EYE DYNAMICS INC
Form 10QSB
May 14, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-QSB

(X) Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended MARCH 31, 2003.

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

Nevada	88-0249812
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
2301 W. 205th Street, #102,	Torrance, CA 90501
(Address of principal executive offices)	(City, state and ZIP)

Issuer's telephone number 310-328-0477

The number of shares outstanding of the issuer's common stock as of March 31, 2003 was 17,850,313.

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

PART 1 FINANCIAL INFORMATION

ITEM 1. Financial Statements

EYE DYNAMICS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET (UNAUDITED)
MARCH 31, 2003

ASSETS

Current Assets	
Cash	$ 192,014
Accounts receivable	230,229
Employee advances and receivable, net of allowance for loan losses of $58,218	0
Inventory	163,618
Prepaid expenses	11,648
Total Current Assets	597,510
Property and equipment, net of accumulated depreciation of $14,467	1,409
Other Assets	8,674

TOTAL ASSETS	$ 607,593

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable & accrued expenses	$ 69,711
Accrued interest	52,672
Notes payable, current portion	71,284
Total Current Liabilities	193,667
Long-term debt	420,183
Total Liabilities	613,850
Stockholders' Deficit	
Common Stock, $0.001 par value; 50,000,000 shares authorized; 17,850,313 shares issued and outstanding	17,850
Paid-in Capital	3,497,103
Accumulated Deficit	(3,521,210)
	(6,257)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 607,593

See Notes to Interim Unaudited Consolidated Financial Statements

EYE DYNAMICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

For Three Months ended March 31,	2003	2002
Sales		
Products	$ 652,608	$ 192,937
Services	--	24,750
	652,608	217,687
Cost of Sales		
Products	311,968	84,087
Services	--	9,985
	311,968	94,072
Gross Profit	340,640	123,615
Selling, General and Administrative Expenses	181,002	164,624

Operating income (loss)	159,638	(41,009)
Other Income(Expense)		
Interest and Other Income	503	1,485
Interest Expense	(1,838)	(3,524)
	(1,335)	(2,039)
Net income(loss) before taxes	158,302	(43,048)
Provision for Income Taxes	1,600	1,600
Net income (loss)	$ 156,702	$ (44,648)
Net income (loss) per share-basic	$ 0.01	$ (0.00)
Net income (loss) per share-diluted	$ 0.01	$ (0.00)
Shares used in per share calculation-basic	17,850,313	14,483,646
Shares used in per share calculation-diluted	21,736,895	14,483,646

See Notes to Interim Unaudited Consolidated Financial Statements

EYE DYNAMICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For Three Months ended March 31,	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 156,702	$ (44,648)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	102	369
Noncash expenses	--	59,057
(Increase) Decrease in:		
Accounts Receivable	(43,252)	20,826
Inventory	(8,451)	(266)
Interest Receivable on Employee Loan	--	(1,437)
Prepaid and Others	(5,363)	3,064
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(19,696)	8,584
Other Liabilities	(13,271)	(34,000)
Accrued Interest	(24,218)	2,108
Net cash provided by operating activities	42,553	13,657
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(1,113)	--

Net cash (used in) investing activities	(1,113)	--
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayments on Line of Credit	--	(5,872)
Repayments on Notes Payable	(27,094)	--
Repayments to Shareholders	--	(15,000)
Net cash (used in) financing activities	(27,094)	(20,872)
NET INCREASE (DECREASE) IN CASH	14,346	(7,215)
CASH BALANCE AT BEGINNING OF PERIOD	177,668	23,623
CASH BALANCE AT END OF PERIOD	$ 192,014	$ 16,408
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 26,052	$ 1,416
Taxes Paid	$ --	$ --
Supplemental Schedules of Noncash Investing and Financing Activities		
Issuance of common stock for reduction of a liability	$ --	$ 10,000

See Notes to Interim Unaudited Consolidated Financial Statements

EYE DYNAMICS, INC. AND SUBSIDIARY

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS: Eye Dynamics, Inc. and subsidiary (the "Company") markets and distributes diagnostic equipment that utilize the Company's proprietary technology and computer software to test individuals for impaired eye and pupil performance. The Company also markets a medical diagnostic product that tracks and measures eye movements during a series of standardized tests.

A summary of significant accounting policies follows:

PRESENTATION OF INTERIM INFORMATION: The financial information at March 31, 2003 and for the three months ended March 31, 2003 and 2002 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and with the instructions to Form 10-QSB. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002.

The results for the three months ended March 31, 2003 may not be indicative of results for the year ending December 31, 2003 or any future periods.

PRINCIPLES OF CONSOLIDATION AND PRESENTATION: The accompanying consolidated financial statements include the accounts of Eye Dynamics, Inc. and its wholly-owned subsidiary, Oculokinetics, Inc., after elimination of all material intercompany accounts and transactions. Certain prior period balances have been reclassified to conform to the current period presentation.

INCOME (LOSS) PER COMMON SHARE Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share for the three months ended March 31, 2003 is computed by dividing net income by the weighted average number of shares plus the dilutive effect of shares issuable under certain debt that is convertible into 3,886,582 shares of Company common stock, using the treasury stock method. Approximately 200,000 shares issuable upon exercise of outstanding stock warrants were excluded from the calculation of diluted earnings per share for 2003 because they were anti-dilutive. However, these options and warrants could be dilutive in the future. Diluted net loss per common share for the period of three months ended March 31, 2002 does not differ from basic net loss per common share since potential shares of common stock are anti-dilutive for the period. Shares excluded from diluted loss per share for the three months ended March 31, 2002 totaled 400,000.

NEW ACCOUNTING STANDARDS: In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." Interpretation 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. Interpretation 46 applies to any business enterprise, both public and private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. The Company currently has no contractual relationship or other business relationship with a variable interest entity and therefore the adoption did not have an effect on its consolidated financial position or results of operations.

EYE DYNAMICS, INC. AND SUBSIDIARY

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share for three months ended March 31st:

	2003	2002
Numerator:		
Net income (loss)	$ 156,702	$ (44,648)
Denominator:		

Weighted average of common shares	17,850,313	14,483,646
Diluted effect of convertible debt and stock warrants	3,886,582	--
Diluted weighted average common shares outstanding	21,736,895	14,483,646
Basic net income (loss) per share	$ 0.01	$ (0.00)
Diluted net income (loss) per share	$ 0.01	$ (0.00)

NOTE 3 - MAJOR CUSTOMER

During the three months ended March 31, 2003 and 2002, the Company's private label distributor accounted for $410,764 and $170,208, or 62.9% and 78.2%, of total revenues, respectively.

NOTE 4 - 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. The subsidiary did not have any operations in 2003 or 2002, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

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

Results of Operations for the Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002.

Revenues from the sale of medical products during the first quarter were $653,000, representing an increase of 300% over the first quarter of 2002. This is the third quarter in succession where the sales are a minimum of 2.5 times the quarter of the prior year and is a reflection of the steady growth of the company. This increase is attributed to the success of our private label customer opening up and developing new markets and applications for our video ENG products. As reported previously, the market increase in the ENT segment of the medical market is not substantial, but the neurology segment of that market, which is being targeted by our private label customer, continues to be successful and growing. We continue to receive additional interest from the export markets, with shipments made to Egypt and Iran in the first quarter.

Gross profit for the quarter was 52%. This is 4% less than the gross profit for the same period of 2002. However, the total volume is triple the prior year and is a reflection of the increase in private label orders, which have a lower gross profit structure. The private label customer accounts for 63% of our revenue, which is about the same ratio for the last three quarters.

As a result of the sales increase of 300% for the quarter, the gross profit dollars are substantial and a profit of $158,302 was achieved, compared to a loss of $44,648 in the first quarter of 2002. This is a substantial improvement and turnaround to profitability for the company for three successive quarters. We have been able to increase our overhead fixed expenses only minimally and this is a contributing factor to the increase in earnings.

In February we moved into larger quarters in the same industrial park. These larger quarters provide for increased warehouse and equipment testing space, which was needed to accommodate the increase in sales revenues.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of March 31, 2003 totaled $192,014. Inventory of $163,000 at March 31, 2003 includes $25,000 of SafetyScope Impairment Detection Device items, which are not being actively marketed but are being used as production samples and demonstrators for the fund raising activity related to the SafetyScope impairment detection device. The inventory balance of $138,000 represents only 30 days inventory for the medical products production and is balanced.

Accounts receivable of $230,000 reflects slightly more than 30 days A/R outstanding, which is positive as our private label customer continues to make its payments within the net 15 days term of sale. Other customers are utilizing leasing and credit cards more, which provide very quick collection of our receivables.

Efforts continue to secure financing for the business plan to commercialize the SafetyScope product, which is an Impairment Detection Device. The plan requires substantial financial resources to fully implement the commercialization of the product. Discussions and explorations of strategic alliances are ongoing with the goal of securing the financing.

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

ITEM 3. Controls and Procedures.

Under the supervision and with the participation of our Chief Executive and Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on this evaluation, our Chief Executive and Financial Officer concluded that the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports under the Exchange Act are processed and reported within the time periods specified by law. The design of any such system of controls is based in part on assumptions about the likelihood of future events, and there can be no assurance that any such system of controls will succeed in all circumstances.

Since the date of the evaluation described above, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K (?)

(A) The following exhibit is included herein or incorporated by reference:

99.1 Certification of Chief Executive and Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

SIGNATURES

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

Eye Dynamics, Inc.

Date: May 14, 2003 By /s/Charles E. Phillips

Charles E. Phillips, President

CERTIFICATION

I, Charles E. Phillips, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Eye Dynamics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Charles E. Phillips

Charles E. Phillips,
President and Chief Executive Officer