VISIJET INC
Form 10QSB
May 18, 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

VisiJet, Inc.

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

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

1062 Calle Negocio, Suite D
San Clemente, Ca., 92673
(Address of principal executive offices)

Issuer's telephone number, including area code:
949-940-1300

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 X No

As of May 5, 2005 there were 29,993,440 shares of the registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS



Visijet, Inc.

Balance Sheet

| | March 31, 2005 | Dec |
|---|---|---|
| | (unaudited) | ( |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,952 | $ |
| Marketable securities | -- | |
| Accounts receivable | 162,504 | |
| Inventory | 2,289,021 | |
| Prepaid expenses | 31,738 | |
| Total current assets | 2,494,215 | |
| Property and equipment, net | 79,073 | |
| Distribution agreement, net | 1,559,148 | |
| Patents and trademarks, net | 85,433 | |

| | | |
|---|---|---|
| Total assets | $ 4,217,869 | $ |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | 1,292,178 | |
| Customer deposits | 17,103 | |
| Compensation settlement agreement - current portion | 54,864 | |
| Accrued interest | 225,819 | |
| Accrued expenses | 814,598 | |
| Royalty payable | 30,000 | |
| Notes payable to related parties | 795,613 | |
| Notes payable | 10,000 | |
| Convertible debenture debt, net | -- | |
| Secured debenture debt, net | -- | |
| Total current liabilities | 3,240,175 | |
| Convertible debenture debt - long term , net | 3,446,635 | |
| Series A convertible preferred stock, 450,000 shares issued and outstanding at March 31, 2005 and December 31, 2004, net of unamortized discount of $937,500, (redemption value $4,500,000) | 599,154 | |
| Total liabilities | 7,285,964 | |
| Shareholders' deficit: | | |
| Preferred A stock, 10,000,000 shares authorized, 450,000 shares issued and outstanding at March 31, 2005 and December 31 2004, $4,500,000 current redemption value as noted above | -- | |
| Common stock, 100,000,000 shares authorized, $.001 par value, 29,806,628 shares issued and outstanding at March 31, 2005, and 28,909,662 shares issued and outstanding at December 31, 2004 | 29,807 | |
| Additional paid in capital | 24,962,943 | 1 |
| Accumulated comprehensive loss | -- | |
| Accumulated deficit | (28,060,845) | (2 |
| Shareholders' deficit | (3,068,095) | ( |
| Total liabilities and shareholders' deficit | $ 4,217,869 | $ |

The accompanying notes are an integral part of these financial statements



Visijet, Inc.

Statements of Operations
(unaudited)

| | Three months ended | |
|---|---|---|
| | March 31, 2005 | March 31, 2004 |

| | | |
|---|---|---|
| Sales | $ 324,164 | $ -- |
| Cost of Goods Sold | 198,717 | -- |
| Gross Profit | 125,447 | -- |
| Operating expenses: | | |
| General and administrative expenses | 1,361,306 | 1,035,297 |
| Research and development expenses | 104,987 | 246,485 |
| Total operating expenses | 1,466,293 | 1,281,782 |
| Loss from operations | (1,340,846) | (1,281,782) |
| Other income (expense): | | |
| Amortization of debt discount | (549,873) | (30,966) |
| Interest expense | (159,473) | (25,672) |
| Interest expense -beneficial conversion | (3,311,088) | -- |
| Other income | 7,298 | -- |
| Realized gain on securities | 73,659 | -- |
| Total other expense | (3,939,477) | (56,638) |
| Loss before provision for taxes | (5,280,323) | (1,338,420) |
| Provision for income taxes | -- | 800 |
| Net loss | (5,280,323) | (1,339,220) |
| Preferred stock dividends and accretions | (93,750) | -- |
| Net loss available to common shareholders | $ (5,374,073) | $ (1,339,220) |
| Net loss per common share - basic and diluted | $ (0.18) | $ (0.06) |
| Basic and diluted weighted average number of common shares outstanding | 29,287,450 | 22,115,328 |

The accompanying notes are an integral part of these financial statements



Visijet, Inc.

Statements of Cash Flows
(unaudited)

| | Three months ended March 31, 2005 | March 3 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | $ (5,374,073) | $ (1 |
| Adjustment to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 106,157 | |
| Debt discount amortization | 549,873 | |
| Accretion of beneficial conversion on preferred shares | 93,750 | |
| Adjustment for beneficial conversion for debt | 3,311,088 | |
| Common stock, options, warrants issued for services | 138,369 | |
| Gain on marketable securities, net | (70,040) | |
| Changes in assets and liabilities: | | |
| Accounts receivable | 17,641 | |
| Prepaid expenses | 177,691 | |
| Inventory | (1,654,591) | |
| Accounts payable | 402,186 | |
| Customer deposits | (32,095) | |
| Compensation settlement agreement | (11,539) | |
| Royalties payable | 15,000 | |
| Other accrued expenses | (228,919) | |
| Accrued interest | (51,965) | |
| Net cash used by operating activities | (2,611,467) | |
| Cash flows from investing activities | | |
| Acquisition of property and equipment | -- | |
| Purchase of distribution agreement | -- | |
| Net cash used in investing activities | -- | |
| Cash flows from financing activities | | |
| Advance from related party | -- | |
| Repayment of advances from related parties | (52,047) | |
| Repayment of secured and convertible debentures | (2,550,000) | |
| Proceeds from secured debenture | -- | |
| Proceeds from convertible debt | 4,540,500 | |
| Proceeds from private placements-net | -- | |
| Proceeds from sales of marketable securities | 661,020 | |
| Net cash provided by financing activities | 2,599,473 | |
| Net decrease in cash | (11,994) | |
| Cash, beginning of period | 22,946 | |
| Cash, end of period | $ 10,952 | $ |
| Supplemental disclosures of cash flow information | | |
| Interest paid | $ 211,438 | $ |
| Taxes paid | -- | |
| Debenture costs and fees | 179,500 | |

Non-cash transactions

| | |
|---|---|
| Warrants issued in connection with secured debenture | -- |
| Warrants issued in connection with convertible debentures | 2,046,330 |
| Common stock issued in connection with convertible debenture | 507,613 |

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

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 publicly 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.

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

In April 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 initiated sales of the LasiTome and EpiLift systems, both of which were obtained pursuant to a license agreement with Gebauer Medizintechnik GmbH. Both systems may be used in the LASIK vision correction surgical procedure to expose the cornea prior to application of the excimer laser for reshaping of the cornea. The LasiTome is a mechanical device used for cutting a corneal flap, the methodology used in traditional LASIK procedures. The EpiLift system provides the LASIK surgeon with an alternative methodology for exposing the cornea in which the epithelium, or top layer of the eye, is separated in an intact sheet of tissue, and then returned to its original position for healing following the application of the laser.

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Initial sales of the EpiLift and LasiTome systems were in Europe and certain countries in which the products had received required regulatory clearance for marketing. Marketing of the EpiLift System in the United States began in September 2004, following receipt of 510(K) clearance for marketing from the United States Food and Drug Administration ("FDA"). Revenues from both the EpiLift and LasiTome Systems are generated through both the initial sale of the respective devices and accessories and through recurring sales of disposable separators or blades.

The Company also has two ophthalmic surgery products under development utilizing proprietary waterjet technology. The first is Pulsatome, a device designed for removal of cataracts using a pulsating stream of saline solution. The second is Hydrokeratome, a device that uses a high-pressure micro beam of water to cut a corneal flap during LASIK surgery. Both of these products require the successful completion of development and testing and receipt of 510(K) clearance from FDA prior to market introduction.

The primary markets addressed by our products are refractive surgery and cataract surgery, both of which are strong and continuing to grow. The refractive surgery market has benefited from an increased demand for laser vision corrective surgery due to the overall increased acceptance by consumers, as well as from technological advances that have led to better results and fewer complications. Cataract surgery is the most frequently performed surgical procedure, with over 14 million surgeries performed worldwide. As the development of cataracts is often associated with aging, we expect the demand for cataract surgery to continue to increase. We believe that our products address important needs in each of these markets, and that as such, we have an opportunity to achieve significant revenue growth.

There are numerous factors that could affect our ability to achieve this revenue growth, including but not limited to:

- Our obtaining adequate financing to support debt obligations and working capital requirements
- Successful completion of our product development efforts and receipt of 510(k) marketing clearance with respect to Pulsatome and Hydrokeratome.
- Market acceptance of our products
- Competition
- Technological advancement
- Overall economic conditions

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.

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, 2004. Results for interim periods are not necessarily indicative of trends or of results for a full year.

GOING CONCERN

The accompanying 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. For the year ended December 31, 2004, 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.

During the period ending March 31, 2005, the Company incurred net losses of $5,374,073. 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.

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

DEVELOPMENT STAGE COMPANY

VisiJet Inc. as described in the merger and history segment above, was in the development stage through December 31, 2003. The year 2004 is the first year during which the Company is considered an operating company and is no longer in the development stage.

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 March 31, 2005 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 March 31, 2005, no allowance for doubtful accounts was considered necessary.

MARKETABLE SECURITIES

Investments in available-for-sale securities are accounted for in accordance with Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("FAS") 115 "Accounting for Certain Investments in Debt and Equity Securities". In accordance with FAS 115, the securities are stated at their fair market value and any difference between cost and market value is recorded as an unrealized gain or loss classified as a separate component of stockholders' equity - accumulated other comprehensive income.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

In accordance to FASB Statement of Financial Accounting Standards ("SFAS") 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", financial instruments with mandatory redemption rights are to be recorded as liabilities unless the redemption is to occur upon the liquidation or termination of the issuer. SFAS 150 also specifies that a financial instrument that embodies a conditional obligation is based solely or predominantly on variations inversely related to changes in the fair value of the issuer's equity shares. Based on these characteristics, the Company has recorded the Preferred Series A shares as a long term liability on the balance sheet. See Note 12, Preferred Series A Shares.



EVALUATION OF BENEFICIAL CONVERSION FEATURE IN DEBENTURES

In accordance with Emerging Issues Task Force ("EITF") Issue 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjusted Conversion Rights", as amended by EITF 00-27, we must evaluate the potential effect of any beneficial conversion in terms related to convertible instruments such as convertible debt or convertible preferred stock. Valuation of the benefit is determined based upon various factors including the valuation of equity instruments, such as warrants that may have been issued with convertible instruments, conversion terms, and the value of the instruments to which the convertible instrument is convertible, etc. Accordingly, the ultimate value of the beneficial feature is considered an estimate due to the partially subjective nature of the valuation techniques.

COMPREHENSIVE INCOME

The Company adopted the provisions of SFAS 130, "Reporting of Comprehensive Income", which established the standards for the display of comprehensive income and its components in a full set of financial statements. Comprehensive income includes all changes in equity during a period except those resulting from the issuance of shares of stock and distributions to shareholders. The Company recorded a comprehensive loss that was incurred as a result of the write down to market of the marketable securities on December 31, 2004. Please review Notes 11 and 12 for more detail on this transaction.

FOREIGN CURRENCY TRANSACTIONS

The Company uses the U.S. dollar as the reporting and functional currency for its financial statements. Transaction gains and losses are the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Transactions that are denominated in other currencies are recorded using the exchange rate in effect on the date of the transaction. Transaction adjustments arising from such are re-measured and included in the determination of net (loss) income.

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 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.

As of March 31, 2005, a total of 2,265,000 options to purchase shares of the Company's common stock were outstanding pursuant to the 2003 Plan.

The following table summarizes information regarding stock options outstanding at March 31, 2005:

| | Number of Shares | Weighted Average Exercise Price | Exercisable Shares |
|---|---|---|---|
| Outstanding at December 31, 2004 | 2,470,000 | $ 0.73 | 550,000 |
| Granted | -- | -- | -- |
| Forfeited | (145,000) | 0.40 | -- |
| Forfeited | (60,000) | 1.10 | -- |
| Outstanding at March 31, 2005 | 2,265,000 | $ 0.72 | 550,000 |



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 years ending 2005: dividend yield of zero percent, risk-free interest rate ranging from 3.29% to 3.35%, expected life of five years, and expected volatility ranging from 43.14% to 83.82%.

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 months ended March 31, 2005 and 2004 would have been as follows:

| | March 31, 2005 | March 31, 2004 |
|---|---|---|
| Net Loss: | | |
| As reported | $ (5,374,073) | $ (1,339,220) |
| SFAS No. 123 effect | (65,985) | (84,499) |
| Pro forma net loss | $ (5,440,058) | $ (1,423,719) |
| Loss per share: | | |
| As reported | $ (0.18) | $ (0.06) |
| Pro forma | $ (0.19) | $ (0.06) |
| Basic and diluted weighted average shares outstanding | 29,287,450 | 22,115,328 |

The following table summarizes information about stock options outstanding at March 31, 2005:

| Exercise Price | Number Outstanding | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $1.10 | 1,040,000 | 8.62 | $1.10 | 370,000 | $1.10 |
| $0.40 | 1,225,000 | 9.56 | $0.40 | 220,000 | $0.40 |

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.

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 anti-dilutive.

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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 statements of the prior year in order to conform to current year's presentation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". The statement amends Accounting Research Bulletin ("ARB") No. 43, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. ARB No 43 previously stated that these costs must be "so abnormal as to require treatment as current-period charges." SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of `so abnormal.' The statement is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005, with earlier application permitted for fiscal years beginning after the issue date of the statement. The adoption of SFAS No. 151 is not expected to have any significant impact on the Company's current financial condition or results of operations.

In December 2004, the FASB revised SFAS No. 123 ("SFAS No. 123R"), " Accounting for Stock Based Compensation." The revision establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, particularly transactions in which an entity obtains employees services in share-based payment transactions. The revised statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is to be recognized over the period during which the employee is required to provide service in exchange for the award. The provisions of the revised statement are effective for financial statements issued for the first interim or reporting beginning after December 15, 2005 for small business issuers, with early adoption encouraged. The Company is currently evaluating the effect of this standard on their operations.

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 March 31,2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Completed units and disposable supplies | $ 1,901,848 | $ 265,197 |
| Demonstration units | 211,348 | 193,408 |
| Clinical Units | 175,825 | 175,825 |
| | $ 2,289,021 | $ 634,430 |

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Computer and test equipment | $ 98,196 | $ 98,196 |
| Furniture and fixtures | 33,505 | 33,505 |
| Trade show equipment | 47,002 | 47,002 |
| | 178,703 | 178,703 |
| Less: accumulated depreciation | (99,630) | (90,905) |
| | $ 79,073 | $ 87,798 |

Depreciation expense for the three months ended March 31, 2005 and March 31, 2004 was $8,725 and $7,424, respectively.



NOTE 5 - DISTRIBUTION AND PATENT AGREEMENTS

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.

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.

Distribution and patent agreements consist of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Distribution agreements | $ 1,901,400 | $ 1,901,400 |
| Patent agreements | 100,000 | 100,000 |
| Less: accumulated amortization | (356,819) | (259,387) |
| | $ 1,644,581 | $ 1,742,013 |

Amortization expense for the three months ended March 31, 2005 and March 31, 2004 was $97,432 and $2,362, 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 |
|---|---|
| 12/31/05 | 292,297 |
| 12/31/06 | 389,729 |
| 12/31/07 | 389,729 |
| 12/31/08 | 389,729 |
| 12/31/09 | 183,097 |
| Total | 1,644,581 |

NOTE 6 - ACCRUED EXPENSES

Accrued expenses consist of the following at March 31, 2005 and December 31 2004:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Payroll and related taxes | $ 147,101 | $ 336,695 |
| Consulting fees | 420,000 | 375,000 |
| Litigation settlement fees | 129,669 | 209,669 |
| Other accruals | 117,828 | 122,152 |
| | $ 814,598 | $ 1,043,516 |

NOTE 7 - SECURED DEBENTURES

FEBRUARY 2004 SECURED DEBENTURE

In February 2004, the Company entered into secured debenture agreements with an aggregate principal balance of $500,000, 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.

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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.

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 was in discussions regarding a resolution of the events of default. In October 2004, the Company and the debenture holders agreed to reduce the exercise price of the original warrants issued to purchase 250,000 shares of common stock in connection with this transaction agreements to $0.75 per share, and to issue a total of additional warrants to purchase 125,000 shares at an exercise price of $0.75 per share. The parties agree that this would cure all defaults to date.

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 to debenture holders. In October 2004, additional debt discount of $117,679 was recorded in connection with 125,000 additional warrants issued, based on a Black-Scholes model valuation increasing the total discount recorded to $348,347. During the period ending March 31, 2005, the Company recorded total interest expense of $63,718 in connection with the debenture debt, of which $55,170 resulted from the non-cash amortization of debt discount and $8,548 related to interest accrued during the period on the outstanding principal balance.

In January 26, 2005, the Company paid the principal balance of $500,000 and the secured debenture agreement was cancelled. The accrued interest of $8,548 remains outstanding as of March 31, 2005.

MAY 2004 SECURED DEBENTURE

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 fiscal year ended December 31, 2004, the Company recorded total interest expense of $362,519 in connection with the debenture debt, of which $319,807 resulted from the non-cash amortization of debt discount and $42,712 related to interest accrued during the period on the outstanding principal balance. Of the interest accrued, $35,938 was paid during the period, and $6,774 was payable as of December 31, 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.

In January 2005, the Company repaid the entire $750,000 outstanding principal balance, plus accrued interest totaling $6,774, and the 750,000 shares of the Company's common stock held as collateral on the debt were returned and the secured debenture agreement was cancelled.



As of March 31, 2005 and December 31, 2004, secured debenture debt balance consists of the following:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Secured subordinated debenture | $ -- | $ 1,250,000 |
| Secured debenture discount | -- | (55,170) |
| Secured debenture debt | $ -- | $ 1,194,830 |

Note 8 - CONVERTIBLE DEBENTURES

MAY 2004 CONVERTIBLE DEBENTURE

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 533,333 warrants to purchase shares of the Company's common stock, exercisable through May 6, 2009 at an exercise price of $0.90 per share.

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, 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.

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.

As discussed later in this note, in October 2004, the Company agreed to modify certain terms and conditions included in a new Convertible Debenture Agreements that aggregated the principal balances of $2,000,000 of debentures 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. 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.

As a result of this agreement, in October 2004, the Company issued 533,333 additional warrants at an exercise price of $0.40 per share and recorded additional debt discount of $436,388, based on a Black-Scholes model valuation increasing the total discount recorded to $797,181.

In January 2005, the company paid this debt in full by paying one lender principal of $550,000 and entered into an agreement with the lender providing for the sale of collateral shares in lieu of the interest payment of $34,000. The remaining 469,000 common stock collateral shares were returned to the Company. The Company issued 81,000 shares of common stock to replace the collateral shares used to satisfy the interest on the debt. The second lender accepted payment of $150,000 principal and $8,000 interest for a total of $158,000. The lender agreed to sell the 250,000 collateral shares as compensation for the remaining $100,000 principal. The company will issue 250,000 common stock shares to replace the collateral shares used to satisfy the remaining debt principal balance. Additional warrants of 533,332 were issued in lieu of penalties and the Company recorded an increase to long term discount amortization of $145,563 during the first quarter of 2005. As a result of these activities, these note obligations have been satisfied in full.

During the period ending March 31, 2005, the Company recorded total interest expense of $124,621 in connection with the debenture debt, of which $116,621 resulted from the non-cash amortization of debt discount and $8,000 related to interest on the outstanding principal balance that was accrued and paid during the period.

JUNE 2004 CONVERTIBLE DEBENTURE

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, 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 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 750,000 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.

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. 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.

As a result of this agreement, in October 2004, the Company issued 250,000 additional warrants, bringing the total warrants issued with this financing to 1,000,000, at an exercise price of $0.40 per share and recorded additional debt discount of $101,822, based on a Black-Scholes model valuation. In addition, the Company was required to release the 350,000 escrowed common stock shares as part of a letter of understanding associated with the December 30, 2004 bridge financing discussed later in this note. These shares were valued at their issued date value on June 24, 2004 of $0.71 per share. As a result, an additional debt discount was recorded for $248,500 in conjunction with the $101,822 described above, bringing the total debt discount recorded against this financing of $892,036.



During the fiscal year ending December 31, 2004, the Company recorded total interest expense of $239,527 in connection with the debenture debt, of which $197,884 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 $41,643 resulted from interest accrued during the period on the outstanding principal balance.

On January 14, 2005, the Company entered into convertible debenture agreements with Renn Capital Group, Inc., ("the Renn agreement") and a group of investment funds, several of which were already holders of securities issued by the Company, under which the Investors purchased $7,695,500 in principal amount of convertible debentures from the Registrant. As a result, this loan and its associated discount have been rolled into the Renn agreement. The Renn agreement is discussed in more detail below.

As of the period ending March 31, 2005, accrued interest of $44,222 had been paid completing the interest obligation on the original notes.

JULY 2004 CONVERTIBLE DEBENTURE

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 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.

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. Since the debt was convertible, at the option of the note holders, at any time following issuance, the entire discount recorded, $242,540, was recognized as non-cash interest expense during the third quarter of 2004.

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 14, 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 a result of this agreement, in October 2004, the Company issued 250,000 additional warrants, bringing the total warrants issued with this financing to 1,000,000, at an exercise price of $0.40 per share and recorded additional debt discount of $168,542, based on a Black-Scholes model valuation. In addition, 104,285 shares of Common stock were issued as full payment for accrued liquidated damages. The common stock was valued at the closing stock price on date of issuance, October 8, 2004, at $0.50. The company recorded an expense of $52,142.50 during the fourth quarter in conjunction with this stock. Also, in conjunction with the modifications in October 2004, additional discount resulting from the beneficial conversion is recognized as non-cash interest expense requiring $451,330 of non-cash interest expense during the fourth quarter of 2004.



During the fiscal year ending December 31, 2004, the Company recorded total interest expense of $46,069 in connection with the debenture debt. Of this total, $10,291 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 $35,778 resulted from interest accrued during the period on the outstanding principal balance.

On January 14, 2005, the Company entered into convertible debenture agreements with Renn Capital Group, Inc., ("the Renn agreement") and a group of investment funds, several of which were already holders of securities issued by the Company, under which the Investors purchased $7,695,500 in principal amount of convertible debentures from the Registrant. As a result, this loan and its associated discount have been rolled into the Renn agreement. The Renn agreement is discussed in more detail below.

During the period ending March 31, 2005, the company paid accrued interest of $28,889 satisfying the interest requirement on the original note.

OCTOBER 2004 CONVERTIBLE DEBENTURE

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.

Non-cash commission given with the transaction to four individuals involved with consummating this and the subsequent Convertible Debenture Agreement included 171,428 shares of common stock valued at the market price of $.40 on date of issuance. The expense was recorded as part of the placement agent fees as debt discount. Warrants were issued to an individual and associated agency totaling 528,572 at a strike price $.40, with a three year term. However, warrants issued prior to this financing consisting of 25,000 warrants at a strike price of $1.50 and 50,000 warrants at a strike price of $0.60 with a five year term were canceled and replaced in the total issued warrants of 528,572.

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 $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.

The debenture debt was recorded net of discounts totaling $460,670 recorded in connection with the $62,000 of loan fees and expenses $203,532, based on a Black-Scholes model valuation, related to the 750,000 warrants issued to debenture holders, $68,572 for the value of the 171,428 shares of common stock, and $126,566 based on a Black-Scholes model valuation, related to the 528,572 warrants issued for commissions.

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, $382,298, was recognized as non-cash interest expense during the fourth quarter of 2004.

During the fiscal year ending December 31, 2004, the Company recorded total interest expense of $26,899 in connection with the debenture debt. Of this total, $10,877 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 $16,022 resulted from interest accrued during the period on the outstanding principal balance.



On January 14, 2005, the Company entered into convertible debenture agreements with Renn Capital Group, Inc., ("the Renn agreement") and a group of investment funds, several of which were already holders of securities issued by the Company, under which the Investors purchased $7,695,000 in principal amount of convertible debentures from the Registrant. As a result, this loan and its associated discount have been rolled into the Renn agreement. The Renn agreement is discussed in more detail below.

During the period ending March 31, 2005, the company paid accrued interest of $16,355 satisfying the interest requirement on the original note.

DECEMBER 2004 BRIDGE LOAN

In December 2004 the Company entered into a debenture agreement with Alpha Capital Aktiengesellschaft ("Alpha")with a principal balance of $500,000, and received net proceeds of $469,000 after subtracting related placement agent fees and expenses totaling $31,000. The debenture was due and payable on January 27, 2005, and was convertible into shares of the Company's common stock, at the option of the note holder, based on an conversion price equal to 80% of the closing bid price of the Company's common stock on the date of conversion, in the event that the debenture was not repaid on the scheduled maturity date, or in the event of a default under the agreement. In connection with the debenture, Alpha received 142,857 shares of the Company's common stock, and 5-year warrants to purchase 1,250,000 shares of the Company's common stock at an exercise price of $0.40 per share.

The debenture debt was recorded net of discounts totaling $306,430 recorded in connection with the $31,000 of loan fees, expenses of $219,716, based on a Black-Scholes model valuation, related to the 1,250,000 warrants issued to debenture holder and $55,714, based on the closing price of our common stock on December 30, 2004 of $0.39.

During the fiscal year ending December 31, 2004, the Company recorded total interest expense of $20,816 in connection with the debenture debt. Of this total, $20,706 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 $110 resulted from interest accrued during the period on the outstanding principal balance.

In January 2005, the Company repaid the entire $500,000 outstanding principal balance, and the debenture agreement was cancelled. The remaining debt discount of $285,724 was amortized as non-cash interest expense. Alpha has participated in the Renn financing contributing $350,000 of debt principal. All warrants and stock associated with this transaction are included in the Renn Financing discussion below.

DECEMBER 2004 CONVERTIBLE DEBENTURE

Also in December, the Company received $125,000 as a subscription from Greenwich Growth Fund, Ltd., for a convertible debenture agreement that was included in the convertible debenture agreements closed in January 2005, as described in the Subsequent Events note below. The company received net proceeds of $117,250 after subtracting related placement agent fees and expenses totaling $7,750. The notes bear interest, at an annual rate of 8%, which is due and payable quarterly beginning on March 31, 2005 The principal balance of the note, plus any accrued and unpaid interest is due and payable on January 14, 2015. In addition, the note holder received warrants to purchase 125,000 shares of the Company's common stock, exercisable through January 14, 2010 at an exercise price of $0.40 per share. 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 $0.35 per share, subject to adjustment as defined in the agreement.

The debenture debt was recorded net of discounts totaling $29,722 recorded in connection with the $7,750 of loan fees, expenses of $21,972, based on a Black-Scholes model valuation, related to the 125,000 warrants issued to debenture.

The market price of the Company's common stock on the date of issuance of the debentures was $0.39 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 discount of $18,847 recorded was recognized as non-cash interest expense during the fourth quarter of 2004.



On January 14, 2005, the Company entered into convertible debenture agreements with Renn Capital Group, Inc., ("the Renn agreement") and a group of investment funds, several of which were already holders of securities issued by the Company, under which the Investors purchased $7,695,000 in principal amount of convertible debentures from the Registrant. As a result, this loan and its associated discount have been rolled into the Renn agreement. The Renn agreement is discussed in more detail below.

JANUARY 2005 CONVERTIBLE DEBENTURE

On January 14, 2005, the Company entered into convertible debenture agreements with Renn Capital Group, Inc. and a group of investment funds, several of which were already holders of securities issued by the Company, under which the Investors could purchase up to $8,195,500 in principal amount of convertible debentures from the Registrant. The Convertible Debentures are convertible into Common Stock of the Company at a rate of $.35 per share, subject to anti-dilution adjustments. The final purchase price consisted of cash of $4,720,000 and the exchange of $2,975,000 in previously issued convertible debentures or an aggregate total of $7,695,000.

In connection with the transaction the Registrant also issued to the Investors warrants to purchase 8,967,855 shares of common Stock and canceling 1,595,238 of previously issued warrants associated with the October Security Agreement, or a net of 7,372,617 warrants, at an exercise price of $.40 per share . The warrants expire on the fifth anniversary of the date of issuance.

Pursuant to an Amended and Restated Security Agreement, the Company granted the Investors a security interest in substantially all the assets of the Company. The Amended and Restated Security Agreement replaces the Security Agreement entered into October 14, 2004 between the Company and certain of the investors. Also, pursuant to an Amended and Restated Registration Rights Agreement, the Company granted the Investors certain registration rights with respect to the shares of Common Stock issued in the transaction as well as the shares of Common Stock issuable upon conversion of the Convertible Debentures and upon exercise of the Warrants. The Amended and Restated Registration Rights Agreement replaces the Registration Rights Agreement entered into on October 5, 2004 between the Company and certain of the investors.

The Company received funding from the above financing with an aggregate principal balance of $4,720,000, and received net proceeds of $4,540,500, after subtracting related placement agent fees and expenses totaling $179,500. The notes bear interest, at an annual rate of 8%, which is due and payable quarterly beginning March 31, 2005. The principal balance of the note, plus any accrued and unpaid interest is due and payable on January 14, 2015, provided however, that on or after January 14, 2008 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. 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 $0.35 per share, subject to adjustment as defined in the agreement. In addition, the note holders received warrants to purchase 4,720,000 shares of the Company's common stock, exercisable through January 14, 2010 at an exercise price of $0.40 per share.

The debenture debt was recorded net of discounts totaling $2,752,971 recorded in connection with the $179,500 of loan fees, expenses of $1,288,231, based on a Black-Scholes model valuation, related to the 4,720,000 warrants issued to debenture holders and $561,260, based on the closing price of our common stock on February 15, 2005 of $0.54, for 1,039,370 shares of common stock issued for commission fees and warrants issued for commission of $723,980, based on a Black-Scholes model valuation, related to the 2,652,617 additional warrants issued for commissions and fees.

The market price of the Company's common stock on the date of issuance of the debentures was $0.50 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 discount of $3,311,088 will be recorded as non-cash interest expense during the first quarter of 2005.

During the period ending March 31, 2005, the Company recorded total interest expense of $220,538 in connection with the debenture debt. Of this total, $92,358 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 $128,180 resulted from interest accrued during the period on the outstanding principal balance. As of March 31, 2005, the balance on the accrued interest was $118,871.



CONVERTIBLE DEBENTURE AGREEMENTS - AMENDMENTS

In January 2005, 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 $2,850,000 entered into in June, July and October 2004. The amended debenture agreements with Bushido and Bridges & Pipes were replaced with new convertible debenture agreements in order to conform the terms of these agreements to the terms of new convertible debenture agreements with an aggregate principal balance of $7,695,000 entered into in January 2005, as described above. Under the replacement agreements, the maturity dates of the debentures were extended to January 14, 2015, and other principal terms (i.e. interest rate, conversion price, warrants issued and warrant exercise price) are the same as in the amended agreements described above.

As of March 31, 2005 and December 31, 2004 , convertible debenture debt balances consists of the following:

Current:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Convertible debenture | $ -- | $ 1,300,000 |
| Convertible debenture discount | -- | (402,345) |
| Convertible debenture - net | $ -- | $ 897,655 |

Long Term:

| | | |
|---|---|---|
| Convertible debenture | $ 7,695,000 | $ 2,975,000 |
| Convertible debenture discount | (4,248,365) | (1,641,399) |
| Convertible debenture - net | $ 3,446,635 | $ 1,333,601 |

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.

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 14, 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 have been adjusted to reflect the agreed upon amounts, and as a result, the balances at March 31, 2005 and December 31, 2004 are as follows:

| | March 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| SurgiJet | $ 510,623 | $ 3,148 | $ 549,774 | $ 14,347 |
| DentaJet | -- | -- | -- | -- |
| Lance Doherty | 19,000 | $ 6,910 | 19,000 | 6,293 |
| Rex Doherty | -- | -- | -- | -- |
| Total | $ 529,623 | $ 10,058 | $ 568,774 | $ 20,640 |

During the period ending March 31, 2005, the Company paid $39,151 and $20,849 of principal and interest, respectively.



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 the three months ended March 31, 2005, net activity resulted in a decrease to the outstanding principal of $12,896 and a $5,813 increase to interest expense related to this note. As of March 31, 2005, the outstanding principal and accrued interest payable on this note were $265,990 and $57,675, respectively.

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

In January 2005, the Company increased the authorized shares to 100,000,000 from 50,000,000.

During the first quarter of 2005, the Company issued 1,039,370 common stock shares in conjunction with the January financing. The value of the common stock on the date of issue was $0.54 resulting in the recording a long term debenture discount of $561,260. The Company cancelled 134,118 of common shares that were issued in connection with previous financing reducing the debenture discount by $53,647. Common stock shares, totaling 1,219,000 shares that were borrowed and used as collateral in 2004 were returned. The Company issued 331,000 common stock shares to replace the remaining borrowed shares that were used by lenders to satisfy principal and interest payments. The company issued 500,000 free trading shares as compensation for services resulting in the recording of $175,000 of expense. The Company also cancelled 89,286 shares of common stock that were issued for services associated with debt financing recording a decrease in expenses of $36,631.

WARRANT ACTIVITY

During the first quarter of 2005, the Company issued 5-year warrants to purchase an aggregate of 7,372,617 shares of its common stock at an average exercise price of $0.40 per share.

In connection with warrants issued during this period, the Company recorded debt discount totaling $2,012,211 related to warrants issued in connection with convertible debenture agreements completed during this quarter and prior year financing. 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 March 31, 2005:

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2004 | 20,832,718 | $ 1.64 |
| Granted | 7,372,617 | 0.40 |
| Forfeited | -- | -- |
| Exercised | -- | -- |

| | | | |
|---|---|---|---|
| Outstanding at March 31, 2005 | 28,205,335 | $ | 1.16 |



The following table summarizes additional information with respect to outstanding common stock warrants at March 31, 2005:

| Exercise Price | Number Outstanding | Weighted Average Life Remaining in Months | Number Exercisable |
|---|---|---|---|
| $ 0.40 | 13,906,188 | 59 | 13,906,188 |
| $ 0.62 | 700,000 | 54 | 700,000 |
| $ 0.65 | 20,000 | 51 | 20,000 |
| $ 0.75 | 375,000 | 57 | 375,000 |
| $ .090 | 86,667 | 45 | 86,667 |
| $ 1.00 | 6,326,480 | 38 | 6,326,480 |
| $ 1.23 | 45,000 | 34 | 45,000 |
| $ 1.50 | 30,000 | 19 | 30,000 |
| $ 2.25 | 4,441,000 | 42 | 4,441,000 |
| $ 2.50 | 505,000 | 31 | 505,000 |
| $ 3.00 | 50,000 | 34 | 50,000 |
| $ 5.00 | 1,720,000 | 34 | 1,720,000 |
| | 28,205,335 | | 28,205,335 |

ACCUMULATED COMPREHENSIVE INCOME (LOSS)

The following chart depicts the changes in the accumulated comprehensive income for periods ending March 31, 2005 and December 31, 2004:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Change in Accumulated Comprehensive Income(Loss) | | |
| Unrealized loss from marketable securities | $ (792,009) | $ (792,009) |
| Reclassification of adjustment from sale of all held securities | 792,009 | -- |
| Total Accumulated Comprehensive Income/(Loss) | $ -- | $ (792,009) |

This loss was incurred as a result of the write down of the marketable securities to market on December 31, 2004. All of the marketable securities were sold in the first quarter of 2005, and the Company recorded a reclassification adjustment of the other comprehensive income against additional paid in capital.

NOTE 12 - SERIES A PREFERRED SHARES

In August 2004, the Company entered into an agreement with Langley Park Investments PLC("Langley"), a corporation organized under the laws of England and Wales, in which the Company issued convertible preferred stock in exchange for "ordinary" shares of Langley stock. In October 2004, the Company issued 450,000 shares of Series A Convertible Preferred Stock ("Series A shares"), with a stated value of $10 per share and a redemption value of $4,500,000, to Langley in exchange for 2,477,974 newly issued ordinary shares of Langley with an initial agreed upon value of L(pound)1.00 per share. The Company was charged a commission in conjunction with the sale equal to 10% of the Langley shares leaving 2,230,177 shares available to the Company. Consummation of the transaction was subject to admission of the Langley shares to the London Stock Exchange ("LSE"), which occurred on September 30, 2004 and the initiation of trading on the LSE that began on October 8, 2004. The Series A shares were recorded at a total value of $1,536,653 based on the fair value of the Langley shares on October 8, 2004. On December 31, 2004, the market value of the shares decreased to $590,980. As the Company has classified the shares as an available-for-sale marketable security, the Company recorded an unrealized loss of $792,009, as an accumulated comprehensive loss which is a separate component of equity.

In accordance to SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", financial instruments with mandatory redemption rights are to be recorded as liabilities unless the redemption is to occur upon the liquidation or termination of the issuer. SFAS 150 also specifies that a financial instrument that embodies a conditional obligation that is based on settlement by the issuance of a variable number of the issuer's equity shares associated with a fixed monetary amount is required to be classified as a liability. Based on characteristics of the agreement as describe above, the Company has recorded the Preferred Series A shares as a long term liability on the balance sheet.



During the first quarter of 2005, the Company sold all of the Langley shares receiving gross proceeds of $664,639. Fees associated with these transactions totaled $3,619 providing a net realized gain of $70,040. Also, a reclassification of the other comprehensive income was recorded against additional paid in capital.

NOTE 13 - 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 bears 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 March 31, 2005 the aggregate balance on the note was $54,864 and the respective accrued interest payable balance was $10,720.

NOTE 14 - 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 that 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 shall be in the amount of $30,000, thereafter monthly payments shall be $20,000 through December 2005, $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.

NOTE 15 - RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2005, the Company recorded $23,750 and $496, respectively, of consulting fees and expenses to a corporation owned by a director of the Company. As of March 31, 2005, $3,750 related to this agreement was included in accounts payable.

During the three months ended March 31, 2005, the Company recorded $45,000 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 consultants are 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 March 31, 2005, a total of $360,000 in fees recorded pursuant to this agreement is included in accrued expenses.

During the three months ended March 31, 2005, 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 $12,896.

In January 2004, the Company entered into a new consulting agreement with Richard H. Keates, M.D., a director of the Company, increasing the monthly retainer to $15,000 per month plus reimbursement of business expenses incurred. Through March 31, 2005, consulting fees and related expenses totaling $45,000 and $7,168, respectively, were recorded pursuant to this agreement, of which $9,685 is included in accounts payable at March 31, 2005.



NOTE 16 - 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 free-trading 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 that had not previously been returned by the due date.

In May 2004, the Company borrowed a total of 1,550,000 shares of the outstanding common stock in connection with collateral requirements of convertible agreements entered into during that period. In January 2005, the Company received a one-year extension, to November 30, 2005, for the date by which any borrowed shares must be returned.

As of March 31, 2005, the Company had returned all borrowed shares pursuant to this agreement, and had accrued interest expense totaling $ 10,396.

NOTE 17 - SUBSEQUENT EVENTS

As of April 11, 2005 the Company is doing business as "Advanced Refractive Technologies." The fictitious name change has been submitted to Orange County Clerk and is pending approval by the stockholders. The Company believes the new name more closely reflects current and future product offerings by the company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following is management's discussion and analysis of certain significant factors that 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.

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.

During the February 2005 Board of Directors' meeting, the directors agreed to change the name from VisiJet, Inc to "Advanced Refractive Technologies". A "Fictitious Business Name Statement" was filed with Orange County on April 11, 2005. Pending shareholder approval, the Company is currently conducting business as "VisiJet, Inc. dba Advanced Refractive Technologies".

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

In May 2004, the Company initiated sales of the LasiTome and EpiLift systems, both of which were obtained pursuant to a license agreement with Gebauer Medizintechnik GmbH. Both systems may be used in the LASIK vision correction surgical procedure to expose the cornea prior to application of the excimer laser for reshaping of the cornea. The LasiTome is a mechanical device used for cutting a corneal flap, the methodology used in traditional LASIK procedures. The EpiLift system provides the LASIK surgeon with an alternative methodology for exposing the cornea in which the epithelium, or top layer of the eye, is separated in an intact sheet of tissue, and then returned to its original position for healing following the application of the laser.

Initial sales of the EpiLift and LasiTome systems were in Europe and certain countries in which the products had received required regulatory clearance for marketing. Marketing of the EpiLift System in the United States began in September 2004, following receipt of 510(K) clearance for marketing from the United States Food and Drug Administration ("FDA"). Revenues from both the EpiLift and LasiTome Systems are generated through both the initial sale of the respective devices and accessories and through recurring sales of disposable separators or blades.

The Company also has two ophthalmic surgery products under development utilizing proprietary waterjet technology. The first is Pulsatome, a device designed for removal of cataracts using a pulsating stream of saline solution. The second is Hydrokeratome, a device that uses a high-pressure micro beam of water to cut a corneal flap during LASIK surgery. Both of these products require the successful completion of development and testing and receipt of 510(K) clearance from FDA prior to market introduction.

The primary markets addressed by our products are refractive surgery and cataract surgery, both of which are strong and continuing to grow. The refractive surgery market has benefited from an increased demand for laser vision corrective surgery due to the overall increased acceptance by consumers, as well as from technological advances that have led to better results and fewer complications. Cataract surgery is the most frequently performed surgical procedure, with over 14 million surgeries performed worldwide. As the development of cataracts is often associated with aging, we expect the demand for cataract surgery to continue to increase. We believe that our products address important needs in each of these markets, and that as such, we have an opportunity to achieve significant revenue growth.

There are numerous factors that could affect our ability to achieve this revenue growth, including but not limited to:

- Our obtaining adequate financing to support debt obligations and working capital requirements
- Successful completion of our product development efforts and receipt of 510(k) marketing clearance with respect to Pulsatome and Hydrokeratome.
- Market acceptance of our products
- Competition
- Technological advancement
- Overall economic conditions

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

SALES AND COST OF SALES

The Company reported sales revenues for the quarters ending March 31, 2005 and 2004 of $324,164 and $0.00, respectively. The sales during the current period were comprised of domestic sales of $92,470 and international sales of $231,694. VisiJet markets its products in the United States through a direct sales force consisting of four employees and five independent sales representatives. Internationally, our products are sold through independent distributors in each market. Products sold are the EpiLift System, sold in the United States and certain foreign markets, or a Combination Lasitome/EpiLift system, currently sold only in foreign markets. In conjunction with the systems, `disposables,' are also sold consisting of Epi-separators, Lasik blades and vacuum tubing sets that are used on a per procedure basis. Additional components of the system are sold separately, such as handpieces, Epi and Lasik heads, suction rings, etc.



Cost of goods sold in 2005 was $198,717, resulting in a gross profit of $125,447 or 38.7%. The gross profit was lower than normal resulting from the mix of product sold, higher fulfillment and shipping costs.

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 2004 period.

OPERATING EXPENSES

Operating expenses during the three months ended March 31, 2005 and

2004, increased to $1,466,293 from $1,281,782 in 2005 as a result of the following activity:

| | 2005 | 2004 |
|---|---|---|
| General and Administrative | $ 1,361,306 | $ 1,035,297 |
| Research and Development | 104,987 | 246,485 |
| Total Operating Expenses | $ 1,466,293 | $ 1,281,782 |

The increase in general and administrative expenses in the 2005 period was due primarily to increases in professional and consulting fees, product insurance, amortization expenses related to patents and distribution agreements, and sales and marketing expenses during 2005.

The decrease in research and development expenses in the 2005 period was due primarily to limited working capital availability during the period, and to a reallocation of resources from research and development to sales and marketing.

OTHER INCOME AND EXPENSE

Other expenses during the three months ended March 31, 2005, include interest expense of $159,473 and non-cash expenses of $549,873 related to the amortization of debt discount during the period, and $3,311,088 of non-cash interest expense. The non-cash interest expense was recorded based on the intrinsic value of the beneficial conversion feature of convertible debt entered into during the first quarter of 2005. Interest expense in the 2005 period increased from $25,672 for the 2004 period due to an increase in total debt outstanding during 2005. The non-cash expenses related to the amortization of debt discount increased from $30,966 for the same period in 2004.

Also included in results of operations in 2005 were other income and non-recurring gains of $7,298 and $73,659, respectively. The other income was from a refund of taxes paid in prior periods. The realized gain was the result of the sale of marketable securities over the stated value. The Company sold the securities valued at $590,980 for gross proceeds of $664,639. Fees associated with the transactions of $3,619 were recorded as expenses for the period providing a net realized gain of $70,040.

PREFERRED STOCK ACCRETIONS

In the fourth quarter of 2004, the Company recorded a preferred stock discount and a corresponding amount to additional paid in capital of $1,125,000. The recorded discount resulted from the beneficial conversion that was recognized as an undeclared dividend and will be accreted over three years or the life of the agreement. This dividend will be reflected in the statement of operations below the "Net loss" line as a component of "Net loss applicable to common shareholders". As a result, an accretion of the discount of $93,750 was recorded during the current period providing a balance of the preferred discount of $937,500 at March 31, 2005.

NET LOSS APPLICABLE TO COMMON SHAREHOLDERS

As a result of the above revenues and expenses, the net loss for the three months ended March 31, 2005 increased to $5,374,073 compared to $1,339,220 during the same period in 2004.

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 2005. In addition, expenses related to sales and marketing and research and development activities are expected to increase during the remainder of 2005 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.

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LIQUIDITY AND CAPITAL RESOURCES

Prior to the second quarter of 2004, we 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, 2004 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 three months of 2005, the Company raised net proceeds totaling $5,201,520. From the issuance of convertible debentures, the Company raised $4,540,500 net of $179,500 of related costs, and $661,020 net of $3,619 of related costs, from the sale of marketable securities.

During the first three months of 2005, the Company utilized $2,611,467 to fund operating activities and $2,599,473 in investing activities.

Subject to availability of funding, we expect operating expenses, and related cash requirements, to increase during 2005 in connection with anticipated increased sales and marketing and product development activities.

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.

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

On January 14, 2005, the Company entered into convertible debenture agreements with Renn Capital Group, Inc. and a group of investment funds, several of which were already holders of securities issued by the Company, under which the Investors could purchase up to $8,195,500 in principal amount of convertible debentures from the Registrant. The Convertible Debentures are convertible into Common Stock of the Company at a rate of $.35 per share, subject to anti-dilution adjustments. The final purchase price consisted of cash of $4,720,000 and the exchange of $2,975,000 in previously issued convertible debentures for an aggregate total of $7,695,000.

In connection with the transaction the Registrant also issued to the Investors warrants to purchase 8,967,855 shares of common Stock and canceling 1,595,238 of previously issued warrants associated with the October Security Agreement, or a net of 7,372,617 warrants, at an exercise price of $.40 per share. The warrants expire on the fifth anniversary of the date of issuance.



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

In January 2005 the holders of a majority of the outstanding shares of the Company's Common Stock, acting by written consent, approved an increase in the authorized Common Stock of the Company from 50 million shares to 100 million shares.

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 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

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.

VisiJet, Inc.,
a Delaware corporation

By: /s/ Laurence Schreiber
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Laurence Schreiber, Secretary,
Treasurer, Chief Operating Officer

Date: May 18, 2005