

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**  
SEC Accession No. **0000745788-01-500009**

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### FILER

#### **SURGIDYNE INC**

CIK: **745788** | IRS No.: **581486040** | State of Incorpor.: **MN** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-16686** | Film No.: **1697111**  
SIC: **3841** Surgical & medical instruments & apparatus

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MINNEAPOLIS MN 55441

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2001  
TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
EXCHANGE ACT.

Commission File Number 33-13058-C

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SURGIDYNE, INC.

(Name of small business issuer in its charter)

Minnesota 58-1486040  
(State or other jurisdiction of (I.R.S. Employer  
incorporation of organization) Identification Number)

9909 South Shore Drive, Minneapolis, MN 55441  
(Address of principal executive offices)

(763) 595-0665  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports  
required to be filed by Section 13 or 15(d) of  
the Exchange Act during the past 12 months (or  
for such shorter periods 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

7,447,085 shares of Common Stock, no par value,  
outstanding at June 30, 2001

Transitional Small Business Disclosure Format.  
 YES       X       NO

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SURGIDYNE, INC.

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SURGIDYNE, INC.  
BALANCE SHEETS

	June 30, 2001 (unaudited)	December 31, 2000
ASSETS		
Current Assets		
Cash	\$ 21,595	\$33,924
Accounts receivable, less allowance for doubtful accounts of \$4,200	39,368	31,002
Inventories (Note 2)	126,816	160,687
Prepaid expenses (Note 5)	17,621	50,548
Total current assets	205,400	276,161
Furniture and Equipment,		
at cost (Note 3)	353,917	353,917
Less accumulated depreciation and amortization	331,088	328,673
Total furniture and Equipment	22,829	25,244
Other Assets		
Patents and trademarks, net of accumulated amortization of \$19,266 in 2001 and \$18,774 in 2000	4,119	4,611
Deposits	3,529	3,529

Total other assets	7,648	8,140
Total assets	\$ 235,877	\$ 309,545

See Notes to Financial Statements.

SURGIDYNE, INC.  
BALANCE SHEETS (continued)

	June 30, 2001 (unaudited)	December 31, 2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of capital lease	\$ 4,382	\$ 4,590
Notes payable to officers and directors	8,474	8,474
12% demand note payable	11,646	11,646
Non-interest bearing demand note payable	30,000	35,546
Accounts payable	43,877	33,582
Accrued expenses	58,669	53,972
Total current Liabilities	157,048	147,810
Capital lease obligation, less current maturities	8,470	10,504
Stockholders' Equity		
Series A Preferred stock, authorized 1,600,000 shares; \$400,000 liquidation preference,		

1,600,000 shares		
Issued and outstanding	400,000	400,000
Common stock, no par value; authorized		
18,400,000 shares;		
Issued and outstanding		
7,447,085 shares	4,606,266	4,606,266
Accumulated deficit	(4,935,907)	(4,855,035)
Total stockholders' Equity	70,359	151,231
Total liabilities and stockholders' equity	\$ 235,877	\$ 309,545

See Notes to Financial Statements

SURGIDYNE, INC.  
STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2001	2000	2001	2000
Net sales	\$ 96,036	\$ 125,823	\$ 226,099	\$ 244,038
Cost of goods sold	71,804	84,026	165,632	176,245
Gross profit	24,232	41,797	60,467	67,793
Operating expenses				
Research and Development	3,414	2,829	6,962	5,719
Sales and Marketing	7,981	9,822	17,315	17,556
General and Administrative	45,068	46,827	115,271	98,002
Total operating Expenses	56,463	59,478	139,548	121,277

Operating loss	(32,231)	(17,681)	(79,081)	(52,984)
Other Income (expense)				
Interest income	12	417	26	1,158
Interest expense	(1,322)	(1,518)	(2,507)	(2,619)
Other	658	-	690	-
Net loss	\$ (32,883)	\$ (18,782)	\$ (80,872)	\$ (54,945)
Basic and diluted (loss)				
per common				
share	0.00	0.00	(0.01)	0.00
Weighted average common				
Shares outstanding-				
Basic	7,447,085	7,017,085	7,447,085	7,017,085

See Notes to Financial Statements

SURGIDYNE, INC.  
STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended	
	June 30, 2001	June 30, 2000
Cash Flows from Operating Activities		
Net loss	\$ (80,872)	\$ (54,945)
Adjustments to reconcile		
(loss) to net		
Cash used in operating		
activities:		
Depreciation and		
Amortization	2,907	2,877
Amortization of		
prepaid consulting		
expenses	38,635	7,727
Changes in assets		

and liabilities:		
Accounts receivable	(8,366)	(2,610)
Inventories	33,871	(693)
Prepaid expenses	(5,708)	14,621
Accounts payable and accrued expenses	14,992	(8,992)
Net cash used in operating activities	(4,541)	(42,015)

#### Cash Flows from Financing Activities

Payments on capital lease obligation	(2,242)	(2,260)
Payments on notes payable	(5,546)	(1,526)
Net cash used in financing activities	(7,787)	(3,786)
Decrease in cash	(12,329)	(45,801)

#### Cash:

Beginning	33,924	70,090
Ending	\$ 21,595	\$ 24,289

#### Supplemental Disclosures of Cash Flow Information

Cash payments for interest	\$ 1,383	\$ 640
Equipment acquired under capital lease	\$ -	\$ 19,491
Warrant issued for consulting services (Note 5)	\$ -	\$ 92,724

See Notes to Financial Statements

SURGIDYNE, INC.

#### NOTES TO FINANCIAL STATEMENTS (unaudited)

##### Note 1. Financial Statements

The Balance Sheet as of June 30, 2001, the Statement of Operations for the three and six month periods ended June 30, 2001 and June 30, 2000, and the Statement of Cash Flows for the six month periods ended June 30, 2001 and June 30, 2000 have been prepared by the Company

without audit. In the opinion of management, all adjustments (consisting solely of normal, recurring adjustments) necessary to present fairly the financial position at June 30, 2001; the results of operations for the three and six month periods ended June 30, 2001 and June 30, 2000 and the statement of cash flows for the six month periods ended June 30, 2001 and June 30, 2000 have been made. The Balance Sheet at December 31, 2000 has been taken from the audited financial statements at that date. Results of operations for the interim periods are not necessarily indicative of future financial conditions or operating results. These interim financial statements should be read in conjunction with the Company's annual financial statements and related notes there to included in the Company's form 10-KSB for the year ended December 31, 2000.

Note 2. Inventories

Inventories consisted of the following:

	June 30, 2001	December 31, 2000
Component parts and Subassemblies	\$ 62,009	\$ 75,780
Work in process	9,801	17,617
Finished goods	65,006	77,290
Less obsolescence reserve	(10,000)	(10,000)
	\$126,816	\$ 160,687

Note 3. Furniture and Equipment

Furniture and equipment consisted of the following:

	June 30, 2001	December 31, 2000
Furniture, fixtures and Equipment	\$ 251,735	\$ 251,735
Tooling and molds	102,182	102,182

Note 4.                      Basic and Diluted Income (Loss) Per Share

Because the Company has incurred a loss in all periods presented, the inclusion of potential common shares in the calculation of diluted loss per share would have an anti-dilutive effect. Therefore, Basic and Diluted loss per share amounts are the same for all periods presented.

Note 5.      Consulting Agreement

On June 2, 2000, the Company retained Equity Securities Investments, Inc. (the Consultant) to advise and assist the Company in evaluating strategic opportunities including a possible sale or merger. However, there can be no assurance that these activities will result in a proposal acceptable to the Company or that any transaction will be completed.

The consulting agreement had a term of one year and provided the Consultant with a warrant to purchase 600,000 shares of Company common stock at a price of \$0.17 per share. The Company valued this warrant using the Black-Scholes pricing model, which resulted in a value of approximately \$93,000. The expense was recognized over the term of the agreement, which expired in the current quarter, and approximately \$16,000 and 38,600 has been reflected as an operating expense for the three and six-month periods ended June 30, 2001.

Note 6. Recently Issued Accounting Standards:

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether they qualify for hedge accounting. In July 1999, the FASB issued SFAS No. 137, delaying the effective date of SFAS No. 133 for one year, to fiscal years beginning after June 15, 2000. The Company has determined there is no effect of

implementing SFAS No. 133 on its financial position or the results of its operations.

In June 2001, the Financial Accounting Standards Board finalized SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. These pronouncements provide that business combinations initiated after June 30, 2001, be accounted for using the purchase method and that goodwill be reviewed for impairment rather than amortized. The Company does not believe the adoption of these pronouncements will have a material effect on its financial position or results of operations.

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

Results of Operations - 2001 compared to 2000

Sales. Sales for the first six months of fiscal 2001 were \$226,099 compared to \$244,038 in fiscal 2000, a decrease of approximately 7%. Sales for the three months ended June 30, 2001 were \$96,036 compared to \$125,826 in the same period of 2000, a decrease of approximately 24%.

Gross Profit. Gross profit expressed as a percentage of sales remained relatively consistent for the first six months of 2000 and 2001 at approximately 27%. Gross profit in dollars fell in the second quarter as a result of the lower sales volume.

Operating Expenses. Operating expenses increased from \$121,277 for the six-month period ended June 30, 2000 to \$139,548 for the same period in 2001. This increase was primarily the result of the amortization expense of approximately \$39,000 for the consulting agreement signed in June of 2000 (See Note 5). This amortization expense more than offset a decrease in other operating expenses.

Liquidity and Capital Resources

At June 30, 2001 the Company had working capital of \$48,352 compared to \$128,351 at December 31, 2000.

Net cash used in operating activities for the six months ended June 30, 2001 was \$4,541, consisting of a net loss of \$80,872, adjusted for non-cash items of depreciation, amortization and warrant expense totaling \$41,452, plus a net positive change in working capital components of \$34,789.

The ability of the Company to continue as a going concern and it's short-term liquidity is dependent upon obtaining additional debt and/or equity financing to fund future development and operations. The Company plans to add additional products in order to offer a more complete and competitive line. These products will be manufactured for the Company on an OEM basis without incurring any capital or development costs on the part of the Company. Long-term liquidity is dependent upon the attainment of the short-term factors discussed above and greater sales volume that generates profitable operations. Any increased sales volumes will depend largely on increased business from contract manufacturing and increased sales from existing and new products.

Consulting Agreement: As stated in Note 5 of the interim financial statements, on June 2, 2000, the Company retained Equity Securities Investments, Inc. (the Consultant) to advise and assist the Company in evaluating strategic opportunities including a possible sale or merger. However, there can be no assurance that these activities will result in a proposal acceptable to the Company or that any transaction will be completed.

Seasonality: The Company is not subject to any significant seasonal factors.

Market Risk and Impact of Inflation: We do not believe that we have any significant risks related to interest rate fluctuations. We also believe that inflation has not had a material impact on our results of operations. We cannot assure you that future inflation will not have an adverse impact on our operations results and financial condition.

Forward-looking statement

This document includes forward-looking

statements based on current expectations. Actual results may differ materially. These forward-looking statements involve a numbers of risks and uncertainties including, but not limited to, the receipt and shipping of new orders for the Company's current products; the timely introduction and market acceptance of new products and research and development funding at the levels required.

PART III. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

No reports on Form 8-K were filled during the three month period ended June 30, 2001.

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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.

SURGIDYNE, INC.  
(Registrant)

Date: August 3, 2001

/s/ Vance D. Fiegel  
By: Vance D. Fiegel  
President and Principal Accounting Officer

