent, belief or current expectations of the Company, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans; (iii) our continued development of our technology; (iv) market and other trends affecting our future financial condition; (v) our growth and operating strategy.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, the following: (i) we have incurred significant losses since our inception; (ii) any material inability to successfully develop our products; (iii) any adverse effect or limitations caused by government regulations; (iv) any adverse effect on our ability to obtain acceptable financing; (v) competitive factors; and (vi) other risks including those identified in our other filings with the Securities and Exchange Commission. The Company undertakes no obligation to update or revise the forward-looking statements made in this Form 10-QSB to reflect events or circumstances after the date of this Form 10-QSB or to reflect the occurrence of unanticipated events.

### HISTORY AND MERGER

VisiJet, Inc. ("VisiJet", or "the Company") is a medical device company focused on the marketing and development of ophthalmic surgery products for use in the laser eye surgery and cataract surgery markets. Through June 30, 2004, the Company was in the development stage, as its efforts had been principally devoted to organizational activities, raising capital and research and development. However, based on operating revenues generated by the Company in the third quarter of 2004, the Company is no longer considered to be in the development stage.

The Company was incorporated on February 2, 1996, as a wholly owned subsidiary of SurgiJet, Inc. to develop and distribute medical products based on patented waterjet-based technology licensed from SurgiJet. In May 1999, the Company was spun off from SurgiJet through a distribution of common stock to its shareholders, after which SurgiJet had no remaining ownership interest in the Company.

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### NATURE OF OPERATIONS (Continued)

In December 2002 VisiJet entered into a merger agreement with Ponte Nossa Acquisition Corp., a Delaware corporation ("the Merger") that had been incorporated as a blank check company in 1997. The agreement called for the merger of the two companies into a single company through the merger of an acquisition subsidiary, VisiJet Acquisition Corporation, into VisiJet. The merger was consummated on February 11, 2003, and immediately thereafter, VisiJet

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was merged into Ponte Nossa Acquisition Corp., and the surviving company's name was changed to "VisiJet, Inc."

In May 2004, the Company entered into a Manufacturing, Supply and Distribution Agreement with a German company pursuant to which the Company acquired exclusive worldwide distribution, sales and marketing rights for ophthalmic surgical products used in LASIK refractive surgery procedures. In May 2004, the Company began marketing these products in Europe and certain other foreign countries, where the products have received regulatory approval for sale. In September 2004 the Company began marketing in the United States following receipt of approval for marketing from the U.S. Food and Drug Administration. In addition, the Company is conducting research and development on additional ophthalmic surgery products based on applications of its proprietary waterjet technology.

### BASIS OF PRESENTATION

The accompanying financial statements are unaudited and do not include certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary to present fairly the Company's financial position and results of operations, have been included. These interim financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003. Results for interim periods are not necessarily indicative of trends or of results for a full year.

### GOING CONCERN

The accompanying unaudited consolidated financial statements have been prepared using the going concern basis of accounting, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As more fully discussed in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003, the Company's audited financial statements included a "going concern" qualification from its independent auditors due to the Company's losses accumulated during the development stage and lack of working capital.

For the three and nine months ended September 30, 2004, the Company incurred net losses of \$1,531,149 and \$7,599,515, respectively, and as of September 30, 2004, the Company's current liabilities exceeded its current assets by approximately \$4.7 million. The Company's future capital requirements will depend on many factors, including but not limited to the Company's ability to successfully market and generate operating revenue through product sales, its ability to finalize development and successfully market its waterjet technology, its on-going operational expenses and overall product development costs, including the cost of clinical trials, and competing technological and market developments.

To address the going concern issue, the Company has continued to raise operating capital through private placements of debt and equity securities, and is currently in discussions with several parties regarding additional financing arrangements. In addition, during the second quarter of 2004, the Company initiated sales of ophthalmic surgery products acquired through an exclusive worldwide marketing and distribution license agreement that was finalized in May 2004. The Company expects that revenue and cash flow from sales of these products will contribute significantly to its future operating results and working capital requirements.

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### NATURE OF OPERATIONS (Continued)

While the Company believes that the additional financing arrangements will be completed, and that near-term operating revenues and cash flow will be generated from the recently completed license agreement, there can be no assurance that new financing will be completed or that the proceeds from new financing received by the Company and/or that revenues generated from product sales will be sufficient for the Company to meet its contractual obligations and on-going operating expenses.

The accompanying consolidated financial statements do not include any adjustments that might result from the resolution of these matters.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REVENUE RECOGNITION

Revenue from product sales relates to sales of ophthalmic surgical products pursuant to the Manufacturing, Supply and Distribution Agreement completed in May 2004. Revenue from such sales is recognized when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance, a firm price and probable collection.

#### RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to expense as incurred. Certain corporate overhead expenses, such as professional fees, salaries, rent and travel are allocated to research and development based on estimates made by management.

#### INVENTORY

Inventory is valued at lower of cost or market. Reserves for obsolescence or slow moving inventory are recorded when such conditions are identified. As of September 30, 2004 no such reserves were considered necessary.

#### ACCOUNTS RECEIVABLE

The Company regularly reviews accounts and records an allowance for doubtful accounts based on a specific identification basis of those accounts that they consider to be uncollectible. As of September 30, 2004, no allowance for doubtful accounts was considered necessary.

#### STOCK-BASED COMPENSATION

The Company measures compensation expense related to the grant of stock options and stock-based awards to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, under which compensation expense, if any, is generally based on the difference between the exercise price of an option, or the amount paid for the award and the market price or fair value of the underlying common stock at the date of the award. Stock-based compensation arrangements involving non-employees are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," under which such arrangements are accounted for based

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)



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on the fair value of the option or award. The Company adopted the disclosure requirements of SFAS No. 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE," an amendment of SFAS No. 123 as of January 1, 2003, which require certain disclosures about stock-based employee compensation plans in an entity's accounting policy note. The adoption of SFAS No. 148 did not have a material impact on these consolidated financial statements and the disclosure requirements are included below.

On November 10, 2003, the Board of Directors adopted the VisiJet, Inc. 2003 Stock Option Plan. The Option Plan provides for the grant of incentive and non-qualified stock options to selected employees, the grant of non-qualified options to selected consultants and to directors and advisory board members. The Option Plan is administered by the Compensation Committee of the Board of Directors and authorizes the grant of options for 3,000,000 shares. The Compensation Committee determines the individual employees and consultants who participate under the Plan, the terms and conditions of options, the option price, the vesting schedule of options and other terms and conditions of the options granted pursuant thereto.

During the third quarter of 2004, no new options were granted by the Company, and as of September 30, 2004, a total of 1,145,000 options to purchase shares of the Company's common stock were outstanding pursuant to the 2003 Plan.

The following table summarizes information about stock options outstanding at September 30, 2004:

| Exercise Price | Number Outstanding | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
|----------------|--------------------|--|---------------------------------|--------------------|---------------------------------|
| -----          | -----              | -----                                    | -----                           | -----              | -----                           |
| 1.10           | 1,145,000          | 9.12                                     | 1.10                            | 370,000            | 1.10                            |

SFAS No. 123 requires the Company to provide pro forma information regarding net income (loss) and income (loss) per share as if compensation cost for the Company's stock option issuances had been determined in accordance with the fair value based method prescribed in SFAS No. 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following assumptions used for grants in fiscal 2003: dividend yield of zero percent, risk-free interest rate of 3.29%, expected life of five years, and expected volatility of 83.82%.

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the accounting provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's pro forma net loss and loss per share for the three and nine months ended September 30, 2004 and 2003, would have been as follows:

|          | For the Three Months Ended September 30, |                | For the Nine Months Ended September 30, |                |
|----------|--|----------------|---|----------------|
|          | 2004                                     | 2003           | 2004                                    | 2003           |
|          | -----                                    | -----          | -----                                   | -----          |
| Net Loss | \$ (1,531,148)                           | \$ (1,155,378) | \$ (7,599,514)                          | \$ (7,599,514) |

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|  |                |                |                |
|--|----------------|----------------|----------------|
| As reported                                      |                |                |                |
| SFAS No. 123 effect                              | (84,499)       | --             | (253,498)      |
|  |                |                |                |
| Pro forma net loss                               | \$ (1,615,647) | \$ (1,155,378) | \$ (7,853,012) |
|  |                |                |                |
| Loss per share, basic and diluted                |                |                |                |
| As reported                                      | \$ (0.05)      | \$ (0.06)      | \$ (0.29)      |
|  |                |                |                |
| Pro forma  | \$ (0.05)      | \$ (0.06)      | \$ (0.30)      |
|  |                |                |                |
|  |                |                |                |
| Basic and diluted weighted average common shares |                |                |                |
| Outstanding                                      | 29,429,663     | 20,468,856     | 26,069,227     |
|  |                |                |                |

### DEPRECIATION

Depreciation of property and equipment is computed using the straight-line method over estimated useful lives ranging from three to seven years.

### USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### LOSS PER SHARE

The Company calculates loss per share in accordance with SFAS No. 128, "EARNINGS PER SHARE," and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 98. Accordingly, basic loss per share is computed using the weighted average number of common shares and diluted loss per share are computed based on the weighted average number of common shares and all common equivalent shares outstanding during the period in which they are dilutive. Common equivalent shares consist of shares issuable upon the exercise of stock options, using the treasury stock method, or warrants; common equivalent shares are excluded from the calculation if their effect is

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anti-dilutive.

### INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### RECLASSIFICATIONS

Certain reclassifications have been made to the financial statement of the prior year in order to conform to current year presentation.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There are no recent accounting pronouncements that have had, or are expected to have, a material effect on the Company's financial statements.

### NOTE 3 - INVENTORY

Inventory includes finished goods of ophthalmic surgical products purchased pursuant to the Manufacturing, Supply and Distribution Agreement completed in May 2004, and consists of the following at September 30, 2004 and December 31, 2003:

|   | September 30, 2004 | December 31, 2003 |
|---|--------------------|-------------------|
| Completed units and disposable supplies | \$ 164,121         | \$ -              |
| Demonstration units                     | 152,882            | -                 |
|   | \$ 317,003         | -                 |
|   | =====              | =====             |

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### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2004 and December 31, 2003:

|                                | September 30, 2004 | December 31, 2003 |
|--------------------------------|--------------------|-------------------|
| Computer and test equipment    | \$ 98,195          | \$ 82,584         |
| Furniture and fixtures         | 33,505             | 33,505            |
| Trade show equipment           | 47,002             | 47,002            |
|                                | 178,702            | 163,091           |
| Less: Accumulated depreciation | (82,180)           | (58,651)          |
|                                | \$ 96,522          | \$ 104,440        |
|                                | =====              | =====             |

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Depreciation expense for the three and nine months ended September 30, 2004, was \$8,682 and \$23,529, respectively.

### NOTE 5 - DISTRIBUTION AND PATENT AGREEMENTS

In May 2004, the Company entered into a Manufacturing, Supply and Distribution Agreement with a German company ("licensor") pursuant to which the Company acquired exclusive worldwide distribution, sales and marketing rights for certain ophthalmic surgical products used in LASIK refractive surgery procedures.

The Company capitalized a total of \$1,901,400 in connection with this agreement based on non-refundable cash license fee paid, plus the fair market value of 750,000 shares of common stock issued to the licensor, as consideration under the agreement. The total capitalized amount is being amortized on a straight-line basis over the term of the agreement.

During 2003, the Company entered into a patent license agreement with the inventor of a patented technology through which the Company obtained exclusive worldwide rights for all medical applications for the technology that provides for the sterile flow of fluid through a surgical water jet apparatus. The purchase price of the license has been capitalized and is being amortized on a straight-line basis over the remaining life of the patent. The license agreement provides for royalty payments based on the sale of products utilizing licensed technology and for minimum annual royalty payments.

Distribution and Patent agreements consist of the following at September 30, 2004 and December 31, 2003:

|                                | September 30, 2004 | December 31, 2003 |
|--------------------------------|--------------------|-------------------|
|                                | -----              | -----             |
| Distribution agreements        | \$ 1,901,400       | \$ --             |
| Patent agreements              | 100,000            | 100,000           |
| Less: accumulated amortization | (161,955)          | (2,756)           |
|                                | -----              | -----             |
|                                | \$ 1,839,445       | \$ 97,244         |
|                                | =====              | =====             |

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### DISTRIBUTION AND PATENT AGREEMENTS (Continued)

Amortization expense for the three and nine months ended September 30, 2004 was \$97,433 and \$159,199, respectively. In connection with these agreements, the Company expects to record the following amortization expense over the next five years:

| Fiscal Year Ended | Amortization Total |
|-------------------|--------------------|
| -----             | -----              |
| 12/31/04          | 97,432             |
| 12/31/05          | 389,729            |
| 12/31/06          | 389,729            |
| 12/31/07          | 389,729            |
| 12/31/08          | 389,729            |
| 12/31/09          | 137,822            |
|                   | -----              |
| Total             | 1,794,170          |

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NOTE 6 - ACCRUED EXPENSES

Accrued expenses consist of the following at September 30, 2004 and December 31, 2003:

|                            | September 30, 2004 | December 31, 2003 |
|----------------------------|--------------------|-------------------|
|                            | -----              | -----             |
| Payroll and related taxes  | \$ 463,010         | \$ 55,191         |
| Consulting fees            | 270,000            | 135,000           |
| Litigation settlement fees | 201,117            | 170,066           |
| Other accruals             | 84,054             | 120,849           |
|                            | -----              | -----             |
|                            | \$ 1,018,181       | \$ 481,106        |
|                            | =====              | =====             |

NOTE 7 - SECURED DEBENTURES

In February 2004, the Company entered into bridge financing agreements with five investors pursuant to which the Company issued a total of \$500,000 of secured subordinated debentures and received net proceeds of \$447,500 after subtracting related placement agent fees and legal expenses totaling \$52,500.

The debentures bear interest at an annual rate of 24%, which is payable monthly beginning April 1, 2004. In addition, the debenture holders received warrants to purchase 250,000 shares of the Company's common stock, exercisable through March 1, 2009, at an exercise price of \$1.10 per share.

The principal balance of the debentures is due and payable on the earlier of (i) thirty (30) days from the date the Registration Statement is declared effective by the Securities and Exchange Commission, provided that a specified affiliate of the investors has not defaulted in its obligation to purchase shares of the Company's common stock, or (ii) twelve (12) months from the date the Registration Statement is declared effective, or (iii) eighteen (18) months from the date of the debenture agreement.

The debentures are secured by all accounts and equipment of the Company, now owned, existing or hereafter acquired.

The debenture debt was recorded net of discounts totaling \$230,668 recorded in connection with the \$52,500 of loan fees and expenses, and \$178,168, based on a Black-Scholes model valuation, related to the 250,000 warrants issued

SECURED DEBENTURES (Continued)

to debenture holders. During the nine months ended September 30, 2004, the Company recorded total interest expense of \$206,616 in connection with the debenture debt, of which \$146,616 resulted from the non-cash amortization of debt discount and \$60,000 related to interest accrued during the period on the outstanding principal balance. Of the interest accrued, \$49,700 was paid during the period, and \$10,300 was payable as of September 30, 2004. In October 2004, the Company received a notice of default from the holders of an aggregate of \$400,000 of these debentures due to the non-timely payment of interest that was owed under the debenture agreements. Subsequent to the receipt of notice, the Company made the required interest payments and the Company is in discussions with the debenture holders regarding a resolution of this matter.

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In May 2004, the Company entered into an agreement with an institutional lender pursuant to which the Company issued a total of \$750,000 of secured subordinated debentures and received net proceeds of \$662,188 after subtracting related placement agent fees and expenses totaling \$80,000 and prepaid interest totaling \$7,812.

The principal balance of the debentures was due and payable on July 5, 2004, and the debentures bear interest at an annual rate of 15%, which is payable monthly beginning June 1, 2004. In addition, the debenture holder received a warrant to purchase 500,000 shares of the Company's common stock, exercisable through May 6, 2009, at an exercise price of \$0.90 per share.

The debentures are secured by an aggregate of 1,500,000 shares of the Company's common stock, of which 750,000 shares were issued by the Company and 750,000 shares were borrowed by the Company pursuant to a security lending agreement between the Company and a third party.

The debenture debt was recorded net of discounts totaling \$319,807 recorded in connection with the \$80,000 of loan fees and expenses, and \$239,807, based on a Black-Scholes model valuation, related to the 500,000 warrants issued to the debenture holder. During the nine months ended September 30, 2004, the Company recorded total interest expense of \$365,120 in connection with the debenture debt, of which \$319,807 resulted from the non-cash amortization of debt discount and \$45,313 related to interest accrued during the period on the outstanding principal balance. Of the interest accrued, \$35,938 was paid during the period, and \$9,375 was payable as of September 30, 2004. The Company did not repay the principal on the scheduled maturity date of July 5, 2004, and such failure to pay constitutes a default under the obligation. In October 2004 the debenture holder entered into a forbearance agreement with the holders of convertible debentures entered into in June and July 2004 with an aggregate principal amount of \$2,000,000, pursuant to which the debenture holder agreed not to take any action with respect to the non-payment of the \$750,000 principal balance until the earlier of (i) February 2, 2005 and (ii) the date of notice of default from the convertible debenture holders to the Company.

As of September 30, 2004 and December 31, 2003, secured debenture debt balance consists of the following:

|                                | Sept. 30, 2004 | December 31, 2003 |
|--------------------------------|----------------|-------------------|
|                                | -----          | -----             |
| Secured subordinated debenture | \$ 1,250,000   | \$ --             |
| Secured debenture discount     | ( 84,051)      | --                |
|                                | -----          | -----             |
| Secured debenture debt         | \$ 1,165,949   | \$ --             |
|                                | =====          | =====             |

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### Note 8 - CONVERTIBLE DEBENTURES

In May 2004, the Company entered into convertible debenture agreements with two private lenders with an aggregate principal balance of \$800,000, and received net proceeds of \$695,000 after subtracting related placement agent fees and expenses totaling \$105,000.

The debentures bear interest at an annual rate of 10%, which is due and payable on the maturity date. In addition, the debenture holders received an aggregate of 533,000 warrants to purchase shares of the Company's common stock, exercisable through May 6, 2009 at an exercise price of \$0.90 per share.

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The principal balance of the debentures is due and payable on the earlier of (i) one hundred and five (105) days from the issue date, or (ii) ten (10) business days from the date the Company's Registration Statement is declared effective by the Securities and Exchange Commission.

The debentures are secured by an aggregate of 800,000 shares of the Company's common stock borrowed by the Company pursuant to a security lending agreement between the Company and a third party. Under certain circumstances, the outstanding principal of the debentures may be converted into shares of the Company's common stock based on an initial conversion price of \$0.90, (which was equal to the market price of the Company's common stock on the commitment date), subject to adjustment as defined in the agreement.

The debenture debt was recorded net of discounts totaling \$360,793 recorded in connection with the \$105,000 of loan fees and expenses, and \$255,793, based on a Black-Scholes model valuation, related to the 533,000 warrants issued to debenture holders.

During the nine months ended September 30, 2004, the Company recorded total interest expense of \$393,012 in connection with the debenture debt, of which \$360,793 resulted from the non-cash amortization of debt discount and \$32,219 related to interest accrued during the period on the outstanding principal balance.

In connection with these debentures, the Company entered into a registration rights agreement with the debenture holders covering 533,333 shares of common stock underlying the warrants issued in connection with these debentures. Pursuant to this agreement, the Company was obligated to file a Registration Statement with the Securities and Exchange within 30 days of the closing of the transaction.

The Company was not in compliance with terms of these debenture agreements due to the non-payment of the principal balance by the scheduled maturity date in August 2004, and due to its failure to file a Registration Statement with the Securities and Exchange Commission covering warrants issued to debenture holders pursuant to the debenture agreement by June 6, 2004, as required by the registration rights agreement entered into between the Company and the debenture holders in connection with the debenture agreement. The failure to pay the principal balance when due and to file the Registration Statement on a timely basis are events of defaults under the agreement. The Company is in discussions with the debenture holders regarding a resolution of these matters.

In June 2004, the Company entered into convertible debenture agreements with two private lenders with an aggregate principal balance of \$1,000,000, and received net proceeds of \$880,000 after subtracting related placement agent fees and expenses totaling \$120,000. The principal balance of the debentures is due and payable on June 24, 2006.

The debentures bear interest at an annual rate of 8%, which is payable quarterly beginning December 31, 2004. In addition, the debenture holders received an aggregate of 150,000 shares of the company's common stock, and an aggregate of 750,000 warrants to purchase shares of the Company's common stock,

### CONVERTIBLE DEBENTURES (Continued)

exercisable through June 24, 2009, at an exercise price of \$1.50 per share, provided however that the exercise price with respect to an aggregate of 500,000

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of the warrants is reduced to \$0.60 per share during the period from the date of issuance through the date twelve (12) months after the Securities and Exchange Commission declares effective a registration statement registering the resale of shares underlying the warrants.

The debenture debt was recorded net of discounts totaling \$541,714 recorded in connection with the \$120,000 of loan fees and expenses, \$106,500 recorded based on the fair market value of the common stock on the date of issuance and \$315,214, based on a Black-Scholes model valuation, related to the 533,000 warrants issued to debenture holders.

The debentures are secured by an aggregate of 350,000 shares of the Company's common stock issued by the Company, and the outstanding principal of the debentures may be converted, subject to redemption rights of the Company, into shares of the Company's common stock based on an initial conversion price of \$0.50, subject to adjustment as defined in the agreement.

The market price of the Company's common stock on the date of issuance of the debentures was \$0.71 per share. In accordance with EITF 98-5, as amended by EITF 00-27, because the debentures were sold at an effective conversion price less than the market value of the underlying components of the security, a beneficial conversion to the holders of the debentures occurred. Accordingly, the Company recorded a discount to the principal of the debenture and a corresponding amount to common stock additional paid in capital. The recorded discount resulting from the beneficial conversion is recognized as non-cash interest expense from the date of issuance to the earliest date on which the debt is convertible by note holders. Since the debt was convertible, at the option of the note holders, at any time following issuance, the entire discount recorded, \$578,286, was recognized as non-cash interest expense during the second quarter of 2004.

During the three months ended September 30, 2004, the Company recorded total interest expense of \$89,194 in connection with the debenture debt, of which \$67,714 resulted from the non-cash amortization of debt discount recorded in connection with loan fees and the value of stock and warrants issued to note holders, and \$21,480 resulted from interest accrued during the period on the outstanding principal balance.

In connection with these debentures, the Company entered into a Registration Rights Agreement with the debenture holders related to the warrants and shares underlying the conversion feature of the debentures that required the Company to file a Registration Statement with the Securities and Exchange within 30 days of the closing of the transaction. Due to the Company's failure to file the Registration Statement within 30 days, the Company was not in compliance with this requirement of the agreement. As discussed in more detail in Note 16, in October 2004 and November 2004 the Company received a waiver of the non-compliance in connection with an amendment to the debenture agreements and an extension of the required Registration Statement filing date deadline to November 15, 2004.

In July 2004, the Company entered into convertible note agreements with a private lender with an aggregate principal balance of \$1,000,000, and received net proceeds of \$896,125 after subtracting related placement agent fees and expenses totaling \$103,875. The note bears interest, at an annual rate of 8%, which is due and payable quarterly beginning on October 31, 2004. In addition, the debenture holders received warrants to purchase 750,000 shares of the Company's common stock, exercisable through July 23, 2011, at an exercise price of \$1.00 per share.

The principal balance of the note, plus any accrued and unpaid interest, is due and payable on July 23, 2014, provided however, that on or after July 31, 2007 the Company, at the option of the note holder, may be



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obligated to repurchase the note at a price equal to 100% of the outstanding principal and interest. The outstanding principal of the debentures may be converted into shares of the Company's common stock, at the option of the note holder, based on an initial conversion price of \$0.54 per share, subject to adjustment as defined in the agreement.

The debenture debt was recorded net of discounts totaling \$310,182 recorded in connection with the \$103,875 of loan fees and expenses \$206,307, based on a Black-Scholes model valuation, related to the 750,000 warrants issued to debenture holders.

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### CONVERTIBLE DEBENTURES (Continued)

The market price of the Company's common stock on the date of issuance of the debentures was \$0.57 per share. In accordance with EITF 98-5, as amended by EITF 00-27, because the debentures were sold at an effective conversion price less than the market value of the underlying components of the security, a beneficial conversion to the holders of the debentures occurred. Accordingly, the Company recorded a discount to the principal of the debenture and a corresponding amount to common stock additional paid in capital. The recorded discount resulting from the beneficial conversion is recognized as non-cash interest expense from the date of issuance to the earliest date on which the debt is convertible by note holders. Since the debt was convertible, at the option of the note holders, at any time following issuance, the entire discount recorded was recognized as non-cash interest expense during the second quarter of 2004.

During the three months ended September 30, 2004, the Company recorded total interest expense of \$262,540 in connection with the debenture debt. Of this total, \$242,853 resulted from non-cash amortization of the discount recorded in connection with the beneficial conversion, \$4,354 resulted from the non-cash amortization of debt discount recorded in connection with loan fees and the value of stock and warrants issued to note holders, and \$15,333 resulted from interest accrued during the period on the outstanding principal balance.

In connection with these debentures, the Company entered into a Registration Rights Agreement with the debenture holders related to the warrants and shares underlying the conversion feature of the debentures that required the Company to file a Registration Statement with the Securities and Exchange within 30 days of the closing of the transaction. Due to the Company's failure to file the Registration Statement within 30 days, the Company was not in compliance with this requirement of the agreement. As discussed in more detail in Note 16, in October 2004 and November 2004 the Company received a waiver of the non-compliance in connection with an amendment to the debentures agreements and an extension of the required Registration Statement filing date deadline to November 15, 2004.

As of September 30, 2004 and December 31, 2003, convertible debenture debt balances consists of the following:

| Current:                       | September 30, 2004 | December 31, 2003 |
|--------------------------------|--------------------|-------------------|
|                                | -----              | -----             |
| Convertible debenture          | \$ 1,800,000       | \$ --             |
| Convertible debenture discount | (469,487)          | --                |
|                                | -----              | -----             |

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|                                |                    |                   |
|--------------------------------|--------------------|-------------------|
| Convertible debenture - net    | \$ 1,330,513       | \$ --             |
|                                | =====              | =====             |
| Long Term:                     |                    |                   |
|                                | September 30, 2004 | December 31, 2003 |
|                                | -----              | -----             |
| Convertible debenture          | \$ 1,000,000       | \$ --             |
| Convertible debenture discount | (305,828)          | --                |
|                                | -----              | -----             |
| Convertible debenture - net    | \$ 694,172         | \$ --             |
|                                | =====              | =====             |

NOTE 9 - NOTES PAYABLE - RELATED PARTIES

SURGIJET, INC. AND RELATED PARTIES

In October 1998, the Company issued a demand promissory note in the amount of \$400,000, plus interest at a variable rate, based on the prime rate to of SurgiJet, Inc. ("SurgiJet"), VisiJet's former parent company. In connection with the Merger Agreement, an amendment to the note agreement was executed in February, 2003 under which the accrual of additional interest was halted, and scheduled principal and interest payments were established.

During 2002, the Company entered into a promissory note in the amount of \$91,000 plus interest at the rate of 10% per annum with DentaJet, Inc. ("DentaJet"), a Company then related through common shareholders. During 2002 and 2003, the Company borrowed an additional \$72,000 from, and made payments totaling \$27,482, to DentaJet, resulting in an outstanding principal balance of \$135,518 at December 31, 2003

During 2002, the Company entered into a promissory note with Lance Doherty, a principal of SurgiJet and shareholder of the Company, for a principal sum of \$19,000 plus interest at the rate of 10% per annum. At December 31, 2003 the outstanding principal balance of this note was \$19,000. At December 31, 2003 the outstanding principal balance of this note was \$19,000.

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NOTES PAYABLE - RELATED PARTIES (Continued)

During 2002, the Company recorded a liability of \$2,967 related to expenses paid by Rex Doherty, a principal of SurgiJet and shareholder of the Company. At December 31, 2003 the outstanding liability balance was \$2,967.

During 2003 the Company initiated litigation against SurgiJet, challenging the validity of the SurgiJet Note, as well as other notes and liabilities to DentaJet, Lance Doherty and Rex Doherty.

As discussed in more fully Note 11, in October 2004, the parties to the litigation entered into a settlement agreement pursuant to which revised note payable amounts and payment schedules were agreed upon. Based on this agreement, outstanding

principal and accrued interest balances related to these notes as of September 30, 2004 have been adjusted to reflect the agreed upon amounts, and as a result, the balances at September 30, 2004 and December 31, 2003 are as follows:

September 30, 2004

December 31, 2003

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|               | Principal  | Interest | Principal  |    |
|---------------|------------|----------|------------|----|
| SurgiJet      | \$ 579,774 | \$ 3,574 | \$ 360,976 | \$ |
| DentaJet      | -          | -        | 135,518    |    |
| Lance Doherty | 19,000     | 3,775    | 19,000     |    |
| Rex Doherty   | -          | -        | 2,967      |    |
| Total         | \$ 598,774 | \$ 7,349 | \$ 518,461 | \$ |

FINANCIAL ENTREPRENEURS, INC. ("FEI")

In connection with the Merger Agreement in 2003, the Company assumed a promissory note during 2003 originally entered into between PNAC and FEI, a significant shareholder of the Company, during 2002. The note bears interest at an annual rate of 7.5%, and matures on April 3, 2009. Upon consummation of the merger in February 2003, the outstanding principal and accrued interest payable balances were \$206,649 and \$11,462, respectively. During 2003, the Company added net borrowings of \$43,476 to the note, and accrued additional interest expense of \$17,072, resulting in an outstanding principal balance and accrued interest payable balances at December 31, 2003 of \$250,125 and \$28,534, respectively. During the nine months ended September 30, 2004, net activity resulted in an increase to the outstanding principal of \$28,761 and \$17,257 of interest expense related to this note. As of September 30, 2004 the outstanding principal and accrued interest payable on this note were \$278,886 and \$45,791, respectively.

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NOTE 10 - COMMITMENTS

LICENSE AGREEMENTS

Under the terms of the technology license agreements with SurgiJet, the Company is obligated to pay a royalty of 7% of revenues received from sales of the products, up to \$400 million of revenues over the course of the agreements, and 5% of revenues thereafter. The license agreements with SurgiJet also provide for a minimum royalty of \$60,000 per year that may be used as a credit toward payment of future royalties due on product sales.

Under the terms of the patent license agreement entered into during 2003, the Company is obligated to pay a royalty of 6% of net sales of products utilizing the licensed patent technology. The license agreement also provides for a minimum royalty of \$24,000 per year that may be used as a credit toward payment of future royalties due on product sales.

Under the terms of the Manufacturing, Supply and Distribution Agreement entered into in May 2004, the Company is obligated to purchase specified minimum monthly and annual quantities of licensed products from the Licensor. There are no royalties on product sales due or payable by the Company under this agreement.

NOTE 11 - SHAREHOLDERS' EQUITY (DEFICIT)

COMMON STOCK ACTIVITY

During the third quarter of 2004, the Company cancelled 2,300,000 shares of common stock that had been issued during the second quarter as

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collateral under a pending debt agreement. The cancellation of these shares was recorded as a reversal of the reduction to Additional Paid in Capital based on the par value of shares issued that was recorded when the shares were originally issued.

### WARRANT ACTIVITY

During the third quarter of 2004, the Company issued 5-year warrants to purchase an aggregate of 832,500 shares of its common stock at an average exercise price of \$0.72 per share and 7-year warrants to purchase an aggregate of 825,000 shares of its common stock at an average exercise price of \$1.00 per share.

In connection with warrants issued during this period, the Company recorded debt discount totaling \$206,307 related to 750,000 warrants issued in connection with convertible debenture agreements completed during the quarter, professional fees totaling \$231,228 related to an aggregate of 850,000 warrants issued as commissions on debenture and Preferred Stock agreements completed during the quarter and professional fees totaling \$ 13,153 related to an aggregate of 57,500 warrants issued for consulting services. All amounts recorded in connection with these warrants were based on the fair value of the warrants issued using a Black-Scholes model valuation.

The following table summarizes the number of outstanding common stock warrants as of September 30, 2004:

|                                   | Number     | Weighted Average<br>Exercise Price |
|-----------------------------------|------------|------------------------------------|
|                                   | -----      | -----                              |
| Outstanding at December 31, 2003  | 12,102,480 | \$ 2.53                            |
| Granted                           | 825,000    | 1.87                               |
| Forfeited                         | --         | --                                 |
| Exercised                         | --         | --                                 |
|                                   | -----      | -----                              |
| Outstanding at March 31, 2004     | 12,927,480 | \$ 2.49                            |
| Granted                           | 2,080,833  | 1.00                               |
| Forfeited                         | --         | --                                 |
| Exercised                         | --         | --                                 |
|                                   | -----      | -----                              |
| Outstanding at June 30, 2004      | 15,008,313 | \$ 1.87                            |
| Granted                           | 1,657,500  | 0.86                               |
| Forfeited                         | --         | --                                 |
| Exercised                         | --         | --                                 |
|                                   | -----      | -----                              |
| Outstanding at September 30, 2004 | 16,665,813 | \$ 1.77                            |

### NOTE 12 - SETTLEMENT AGREEMENTS AND LOAN PAYABLE

In November 2002, the Company entered into settlement agreements with an officer and an employee related to accrued but unpaid fees for consulting services rendered by them prior to the consummation of the Merger in the aggregate of \$700,000. Under the agreements a total of \$450,000 was converted into 211,267 shares of the Company's common stock, during 2003, based upon the closing price on the effective date the Merger Agreement. The balance owed of \$250,000 was converted into two notes payable that bear interest at an annual rate of 3.5% and provide for the principal to be paid over equal installments for the duration of the loans. At September 30, 2004 and December 31, 2003, the aggregate balances on these notes were \$68,563 and \$104,166, respectively and the respective accrued interest payable balances were \$8,999 and \$6,330.

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### NOTE 13 - CONTINGENCIES

In October 2004, the Company and SurgiJet, its former parent company entered into a settlement agreement covering all previously outstanding litigation between the two companies, as well as with SurgiJet's principal owners and its subsidiary, DentaJet.

In accordance with the settlement agreement, the Company, agreed to pay a total of \$579,774, plus accrued interest at an annual rate of 7.5% from August 31, 2004 (\$3,574 through September, 30, 2004), as full settlement of previously disputed notes payable to SurgiJet and DentaJet and related accrued interest which the Company was carrying on its books in the aggregate amount of \$580,718. In addition, the Company agreed to pay a previously disputed note payable to a shareholder of the Company, who is also a principal owner of SurgiJet, \$19,000 plus accrued interest at an annual rate of 10% from December 31, 2002 (\$3,775 through September 30, 2004), which the Company was carrying on its books in the aggregate amount of \$24,678.

In addition, the Company agreed to issue 75,000 shares of its Common Stock to SurgiJet, granted SurgiJet a security interest in all of its assets and agreed to provide SurgiJet with a stipulated judgment, which can only be filed by SurgiJet upon an event of default which remains uncured following 10 days after receipt of written notice of such default.

Payments on all obligations due pursuant to the settlement agreement will be made in monthly installments commencing December 1, 2004. The first payment is in the amount of \$30,000, thereafter monthly payments are \$20,000 through December 2005, and \$25,000 from January 1, 2006 until the obligations are paid in full.

In accordance with the settlement agreement, SurgiJet and its principals agreed to waive, subject to completion and final report from an independent accounting firm, claims for additional monies owed to them, and to drop their cross-complaint against the Company, its directors and certain of its officers seeking additional monetary damages and rescission of the Merger Agreement.

In February 2004, the Company was served a summons which named the Company as one of several defendants in an action filed by an individual seeking damages of approximately \$450,000 based on claims including breach of contract, promissory fraud and negligent misrepresentation related to activities that occurred, and involving owners and management of the Company, prior to the effective date of the Merger Agreement. The Company denies any involvement in the activities included in the allegations, and does not anticipate the necessity to defend this action.

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### NOTE 14 - RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2004 the Company recorded \$17,250 and \$62,250, respectively, of consulting fees to a corporation owned by a director of the Company. As of September 30, 2004, \$6,500 related to this agreement was included in accounts payable.

During the three and nine months ended September 30, 2004 the Company recorded \$45,000 and \$135,000, respectively of consulting fees and expenses of \$2,291 and \$17,395, respectively, in connection with this agreement. As of September 30, 2004, \$28,509 related to this agreement was included in accounts payable.

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During the three and nine months ended September 30, 2004 the Company recorded \$45,000 and \$135,000, respectively, of consulting fees in connection with an agreement with a corporation controlled by two shareholders, each of whom own beneficially in excess of 5% of the outstanding shares of the Company's common stock. Pursuant to this agreement, entered into in April 2003, the Corporation is entitled to receive a monthly fee of \$15,000, provided however that payment of accrued fees is not payable by the Company until such time as the Company has a minimum cash balance of \$2.5 million. At September 30, 2004 a total of \$270,000 in fees recorded pursuant to this agreement is included in accrued expenses.

During the three and nine months ended September 30, 2004 the Company reimbursed a corporation controlled by an individual who beneficially owns in excess of 5% of the outstanding shares of common stock of the Company for travel expenses related to business of the Company totaling \$5,626 and \$15,592, respectively. As of September 30, 2004, \$656 of these expenses was included in accounts payable.

### NOTE 15 - Security Lending Agreement

In April 2004, the Company and a corporation that beneficially owns in excess of 5% of the outstanding shares of common stock of the Company entered into an agreement pursuant to which the corporation agreed to make available 3 million shares of the Company's common stock, for use by the Company as collateral in subsequent financing transactions. In accordance with the terms of this agreement, the Company is obligated to pay interest on the value of shares borrowed (assuming a value of \$1.00 per share) based on the LIBOR rate plus 50 basis points, and must return the borrowed shares by November 30, 2004. In the event of default, the Company has agreed to file a Registration Statement and to return any shares, within 72 hours, that had not previously been returned by the due date. As of September 30, 2004 the Company had borrowed a total of 800,000 shares pursuant to this agreement, and the Company had accrued interest expense totaling \$25,725.

### NOTE 16 - SUBSEQUENT EVENTS

#### CONVERTIBLE DEBENTURE AGREEMENTS

In October 2004, the Company entered into convertible debenture agreements with four private lenders with an aggregate principal balance of \$850,000, and received net proceeds of \$788,000 after subtracting related placement agent fees and expenses totaling \$62,000. The notes bear interest, at an annual rate of 8%, which is due and payable quarterly beginning on December 31, 2004. The principal balance of the note, plus any accrued and unpaid interest is due and payable on October 6, 2014, provided however, that on or after October 6, 2007 the Company, at the option of the note holder, may be obligated to repurchase the note at a price equal to 100% of the outstanding principal and interest. In addition, the note holders received warrants to purchase 850,000 shares of the Company's common stock, exercisable through October 6, 2009 at an exercise price of \$0.40 per share.

#### CONVERTIBLE DEBENTURE AGREEMENTS - AMENDMENTS

In connection with the Convertible Debenture Agreements entered into in October 2004, the Company agreed to modify certain terms and conditions included in convertible debenture agreements with an aggregate principal balance of

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\$2,000,000 entered into in June and July 2004. The modifications included a reduction in the exercise prices of an aggregate of 1,500,000 previously issued warrants to \$0.40 per share, a reduction of the initial conversion price of these debentures to \$0.35 per share, the issuance of warrants to purchase 500,000 shares at an exercise price of \$0.40 per share and the issuance of 261,428 shares of common stock as full payment of accrued liquidated damages. As a result of these modifications, the debenture holders agreed to waive all events of default and non-compliance under the covenants of those agreements, and to extend the required Registration Statement filing date deadline to November 1, 2004, and in November 2004, the filing date deadline was further extended to November 15, 2004.

### PREFERRED STOCK

In October 2004, the Company consummated the sale of 450,000 shares of Series A Convertible Preferred Stock ("Series A Shares") to a corporation organized under the laws of England and Wales pursuant to a Convertible Preferred Stock Purchase Agreement (the "Stock Purchase Agreement"). Under the Stock Purchase Agreement, the Company agreed to sell the Series A Shares to the corporation in return for the corporation issuing to the Company 2,477,974 of its Ordinary Shares. Consummation of the transaction was subject to admission of the corporation's shares to the London Stock Exchange ("LSE"), which occurred on September 30, 2004 and the initiation of trading on the LSE, which began on October 7, 2004. In accordance with the Stock Purchase Agreement, the Company may sell the shares received by it in the open market on the LSE at any time.

The Series A Shares are non-voting, except as required by Delaware law, and the holders of the Series A Shares are not entitled to receive any dividends. The Series A Shares, which have a "stated value" for purposes of conversion and redemption of \$10.00 per share, are convertible at any time for a period of three years from the date of issuance into shares of the Company's common stock ("Common Stock"). The number of shares of Common Stock to be issued upon conversion is determined by dividing the aggregate stated value of the Series A Shares being converted by the conversion price then in effect, which is to be the lesser of \$0.609 (the "Fixed Conversion Price"), or eighty percent (80%) of the lowest closing bid price of the Common Stock in the ten (10) trading days preceding the date of conversion, but in no event less than 30 percent (30%) of the Fixed Conversion Price. However, the corporation may not convert to the extent that conversion would result in owning more than 4.99% of the outstanding Common Stock of the Company. The conversion price is subject to further adjustment based on anti-dilution provisions that require an adjustment to the conversion price based on certain events, including the issuance of common stock or convertible securities at a price per share below market value, stock dividends and combinations and certain distributions to shareholders. Any shares not previously converted will be automatically converted at the expiration of the three year period. The Series A Shares carry a liquidation preference equal to the stated value. If the Company defaults under certain covenants in the Certificate of Designation, the holder of the Series A Shares may compel redemption at the stated value.

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

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial position and operating results during the periods included in the accompanying financial statements, and should be read in conjunction with such financial statements and notes thereto.

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Certain information included herein contain forward-looking statements that involve risks and uncertainties within the meaning of Sections 27A of the Securities Act, as amended; Section 21E of the Securities Exchange Act of 1934; and the Private Securities Litigation Reform Act of 1995. Readers are referred to the cautionary statement at the beginning of this report, which addresses forward-looking statements made by the Company.

### CORPORATE HISTORY

VisiJet (the "Company" or "VisiJet"), formerly known as Ponte Nossa Acquisition Corp ("PNAC"), is a Delaware corporation engaged in the research and development of surgical equipment for use in the field of ophthalmology based on proprietary waterjet technology.

The Company was incorporated in California on February 2, 1996 as a wholly owned subsidiary of SurgiJet, Inc ("SurgiJet"), a developer of waterjet technology for a variety of medical and dental applications. In May 1999, the Company was spun off from SurgiJet through a distribution of common stock to its shareholders, after which SurgiJet had no remaining ownership interest in the Company.

On February 11, 2003 the Company completed a merger with PNAC, a Delaware corporation incorporated in 1997. Pursuant to the merger agreement between VisiJet and PNAC (the "Merger Agreement"), the Company merged into PNAC. Since this transaction resulted in the shareholders of VisiJet acquiring a majority of the outstanding shares of PNAC, for financial reporting purposes the business combination was accounted for as a recapitalization of PNAC (a reverse acquisition with the Company as the accounting acquirer). Subsequently, PNAC changed its name to VisiJet, Inc.

### CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Notes to the Financial Statements. At this stage of our development, these policies primarily address matters of revenue and expense recognition. The Company has consistently applied these policies in all material respects.

### OVERVIEW

Prior to the third quarter of 2004, the Company was in the development stage, as our efforts had been principally devoted to organizational activities, raising capital and research and development efforts related to our proprietary waterjet based ophthalmic surgery products.

In May 2004, the Company entered into an exclusive license agreement with a German corporation, pursuant to which the Company acquired worldwide marketing, sales and distribution rights for that corporation's LASIK and Epi-Lasik products, and immediately began marketing these products in Europe and certain other foreign countries, where the products have received regulatory approval for sale. In September 2004 the Company began marketing the Epi-Lasik products in the United States following receipt of approval for marketing from the U.S. Food and Drug Administration.

Based on our history of losses and negative working capital balance, our financial statements for the year ended December 31, 2003 included a going concern opinion from our outside auditors, which stated there "is substantial



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doubt" about our ability to continue operating as a going concern.

The Company is actively pursuing additional financing, and in this regard is in discussions with several parties related to potential financing arrangements. However, the Company does not currently have sufficient cash or working capital available to continue to fund operations, to meet its contractual obligations, to market the recently licensed products or to complete its on-going product development efforts. As such, our ability to secure additional financing on a timely basis, is critical to our ability to stay in business and to pursue planned operational activities.

### RESULTS OF OPERATIONS

Three Months Ended September 30, 2004 Compared To Three Months Ended September 30, 2003

#### SALES AND COST OF SALES

International sales totaled \$982,567 and represent revenues recognized based on sales during the third quarter of 2004 of ophthalmic surgery products acquired through a licensing agreement completed in May 2004. Cost of sales during the same period totaling \$456,400 represent related product costs associated with these revenues. No sales were recorded during the third quarter of 2004 in the United States as marketing approval for the licensed products in the U.S. was not approved until. Prior to the completion of the product licensing agreement, the Company did not have any products for sale, and accordingly had no similar sales revenues or cost of sales activity in the comparable 2003 period.

#### OPERATING EXPENSES

Operating expenses during the three months ended September 30, 2004 increased to \$1,582,983 from \$1,239,737 in 2003 as a result of the following activity:

|                            | 2004         | 2003         |
|----------------------------|--------------|--------------|
|                            | -----        | -----        |
| General and Administrative | \$ 1,400,569 | \$ 680,639   |
| Research and Development   | 182,414      | 559,098      |
|                            | -----        | -----        |
| Total Operating Expenses   | \$ 1,582,983 | \$ 1,239,737 |

The increase in general and administrative expenses in the 2004 period is due primarily to increases in professional fees and consulting, salaries and wages, amortization expenses related to patents and distribution agreements and sales and marketing expenses during 2004.

The decrease in research and development expenses in the 2004 period is due primarily to limited working capital availability during the period, and to a reallocation of resources from research and development to sales and marketing as a result of the initiation of product sales during the second quarter of 2004.

#### OTHER INCOME AND EXPENSE

Other expenses during the three months ended September 30, 2004 increased to \$717,185 and includes interest expense of \$145,662 and non-cash

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expenses of \$328,670 related to the amortization of debt discount during the period, and \$242,853 of non-cash interest expense recorded based on the intrinsic value of the beneficial conversion feature of convertible debt entered into during the third quarter of 2004.. Interest expensed in the 2004 period increased from \$5,944 in the three months ended September 30, 2003 due to an increase in total debt outstanding during 2004, and there was no comparable debt discount amortization expense in the 2003 period.

### NET LOSS

As a result of the above revenues and expenses, the net loss for the three months ended September 30, 2004 increased to \$1,774,001, compared to \$1,155,378 during the comparable 2003 period.

Nine Months Ended September 30, 2004 Compared To Nine Months Ended September 30, 2003

### SALES AND COST OF SALES

International sales totaled \$1,037,537 and represent revenues recognized based on sales during the second and third quarter of 2004 of ophthalmic surgery products acquired through a licensing agreement completed in May 2004. Cost of sales during the same period totaling \$483,234 represent related product costs associated with these revenues. No sales were recorded during the nine months ended September 30 2004 in the United States as marketing approval for the licensed products in the U.S. was not obtained until the middle of September 2004. Prior to the completion of the product licensing agreement, the Company did not have any products for sale, and accordingly had no similar sales revenues or cost of sales activity in the comparable 2003 period.

### OPERATING EXPENSES

Operating expenses during the nine months ended September 30, 2004 increased to \$7,006,940 from \$2,931,790 in 2003 as a result of the following activity:

|                            | 2004         | 2003         |
|----------------------------|--------------|--------------|
|                            | -----        | -----        |
| General and Administrative | \$ 6,415,545 | \$ 2,054,912 |
| Research and Development   | 591,395      | 876,878      |
|                            | -----        | -----        |
| Total Operating Expenses   | \$ 7,006,939 | \$ 2,931,790 |

The increase in general and administrative expenses in the 2004 period is due primarily to the inclusion of \$2.9 million of non-cash expenses recorded in connection with the issuance of common stock, warrants and options during the period as payment for consulting services and in connection with dispute/litigation settlements, and non-cash expenses of \$546,403 recorded in connection with the re-pricing of warrants during the second quarter. In addition, general and administrative expenses during 2004 increased due to increases in professional fees and consulting, salaries and wages, amortization expenses related to patents and distribution agreements and sales and marketing expenses.

The decrease in research and development expenses in the nine months ended September 30, 2004 period is due primarily to due to limited working capital availability during the period, and to a reallocation of resources from research and development to sales and marketing as a result of the initiation of product sales during the second quarter of 2004.

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### OTHER INCOME AND EXPENSE

Other expenses during the nine months ended September 30, 2004 increased to \$1,967,216 and includes interest expense of \$242,275 and non-cash expenses of \$903,802 related to the amortization of debt discount during the period, and \$821,139 of non-cash interest expense recorded based on the intrinsic value of the beneficial conversion feature of convertible debt entered into during the third quarter of 2004.. Interest expensed in 2004 period increased from \$45,058 in the first nine months of 2003 due to an increase in total debt outstanding during 2004, and there was no comparable debt discount amortization expense in the 2003 period.

### NET LOSS

As a result of the above revenues and expenses, the net loss for the nine months ended September 30, 2004 increased to \$8,420,653 compared to \$2,886,090 during the comparable 2003 period.

Subject to the availability of cash and working capital, we expect sales revenue, and related cost of sales to increase significantly during the remainder of 2004. In addition, expenses related to sales and marketing and research and development activities are expected to increase during the remainder of 2004 as we continue to ramp up our sales and marketing activities related to recently licensed products, and as we move toward completion of product development and regulatory compliance efforts and the ultimate product introduction with respect to the Company's other products under development.

### LIQUIDITY AND CAPITAL RESOURCES

Prior to the second quarter of 2004, the Company did not have any products for sale, and had not generated any revenue from sales or other operating activities. As such, our principal source of liquidity has been the private placement of equity securities and the issuance of notes payable and convertible debt. Based on our history of losses and negative working capital balance, our financial statements for the year ended December 31, 2003 included a going concern opinion from our outside auditors, which stated there "is substantial doubt" about our ability to continue operating as a going concern.

During the first nine months of 2004, the Company raised net proceeds totaling \$4,136,074 through private placements of debt and equity securities. Of this total, \$2,471,125 came from the issuance of convertible debentures, net of \$328,875 of related costs, \$1,109,688 came from the issuance of secured subordinated debenture agreements, net of \$140,312 of related costs and \$526,500 resulted from equity private placements, net of related costs of \$58,500. In addition, during this period, the Company received net proceeds of \$28,761 from working capital advances from shareholders and employees.

During the first nine months of 2004, the Company utilized \$2,949,100 to fund operating activities and \$1,204,511 in investing activities, and as of September 30, 2004, current liabilities exceeded current assets by approximately \$4.75 million.

Subject to availability of funding, we expect operating expenses, and related cash requirements, to increase during 2004 in connection with anticipated increased sales and marketing and product development activities.

In October 2004, the Company entered into convertible debenture agreements with four private lenders with an aggregate principal balance of \$850,000, and received net proceeds of \$788,000 after subtracting related

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placement agent fees and expenses totaling \$62,000. The notes bear interest, at an annual rate of 8%, which is due and payable quarterly beginning on December 31, 2004. The principal balance of the note, plus any accrued and unpaid

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interest is due and payable on October 6, 2014, provided however, that on or after October 6, 2007 the Company, at the option of the note holder, may be obligated to repurchase the note at a price equal to 100% of the outstanding principal and interest. In addition, the note holders received warrants to purchase 850,000 shares of the Company's common stock, exercisable through October 6, 2009 at an exercise price of \$0.40 per share.

The Company is actively pursuing additional financing, and in this regard is in discussions with several parties related to potential financing arrangements. Our ability to secure additional financing on a timely basis is critical to our ability to stay in business and to pursue planned operational activities. The Company believes that actions presently being taken to raise additional financing, to market products with which near-term operating revenues and to complete the development of, and bring to market its other ophthalmic surgical products, will provide capital to satisfy contractual obligations and to ultimately generate sufficient revenue to support its operations and become profitable. However, there can be no assurance that any such actions will be successfully completed, or that such actions will provide sufficient capital and/or cash flow to permit the Company to stay in business realize its plans.

### ITEM 3. CONTROLS AND PROCEDURES

At the end of the period covered by this Form 10-QSB, the Company's management, including its Chief Executive Officer and its Treasurer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Treasurer determined that such controls and procedures are effective to ensure that information relating to the Company required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. There have been no changes in the Company's internal controls over financial reporting that were identified during the evaluation that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

VisiJet is a defendant in Steven J. Baldwin v. VisiJet, Inc. et al, a case pending in San Francisco Superior Court, filed on February 9, 2004 (Case No. 04- 428696). The Plaintiff is alleging damages of approximately \$450,000 based on claims including breach of contract, promissory fraud and negligent misrepresentation related to activities that occurred, and involving owners and management of the Company, prior to the effective date of the Merger Agreement. The Company denies any involvement in the activities included in the allegations, and does not anticipate the necessity to defend this action.

To the best of the Company's knowledge and belief, there are no other material legal proceedings pending or threatened against the Company.

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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period the Company issued \$1,000,000 in convertible debentures to a private lender. The principal balance of the debentures is due and payable on July 23, 2014 and the debentures bear interest at an annual rate of 8%. In addition, the debenture holders received an aggregate of 750,000 warrants to purchase shares of the Company's common stock, exercisable through July 23, 2011, at an exercise price of \$1.00 per share.

The Company believes that the foregoing issuance was exempt from registration under the Securities Act of 1933, as amended, by reason of Section 4(2) thereof and Regulation D thereunder.

### Item 3. DEFAULT UPON SENIOR SECURITIES

In October 2004, the Company received a notice of default from the holders of secured debentures with an aggregate outstanding principal balance of \$400,000 due to the nonpayment of interest owed under the debenture agreements. Subsequent to the receipt of notice, the Company made the required interest payments and the Company is in discussions with the debenture holders regarding a resolution of this matter.

A secured debenture agreement in the amount of \$750,000, entered into in May 2004, came due on its scheduled maturity date of July 5, 2004. The Company did not pay the obligation on the maturity date. The failure to pay constitutes a default under the obligation. In October 2004 the debenture holder entered into a forbearance agreement with the holders of convertible debentures entered into in June and July 2004 with an aggregate principal amount of \$2,000,000, pursuant to which the debenture holder agreed not to take any action with respect to the non-payment of the \$750,000 principal balance until the earlier of (i) February 2, 2005 and (ii) the date of notice of default from the convertible debenture holders to the Company.

The Company is not in compliance with terms included in the secured debenture agreements with an aggregate outstanding principal balance of \$800,000, entered into in May 2004, due to the nonpayment of the principal balance by the scheduled maturity date in August 2004, and due its failure to file a Registration Statement with the Securities and Exchange Commission covering warrants issued to debenture holders pursuant to the debenture agreement by June 6, 2004, as required by the registration rights agreement entered into between the Company and the debenture holders in connection with the debenture agreement. The failure to pay the principal balance when due and to file the Registration Statement on a timely basis are events of defaults under the agreement. The Company is in discussions with the debenture holders regarding a resolution of this matter.

The Company is not currently in compliance with terms included in the secured debenture agreements with an aggregate outstanding principal balance of \$2,000,000, entered into in June and July 2004, due to its failure to file a Registration Statement with the Securities and Exchange Commission as required by the registration rights agreements entered into between the Company and the debenture holders in connection with the debenture agreement. The failure to timely file the Registration Statement is a default under the agreement. In October 2004 the Company received a waiver of default from the debenture holders.

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ITEM 6. EXHIBITS

- 10.11\* Securities Purchase Agreement, dated July 23, 2004 between VisiJet, Inc. and Libertyview Special Opportunities Fund, LP\*
- 10.12\* 8% Convertible Note for \$1,000,000, dated July 23, 2004, issued by VisiJet, Inc., to Libertyview Special Opportunities Fund, LP\*
- 10.13\* Warrant To Purchase 750,000 Shares of Common Stock of VISIJET, INC., ISSUED TO Libertyview Special Opportunities Fund, LP\*
- 10.14\* Registration Rights Agreement, dated July 23, 2004, between VisiJet, Inc., and Libertyview Special Opportunities Fund, LP\*
- 31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of Treasurer (principal financial officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certificate of Treasurer (principal financial officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*Incorporated by reference from Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004, filed on August 18, 2004.

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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.

VisiJet, Inc.,  
a Delaware corporation

By: /s/ Laurence Schreiber

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Laurence Schreiber, Secretary,  
Treasurer, Chief Operating Officer

Date: January 26, 2005

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