EYE DYNAMICS INC
Form 10QSB
May 16, 2005

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, 2005

Commission File No. 0-27857

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)

310-328-0477
(Issuer's telephone number)

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 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, 2005 was 18,083,081.

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

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

EYE DYNAMICS, INC.

BALANCE SHEET (UNAUDITED)

MARCH 31, 2005

ASSETS

Current Assets	
Cash	$ 765,507
Accounts receivable, net of allowance for bad debt of $899	56,559
Note Receivable, net of allowance for loan loss of $58,218	18,231
Inventory	263,381
Prepaid expenses	31,309
Total Current Assets	1,134,987
Property and equipment, net of accumulated depreciation of $13,609	835
Other Assets	221,895
TOTAL ASSETS	$ 1,357,717

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable	$ 21,352
Accrued liabilities	37,443
Total Current Liabilities	58,795
Long-term debt	40,000
Total Liabilities	98,795
Stockholders' Equity	
Common stock, $0.001 par value; 50,000,000 shares authorized; 18,083,081 shares issued and outstanding	18,083
Paid-in capital	3,564,870
Accumulated deficit	(2,324,031)
Total Stockholders' Equity	1,258,922
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,357,717

See Notes to Interim Unaudited Financial Statements

EYE DYNAMICS, INC.

STATEMENTS OF OPERATIONS (UNAUDITED)

For Three Months ended March 31,	2005	2004

Sales - products	$ 316,909	$ 608,876
Cost of sales - products	150,051	292,982
Gross profit	166,858	315,894
Selling, general and administrative expenses	240,774	173,680
Operating (loss) income	(73,916)	142,214
Other Income(Expense)		
Other income	150	60
Interest expense	(894)	(1,109)
Other Expense, net	(744)	(1,049)
Net (loss) income before taxes	(74,660)	141,165
Provision for income taxes	800	800
Net (loss) income	$ (75,460)	$ 140,365
Net (loss) income per share-basic	$ (0.00)	$ 0.01
Net (loss) income per share-diluted	$ (0.00)	$ 0.01
Shares used in per share calculation-basic	17,949,748	17,883,081
Shares used in per share calculation-diluted	17,949,748	21,784,739

See Notes to Interim Unaudited Financial Statements

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EYE DYNAMICS, INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)

For Three Months ended March 31,	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss) Income	$ (75,460)	$ 140,365
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	40	57
Issuance of stock for services	68,000	--
(Increase) Decrease in:		
Accounts receivable	(12,067)	(234,671)
Inventory	(82,673)	(39,918)
Prepaid and other assets	13,832	7,729

Increase (Decrease) in:		
Accounts payable and accrued expenses	5,100	(18,178)
Net cash used in operating activities	(83,228)	(144,616)
CASH FLOW FROM INVESTING ACTIVITIES:		
Employee advances	--	(1,781)
Repayments received from notes receivable	1,500	--
Net cash provided by (used in) investing activities	1,500	(1,781)
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayments on notes payable	--	(23,761)
Net cash used in financing activities	--	(23,761)
NET DECREASE IN CASH	(81,728)	(170,158)
CASH BALANCE AT BEGINNING OF PERIOD	847,235	700,344
CASH BALANCE AT END OF PERIOD	$ 765,507	$ 530,186
Supplemental Disclosures of Cash Flow Information:		
Taxes Paid	$ 800	$ 39,750

See Notes to Interim Unaudited Financial Statements

EYE DYNAMICS, INC.

NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS

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

NATURE OF BUSINESS: Eye Dynamics, Inc. (the "Company') designs, develops, produces and markets diagnostic equipment that measures, tracks and records human eye movements, utilizing the Company's proprietary technology and computer software. The products perform separate, but related, functions and target two separate markets. First, the Company markets a neurological diagnostic product that tracks and measures eye movements during a series of standardized tests, as an aid in diagnosing problems of the vestibular (balance) system and other balance disorders. Second, the Company's impairment detection devices target the corporate and criminal justice markets and are designed to test individuals for impaired performance resulting from the influences of alcohol, drugs, illness, stress and other factors that affect eye and pupil performance. The Company is a Nevada corporation formed in 1989.

A summary of significant accounting policies follows:

PRESENTATION OF INTERIM INFORMATION: The financial information at March 31, 2005 and for the three months ended March 31, 2005 and 2004 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, 2004.

The results for the three months ended March 31, 2005 may not be indicative of results for the year ending December 31, 2005 or any future periods.

RECLASSIFICATION: Certain prior period balances have been reclassified to conform to the current period presentation.

NOTE 2 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

At March 31,	2005	2004
Property and equipment, net		
Furniture and Fixtures	$ 1,113	$ 1,113
Equipment	13,331	13,331
	14,444	14,444
Less: accumulated depreciation	(13,609)	(13,398)
Total	$ 835	$ 1,046
Other Assets		
Deferred tax assets	$ 219,233	$ 205,436
Deposits	2,662	13,662
Total	$ 221,895	$ 219,098
Accrued Liabilities		
Commission payable	$ 11,797	$ 16,615
Accrued insurance	11,955	15,146
Warranty reserve	6,549	9,071
Accrued interest	6,339	3,539
Other	803	(252)
Total	$ 37,443	$ 44,119

EYE DYNAMICS, INC.

NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS

NOTE 3 - INCOME TAXES

The Company accounts for income taxes using a balance sheet approach whereby deferred tax assets and liabilities are determined based on the differences in financial reporting and income tax basis of assets and liabilities. The differences are measured using the income tax rate in effect during the year of measurement.

The Company experienced significant net losses in prior fiscal years resulting in a net operating loss carryforward ("NOLC") for federal income tax purposes of approximately $1,149,163 at December 31, 2004. The Company's NOLC will expire through 2021. The Company also has state NOLC of $527,713. The state NOLC will expire through 2013.

NOTE 4 - NET (LOSS) INCOME PER SHARE

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

	2005	2004
Basic earnings per share:		
Net (loss) income	$ (75,460)	$ 140,365
Weighted average number of common shares	17,949,748	17,883,081
Basic (net loss) earnings per common share	$ (0.00)	$ 0.01
Diluted earnings per share:		
Net (loss) income	$ (75,460)	$ 140,365
Addback: Debenture interest	--	700
Adjusted net (loss) income	$ (75,460)	$ 141,065
Weighted average number of common shares	17,949,748	17,883,081
Incremental shares from assumed conversion:		
Convertible debt	--	3,591,799
Stock warrants	--	309,859
Adjusted weighted average number of common shares	17,949,748	21,784,739
Diluted (net loss) earnings per common share	$ (0.00)	$ 0.01

As the Company incurred net loss for the three months ended March 31, 2005, the effect of dilutive securities totaling 4,064,299 equivalent shares have been excluded from the calculation of diluted loss per share because their effect was anti-dilutive.

NOTE 5 - STOCK OPTIONS

On January 3, 2005, the Board of Directors approved to issue stock options to current directors in the amount of 20,000 shares for each of the years from 1999 through 2004. The total options for each of directors shall be 120,000 shares. The options are vesting immediately and exercisable at $0.15 per share through January 3, 2007.

The Company accounts for these options under the recognition and measurement principles of APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, AND

RELATED INTERPRETATIONS. No stock-based employee compensation cost is reflected in net loss, as all options granted had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value provisions of FASB Statement No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, to stock-based employee compensation.

EYE DYNAMICS, INC.

NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS

NOTE 5 - STOCK OPTIONS (CONTINUED)

Net loss, as reported	$ (75,460)
Deduct: Total stock-based employee compensation expense determined under the fair value of awards, net of tax related effects	39,600
Pro forma net loss	$ (115,060)
Reported net loss per share-basic and diluted	$ (0.00)
Pro forma net loss per share-basic and diluted	$ (0.01)

NOTE 6 - MAJOR CUSTOMERS

During the three months ended March 31, 2005, the private label distributor accounted for $254,752 or 80.49% of total revenues.

During the three months ended March 31, 2004, two major customers accounted for $463,070 or 76.1% of total revenues.

Special Instrument Dealer 37.0%
Private label distributor 39.1%

NOTE 7 - 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 Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

NOTE 8 - CHANGE OF OFFICERS

On January 11, 2005, the Board of Directors elected the Chairman of the Board to be the Company's new Chief Executive Officer (CEO). The former CEO remains as the Company's chief financial officer and president.

NOTE 9 - GUARANTEES AND PRODUCT WARRANTIES

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of March 31, 2005.

NOTE 9 - GUARANTEES AND PRODUCT WARRANTIES (CONTINUED)

In general, the Company offers a one-year warranty for most of the products it sold. To date, the Company has not incurred any material costs associated with these warranties. The Company provides reserves for the estimated costs of product warranties based on its historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise with specific products. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

The following table presents the changes in the Company's warranty reserve during the first quarter of 2005:

Balance as of January 1, 2005	$ 8,884
Provision for warranty	759
Utilization of reserve	(3,094)
Balance as of March 31, 2005	$ 6,549

NOTE 10 - PENDING BUSINESS ACQUISITIONS

On March 24, 2005, the Company announced its intent to acquire OrthoNetx, Inc., a Colorado-based provider of medical devices for osteoplastic surgery. The acquisition will be completed as a stock transaction or merger in which OrthoNetx shareholders will receive one share of the Company's stock in exchange for each share of OrthoNetx stock. The acquisition is subject to certain conditions, including certain regulatory approvals. As part of the transaction, the President and CEO of OrthoNetx will assume the position of CEO of the merged company.

NOTE 11 - SUBSEQUENT EVENTS

In April 2005, the Company entered into two individual agreements with its private label distributor and a special instrument dealer. The agreements provide that the Company will issue restricted common stock to the distributor and dealer as a sale incentive if certain conditions are reached pursuant to the agreements.

Notes payable of $40,000 plus related accrued interest were converted into 3,591,799 shares of the Company's common stock in April 2005.

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

GENERAL

Certain of the statements contained in this report, including those under "Management's Discussion and Analysis or Plan of Operation," and "Liquidity and Capital Resources" may be "forward-looking statements" that involve risks and uncertainties. All forward-looking statements included in this report are based on information available to the Company on the date hereof and the Company assumes no obligation to update any such forward-looking statements. The actual future results of the Company could differ materially from those statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the Company's Annual Report on Form 10-KSB, as well as risks associated with managing the Company's growth. While the Company believes that these statements are accurate, the Company's business is dependent upon general economic conditions and various conditions specific to its industry and future trends and results cannot be predicted with certainty.

THREE MONTHS ENDING MARCH 31, 2005 COMPARED TO THREE MONTHS ENDED MARCH 31, 2004

Revenues during the first quarter were $316,909, compared to $608,876 for the corresponding period in 2004. Cost of sales stayed relatively static as a percentage of sales. Selling, general and administrative expenses increased by $67,094, from $173,680 in the first quarter of 2004 to $240,744 in the first quarter of 2005. The decreased revenues and increased selling, general and administrative expenses resulted in a loss of $75,460 for the current period, compared to a profit of $140,365 for the same period in the previous year.

Lower sales can be attributed to several factors. First, Medicare continues to scrutinize reimbursements for ENG tests performed by end-users utilizing any manufacturer's equipment that was not clinically indicated (although this seems to be in the process of resolution, as many newer testing facilities have had to either implement their own clinical controls for testing justification or cease that part of their business). Second, the Company experienced a normal first quarter seasonal slow down, consistent with past years. Third, the first quarter of 2005 saw an increase in competition. The latter issue is being addressed with new models, pricing strategies, and more aggressive marketing (both domestic and international).

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of March 31, 2005 of $765,507 allows for payment of all outstanding invoices on a current basis. Accounts payable are current and the Company has not borrowed against credit lines.

Inventory as of March 31, 2005 was $263,381 compared to $359,871 at March 31, 2004. Purchasing has been adjusted in order to achieve a more realistic level of inventory.

Accounts receivable as of March 31, 2005 were only $56,559, representing less then 15 days aging, which has contributed to positive cash flow.

As announced on March 24, 2005, Eye Dynamics signed a Letter of Intent to acquire OrthoNetx, Inc., of Superior, Colorado. Due Diligence for the acquisition has begun, and is subject to certain conditions, including regulatory and corporate approvals.

Sales prospects for the balance of 2005 appear strong, based on projections received from the company's exclusive distributor, MedTrak Technologies, Inc. (Scottsdale, AZ). The Company has broadened its line of medical products with its OtoTrak and MobiTrak systems. OtoTrak performs a broad range of tests including one that monitors head movement in both the horizontal and vertical planes (Vestibular Ocular Reflex). The MobiTrak is a compact, ultra lightweight, system ideally suited for field use.

In April 2005, the Company entered into two individual agreements with the private label distributor and a special instrument dealer. The agreements provide that the Company will issue restricted common stock to the distributor and dealer as a sale incentive if certain conditions are reached pursuant to the agreements.

Item 3. Controls and Procedures.

At the end of the period covered by this Form 10-QSB, the Company's management, including the Chief Executive and Chief Financial Officers, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive and Chief Financial Officers have 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

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission Of Matters To A Vote Of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certificate of Chief Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

Date: May 16, 2005

By: /s/ Ronald A. Waldorf

Ronald A. Waldorf, Chief Executive Officer