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

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

Form 10-QSB/A

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

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

Nevada
(State or other jurisdiction
of incorporation)

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

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

Torrance, CA 90501
(City, state and ZIP)

Issuer's telephone number 310-328-0477

The number of shares outstanding of the issuer's common stock as of June 30, 2000 was 9,616,313.

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

PART 1 FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

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

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

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

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

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

/s/ Harold Y. Spector, CPA
Pasadena, California
August 8, 2000

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

ASSETS

	June 30,	
	2000	1999
	-----	-----
Current Assets		
Cash	\$ 40,000	\$ 66,426
Account Receivables	46,750	87,280
Inventories	60,381	63,919
Prepaid Expenses	1,367	0
	-----	-----
Total Current Assets	148,498	217,625
Property and Equipment		
Furniture and Fixtures	1,432	1,432
Equipment - Telemed	13,331	12,632
	-----	-----
	14,763	14,064
Less: Accumulated Depreciation	(8,946)	(6,279)
	-----	-----
Total Property and Equipment	5,817	7,785
Other Assets		
Organizational Costs, net of accumulated amortization of \$4,858	0	0
Receivable - Consigned Inventory	20,500	10,250
Consigned Inventory	41,000	51,250
Deposits	13,071	5,835

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Total Other Assets	----- 74,571 -----	----- 67,335 -----
TOTAL ASSETS	\$ 228,886 =====	\$ 292,745 =====

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	June 30,	
	2000	1999
	-----	-----
Current Liabilities		
Accounts Payable	\$ 35,280	\$ 52,991
Accrued Expenses	274,706	235,064
Consigned Inventory	61,500	61,500
Deposit from Shareholders	7,758	55,000
Line of Credit	0	4,995
Notes Payable, current Portion	406,999	430,191
	-----	-----
Total Current Liabilities	786,243	839,741
Long-Term Liabilities		
Long-term debt	0	0
	-----	-----
Total Liabilities	786,243	839,741
Stockholders' Equity (Deficit)		
Common Stock, \$.001 par value, 50,000,000 shares authorized; 9,616,313 shares issued and outstanding in 2000, and 9,095,960 in 1999	9,616	9,096
Paid-in Capital	2,553,957	2,471,314
Accumulated Deficit	(3,120,930)	(3,027,406)
	-----	-----
Total Stockholders' Equity (Deficit)	(557,357)	(546,996)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 228,886 =====	\$ 292,745 =====

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

Three Months ended	Six Months en
June 30,	June 30,
2000	2000
1999	

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SALES	\$ 147,067	\$ 176,787	\$ 349,850	\$
COST OF SALES	64,704	92,562	167,354	
GROSS PROFIT	82,363	84,225	182,496	
OPERATING EXPENSES	186,132	161,606	303,196	
INCOME (LOSS) FROM OPERATIONS	(103,769)	(77,381)	(120,700)	
OTHER INCOME (EXPENSES)				
Cash Discounts	(400)	0	(790)	
Late Charges and Penalties	0	(94)	(14)	
Interest Expenses	(8,887)	(9,486)	(18,024)	
Total Other Income (Expenses)	(9,287)	(9,580)	(18,828)	
NET INCOME (LOSS) BEFORE TAXES	(113,056)	(86,961)	(139,528)	
PROVISION FOR INCOME TAXES	0	0	1,600	
NET INCOME (LOSS)	\$ (113,056)	\$ (86,961)	\$ (141,128)	\$
Net Loss per share	\$ (0.012)	\$ (0.010)	\$ (0.015)	\$
Weighted Average Shares Outstanding	9,616,313	9,095,960	9,377,887	

EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 30, 2000 (Reviewed) and 1999 (Compiled)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (141,128)	\$ (93,271)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,334	1,264
Issuance stock for consulting fee	95,371	45,333
(Increase) Decrease in:		
Accounts Receivable	72,478	31,340
Inventories	(10,298)	(3,656)
Prepaid Expenses	3,585	0
Receivable on Consigned Inventory	(10,250)	0
Consigned Inventory	10,250	0
Deposits	2,921	306
Increase (Decrease) in:		
Accounts Payable	(11,211)	(39,537)
Accrued Expenses	(440)	(20,537)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	12,612	(78,758)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	0	(1,903)

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NET CASH (USED) BY INVESTING ACTIVITIES	0	(1,903)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuing common stock	0	93,750
Deposits from Stockholders	0	55,000
Payments to Line of Credit	0	(40,018)
Payments to Officers' Loan	(23,192)	0
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(23,192)	108,732
NET INCREASE (DECREASE) IN CASH	(10,580)	29,974
BEGINNING OF PERIOD	50,580	36,452
END OF PERIOD	\$ 40,000	\$ 66,426
SUPPLEMENTAL DISCLOSURES:		
Cash Paid During the Period for:		
Interest	\$ 95	\$ 1,464
Income Tax	\$ 1,600	\$ 1,600

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of Interim Information

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

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

Principles of Consolidation

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

Use of estimates

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

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Cash Equivalents

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

Accounts Receivable

Management of the Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made. There was no bad debt expense neither for 2000 nor 1999.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Property and Equipment

Property and Equipment are valued at cost. Maintenance and repair costs are charged to expenses as incurred. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets. Depreciation expense was \$1,334 and \$1,264 for 2000 and 1999, respectively.

Research and Development

Research and development costs are expensed as incurred.

Income Taxes

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

Reclassification

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

NOTE 2 - LINE OF CREDIT

In 1998, the Company established a \$65,000 operating line of credit with Wells

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Fargo Bank at the bank's prime rate plus 2.75%. This line of credit is payable on demand and is secured by all assets of the Company. As of June 30, 2000 and 1999, the balance due was \$0 and \$4,995, respectively.

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

NOTE 3 - NOTES PAYABLE

Notes Payable consist of the following at June 30,

	2000	1999
a.) Notes to Officers, interest at 10%, accrued semi-monthly; due 60 days after dates of notes; unsecured	\$ 278	\$ 23,470
b.) Notes to Others, interest at 12%, due on demand, unsecured	10,000	10,000
c.) Note to TESA Corporation, interest at 7% payable on maturity date, December 31, 1999; maturing 11% of gross revenues, collateralized by accounts receivable, inventories, patents and a licensing agreement	396,721	396,721
	406,999	430,191
Less current maturity	406,999	430,191
Long-term debt, net	\$ 0	\$ 0

NOTE 4 - INCOME TAXES

The Company files separate federal and state income tax returns with its subsidiary.

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

The Company has net operating loss carry forwards of \$539,648 to reduce future taxable income. The subsidiary has NOL carry forwards of \$1,481,264. To the extent not utilized, both carry forwards will begin to expire through 2019.

NOTE 5 - COMMON STOCK TRANSACTIONS

In April 2000, the Company issued 400,000 shares common stock to a financial advisor at \$.20 per share for his service rendered. The Company also issued 76,853 shares to a consultant for his consulting fee of \$15,371. In April 1999, the Company issued common stock to a consultant in the amount of \$45,333 for his service rendered.

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

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NOTE 6 - STOCKS OPTIONS

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

In addition, the Company had 2,160,000 outstanding stock options at various exercise prices and expiration dates.

A summary of options outstanding as of June 30, 2000 is shown as follows:

Exercise Price	No. of shares Outstanding	Expiration Date
\$.54	60,000	9/2001
\$.25	1,000,000	11/2001
\$.375	1,000,000	11/2001
\$.001	100,000	11/2001
\$.15	150,000	2/2003
Total	2,310,000	

NOTE 7 - NET LOSS PER SHARE

Net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period. Basic net loss per share for six months ended June 30, 2000 and 1999 is \$0.015 and \$0.011, respectively. Net loss per share does not include options as they would be anti-dilutive in 2000 and 1999 due to the net loss in those periods.

NOTE 8 - SEGMENT INFORMATION

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" requires that a publicly traded company must disclose information about its operating segments when it presents a complete set of financial statements. Since the subsidiary did not have any operations in 2000 or 1999, and all income are derived from Parent; accordingly, detailed information of the reportable segment is not presented.

NOTE 9 - LEASE COMMITMENTS

The Company leases its office facilities for \$787 per month. The lease expires April 2001. Rent expense totaled \$4,646 and \$5,026 for 2000 and 1999, respectively.

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

NOTE 9 - LEASE COMMITMENTS (Continued)

The Company leases various office equipment at \$196 per month which commence to expire in 2000.

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As of June 30, 2000, the minimum commitments under these leases are as follows:

December 31,	Amount
2000	\$4,722
2001	3,148
	\$7,870

NOTE 10 - GOING CONCERN

The accompanying consolidated financial statements are presented on the basis that the Companies are going concerns. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. As shown in the accompanying consolidated financial statements, the Company incurred net losses of \$141,128 and \$93,271 for six months ended June 30, 2000 and 1999; and as of June 30, 2000, the Company had accumulated deficit of \$3,120,930, a working capital deficiency of \$637,745 and a deficit in net worth of \$557,357.

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

See Accompanying Notes and Accountant's Report

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

New 'Windows' based software for the Infrared/Video ENG System was first shown at a major exhibition in Chicago in March 2000. Customers, both current and future prospects, expressed enthusiasm for this revised product. The development project is near completion with first shipment scheduled for late August 2000.

Our private label ENG business was very slow during May, June and into July, but as of this writing, the orders have increased and appear to be on an upward trend. Even with the temporary downturn in sales of the private label ENG product, year to date revenues were still 3% ahead of last at \$349,850 as opposed to \$341,205 for 1999.

Second quarter sales were \$29,000 less than second quarter of 1999. Gross profit percent on sales remains steady, but an extraordinary expense for consulting was resolved in April by issuance of shares in lieu of cash payment. This affected the profit/loss significantly by increasing our expenses for the quarter by approximately \$96,000.

This expense for financial and marketing consulting covered work done in the last half of 1999 through April of 2000 in one instance and July through December of 1999 in the other instance.

Operating profit was suitable as a percent of sales but not enough revenue was generated to offset these extraordinary expenses. A loss of \$113,056 was recorded for the second quarter as opposed to a loss of \$86,961 for the same period in 1999.

We are currently evaluating various products for marketing in order to increase sales, but with only a modest increase in fixed expenses.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

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

ITEM 13 EXHIBITS AND REPORTS ON FORM 8-K

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

- 3(i)* Articles of Incorporation, as amended.
- 3(ii)* Bylaws
- 10.1* Employment Agreement, dated April 1, 1989
with Charles E. Phillips
- 10.2* Employment Agreement, dated December 1, 1989
with Barbara J. Mauch
- 10.3* Exclusive Licensing Agreement, dated November 1, 1989
with Ronald A. Waldorf

15 Letter On Unaudited Interim Financial Information

27 Financial Data Schedule

* Incorporated by reference from Amendment No. 1 to the Registration Statement on Form 10-SB, filed on December 13, 1999.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eye Dynamics, Inc.

Date: November 21, 2001

By /s/ Charles E. Phillips
Charles E. Phillips, President and

