

Edgar Filing: Advanced Refractive Technologies, Inc. - Form 10QSB/A

Advanced Refractive Technologies, Inc.  
Form 10QSB/A  
January 03, 2006

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

AMENDMENT NO. 1 TO  
FORM 10-QSB

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2005

Advanced Refractive Technologies, Inc.  
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(Exact name of small business issuer as specified in its charter)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of December 21, 2005, the issuer had 55,975,308 shares of common stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Advanced Refractive Technologies, Inc.

Balance Sheet

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	September 30, 2005 (unaudited)
	-----
ASSETS	
Current assets:	
Cash and cash equivalents	\$          31
Marketable securities	--
Accounts receivable	115,876
Inventory	375,728
Prepaid expenses	37,566
	-----
Total current assets	529,201
Property and equipment, net	88,076
Distribution agreement, net	--
Patents and trademarks, net	80,709
	-----
Total assets	\$      697,986
	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable	1,149,798
Customer deposits	427
Compensation settlement agreement - current portion	54,863
Accrued interest	618,664
Accrued expenses	1,222,564
Royalty payable	45,000
Notes payable to related parties	782,132
Notes payable	10,000
Convertible debenture debt, net	3,426,676
Secured debenture debt, net	--
	-----
Total current liabilities	7,310,124
Convertible debenture debt - long term , net	--
Series A convertible preferred stock, 450,000 shares issued and outstanding at September 30, 2005 and December 31, 2004, net of unamortized discount of \$750,000, (redemption value \$4,500,000)	786,654
	-----
Total liabilities	8,096,778
	-----
Shareholders' deficit:	
Preferred A stock, 10,000,000 shares authorized, 450,000 shares issued and outstanding at September 30, 2005 and December 31 2004, \$4,500,000 current redemption value as noted above	--
Common stock, 750,000,000 shares authorized, \$.001 par value, 48,336,827 shares issued and outstanding at September 30, 2005, and 28,909,662 shares issued and outstanding at December 31, 2004	48,337
Additional paid in capital	25,645,460
Accumulated comprehensive loss	--
Accumulated deficit	(33,092,589)
	-----

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Shareholders' deficit	(7,398,792)
Total liabilities and shareholders' deficit	\$ 697,986

The accompanying notes are an integral part of these financial statements

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Advanced Refractive Technologies, Inc.

Statements of Operations  
(unaudited)

	Three months ended		Nine mo
	September 30, 2005	September 30, 2004	September 30 2005
Sales	\$ 92,601	\$ 982,567	\$ 715,075
Cost of Goods Sold	35,726	456,400	407,029
Gross Profit	56,875	526,167	308,046
Operating expenses:			
General and administrative expenses	569,072	1,400,569	3,187,259
Research and development expenses	--	182,414	175,634
Total operating expenses	569,072	1,582,983	3,362,893
Loss from operations	(512,197)	(1,056,816)	(3,054,847)
Other income (expense):			
Amortization of debt discount	(104,172)	(328,670)	(763,769)
Interest expense	(228,728)	(388,515)	(561,875)
Interest expense -beneficial conversion	--	--	(3,311,088)
Loss on settlement of distribution agreement	(2,533,512)	--	(2,533,512)
Other income	19,544	--	26,842
Realized gain on securities	--	--	73,659
Total other expense	(2,846,868)	(717,185)	(7,069,743)
Loss before provision for taxes	(3,359,065)	(1,774,001)	(10,124,590)
Provision for income taxes	(1,000)	--	--
Net loss	(3,358,065)	(1,774,001)	(10,124,590)
Preferred stock dividends and accretions	(93,750)	--	(281,250)
Net loss available to common shareholders	\$ (3,451,815)	\$ (1,774,001)	\$ (10,405,840)
Net loss per common share - basic and diluted	\$ (0.09)	\$ (0.06)	\$ (0.32)

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Basic and diluted weighted average			
number of common shares outstanding	36,468,868	29,429,663	32,295,455
	=====	=====	=====

The accompanying notes are an integral part of these financial statements

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### Advanced Refractive Technologies, Inc.

#### Statements of Cash Flows (unaudited)

	Nine months ended	
	September 30, 2005	September 30, 2004
	-----	-----
Cash flows from operating activities		
Net loss	\$(10,405,840)	\$ (8,420,653)
Adjustment to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	227,178	182,728
Debt discount amortization	763,769	903,802
Accretion of beneficial conversion on preferred shares	281,250	829,139
Adjustment for beneficial conversion for debt	3,311,088	--
Adjustment for distribution agreement write off	2,533,512	
Common stock, options, warrants issued for services	587,555	2,894,335
Common stock issued for interest	2,259	
Warrants repricing in connection with debt guarantee	15,769	546,403
Gain on marketable securities, net	(70,040)	--
Changes in assets and liabilities:		
Accounts receivable	64,269	(332,105)
Prepaid expenses	171,863	(309,199)
Inventory	(1,657,513)	(317,003)
Accounts payable	1,106,587	416,311
Customer deposits	(48,771)	16,720
Compensation settlement agreement	(11,539)	(35,604)
Royalties payable	30,000	(15,000)
Other accrued expenses	179,048	537,074
Accrued interest	340,879	161,952
	-----	-----
Net cash used by operating activities	(2,578,677)	(2,941,100)
	-----	-----
Cash flows from investing activities		
Acquisition of property and equipment	(30,230)	(15,611)
Purchase of distribution agreement	--	(1,188,900)
	-----	-----
Net cash used in investing activities	(30,230)	(1,204,511)
	-----	-----
Cash flows from financing activities		
Advance from related party	--	229,361
Repayment of advances from related parties	(65,528)	(200,600)
Repayment of secured and convertible debentures	(2,550,000)	--
Repayment of notes payable	--	(4,000)
Proceeds from secured debenture	--	1,109,688
Proceeds from convertible debt	4,540,500	2,471,125

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Proceeds from private placements-net	--	526,500
Proceeds from sales of marketable securities	661,020	--
	-----	-----
Net cash provided by financing activities	2,585,992	4,132,074
	-----	-----
Net decrease in cash	(22,915)	(13,537)
Cash, beginning of period	22,946	35,879
	-----	-----
Cash, end of period	\$ 31	\$ 22,342
	=====	=====
Supplemental disclosures of cash flow information		
Interest paid	\$ 171,129	\$ 90,214
Taxes paid	--	800
Debenture costs and fees	179,500	534,190
Non-cash transactions		
Warrants issued in connection with secured debenture	--	1,195,290
Warrants issued in connection with convertible debentures	2,046,330	--
Warrants issued in connection with debt guarantee	15,769	546,403
Common stock issued in connection with convertible debenture	507,613	--
Common stock issued in connection with secured debenture		106,350
Common stock issued as collateral		1,100
Reclass of interest to current liability		80,313

The accompanying notes are an integral part of these financial statements

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### ADVANCED REFRACTIVE TECHNOLOGIES, 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

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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

Advanced Refractive Technologies, Inc. ("ART", 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 VisiJet, Inc., 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.

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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 (Gebauer). 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

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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.

In October 2005, the Company terminated the license agreement with Gebauer and discontinued sales of the LasiTome and EpiLift systems. Under the terms of the termination agreement, inventory was returned to Gebauer and unpaid invoices canceled and both parties were relieved from fulfilling any further responsibilities under the agreement.

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:

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

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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.

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### 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 nine months ending September 30, 2005, the Company incurred net losses of \$10,405,840. 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.

While the Company believes that the additional financing arrangements will be completed, there can be no assurance that new financing will be completed or that the proceeds from new financing 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

Advanced Refractive Technologies, 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 and terminated in October 2005. 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



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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 September 30, 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 September 30, 2005, no allowance for doubtful accounts was considered necessary.

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### 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

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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

As of September 30, 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 about stock options outstanding at September 30, 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	8.12	\$1.10	330,000	\$1.10
\$0.40	1,225,000	9.06	\$0.40	220,000	\$0.40

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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 and nine months ended September 30, 2005 and 2004 would have been as follows:

For the Three Months Ended September 30		For the Nine Months Ended September 30	
-----	-----	-----	-----
2005	2004	2005	2004

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Net loss as reported	(3,451,815)	(1,774,001)	(10,405,840)	(8,420,653)
SFAS No. 123 effect	(65,984)	(84,499)	(197,953)	(253,498)
Pro forma net loss	(3,517,799)	(1,858,500)	(10,603,794)	(8,674,151)
Loss per share, basic and diluted as reported	(.09)	(0.06)	(0.32)	(0.32)
Pro forma	(.10)	(0.06)	(0.33)	(0.32)
Basic and diluted weighed average shares outstanding	36,468,868	29,429,663	32,295,455	26,069,227

The following table summarizes information regarding stock options outstanding at September 30, 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 September 30, 2005	2,265,000	\$ 0.72	550,000

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

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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.

### 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 September 30, 2005 and December 31, 2004:

	September 30, 2005	December 31, 2004
	-----	-----
Completed units and disposable supplies	\$ --	\$ 265,197
Demonstration units	211,343	193,408
Clinical Units	164,385	175,825
	-----	-----
	\$ 375,728	\$ 634,430
	=====	=====

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2005 and December 31, 2004:

	September 30, 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
Leasehold improvements	30,229	--
	-----	-----
	208,932	178,703
Less: accumulated depreciation	(120,856)	(90,905)
	-----	-----
	\$ 88,076	\$ 87,798
	=====	=====

Depreciation expense for the nine months ended September 30, 2005 and 2004 was \$29,951 and \$23,529, 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

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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.

In October 2005, the Company terminated the distribution agreement and expensed the remaining capitalized balance during the quarter ending September 30, 2005.

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Distribution and patent agreements consist of the following at September 30, 2005 and December 31, 2004:

	September 30, 2005	December 31, 2004
	-----	-----
Distribution agreements	\$ --	\$ 1,901,400
Patent agreements	100,000	100,000
Less: accumulated amortization	(19,291)	(259,387)
	-----	-----
	\$ 80,709	\$ 1,742,013
	=====	=====

Amortization expense for the three months ended September 30, 2004 was \$97,433.

In connection with the patent agreements, the Company expects to record the following amortization expense over the next five years:

Fiscal Year Ended	Amortization Total
-----	-----
12/31/05	9,449
12/31/06	9,449
12/31/07	9,449
12/31/08	9,449
12/31/09	9,449
	-----
Total	47,245
	=====

### NOTE 6 - ACCRUED EXPENSES

Accrued expenses consist of the following at September 30, 2005 and December 31 2004:

	September 30, 2005	December 31, 2004
	-----	-----
Payroll and related taxes	\$ 586,383	\$ 336,695
Consulting fees	482,273	375,000
Litigation settlement fees	129,669	209,669
Other accruals	24,239	122,152
	-----	-----

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\$ 1,222,564	\$ 1,043,516
=====	=====

### Note 7 - CONVERTIBLE DEBENTURES

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.

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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

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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 June 24, 2005, the Company revised the effective conversion price for the debentures and any and all warrants in the January 2005 financing transaction at a price of \$.095 per share. The price was above the closing stock price thus no additional beneficial conversion was recorded.

During the nine months ending September 30, 2005, the Company recorded total interest expense of \$728,999 in connection with the debenture debt. Of this total, \$306,254 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 \$422,746 resulted from interest accrued during the period on the outstanding principal balance. As of September 30, 2005, the balance on the accrued interest was \$423,156.

### 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.

During the 3 months ending September 30, 2005, debentures with a principal balance of \$506,000 were tendered for conversion to common stock of the Company under the conversion terms of the agreement.

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As of September 30, 2005 and December 31, 2004, convertible debenture debt balances consists of the following:

Current:

	September 30, 2005	December 31, 2004
	-----	-----
Convertible debenture	\$ 7,189,000	\$ 1,300,000
Convertible debenture discount	(3,762,324)	(402,345)
	-----	-----
Convertible debenture - net	\$ 3,426,676	\$ 897,655
	=====	=====



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Long Term:

	September 30, 2005	December 31, 2004
	-----	-----
Convertible debenture	\$ --	\$ 2,975,000
Convertible debenture discount	--	(1,641,399)
	-----	-----
Convertible debenture - net	\$ --	\$ 1,333,601
	=====	=====

### NOTE 8 - 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 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 September 30, 2005 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.

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 September 30, 2005 and December 31, 2004 are as follows:

	September 30, 2005		December 31, 2004	
	Principal	Interest	Principal	Interest
	-----	-----	-----	-----
SurgiJet	\$ 495,242	\$ 17,807	\$ 549,774	\$ 14,347
Lance Doherty	19,000	8,225	19,000	6,293
	-----	-----	-----	-----
Total	\$ 514,242	\$ 26,032	\$ 568,774	\$ 20,640
	=====	=====	=====	=====

During the period ending September 30, 2005, the Company paid \$54,532 and \$25,468 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. As of September 30, 2005, the outstanding principal and accrued interest payable on this note were \$265,990 and \$69,976, respectively.

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### OFFICER LOAN

At September 30, 2005, the Company owed an officer of the Company \$1,900 pursuant to a short term loan.

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### NOTE 9 - SHAREHOLDERS' EQUITY (DEFICIT)

#### COMMON STOCK ACTIVITY

In October 2005, the Company increased the authorized shares to 750,000,000 from 100,000,000.

During the first nine months of 2005, the Company issued a total of 19,427,165 shares of common stock, of which 1,039,370 common stock shares were issued 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 750,000 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 13,178,427 free trading shares as compensation for services resulting in the recording of \$439,156 of expenses. 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. During the three months ended September 30, 2005, the Company issued 5,350,173 share of common stock resulting from the election to convert debentures with a principal balance of \$506,000.

#### WARRANT ACTIVITY

During the first nine months 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 Company cancelled 829,295 warrants originally issued to purchase common stock at \$5.00 per share and replaced them with warrants issued to purchase common stock at \$0.70 per share. This resulted in a debt guarantee expense of \$15,769.

The following table summarizes the number of outstanding common stock warrants as of September 30, 2005:

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

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Exercised	--	--
	-----	-----
Outstanding at March 31, 2005	28,205,335	\$ 1.16
Granted	829,295	0.70
Forfeited	(829,295)	5.00
Exercised	--	--
	-----	-----
Outstanding at June 30, 2005	28,205,335	\$ 1.04
Granted	--	--
Forfeited	--	--
Exercised	--	--
	-----	-----
Outstanding at September 30, 2005	28,205,335	\$ 1.04
	=====	=====

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The following table summarizes additional information with respect to outstanding common stock warrants at September 30, 2005:

Exercise Price	Number Outstanding	Weighted Average Life Remaining in Months	Number Exercisable
-----	-----	-----	-----
\$0.40	13,906,188	53	13,906,188
\$0.62	700,000	48	700,000
\$0.65	20,000	45	20,000
\$0.70	829,295	28	829,295
\$0.75	375,000	51	375,000
\$0.90	86,667	39	86,667
\$1.00	6,326,480	32	6,326,480
\$1.23	45,000	28	45,000
\$1.50	30,000	13	30,000
\$2.25	4,441,000	36	4,441,000
\$2.50	505,000	25	505,000
\$3.00	50,000	28	50,000
\$5.00	890,705	28	890,705
	-----		-----
	28,205,335		28,205,335
	=====		=====

NOTE 10 - 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

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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 described 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 11 - 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 bear 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 September 30, 2005 the aggregate balance on the note was \$54,863 and the respective accrued interest payable balance was \$11,876.

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### NOTE 12 - RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2005, the Company recorded \$22,500 of consulting fees and expenses to a corporation owned by a director of the Company. As of September 30, 2005, \$36,850 related to this agreement was included in accounts payable.

During 2003, the Company entered a consulting 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 through March 2005, 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 September 30, 2005, a total of \$360,000 in fees recorded pursuant to this agreement is included in accrued expenses.

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 September 30, 2005, consulting fees and related expenses totaling \$90,000 and \$15,757, respectively, were recorded pursuant to this agreement, of

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which \$61,093 is included in accounts payable at September 30, 2005.

### NOTE 13 - 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 September 30, 2005, the Company had returned all borrowed shares pursuant to this agreement, and had accrued interest expense totaling \$26,430.

### NOTE 14 - SUBSEQUENT EVENTS

On October 13, 2005, the Company entered into a settlement agreement with Gebauer Medizintechnik GmbH ("Gebauer") in which the parties mutually released each other from any liability. In addition, the parties agreed that the Manufacturing Supply and Distribution Agreement previously entered into by the parties on April 27, 2004 was terminated, and that there were no further obligations by either party under that Agreement. In accordance with the terms of the settlement, finished goods inventory of \$1,916,215, accounts payable to Gebauer of \$846,781 and the net capitalized value of the distribution agreement of \$1,464,078 were written off during the three months ending September 30, 2005. The net effect of the settlement resulted in a net loss of \$2,533,512 as follows:

Finished goods inventory write off	\$ 1,916,215
Less: liability to Gebauer	(846,781)
Impairment of capitalized distribution agreement	1,464,078
	-----
	\$ 2,533,512
	=====

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### 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;

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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

Advanced Refractive Technologies, Inc. (the "Company" or "ART"), 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 Certificate of Amendment to the Articles of Incorporation effecting the name change was filed with the Delaware Secretary of State on July 5, 2005.

### 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.

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In October 2005, the Company terminated the license agreement with Gebauer and discontinued sales of the LasiTome and EpiLift systems. Under the terms of the termination agreement, inventory was returned to Gebauer and unpaid invoices canceled and both parties were relieved from fulfilling any further responsibilities under the agreement.

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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:

- o Our obtaining adequate financing to support debt obligations and working capital requirements
- o Successful completion of our product development efforts and receipt of 510(k) marketing clearance with respect to Pulsatome and Hydrokeratome.
- o Market acceptance of our products
- o Competition
- o Technological advancement
- o 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 September 30, 2005 Compared To Three Months September 30, 2004

### SALES AND COST OF SALES

The Company reported sales revenues for the quarters ending September 30, 2005 and 2004 of \$92,601 and \$982,567, respectively. ART markets its

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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. In October 2005, ART terminated the distribution agreement and discontinued sale of the systems and associated disposables.

Cost of goods sold for the quarters ending September 30, 2005 and 2004 was \$35,726 and \$456,400, respectively. Gross profit for the quarters ending September 30, 2005 and 2004 was \$56,875 and \$526,167, respectively.

### OPERATING EXPENSES

Operating expenses during the three months ended September 30, 2005 and 2004, decreased in 2005 to \$569,072 from \$1,582,983 as a result of the following activity:

	2005	2004
General and Administrative	\$ 569,072	\$1,400,569
Research and Development	--	182,414
	-----	-----
Total Operating Expenses	\$ 569,072	\$1,582,983
	=====	=====

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The decrease in general and administrative expenses during 2005 from the same period in 2004 was due primarily due to scale backs the company made associated with the terminated Distribution Agreement.

The decrease in research and development expenses in the 2005 period was due primarily to limited working capital availability.

### OTHER INCOME AND EXPENSE

Other expenses during the three months ended September 30, 2005 and 2004, include interest expense of \$228,728 and \$388,515, and non-cash expenses of \$104,172 and \$328,670 related to the amortization of debt discount, respectively. 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 and the first six months of 2004. The loss on the settlement of the distribution agreement reflects the non-cash charges associated with the termination of the distribution agreement.

### NET LOSS APPLICABLE TO COMMON SHARES

As a result of the above revenues and expenses, the net loss for the three months ended September 30, 2005, increased to \$3,451,815 compared to \$1,774,001 for the same period of 2004.

Nine Months Ended September 30, 2005 Compared To Nine Months September 30, 2004

### SALES AND COST OF SALES



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The Company reported sales revenues for the nine months ending June 30, 2005 and 2004 of \$715,075 and \$1,037,537, respectively. ART 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. In October 2005, ART terminated the distribution agreement and discontinued sale of the systems and associated disposables.

Cost of goods sold for the nine months ending September 30, 2005 and 2004 was \$407,029 and \$483,234, respectively. Gross profit for the nine months ending September 30, 2005 and 2004 was \$308,046 and \$554,303 or 43% and 53%, respectively. The gross profit was lower than normal resulting from the mix of product sold, higher fulfillment and shipping costs.

### OPERATING EXPENSES

Operating expenses during the nine months ended September 30, 2005 and 2004, decreased to \$3,362,893 from \$7,006,940 in 2005 as a result of the following activity:

	2005	2004
General and Administrative	\$3,187,259	\$6,415,545
Research and Development	175,634	591,395
Total Operating Expenses	\$3,362,893	\$7,006,940

The decrease in general and administrative expenses during 2005 from the same period in 2004 was due primarily to approximately \$2.3 million of non-cash expenses recorded in connection with the issuance of a total of 2,475,000 shares of common stock during the period as payment for consulting services and in connection with dispute/litigation settlements, and non-cash expenses of \$546,403 recorded in connection with the re-pricing of warrants during the second quarter.

The decrease in research and development expenses in the 2005 period was due primarily to limited working capital availability during the period.

### OTHER INCOME AND EXPENSE

Other expenses during the nine months ended September 30, 2005 and 2004, include interest expense of \$561,875 and \$1,063,414, and non-cash expenses of \$763,769 and \$903,802, respectively, related to the amortization of debt discount during the period, and \$3,311,088 of non-cash interest expense for 2005. 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 due to an increase in total debt outstanding. The loss of \$2,533,512 on the settlement of the distribution agreement reflects the non-cash charge associated with the

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termination of the distribution agreement.

Also included in results of operations in 2005 were other income and non-recurring gains of \$26,842 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 \$281,250 was recorded during the current period providing a balance of the preferred discount of \$750,000 at September 30, 2005.

### NET LOSS APPLICABLE TO COMMON SHAREHOLDERS

As a result of the above revenues and expenses, the net loss for the nine months ended September 30, 2005 and 2004 was \$10,405,840 and \$8,420,653, respectively.

### 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 nine months ended September 30, 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 nine months of 2005, the Company utilized \$2,578,677 to fund operating activities and \$2,615,528 in financing 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

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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.

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### 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.

In September of 2005 the Company issued ten million shares of Common Stock to its attorneys in Canada as collateral to secure payment of legal fees for an action commenced by the Company in Canada. Under the pledge arrangement, once the legal fees are paid, the shares are to be returned to the Company, at which time they will be canceled and restored to the status of authorized but unissued shares. The shares are reflected as outstanding shares as of September 30, 2005.

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

None.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

#### ITEM 5. OTHER INFORMATION

None

#### ITEM 6. EXHIBITS

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

31.2 Certificate of 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

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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.

Advanced Refractive Technologies, Inc. a Delaware corporation

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

Date: December 30, 2005