

Edgar Filing: AMPLIDYNE INC - Form 10QSB

AMPLIDYNE INC
Form 10QSB
May 23, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 0-21931

AMPLIDYNE, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

22-3440510

(I.R.S. Employer
Identification No.)

59 LaGrange Street
Raritan, New Jersey 08869
(Address of principal executive offices)

(908) 253-6870
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 No

The number of shares outstanding of the Issuer's Common Stock, \$.0001 Par Value, as of May 18, 2005 was 10,376,500.

AMPLIDYNE, INC.
FORM 10-QSB
THREE MONTHS ENDED MARCH 31, 2005

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited):

Balance Sheets.....1-2

Edgar Filing: AMPLIDYNE INC - Form 10QSB

	Statements of Operations.....	3
	Statement of Cash Flows.....	4
	Statement of Changes in Stockholder's Deficiency.....	5
	Notes to Financial Statements.....	6-12
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	13-15
Item 3.	Controls and Procedures.....	15
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings.....	16
Item 2.	Change in Securities.....	16
	Signatures.....	17
	Certification.....	18
Exhibit 99.1.....		19

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMPLIDYNE, INC. BALANCE SHEETS

ASSETS

	March 31 2005	December 31 2004
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,288	\$ 122,234
Accounts receivable, net of allowance for doubtful accounts of \$264,000 and \$268,000 in 2005 and 2004, respectively	43,033	15,597
Inventories	337,101	309,633
Prepaid expenses and other	--	--
	-----	-----
Total current assets	402,422	447,464
	-----	-----
PROPERTY AND EQUIPMENT - AT COST		
Machinery and equipment	565,629	565,629
Furniture and fixtures	43,750	43,750
Autos and trucks	66,183	66,183
Leasehold improvements	8,141	8,141
	-----	-----
	683,703	683,703
Less accumulated depreciation and amortization	(683,703)	(681,956)
	-----	-----

Edgar Filing: AMPLIDYNE INC - Form 10QSB

	--	1,747
	-----	-----
SECURITY DEPOSITS AND OTHER NON-CURRENT ASSETS	--	--
	-----	-----
	\$ 402,422	\$ 449,211
	=====	=====

Note: The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The accompanying notes are an integral part of these financial statements

1

Amplidyne, Inc.
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

	March 31 2005

CURRENT LIABILITIES	
Secured note payable in connection with Phoenix investor rescinded agreement - payment in default	40,000
Convertible notes payable pursuant to Lee financing agreement, including temporary additional advance by Lee of \$98,000 at March 31, 2005 and \$6,000 at December 31, 2004	598,000
Accounts payable (as restated) -- Note J	347,431
Other convertible notes payable - payment default	22,473
Accrued expenses and other current liabilities (including delinquent federal payroll taxes, penalties and interest aggregating \$115,705 at March 31, 2005 and \$81,353 at December 31, 2004)	205,032
Accrued settlement of litigation	95,000
Advances from customers	11,267
Loans payable - officers	370,448

Total current liabilities	1,689,651

OTHER COMMENTS - NOTE I

STOCKHOLDERS' (DEFICIENCY)

Common stock - authorized, 25,000,000 shares of \$.0001 par value; shares 10,376,500 and 10,376,500 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively (the Lee convertible notes payable are convertible into Series C shares representing 80% of the outstanding stock of the Company on a fully diluted basis)	1,038
Additional paid-in capital	22,503,014
Accumulated deficit (as restated) -- Note J	(23,791,281)

Edgar Filing: AMPLIDYNE INC - Form 10QSB

(1,287,229)

\$ 402,422
=====

Note: The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying notes are an integral part of these financial statements

2

Amplidyne, Inc.
STATEMENTS OF OPERATIONS
Quarter Ended March 31

	Quarter Ended March 31	
	2005	2004
	-----	-----
Net sales	\$ 142,593	\$ 315,367
Cost of goods sold	103,408	288,400
	-----	-----
Gross profit	39,185	26,967
Operating expenses		
Selling, general and administrative	99,252	213,004
Research, engineering and development	101,873	79,526
	-----	-----
Operating loss	(161,940)	(265,563)
Nonoperating income (expenses)		
Interest income and other income	3,563	--
Interest expense	(300)	(300)
Federal tax penalties and interest	(3,000)	--
Gain on sale of property and equipment	--	4,000
	-----	-----
Loss before income taxes	(161,677)	(261,863)
Provision for income taxes	614	3,200
	-----	-----
NET LOSS	\$ (162,291)	\$ (265,063)
	=====	=====
Net loss per share - basic and diluted	\$ (0.02)	\$ (0.03)
	=====	=====
Weighted average number of shares outstanding	10,376,500	10,376,500
	=====	=====

The accompanying notes are an integral part of these financial statements

Edgar Filing: AMPLIDYNE INC - Form 10QSB

3

Amplidyne, Inc.
STATEMENTS OF CASH FLOWS
Quarter Ended March 31

	Quarter Ended March 31	
	2005	2004
	-----	-----
Cash flows from operating activities:		
Net Loss	\$ (162,291)	\$ (265,000)
	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,747	10,000
Gain of sale of property & equipment	--	(4,000)
(Decrease) increase in allowance for doubtful accounts	(4,000)	28,200
Interest accrued on convertible promissory note	300	300
Salary deferred, added to officer loans	3,942	30,600
Changes in assets and liabilities		
Accounts receivable	(23,436)	(76,800)
Inventories	(27,468)	29,300
Prepaid expenses and other assets	--	12,300
Customer advances	(10,741)	
Accounts payable and accrued expense	32,201	155,100
	-----	-----
Total adjustments	(27,455)	185,000
	-----	-----
Net cash (used) for operating activities	(189,746)	(79,900)
	-----	-----
Cash flows from investing activities:		
Proceeds on sale of property & equipment	--	4,000
Purchase of property and equipment	--	(2,200)
	-----	-----
Net cash provided by investing activities	--	1,700
	-----	-----
Cash flows from financing activities:		
Overdraft	--	(17,800)
Officer loans	(2,200)	17,000
Advances pursuant to financing agreement (Note C. 2.)	92,000	99,200
	-----	-----
Net cash provided by financing activities	89,800	98,300
	-----	-----
NET INCREASE (DECREASE) IN CASH	(99,946)	20,100
	-----	-----
Cash at beginning of period	122,234	
	-----	-----
Cash at end of period	\$ 22,288	\$ 20,100
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid for: Interest	\$ --	\$ --
Income taxes	\$ 614	\$ 3,200

Edgar Filing: AMPLIDYNE INC - Form 10QSB

The accompanying notes are an integral part of these financial statements

4

Amplidyne, Inc.
STATEMENT OF STOCKHOLDERS' DEFICIENCY
Year Ended December 31, 2004 and Quarter Ended March 31, 2005

	Preferred Stock	
	Shares	Par Value
	-----	-----
BALANCE AT DECEMBER 31, 2003 as originally reported	--	\$ --
Prior period adjustment -- write-off of accounts payable balances no longer due, discovered in the first quarter of 2005 -- Note J		
	-----	-----
Balance at December 31, 2003 as restated		
Net loss for the year ended December 31, 2004		
Litigation settlement to be paid through the issuance of common stock		
	-----	-----
BALANCE AT DECEMBER 31, 2004	--	--
Net loss for the three months ended March 31, 2005		
	-----	-----
BALANCE AT MARCH 31, 2005	--	\$ --
	=====	=====
	Additional	Accumulated
	Paid-In	Deficit
	Capital	
	-----	-----
BALANCE AT DECEMBER 31, 2003 as originally reported	\$22,494,854	\$(22,930,175)
Prior period adjustment -- write-off of accounts payable balances no longer due, discovered in the first quarter of 2005 -- Note J		135,846

Balance at December 31, 2003 as restated	22,494,854	(22,794,329)
Net loss for the year ended December 31, 2004		(834,661)
Litigation settlement to be paid through the issuance of common stock	(8,160)	
	-----	-----
BALANCE AT DECEMBER 31, 2004	22,503,014	(23,628,990)
Net loss for the three months ended March 31, 2005		(162,291)

Edgar Filing: AMPLIDYNE INC - Form 10QSB

BALANCE AT MARCH 31, 2005	\$22,503,014	\$(23,791,281)
	=====	=====

The accompanying notes are an integral part of these financial statements

5

AMPLIDYNE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE A - ADJUSTMENTS

In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of (a) results of operations for the three month periods ended March 31, 2005 and 2004 (b) the financial position at March 31, 2005 (c) the statements of cash flows for the three month period ended March 31, 2005 and 2004, and (d) the changes in stockholders' deficiency for the three month period ended March 31, 2005 have been made. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year.

NOTE B - UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for financial statements. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2004 included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 15, 2005.

The Company's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The liquidity of the Company has been adversely affected in recent years by significant losses from operations. As further discussed in Note F, the Company incurred losses of \$162,291 for the three months ended March 31, 2005, has limited cash reserves and has seen its working capital decline by \$160,544 to a deficiency of \$(1,287,229) since the beginning of the fiscal year. Current liabilities exceed cash and receivables by \$1,624,330 indicating that the Company will have substantial difficulty meeting its financial obligations for the balance of this fiscal year. These factors raise substantial doubt as to the Company's ability to continue as a going concern. Recently, operations have been funded by loans from the Chief Executive Officer and costs have been cut through substantial reductions in labor and operations.

As further discussed in Note F, management is seeking additional financing and intends to aggressively market its products, control operating costs and broaden its product base through enhancements of products. The Company believes that these measures may provide sufficient liquidity for it to continue as a going concern in its present form. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern in its present form.

6

Edgar Filing: AMPLIDYNE INC - Form 10QSB

AMPLIDYNE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE C - STOCKHOLDERS' EQUITY

1. Warrants and Options

At March 31, 2005, the following 395,000 warrants, remained outstanding:

- (1) 20,000 exercisable at \$1.00 through May 2010
- (2) 300,000 exercisable at \$2.00 through December 31, 2005
- (3) 75,000 exercisable at \$.96 through March 2007

At March 31, 2005, the Company had employee stock options outstanding to acquire 370,000 shares of common stock at exercise prices of \$0.20 to \$1.50.

2. Stock Purchase and Financing Agreements

On January 28, 2004, the Company entered into a Subscription Agreement (the "Agreement") with Phoenix Opportunity Fund II, L.P. ("Phoenix"), a limited partnership organized under the laws of the State of Delaware, pursuant to which Phoenix agreed to make an aggregate investment of \$100,000 in exchange for 282,700 shares of a newly created class of Series C Convertible Preferred Stock, representing approximately 80% of the Company's outstanding stock on a fully diluted basis. As the Company was required to amend its certificate of incorporation or effect a reverse stock split in order to have sufficient authorized shares to complete the equity financing, Phoenix made an initial investment of \$20,000 in exchange for 54,325 shares of Series C Convertible Preferred Stock, and loaned approximately \$80,000 to the Company with the remaining portion of the equity investment to be completed after recapitalization. Phoenix also entered into a stock restriction agreement with Devendar S. Bains, our former Chairman of the Board, Chief Executive Officer, and Treasurer, pursuant to which Mr. Bains issued an irrevocable proxy to Phoenix until the recapitalization is completed, which, together with the shares received in connection with the initial investment, would have given Phoenix effective control over 53% of the Company's voting stock.

The preferred shares were never issued to Phoenix. Due to a dispute among the Parties with respect to the terms of the loan transaction. The Company and Phoenix agreed to rescind their agreement, and the Company agreed to pay Phoenix: (i) \$20,000 in cash for the funds Phoenix invested, (ii) \$80,000 in cash for the funds which Phoenix lent to the Company, and (iii) \$40,000 for expenses incurred by Phoenix on behalf of the Company. The \$40,000 was paid by delivery of a secured promissory note due March 31, 2005, and bearing interest at the rate of eight percent per annum secured by substantially all the assets of the Company.

The Company did not make the required \$40,000 payment due on March 31, 2005 under the Phoenix rescission agreement, and the Company remains currently delinquent. As yet, no action has been taken by Phoenix concerning this default.

In a separate transaction, John Lee of Piscataway, NJ ("Lee") entered into a Note Purchase Agreement with the Company by which Lee agreed to lend the Company an initial \$200,000 and up to an additional \$200,000 in one or more installments on or before October 30, 2004. The Company agreed to deliver to John Lee

Edgar Filing: AMPLIDYNE INC - Form 10QSB

convertible promissory notes which are convertible into Series C shares representing approximately 80% of the Company's outstanding stock on a fully diluted basis. Such conversion will take place at such time as the Company is able to do so. Messrs. Devendar Bains and Tarlochan Bains are required to devote their full business time and attention to the business of the Company for eight (8) years from May 25, 2004. In the event that either Devendar Bains or Tarlochan Bains must leave the employ of the Company for any reason, each agrees that, if requested by the Board of Directors of the Company, he will use his best efforts to find a qualified replacement for himself acceptable to the Board of Directors, and that he will not engage in a business competitive with the Company for a period of eight (8) years. On May 25, 2004, Lee loaned the Company \$250,000, and was issued two convertible promissory notes which will be convertible in the aggregate into Series C shares representing approximately 32% of the Company's outstanding stock on a fully diluted basis, if and when converted. If not converted, the notes are payable on demand, provided that demand cannot be made before December 31, 2004, unless the Company is in default of the Note Purchase Agreement. Of the \$250,000 loaned to the Company, \$100,000 was used to pay Phoenix in connection with the rescission described above, \$45,000 was used to make a final payment in resolution of litigation with High Gain Antenna Co. Ltd. of Korea, and to pay associated bank fees, \$12,000 was used to pay legal fees and \$43,000 was used for working capital purposes. In August 2004, an additional \$50,000 was received from each of Hye Joung Lee and Joong Bin Lee (an aggregate of \$100,000) in connection with the same agreement. These parties are business associates of John Lee, but otherwise unrelated. In October 2004, an additional \$156,000 was received from John Lee, of which \$6,000 represented a temporary additional advance outside of the Series C Convertible financing.

At various times during February and March 2005, an aggregate of \$92,000 was received from John Lee in connection with the Series C Convertible financing.

No conversions to the Series C shares, pursuant to the Lee financing, have been made as of March 31, 2005 and to the date of the issuance of the current quarter's financial statements. In addition, no demand for payment has been made by Lee as of March 31, 2005 and to the date of the issuance of the current quarter's financial statements.

NOTE D - LOSS PER SHARE

The Company complies with the requirements of the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 specifies the compilation, presentation and disclosure requirements for earnings per share for entities with publicly held common stock or potential common stock. Net loss per common share - basic and diluted is determined by dividing the net loss by the weighted average number of common stock outstanding.

Net loss per common share - diluted does not include potential common shares derived from stock options and warrants (see Note C) because they are antidilutive.

8

AMPLIDYNE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE E - LITIGATION

From time to time, the Company is party to what it believes are routine litigation and proceedings that may be considered as part of the ordinary course

Edgar Filing: AMPLIDYNE INC - Form 10QSB

of its business. Except for the proceedings noted below, the Company is not aware of any pending litigation or proceedings that could have a material effect on the Company's results of operations or financial condition.

1. A customer filed a complaint in the Circuit Court of the Eighteenth Judicial District of the State of Florida on January 23, 1997 alleging breach of contract. During 2000, the Company settled with that customer at a cost of \$175,000; \$25,000 is to be paid quarterly over two years. \$95,000 remained unpaid at March 31, 2005.

2. In April 2004, a law firm filed a judgement against the Company in the amount of approximately \$40,000 in connection with non-payment of legal fees owed to it. Inasmuch as this is a perfection of an already recorded liability, management does not believe that the judgement will have a material impact on the financial position of the Company.

3. The Company (as well as an officer and director of the Company) is a defendant in a complaint brought in November 2003 in the Circuit Court of the State of Florida (17th Judicial District, Broward County) alleging fraud and seeking relief for unspecified damages and costs associated with an aborted plan of merger. Management has been in settlement discussions with the plaintiff, but to date has not reached an accord. On June 29, 2004, the Company filed a Motion to Dismiss the lawsuit against the Company.

NOTE F - LIQUIDITY

The Company's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The liquidity of the Company has been adversely affected in recent years by significant losses from operations. The Company has incurred losses of \$162,291 and \$265,063 for the three months ended March 31, 2005 and 2004, respectively.

With little remaining cash and no near term prospects of private placements, options or warrant exercises and reduced revenues, management believes that the Company will have great difficulty meeting its working capital and litigation settlement obligations over the next 12 months. The Company is presently dependent on cash flows generated from sales and loans from officers to meet our obligations. Our failure to consummate a merger with an appropriate partner or to substantially improve our revenues will have serious adverse consequences and, accordingly, there is substantial doubt in our ability to remain in business over the next 12 months. There can be no assurance that any financing will be available to the Company on acceptable terms, or at all. If adequate funds are not available, the Company may be required to delay, scale back or eliminate its research, engineering and development or manufacturing programs or obtain funds through arrangements with partners or others that may require the Company to relinquish rights to certain of its technologies or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations.

Management's plans for dealing with the foregoing matters include:

- o Increasing sales of its high speed internet connectivity products through both individual customers, strategic alliances and mergers.

Edgar Filing: AMPLIDYNE INC - Form 10QSB

- o Decreasing the dependency on certain major customers by aggressively seeking other customers in the amplifier markets;
- o Partnering with significant companies to jointly develop innovative products, which has yielded orders with multinational companies to date, and which are expected to further expand such relationships;
- o Maintaining a reduced cost structure through a more streamlined operation by using automated machinery to produce components for our products;
- o Deferral of payments of officers' salaries, as needed;
- o Selling remaining net operating losses applicable to the State of New Jersey, pursuant to a special government high-technology incentive program in order to provide working capital, if possible;
- o Reducing overhead costs and general expenditures.
- o Merging with another company to provide adequate working capital and jointly develop innovative products.

NOTE G - OFFICER LOANS

As of March 31, 2005, the Company owes \$295,149 to the Chief Technology Officer (formerly the Chief Executive Officer) for loans and unpaid salaries. During the three months ended March 31, 2005, that officer was repaid \$2,200 from the Company. Additionally, salaries of \$3,946 were deferred for this quarter for all officers combined.

10

AMPLIDYNE, INC. NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005

NOTE H - SEGMENT INFORMATION

The Company commenced its wireless Internet connectivity business in the summer of 2000. The Company does not measure its operating results, assets or liabilities by segment. However, the following limited segment information is available:

	Quarter Ended March 31 2005 -----	Quarter Ended March 2004 -----	Year Ended December 31, 2004 -----
Sales - external			
Amplifier	\$141,018	290,332	\$655,679
Internet business	1,575	25,035	88,111
	-----	-----	-----
	\$142,593	\$315,367	\$743,790
	=====	=====	=====
Inventory	--		
Amplifier	\$281,840	\$262,973	\$249,372
Internet business	55,261	115,430	60,261
	-----	-----	-----
	\$337,101	\$378,403	\$309,633
	=====	=====	=====

NOTE I - COMMITMENTS AND OTHER COMMENTS

Edgar Filing: AMPLIDYNE INC - Form 10QSB

1. OPERATING LEASES

During July 2000, the Company entered into a lease agreement for approximately 11,000 square feet of office and manufacturing space, for a five-year period ending July 13, 2004. The annual rental was \$71,000 plus the Company's share of real estate taxes, utilities and other occupancy costs. The landlord held a security deposit of \$35,625 representing approximately 6 months rent.

In July 2004, Tek, Ltd. ("Tek") a company wholly owned by John Lee, entered into a contract with the existing landlord of the operating premises to purchase the building. In connection therewith, Tek negotiated a return of the security deposit and accumulated interest thereon to the Company in the aggregate amount of \$40,160. The Company was leasing the premises on a month to month basis and paying rent on a semi-monthly basis. On April 22, 2005, concurrent with the closing of the purchase of the building by Tek, the Company entered into a non-cancelable operating lease with Tek which commences on June 1, 2005 and expires on May 31, 2008. The Company is obligated for minimum annual rental payments as follows:

Year ending December 31

2005	\$ 38,500
2006	69,000
2007	72,000
2008	30,000

	\$209,500
	=====

Rent expense, including the Company's share of real estate taxes, utilities and other occupancy costs, was \$29,431 and \$27,288 for the three months ended March 31, 2005 and 2004, respectively.

11

AMPLIDYNE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

2. NOTES PAYABLE CONVERTIBLE INTO COMMON STOCK AT HOLDERS' OPTION

In March 2003, two investors, each of which already own approximately 4% of the Company's outstanding common stock, loaned the Company \$20,000. The terms of each loan provide for 6% interest and were due in March 2005 with accrued interest. By their terms, the loans provide for accelerated payment under certain conditions, and conversion prior to maturity into the Company's common stock at the holders option at the rate of \$.10 per share. As of December 31, 2004, there were no conditions present that trigger an acceleration, nor has either holder exercised their option to convert them into common stock.

The Company did not make the required payments due March 31, 2005 under the notes, for principal and interest, and the Company remains currently delinquent. As yet, no actions have been taken by the holders concerning this default.

NOTE J - RESTATEMENT OF PRIOR AND CURRENT YEAR'S FINANCIAL STATEMENTS

During the quarter ended March 31, 2005, as a result of management review of accounts payable details, it was determined that liabilities reflected as outstanding at both December 31, 2004 and 2003 for accounts payable were no longer due and payable. The write-off of these liabilities resulted in the reflection of a gain of \$135,846 reflected in operations for the year ended December 31, 2003, and reduction in Company liabilities and a reduction in its

Edgar Filing: AMPLIDYNE INC - Form 10QSB

shareholders' deficit at December 31, 2004 and 2003. Accordingly, the accumulated deficit as originally reported at December 31, 2003 as reflected in the Statement of Shareholders' Deficiency has been restated to reflect the write-off of accounts payable balances as they should have occurred prior to December 31, 2003.

12

AMPLIDYNE, INC.
MARCH 31, 2005

PART I - FINANCIAL INFORMATION

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF

Financial Condition and Results of Operations

Results of Operations - The Quarter Ended March 31, 2005 Compared to Quarter Ended March 31, 2004.

Revenues for the three months ended March 31, 2005 decreased by \$172,774 from \$315,367 to \$142,593, or 55% compared to the three months ended March 31, 2004. Coupled with the increased production costs, the first quarter losses significantly increased compared with the first quarter of last year.

The majority of the amplifier sales for the three months ended March 31, 2005 were obtained from the Wireless Local Loop amplifier products to a major European customer.

The Company is developing W-CDMA amplifier for planned release in the second quarter of 2005.

Cost of sales was \$103,408 or 73% of sales compared to 91% during the same period for 2004. The improvement in gross margin was principally due to efficiencies in production and materials usage. The Company is continuing to assess ways to achieve cost reduction for its products and sales volume increases to improve gross margins in 2005.

Selling, general and administrative expenses (excluding stock based compensation) decreased in 2005 by \$113,752 to \$99,252 from \$213,004, in 2004. Expressed as a percentage of sales, the selling, general and administrative (SG&A) expenses (excluding stock based compensation) were 70% in 2005 and 68% in 2004. Most of the SG&A expenses are fixed and management has cut costs about as low as operations can sustain. The actual dollar decrease in SG&A from the previous year was \$113,752 or 53%. In the quarter ended March 31, 2005, we continued to maintain the lower staffing and overhead levels that we instituted in 2002.

Research, engineering and development expenses were 71% of net sales for the three months ended March 31, 2005 compared to 25% in 2004. In 2005 and 2004, the principal activity of the business related to the design and production of product for OEM manufacturers, particularly for the W-CDMA amplifier and 3.5 GHz single channel products and refinements to the High Speed Internet products. The research, engineering and development expenses consist principally of salary cost for engineers and the expenses of equipment purchases specifically for the design and testing of the prototype products. The Company's research and development efforts are influenced by available funds and the level of effort required by the engineering staff on customer specific projects.

Edgar Filing: AMPLIDYNE INC - Form 10QSB

We had no appreciable interest income in 2005 and 2004 because our cash balances which we have historically temporarily invested in interest bearing accounts have been fully depleted.

As a result of the foregoing, the Company incurred net losses of \$162,291 or \$0.02 per share for the three months ended March 31, 2005 compared with net losses of \$265,063 or \$0.03 per share for the same period in 2004.

13

Liquidity and Capital Resources

Liquidity refers to our ability to generate adequate amounts of cash to meet our needs. We have been generating the cash necessary to fund our operations from continual loans from the President and Chief Executive Officer of the Company, Devendar Bains. We have incurred a loss in each year since inception. It is possible that we will incur further losses, that the losses may fluctuate, and that such fluctuations may be substantial. As of March 31, 2005, we had an accumulated deficit of \$23,791,281. Potential immediate sources of liquidity are loans from Mr. Bains. Another potential source of liquidity is the sale of restricted shares of our common stock, but there are no immediate plans for such sale.

As of March 31, 2005, our current liabilities exceeded our cash and receivables by \$1,624,330. Our current ratio was 0.24 to 1.00, but our ratio of accounts receivable to current liabilities was only 0.03 to 1.00. This indicates that we will have difficulty meeting our obligations as they come due. We are carrying \$337,101 in inventory, of which \$211,584 represents component parts. Because of the lead times in our manufacturing process, we will likely need to replenish many items before we use everything we now have in stock. Accordingly, we will need more cash to replenish our component parts inventory before we are able realize cash from all of our existing inventories.

As of March 31, 2005, we had cash of \$22,288 compared to \$122,234 at December 31, 2004. Overall our cash and cash equivalents decreased \$99,946 during 2005. Our cash used for operating actives was \$189,746 We received advances pursuant to the financing agreement of \$92,000.

The allowance for doubtful accounts on trade receivables remained unchanged at \$268,000 (95% of accounts receivable of \$283,597) in 2004 compared to \$264,000 (86% of accounts receivable of \$307,033) in 2005. Because of our relatively small number of customers and low sales volume, accounts receivable balances and allowances for doubtful accounts do not reflect a consistent relationship to sales. We determine our allowance for doubtful accounts based on a specific customer-by-customer review of collectibility.

Our inventories increased by \$27,468 to \$337,101 in 2005 compared to \$309,633 at December 31, 2004, an increase of 9%.

Although the Company did not convert salaries to officers through the issuance of Common Stock in 2003 or 2004, it may to do so in 2005. To help alleviate the cash flow difficulties, the Chief Executive Officer, the Chief Technology Officer and corporate Secretary agreed to defer salaries of \$1,538, \$1,442 and \$962, respectively.

The Company continues to explore strategic relationships with ISP's, customers and others, which could involve jointly developed products, revenue-sharing models, investments in or by the Company, or other arrangements. There can be no assurance that a strategic relationship can be consummated.

In the past, the officers of the Company have deferred a portion of their

Edgar Filing: AMPLIDYNE INC - Form 10QSB

salaries or provided loans to the Company to meet short-term liquidity requirements. Where possible, the Company has issued stock or granted warrants to certain vendors in lieu of cash payments, and may do so in the future. There can be no assurance that any additional financing will be available to the Company on acceptable terms, or at all. If adequate funds are not available, the Company may be required to delay, scale back or eliminate its research, engineering and development or manufacturing programs or obtain funds through arrangements with partners or others that may require the Company to relinquish rights to certain of its technologies or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations.

14

With little remaining cash and no near term prospects of private placements, options or warrant exercises and reduced revenues, we believe that we will have great difficulty meeting our working capital and litigation settlement obligations over the next 12 months. We are presently dependent on cash flows generated from sales and loans from officers to meet our obligations. Our failure to consummate a merger or substantially improve our revenues will have fserious adverse consequences and, accordingly, there is substantial doubt in our ability to remain in business over the next 12 months. There can be no assurance that any financing will be available to the Company on acceptable terms, or at all. If adequate funds are not available, the Company may be required to delay, scale back or eliminate its research, engineering and development or manufacturing programs or obtain funds through arrangements with partners or others that may require the Company to relinquish rights to certain of its technologies or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations.

Item 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

Within the 90 days prior to the date of this report, Amplidyne, Inc. carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive and Principal Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive and Principal Accounting Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information required to be included in the Company's periodic SEC filings relating to the Company.

(b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these internal controls subsequent to the date of my most recent evaluation.

15

AMPLIDYNE, INC.
MARCH 31, 2005

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Edgar Filing: AMPLIDYNE INC - Form 10QSB

See Note E to the Company's financial statements set forth in Part I.

ITEM 2. CHANGE IN SECURITIES

During the first quarter ended March 31, 2005, the Company issued no securities.

16

SIGNATURES

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

AMPLIDYNE, INC.

Dated: May 23, 2005

By: /s/ Tarlochan S. Bains

Name: Tarlochan S. Bains
Title: Chief Executive Officer,
Treasurer, Principal
Accounting Officer and
Director

17