EYE DYNAMICS INC
Form 10QSB
May 20, 2002

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, 2002.

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

Nevada	88-0249812
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
2301 W. 205th Street, #106,	Torrance, CA 90501
(Address of principal executive offices)	(City, state and ZIP)

Issuer's telephone number 310-328-0477

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

The number of shares outstanding of the issuer's common stock as of March 31, 2002 was 14,550,313.

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 SHEETS (UNAUDITED)
MARCH 31, 2002

ASSETS

Current Assets	
Cash	$ 16,408
Accounts receivable	61,752
Employee loans and advances	63,584
Inventory	115,784
Total current assets	257,528

Property and equipment, net of accumulated

depreciation of $13,258	1,506
Other assets	911
TOTAL ASSETS	$ 259,945
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable & accrued expenses	$ 62,560
Accrued interest	310,210
Line of credit	39,303
Notes payable, current portion	416,971
Total current liabilities	829,044
Contingent Liability	41,000
Stockholders' Deficit	
Common stock, $0.001 par value; 50,000,000 shares authorized; 14,550,313 shares issued and outstanding	14,550
Paid-in capital	3,355,736
Accumulated deficit	(3,873,385)
Unamortized expenses (contra-equity)	(107,000)
	(610,099)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 259,945

See Notes to Interim Unaudited Consolidated Financial Statements

EYE DYNAMICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THREE MONTHS ENDED MARCH 31, 2002 AND 2001

	2002	2001
Sales	$ 217,687	$ 112,168
Cost of sales	94,072	44,569
Gross profit	123,615	67,599
Selling, general and administrative expenses	164,624	256,353
Operating (loss)	(41,009)	(188,754)

Other income(expenses):		
Interest and other income	1,485	329
Interest expense	(3,524)	(9,711)
	(2,039)	(9,382)
Net (loss) before taxes	(43,048)	(198,136)
Provision for income taxes	1,600	1,600
Net (loss)	$ (44,648)	$ (199,736)
Loss per share-Basic and Diluted	$ (0.00)	$ (0.02)
Weighted average number of shares	14,483,646	11,691,313

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, 2002 AND 2001

	2002	2001
Cash Flow From Operating Activities:		
Net (loss)	$ (44,648)	$(199,736)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation	369	652
Stock issued for services	-	8,000
Noncash expenses	59,057	64,833
(Increase) decrease in:		
Accounts receivable	20,826	82,454
Inventory	(266)	(37,419)
Prepaids and other assets	1,627	361
Increase (decrease) in:		
Accounts payable and accrued expenses	8,584	22,499
Contingent and other liabilities	(34,000)	-
Accrued interest	2,108	(4,678)
Cash flows provided by (used in) operating activities	13,657	(63,034)
Cash Flows From Investing Activities:		
Employee loans and advances	-	(46,965)
Cash flows (used in) investing activities	-	(46,965)

Cash Flows From Financing Activities:		
Proceeds from issuing of common stock	-	50,000
Advance from (payment on) line of credit	(5,872)	9,931
(Repayments) on notes payable to shareholder	(15,000)	-
Cash flows provided by (used in) financing activities	(20,872)	59,931
Net (decrease) in cash	(7,215)	(50,068)
Cash balance at beginning of period	23,623	85,688
Cash balance at end of period	$ 16,408	$ 35,620
Supplemental Disclosure of Cash Flow Information		
Interest Paid	$ 1,416	$ 810
Taxes Paid	-	-
Supplemental Schedules of Noncash Investing and Financing Activities		
Issuance of common stock for a reduction of 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: In the opinion of the management, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations of the Company for the periods presented have been included. Interim results are not necessarily indicative of results for a full year. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted unless significant changes have occurred since the Form 10-KSB was filed. The accompanying financial statements and notes thereto should be read in conjunction with the Company's Form 10-KSB.

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.

NEW ACCOUNTING STANDARDS: SFAS No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as a component of the carrying amount of the long-lived asset and allocated to expense over the useful life of the asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management believes the adoption of the statement will not have a material effect on the Company's financial statements.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued and establishes accounting and reporting standards for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed." SFAS No. 144 provides one accounting model to be used for long-lived assets to be disposed of by sale, whether previously held for use or newly acquired and broadens the presentation of discontinued operations to include more disposal transactions. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. Accordingly, the statement was effective for the Company for the fiscal quarter beginning January 1, 2002 and it did not have an impact on its financial position.

EYE DYNAMICS, INC. AND SUBSIDIARY

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - LITIGATION SETTLEMENT

In 2001, the Company was involved in a lawsuit filed by 6800 Owensmouth, Inc. ("OWEN") alleging that the Company had aided and abetted an employee in avoiding payment of a lawsuit judgment in favor of OWEN. On February 21, 2002, the Board of Directors, in the interest of capital conservation and avoiding the time and expense of a court trial, approved to reach a settlement through a mediation conference. The settlement reached included payment of $10,000 and issuance of 200,000 shares of 144 restricted common stock of the Company at a fair market value of $0.05 per share. The settlement loss, aggregate of $20,000, was accrued and charged to operations in 2001. The liability was paid in full and the shares were issued in February 2002.

NOTE 3 - NONCASH FINANCING ACTIVITIES

As discussed in Note 2, the Company issued 200,000 shares of restricted common stock to reduce a contingent liability of $10,000 which was accrued in 2001.

NOTE 4 - NET LOSS PER SHARE

Net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period. Basic net loss per share for three months ended March 31, 2002 and 2001 was $0.00 and $0.02, respectively. Net loss per share does not include options and warrants as they would be anti-dilutive in 2002 and 2001 due to the net loss in those periods.

Three Months ended March 31,

	2002	2001
Numerator:		
Net Loss	$ (44,648)	$ (199,736)
Denominator:		
Weighted average of common shares	14,483,646	11,691,313
Basic and diluted net loss per share	$ (0.00)	$ (0.02)

NOTE 5 - 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 2002 or 2001, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

EYE DYNAMICS, INC. AND SUBSIDIARY

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - GOING CONCERN

The accompanying consolidated financial statements are presented on the basis that the Company is a going concern. 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 a net loss of $44,648 and $199,736 for three months ended March, 2002 and 2001, respectively, and as of March 31, 2002, the Company's current liabilities exceeded its current assets by $571,576 and its total liabilities exceeded its total assets by $610,099.

Upon the completion of the research, the Company began to market and publicize its second product line, Impairment Detection device. Management is also 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.

NOTE 7 - SUBSEQUENT EVENT

Following the close of the period, the Company restructured a debt of $396,721 plus accrued interest of $223,987 with a prior distributor in regards to the Settlement Agreement and Mutual Release that was signed in 1993. The new settlement includes a new note of $400,000 to replace the old debt. The new note is compounded at 7% per annum and is amortized over 5 years commencing January 1, 2003. The Company also paid $60,000 in cash and agreed to issue 2,500,000 shares of restricted common stock to the prior distributor All accrued and unpaid interest on the old debt, and all amounts due related to the consigned inventory, has been forgiven.

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

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001. Revenues from the sale of medical products totaled $218,000, representing a 94% increase over such revenues in the first quarter of 2001. The increase is principally attributable to a general recovery in the market for medical products from the slump of 2001. In addition, the Company's private label distributor opened new markets during the 2002 quarter. The market increase in the ENT segment of markets is not substantial, but the neurology segment is doing quite nicely. Also, the Company is receiving more interest from foreign markets, with orders from Korea, Colombia, Egypt and Iran. We are also increasing revenue by offering installation and operator training services on the equipment we sell. This has met with some success and we will continue to provide this support service for our customers.

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.

Gross profit on sales for the quarter was 57%, which is less than the 60% reported for the same period one year ago. This is a reflection of the increasing sales of the private label products, which causes a model sold mix change. However, with sales increase of 94% for the quarter, the gross profit dollars are substantially higher. Even though gross profit was higher, an operating loss of $44,648 was incurred. This loss includes $59,000 of expenses incurred in the promotion of the business plan for commercialization of the SafetyScope product. Without the SafetyScope commercialization expenses, the medical product sales would have generated a profit for the quarter. Loss for the quarter of $44,648 is compared to the loss of $199,736 for the same period in 2001. This represents an improvement of $155,088 over the same quarter of 2001.

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period the Company issued 200,000 shares of common stock in settlement of a law suit filed by 6800 Owensmouth, Inc. alleging that the Company aided and abetted an employee in avoiding payment of a judgment in favor of the plaintiff.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITES

The Company was the obligor on an outstanding $400,000 promissory note payable to a former distributor, and has certain obligations to the former distributor in connection with the resale of certain inventory returned by the distributor. The note accrued interest at 7% per annum, and came due on December 31, 1999. As of March 31, 2002, the total amount due, including the principal of the note, accrued interest, and the obligations with respect to the returned inventory, totaled $630,958.

Following the close of the period the Company completed an agreement to restructure the obligations. Under the agreement the Company paid the distributor $60,000 in cash and is to issue the distributor 2,500,000 shares of Common Stock. All other obligations were consolidated into a new $400,000 note, bearing interest at 7% per annum. The note is for five years and calls for monthly payments of principal and interest commencing in January 2003 on a fully amortizing basis. Like the existing note, the new note is secured by the patents and inventory relating solely to the Company's impairment detection product line. Under the settlement, all accrued and unpaid interest and all amounts related to the consigned inventory are forgiven.

In connection with the settlement the Company borrowed $60,000 from two private investors. The notes to these investors are five year notes, bearing interest at 7% per annum, with all principal and interest due in 2008. The notes are convertible, at the option of the holders, into a maximum of 5,387,000 shares, although under certain circumstances the Company has the right to prepay portions of the notes and issue warrants in lieu of the convertibility feature.

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

Inapplicable.

ITEM 5 OTHER INFORMATION

Inapplicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

None

Reports on Form 8-K

None

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 20, 2002

By /s/Charles E. Phillips

Charles E. Phillips, President and
Chief Financial Officer