

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

Advanced Refractive Technologies, Inc.
Form 10QSB
July 26, 2006

U.S. 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, 2006

Commission file number 0-25611

ADVANCED REFRACTIVE TECHNOLOGIES, INC.
(Name of small business issuer in its charter)

Delaware	0-256111	33-0838660
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer I.D. No.)

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

Issuer's telephone number (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 is not required to file reports pursuant to Section 13
or 15(d) of the Exchange Act.

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 No .

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

As of July 24, 2006, the issuer had 244,469,073 shares of common stock
outstanding.

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

Advanced Refractive Technologies, Inc.

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

INDEX

	PAGE

PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
BALANCE SHEETS.....	3
STATEMENTS OF OPERATIONS.....	4
STATEMENTS OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS.....	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.....	24
ITEM 3. CONTROLS AND PROCEDURES.....	25
 PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS.....	26
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.....	26
ITEM 3. DEFAULTS UPON SENIOR SECURITIES.....	26
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	26
ITEM 5. OTHER INFORMATION.....	26
ITEM 6. EXHIBITS.....	26

ADVANCED REFRACTIVE TECHNOLOGIES, INC.

BALANCE SHEETS

	March 31, 2006
	----- (unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 513
Prepays and deposits	3,055,685
Assets of discontinued operations	--

Total current assets	3,056,198

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

Property and equipment, net	65,615
Goodwill	3,625,000
Deferred debt costs	407,362
License agreements, net	148,706
Patents, net	75,987

Total assets	\$ 7,378,868
	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable	\$ 751,882
Convertible debenture, net	3,584,472
Accrued penalties on debentures	2,102,024
Accrued interest	1,526,328
Warrant derivative liability	102,951
Accrued settlement agreement	54,863
Accrued expenses	1,538,071
Royalty payable	49,027
Notes payable to related parties	930,232
Notes payable	10,000
Customer deposits	--
Income taxes payable	800
Liabilities of discontinued operations	--

Total current liabilities	10,650,650
Series A convertible preferred stock, 450,000 shares issued and outstanding at March 31, 2006 and December 31, 2005, net of unamortized discount of \$562,500 and \$656,250, respectively (redemption value \$4,500,000)	974,154
Series B convertible preferred stock, 100,000 shares issued and outstanding at March 31, 2006 and December 31, 2005	1,500,000
Series C convertible preferred stock, 100,000 shares issued and outstanding at March 31, 2006	2,800,000

Total liabilities	15,924,804
Shareholders' deficit:	
Common stock, 750,000,000 shares authorized, \$.001 par value, 237,466,073 shares issued and outstanding at March 31, 2006, and 56,379,756 shares issued and outstanding at December 31, 2005	237,466
Additional paid in capital	34,165,981
Accumulated deficit	(42,949,383)

Shareholders' deficit	(8,545,936)
Total liabilities and shareholders' deficit	\$ 7,378,868
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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

ADVANCED REFRACTIVE TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31, 2006

Operating expenses:	
General and administrative	\$ 687,742
Research and development	60
Depreciation and amortization	14,683

Total operating expenses	702,485
Loss from operations	(702,485)
Other income (expense):	
Interest and penalties expense	(810,807)
Interest expense - beneficial conversion	--
Amortization of debt discount and debt issuance fees	(93,039)
Gain on sale of securities	--
Interest cost of preferred stock accretion	(93,750)
Other income, net	--

Total other expense or income	(997,596)
Loss from continuing operations before provision for taxes	(1,700,081)
Provision for income taxes	800
Loss from continuing operations	(1,700,881)
Discontinued operations:	
Loss from discontinued operations	--

Net loss	(1,700,881)
	=====
Net loss per common share - basic and diluted:	
Continuing operations	(0.02)
Discontinued operations	--
Total loss per common share	(0.02)
Basic and diluted weighted average number of common shares outstanding	\$ 81,587,731

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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

	Three months ended March 31, 2006 -----
Cash flows from operating activities:	
Net loss	\$ (1,700,881)
Less: Net loss from discontinued operations	--

Net loss from continuing operations	(1,700,881)
Adjustments to reconcile net loss from continuing operations to net cash used by operating activities:	
Operating activities of discontinued operations	(502,564)
Depreciation and amortization	14,681
Debt discount amortization	73,544
Accretion of beneficial conversion on preferred shares	93,750
Adjustment for beneficial conversion for debt	--
Common stock issued for services	15,000
Common stock issued for origination fees	--
Gain on marketable securities	--
Loss on warrant derivative liability	--
Changes in assets and liabilities:	
Prepaid expenses	275,298
Deferred debt costs	19,495
Inventory	--
Accounts payable	(188,482)
Accrued penalties on debentures	583,500
Customer deposits	(427)
Accrued interest	219,243
Royalties payable	--
Accrued settlement agreement	--
Other accrued expense	622,270

Net cash flow used by operating activities	(475,572)
Cash flows from investing activities:	
Cash received in acquisition	325,000
Purchase of property and equipment	--

Net cash provided by investing activities	325,000
Cash flows from financing activities:	
Advance from related party	150,000
Repayment of advances from related parties	--
Repayment of secured and convertible debentures	--

Proceeds from convertible debt	--
Proceeds from sale of marketable securities	--

Net cash provided by financing activities	150,000
Net increase (decrease) in cash	(572)
Cash, beginning of period	1,085
Cash end of period	513
	=====
Supplemental disclosure of cash flow information:	
Interest paid	7,965

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

Taxes paid	--
Debtenture costs and fees	--
Non-cash investing and financing transactions:	
Common stock issued in connection with convertible debenture	139,000
Warrants issued in connection with convertible debentures	--

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

5

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

HISTORY OF THE COMPANY

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.

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 were canceled and both parties were relieved from fulfilling any further responsibilities under the agreement. As a result, we currently have no products for sale and no sources of revenue.

The Company has two ophthalmic surgery products under development utilizing proprietary waterjet technology. The first is Accupulse, a device designed for removal of cataracts using a pulsating stream of saline solution. The second is

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

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.

In November 2005, the Company acquired all the outstanding stock of OptiMetrix Technologies, Inc. ("OMTI"). OMTI holds an exclusive license to a patented technology that takes the application of fiber-optic, OMA based instrumentation as an in vivo diagnostic tool for the human ocular lens.

6

In February of 2006 the Company acquired all of the stock of Ocular Therapeutics Inc. ("OTI"). OTI holds a license to certain technology owned by Motility Inc., relating to a patented technology for a small protein therapeutic (LD22-4) for the treatment of the wet form of age related macular degeneration. Because LD22-4 directly targets a fundamental requirement for the proliferation of blood vessels, i.e. cell migration, the Company believes that its mode of action is distinct from other drugs on the market or in development by other biotechnology or pharmaceutical companies. The consideration for the acquisition was 100,000 shares of Series C Preferred Stock of the Company. The shares are not convertible until after the first anniversary of the agreement. The Series C Preferred Stock converts into \$2,800,000 worth of shares of Common Stock of the Company. Additional consideration for the acquisition was the issuance of a warrant to purchase 1,400,000 shares of Common Stock of the Company at 50% of the conversion price.

The acquisitions were recorded under the purchase method of accounting, and the purchase prices were allocated based on the fair value of the assets acquired and the liabilities assumed. In accordance with generally accepted accounting principles, costs allocated to the licenses were capitalized and will be amortized over their estimated useful life. The goodwill recorded as a result of the acquisitions is not amortized, but is included in the Company's review of goodwill for impairment.

BASIS OF PRESENTATION

The accompanying financial statements are unaudited and do not include certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary to present fairly the Company's financial position and results of operations, have been included. These interim financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005. Results for interim periods are not necessarily indicative of trends or of results for a full year.

GOING CONCERN

The accompanying consolidated financial statements have been prepared using the going concern basis of accounting, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

During the three months ended March 31, 2006, the Company incurred net losses of approximately \$1,701,000, and the Company's current liabilities exceeded its current assets by approximately \$7.6 million. The Company's future capital

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

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 plans to raise operating capital through private placements of debt and equity securities. 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, its ability to secure additional financing on a timely basis is critical to its ability to stay in business and to pursue planned operational activities.

7

While the Company believes that 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

REVENUE RECOGNITION

Revenue from sales are 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. Revenues for 2005 and 2004 were entirely from operations now discontinued, as described above. The Company will adhere to this process of revenue recognition in the future as new products become available for sale.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to expense as incurred. Certain corporate overhead expenses, such as professional fees, salaries, rent and travel are allocated to research and development based on estimates made by management.

ACCOUNTS RECEIVABLE

The Company regularly reviews accounts receivable and records an allowance for doubtful accounts based on a specific identification basis of those accounts that they consider to be uncollectible. As of March 31, 2006, the allowance for doubtful accounts was \$133,660.

INVENTORY

Inventory is valued at lower of cost or market. Reserves for obsolescence or slow moving inventory are recorded when such conditions were identified. The Company held no inventory at March 31, 2006, and inventory that was held at March 31, 2005 has been reclassified as Assets of Discontinued Operations.

ADVERTISING

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

Advertising costs incurred and charged to expense during the first quarter of 2005 were reclassified as Expense of Discontinued Operations for the period. No advertising expenses were incurred during the three months ended March 31, 2006.

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". Per 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.

8

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 Series A Preferred Stock as a long term liability on the balance sheet. See Note 11, 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.

WARRANT DERIVATIVE LIABILITY

The Company accounts for warrants issued in connection with financing arrangements in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19)". Pursuant to EITF 00-19, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required be classified as a derivative liability. The fair value of warrants classified as derivative liabilities is adjusted for changes in fair value at each reporting period, and the corresponding non-cash gain or loss is recorded in current period earnings.

COMPREHENSIVE INCOME

The Company adopted the provisions of SFAS 130, "Reporting of Comprehensive

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

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.

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.

9

STOCK-BASED COMPENSATION

The Company measures compensation expense related to the grant of stock options and stock-based awards to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, under which compensation expense, if any, is generally based on the difference between the exercise price of an option, or the amount paid for the award and the market price or fair value of the underlying common stock at the date of the award. Stock-based compensation arrangements involving non-employees are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," under which such arrangements are accounted for based on the fair value of the option or award. The Company adopted the disclosure requirements of SFAS No. 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE," an amendment of SFAS No. 123 as of January 1, 2003, which require certain disclosures about stock-based employee compensation plans in an entity's accounting policy note. The adoption of SFAS No. 148 did not have a material impact on these consolidated financial statements and the disclosure requirements are included below.

Under the accounting provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's pro forma net loss and loss per share for the three months ended March 31, 2006 and 2005 would have been as follows:

	March 31, 2006 -----	March 31, 2005 -----
Net Loss:		
As reported	\$ (1,700,881)	\$ (5,331,641)
SFAS No. 123 effect	(27,898)	(65,985)
	-----	-----
Pro forma net loss	\$ (1,728,779)	\$ (5,397,626)
	=====	=====
Loss per share:		
As reported	\$ (0.02)	\$ (0.18)
	=====	=====
Pro forma	\$ (0.02)	\$ (0.18)
	=====	=====
Basic and diluted weighted average shares outstanding	81,568,899	29,287,450
	=====	=====

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

The Company issued no additional options to employees or directors during the three months ended March 31, 2006.

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.

10

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

GOODWILL

Statement of Financial Accounting Standards 142 "Goodwill and Other Intangible Assets" ("SFAS 142") requires that goodwill be tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or disposition of a business operation. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business and the useful life over which cash flows will occur. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

Based on management's annual assessment, last completed as of December 31, 2005, no impairment of goodwill/intangible assets was considered necessary.

OTHER INTANGIBLE ASSETS

Management performs impairment testing annually and more frequently if factors and circumstances indicate an impairment may have occurred. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Management has performed its impairment testing and believes that no impairments existed as of December 31, 2005.

Included in other assets are license agreements and patents. License agreements are amortized over the life of the agreement and patents are amortized over 20 years.

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.

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

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Based on Management's annual assessment, most recently made as of December 31, 2005, no impairment of goodwill/intangible assets was considered necessary.

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.

11

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 statement of the prior year in order to conform to the current quarter 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

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

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 - BUSINESS COMBINATION

The Company acquired licenses for new technology in November 2005 and February 2006 in return for the issuance of 100,000 shares of Series B Preferred Stock and 100,000 shares of Series C Preferred Stock, respectively. These shares cannot be converted for a period of one year from the date of acquisition. The Company valued the assets and related goodwill acquired through these acquisitions in accordance with "Business Combinations" ("FAS 141"). As of March 31, 2006, no revenues have been generated by these acquisitions.

12

NOTE 4 - DISCONTINUED OPERATIONS

In April 2004, ART entered into an exclusive license agreement with Gebauer Medizintechnik GmbH ("Gebauer"), pursuant to which it acquired worldwide marketing, sales and distribution rights for Gebauer's LASIK and Epi-LASIK products. In May 2004, ART began marketing these products in Europe and certain other foreign countries, where the products have received regulatory clearance for sale, and began generating revenue from product sales during the second quarter of 2004

After disputes arose with Gebauer, in October of 2005 ART entered into an agreement with Gebauer terminating the license agreement, and the Company sold its remaining inventory of products to CooperVision International Holding Company, LP. As a result, the Company has no products for sale and has no source of revenues. Summary operating results of discontinued operations for the three months ended March 31, 2006 and 2005, respectively, were as follows:

	Three months ended March 31, 2006	2005
	-----	-----
Sales, net	\$ --	\$ 324,164
Cost of goods sold	--	(198,232)
General and administrative	--	(874,267)
	-----	-----
Operating gain (loss)	\$ --	\$ (748,335)
	=====	=====

Assets of the discontinued operations were comprised of the following at March 31, 2006 and December 31, 2005:

	2006	2005
	-----	-----

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

Accounts receivable, net of allowance	\$ --	\$ 60,872
	=====	=====

Liabilities of the discontinued operations were comprised of the following at March 31, 2006 and December 31, 2005:

	2006	2005
	-----	-----
Accounts payable	\$ --	\$ 376,795
Accrued liabilities	--	344,282
	-----	-----
	\$ --	\$ 721,077
	=====	=====

NOTE 5 - INVENTORY

During 2005 the Company sold its remaining inventory related to the discontinued Gebauer product business totaling \$375,732, and no inventory was held at March 31, 2006 or December 31, 2005.

13

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2006 and December 31, 2005:

	March 31, 2006	December 31, 2005
	-----	-----
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	30,229
	-----	-----
	208,932	208,932
Less: Accumulated depreciation	(143,317)	(132,099)
	-----	-----
	\$ 65,615	\$ 76,833
	=====	=====

Depreciation expense for the three months ended March 31, 2006 and 2005 was \$11,218 and \$8,724, respectively.

NOTE 7 - DISTRIBUTION AND PATENT AGREEMENTS

In May 2004, the Company entered into a license agreement with Gebauer Medizintechnik GmbH, pursuant to which the Company acquired exclusive worldwide distribution, sales and marketing rights for certain ophthalmic surgical products used in LASIK refractive surgery procedures.

The Company capitalized a total of \$1,901,400 in connection with this agreement based on non-refundable cash license fee paid, plus the fair market value of 750,000 shares of common stock issued to Gebauer, as consideration under the agreement. In October 2005, the Company terminated the distribution agreement

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

and expensed the remaining capitalized balance of \$1,654,218 during 2005 as part of discontinued operations.

In November 2005 the Company acquired all of the outstanding stock of OptiMetrix Technologies, Inc., a company formed for the sole purpose of obtaining the exclusive license to a patented technology for the detection of cataract formations. The consideration for the purchase was 100,000 shares of Series B Preferred Stock, convertible after one year into Common Stock of the Company worth \$1,500,000, valued at the market price at the time of conversion. The Company made an evaluation of this purchase in accordance with the guidelines of SFAS 141, and recorded the new license agreement at \$75,000. The Company also received cash of \$200,000 and recorded goodwill of \$1,225,000. The goodwill was deemed not to be impaired at December 31, 2005.

In February of 2006, the Company acquired all of the outstanding stock of Ocular Therapeutics Inc. ("OTI"). OTI holds a license to certain patented technology owned by Motility Inc., relating to a small protein therapeutic (LD22-4) for the treatment of the wet form of age related macular degeneration. Because LD22-4 directly targets a fundamental requirement for the proliferation of blood vessels, i.e. cell migration, the Company believes that its mode of action is distinct from other drugs on the market or in development by other biotechnology or pharmaceutical companies. The consideration for the acquisition was 100,000 shares of Series C Preferred Stock of the Company. The shares are not convertible until after the first anniversary of the agreement. The Series C Preferred Stock is convertible into \$2,800,000 worth of shares of Common Stock of the Company. Additional consideration for the acquisition was the issuance of a warrant to purchase 1,400,000 shares of Common Stock of the Company at 50% of the conversion price.

14

Distribution, patent and license agreements consisted of the following at March 31, 2006 and December 31, 2005:

	March 31, 2006	December 31, 2005
Patent agreements	\$ 100,000	\$ 100,000
License Agreement	150,000	75,000
Less: accumulated amortization	(25,307)	(21,844)
	\$ 224,693	\$ 153,156

The unamortized distribution agreement with Gebauer was charged to expense during 2005.

NOTE 8 - ACCRUED EXPENSES

Accrued expenses consist of the following at March 31, 2006 and December 31, 2005:

	March 31, 2006	December 31, 2005
Payroll and related taxes	\$ 197,506	\$ 142,763
Litigation settlement fees	129,669	129,669
Other accruals	1,210,896	643,369

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

-----	-----
\$ 1,538,071	\$ 915,801
=====	=====

Portions of the accrued expenses have been reclassified as current liabilities related to discontinued operations for 2006 and 2005.

NOTE 9 - CONVERTIBLE DEBENTURES

JANUARY 2005 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 Company. 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 Company 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.

15

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

The Company received funding from the above financing with an aggregate principal balance of \$4,720,000, and received net proceeds of \$4,540,500, after subtracting related placement agent fees and expenses totaling \$179,500. The notes bear interest, at an annual rate of 8%, which is due and payable quarterly beginning March 31, 2005. The principal balance of the note, plus any accrued and unpaid interest is due and payable on January 14, 2015, provided however, that on or after January 14, 2008 the Company, at the option of the note holder, may be obligated to repurchase the note at a price equal to 100% of the outstanding principal and interest. The outstanding principal of the debentures may be converted into shares of the Company's common stock, at the option of the note holder, based on an initial conversion price of \$0.35 per share, subject to adjustment as defined in the agreement. In addition, the note holders received warrants to purchase 4,720,000 shares of the Company's common stock, exercisable through January 14, 2010 at an exercise price of \$0.40 per share.

The debenture debt was recorded net of discounts totaling \$2,752,971 recorded in connection with the \$179,500 of loan fees, expenses of \$1,288,231, based on a

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

Black-Scholes model valuation, related to the 4,720,000 warrants issued to debenture holders and \$561,260, based on the closing price of our common stock on February 15, 2005 of \$0.54, for 1,039,370 shares of common stock issued for commission fees and warrants issued for commission of \$723,980, based on a Black-Scholes model valuation, related to the 2,652,617 additional warrants issued for commissions and fees.

The market price of the Company's common stock on the date of issuance of the debentures was \$0.50 per share. In accordance with EITF 98-5, as amended by EITF 00-27, because the debentures were sold at an effective conversion price less than the market value of the underlying components of the security, a beneficial conversion to the holders of the debentures occurred. Accordingly, the Company recorded a discount to the principal of the debenture and a corresponding amount to common stock additional paid in capital. The recorded discount resulting from the beneficial conversion is recognized as non-cash interest expense from the date of issuance to the earliest date on which the debt is convertible by note holders. Since the debt was convertible, at the option of the note holders, at any time following issuance, the discount of \$3,311,088 will be recorded as non-cash interest expense during the first quarter of 2005.

On 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 year ended December 31, 2005, the Company recorded total interest expense of \$956,233 in connection with the debenture debt. Of this total, \$405,238 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 \$557,983 resulted from interest accrued during the period on the outstanding principal balance. As of December 31, 2005, the balance on the accrued interest was \$558,394.

Convertible Price and Warrant Terms Modifications

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 2005 debentures with a principal balance of \$1,108,000 were tendered for conversion to common stock of the Company under the conversion terms of the agreement.

On June 14, 2005, convertible debentures with an aggregate outstanding principal balance of \$7,695,000, and certain warrant agreements, were amended to change the conversion price and exercise price from \$0.35 and \$0.40 per share, respectively to \$0.095. In addition, the term of the warrants was extended to January 14, 2010. The Company determined that the modification of terms met the

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

requirements of EITF Issue 96-19, "Debtors Accounting for a Modification or Exchange of Debt Instruments," of an exchange of debt with substantially different terms and accordingly has deemed the debt to be extinguished as of June 14, 2005, and replaced with new debt on that date.

At the time of the amendment and recording the extinguishment of the original Notes, the Company recorded a corresponding entry to record a new note at its principal balance as of June 14, 2005 of \$7,695,000, and further recorded entries to record discounts related to the fair value of the warrants and beneficial conversion features totaling \$3,669,956. The recorded debt discount will be amortized as non-cash interest expense over the remaining term of the debt. At March 31, 2006, the remaining debt discount balance was \$2,863,528 and the outstanding principal balance on the Notes was \$6,448,000.

As of March 31, 2006 and December 31, 2005, convertible debenture debt balances consists of the following:

Current:	March 31, 2006	December 31, 2005
	-----	-----
Convertible debenture	\$ 6,448,000	\$ 6,587,000
Convertible debenture discount	(2,863,528)	(2,997,929)
	-----	-----
Convertible debenture - net	\$ 3,584,472	\$ 3,589,071
	=====	=====

At March 31, 2006, the Company is in default of its convertible note agreements for failure of timely payment of accrued interest balances. Accordingly, its convertible notes with maturity dates greater than one year from the balance sheet date are classified as current liabilities as of March 31, 2006.

17

NOTE 10 - DERIVATIVE LIABILITIES

Evaluation of criteria under EITF Issue No. 00-19, "Accounting for Derivative Financial Instrument Indexed to, and Potentially Settled in, a Company's Own Stock" at December 13, 2005, resulted in the determination that the Company's outstanding warrants should be reclassified as a derivative liability as of June 30, 2005. In accordance with EITF 00-19, warrants which are determined to be classified as derivative liabilities are marked to market each reporting period, with a corresponding non-cash gain or loss reflected in the current period.

At December 13, 2005, the fair market value of the derivative liabilities was determined to be \$94,829 using a Black-Scholes model valuation with the following assumptions, expected dividend yield of zero, expected stock price volatility of 120.64%, risk free interest rate of 4.35% and a remaining contractual life between one and five years. The aggregate fair value of the warrant derivative liability at December 31, 2005 was determined to be \$102,951. Based on this change in fair value, the Company has recorded a non-cash loss during the year ended December 31, 2005 of \$8,122 and a corresponding increase in the warrant derivative liability.

NOTE 11 - NOTES PAYABLE - RELATED PARTIES

SURGIJET, INC. AND RELATED PARTIES

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

The balances of notes payable to related parties at March 31, 2006 and December 31, 2005 are as follows:

	March 31, 2006		December 31, 2005	
	Principal	Interest	Principal	Interest
SurgiJet	\$ 495,242	\$ 39,277	\$ 495,242	\$ 27,439
Lance Doherty	19,000	9,591	19,000	8,894
Total	\$ 514,242	\$ 48,868	\$ 514,242	\$ 36,333

FINANCIAL ENTREPRENEURS, INC. ("FEI")

In connection with the Merger Agreement in 2003, the Company assumed a promissory note during 2003 originally entered into between PNAC and FEI, a significant shareholder of the Company, during 2002. The note bears interest at an annual rate of 7.5%, and matures on April 3, 2009. Upon consummation of the merger in February 2003, the outstanding principal and accrued interest payable balances were \$206,649 and \$11,462, respectively. During 2003, the Company added net borrowings of \$43,476 to the note, and accrued additional interest expense of \$17,072, resulting in an outstanding principal balance and accrued interest payable balances at December 31, 2003 of \$250,125 and \$28,534, respectively.

During the fiscal year ending December 31, 2004, net activity resulted in an increase to the outstanding principal of \$28,761 and \$23,329 of interest expense related to this note. As of December 31, 2004 the outstanding principal and accrued interest payable on this note were \$278,886 and \$51,863, respectively.

In March 2005, the Company received a demand from FEI for the payment in full of the note. This is not a demand note and the Company is currently in negotiations for resolution in this matter and believes there will be an amicable resolution.

NOTE 12 - COMMITMENTS

LICENSE AGREEMENTS

Under the terms of the patent license agreement entered into during 2003, the Company is obligated to pay a royalty of 6% of net sales of products utilizing the licensed patent technology. The license agreement also provides for a minimum royalty of \$24,000 per year that may be used as a credit toward payment of future royalties due on product sales.

The Company has acquired from UTEK Corporation all the stock of OptiMetrix Technologies, Inc., which holds an exclusive license to a patented technology that takes the application of fiber-optic, OMA based instrumentation as an in vivo diagnostic tool for the human ocular lens. The Company is required to pay to UTEK royalties of three percent (3%) for equipment, five percent (5%) for disposables and services of net sales, excluding customary discounts and sales to the U.S. Government. In addition the Company is required to pay an annual license payable in advance on March 31 of each calendar year as follows:

YEAR	ANNUAL LICENSE FEE
2006	--

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

2007	\$ 10,000
2008	20,000
2009	20,000
2010	40,000
2011	70,000
2012 and thereafter	100,000

Annual fees for any year will be credited against any royalties owed during that year.

OptiMetrix Technologies has the right to sub-license within the scope of its grant.

The Company must meet certain due diligence milestones as follows:

- o An updated commercialization plan within 120 days of the execution of the license.
- o The Company must invest at least \$500,000 towards development of the technology by March 2007
- o A Beta Product by June 2007
- o A first commercial sale to a non-related company by September 2008.
- o One Million (\$1,000,000) in sales by June 2009
- o Annual sales of at least one million (\$1,000,000) after that.

If the Company fails to meet any of these milestones, the license may be terminated or converted to a non-exclusive license.

The Company has entered into a consulting agreement with the inventor of the technology, Dr. Irving Bigio, in order to help implement the technology. The payment to Dr. Bigio was 2,000 shares of Series B Preferred Stock, in exchange for his 2% ownership in OTI.

In February of 2006, the Company acquired all of the outstanding stock of Ocular Therapeutics Inc. ("OTI"). OTI holds a license to certain patented technology owned by Motility Inc., relating to a small protein therapeutic (LD22-4) for the treatment of the wet form of age related macular degeneration. Because LD22-4 directly targets a fundamental requirement for the proliferation of blood vessels, i.e. cell migration, the Company believes that its mode of action is

distinct from other drugs that are on the market or that are in development by other biotechnology or pharmaceutical companies. The consideration for the acquisition was 100,000 shares of Series C Preferred Stock of the Company. The shares are not convertible until after the first anniversary of the agreement. The Series C Preferred Stock converts into \$2,800,000 worth of shares of Common Stock of the Company. Additional consideration for the acquisition was the issuance of a warrant to purchase 1,400,000 shares of Common Stock of the Company at 50% of the conversion price.

The Company is required to pay royalties and meet certain milestones as follows:

- o Earned royalties of 7.5% on Net Sales
- o Annual Minimum Royalty as follows which are fully creditable against royalties paid during the previous 12 month period:

Year	Annual Minimum Royalties
----	-----

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

1	--
2	--
3	\$10,000
4	\$20,000
5	\$30,000
6 and thereafter	\$40,000

NOTE 13 - SERIES B PREFERRED STOCK

In December 2005 the Company acquired OptiMetrix Technologies, Inc., a wholly owned subsidiary of UTEK Corporation . It holds technology licensed from Los Alamos National Laboratory , operated by the University of California for the Nuclear Security Administration of the U.S. Department of Energy.

The consideration paid for this license was 100,000 shares of Series B Preferred Stock. These shares can be converted after a period of one year from the date of acquisition in December 2005. They will be convertible into shares of Common Stock of the Company valued at \$1,500,000, based on the 10 day closing stock price average at the time of conversion. Additionally, the seller received a warrant for 750,000 shares of common stock priced at 50% of the conversion price.

The Company received \$200,000 cash as part of the acquisition, and in accordance with FAS 141, recorded the acquired licenses at \$75,000 and goodwill in the amount of \$1,225,000.

NOTE 14 - SERIES C PREFERRED STOCK

In February of 2006 the Company acquired all of the stock of Ocular Therapeutics Inc. ("OTI"), a wholly owned subsidiary of UTEK Inc. OTI holds the exclusive license to a patented technology for a small protein therapeutic (LD22-4) for the treatment of the wet form of age related macular degeneration. The consideration for the acquisition was 100,000 shares of Series C Preferred Stock of the Company. The shares are not convertible until after the first anniversary of the agreement. The Series C Preferred Stock converts into \$2,800,000 worth of shares of Common Stock of the Company. Additional consideration for the acquisition was the issuance of a warrant to purchase 1,400,000 shares of Common Stock of the Company at 50% of the conversion price.

The Company received \$325,000 cash as part of the acquisition, and in accordance with FAS 141, recorded the acquired licenses at \$75,000 and goodwill in the amount of \$2,400,000.

20

NOTE 15 - SHAREHOLDERS' EQUITY (DEFICIT)

COMMON STOCK ACTIVITY

ISSUANCE OF COMMON STOCK ON CONVERSION OF DEBENTURES

During the period January 25, 2006 through March 8, 2006 the Company issued 1,463,157 shares of stock pursuant to the terms of convertible debentures.

ISSUANCE OF COMMON STOCK FOR SERVICES

During the period January 19, 2006 through March 24, 2006 the Company issued

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

179,623,160 shares of common stock for services rendered to the Company.

WARRANT ACTIVITY

In February of 2006 the Company acquired all the shares of Ocular Therapeutics Inc., a wholly owned subsidiary of UTEK Corporation. . The consideration for the acquisition was 100,000 shares of Series C Preferred Stock of the Company. Additional consideration for the acquisition was the issuance of a warrant to purchase 1,400,000 shares of Common Stock of the Company at 50% of the conversion price.

Tables summarizing the number of the Company's outstanding common stock warrants and additional warrant information are included in the Company's 10-KSB filed for the year ended December 31, 2005.

BORROWED SHARES

In connection with collateral requirements of convertible debenture agreements with HIT Credit Union, Platinum Long Term Growth Fund and Rock II, LLC, the Company borrowed a total of 3,000,000 shares of its outstanding common stock from Taika Investments, Inc. ("Taika") pursuant to a Securities Lending Agreement between the Company and Taika. 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 was obligated to return any borrowed shares by November 30, 2004. In January 2005, the Company received a one-year extension, to November 30, 2005 and in November, 2005 the Company received another one-year extension to November 30, 2006, of the date by which any borrowed shares must be returned. In the event of default, the Company has agreed to file a Registration Statement and to return any shares, within 72 hours, which had not previously been returned by the due date. As of December 31, 2004 the Company had borrowed a total of 1,550,000 shares pursuant to this agreement, and the Company had accrued interest expense totaling \$41,935. As of December 31, 2005, the accrued interest balance was \$106,328. As of March 31, 2006 all shares that were borrowed are outstanding.

In January 2005, HIT Credit Union returned 750,000 of the borrowed shares.

21

NOTE 16 - 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 March 31, 2006 and December 31, 2005, the aggregate balance on these notes was \$54,862 and \$54,862 and the respective accrued interest payable balances were \$13,051 and \$12,462, respectively.

NOTE 17 - RELATED PARTY TRANSACTIONS

In connection with the Merger Agreement in 2003, the Company assumed a

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

promissory note during 2003 originally entered into between Ponte Nossa Acquisition Corporation and Financial Entrepreneurs Incorporated, 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 March 31, 2006, the outstanding principal and accrued interest payable on this note were \$265,990 and \$82,676, respectively.

During 2003, the Company began making monthly consulting payments to a corporation controlled by Norman Schwartz, a director of the Company. On March 1, 2005, the company signed a two-year contract with Norman Schwartz's company increasing the monthly fee to \$7,500 per month. Total consulting fees and related expenses paid during the three-month period ended March 31, 2006 were \$22,500 and \$0, respectively, of which \$45,000 was included in Accounts Payable at March 31, 2006.

In January 2004, the Company entered into a revised consulting agreement with Richard Keates providing a monthly retainer of \$15,000 plus reimbursement of Business expenses incurred. Through March 31, 2006 consulting fees and related expenses totaling \$45,000 and \$65, respectively, were recorded pursuant to this agreement, of which \$7,491 is included in accounts payable at March 31, 2006.

NOTE 18 - SECURITY LENDING AGREEMENT

In April 2004, the Company and Taika Investments entered into an agreement pursuant to which the corporation agreed to make available 3 million 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, 2006. In the event of default, the Company has agreed to file a Registration Statement and to return any shares, within 72 hours, which had not previously been returned by the due date. As of December 31, 2004 the Company had borrowed a total of 1,550,000 shares pursuant to this agreement, and the Company had accrued interest expense totaling \$41,935. As of December 31, 2005, the accrued interest balance was \$106,328. As of March 31, 2006 all shares that were borrowed are outstanding.

22

NOTE 19 - SUBSEQUENT EVENTS

LICENSE AGREEMENT

In April of 2006, the Company acquired the exclusive license for a drug for the treatment of glaucoma. The consideration paid was 100,000 shares of Series D Preferred Stock of the Company. The stock is not convertible for one year.

DELISTING BY OTC BULLETIN BOARD

On June 6, 2006, due to its failure to make filings under the Securities Exchange Act of 1934 on a timely basis, NASDAQ determined that the Company's securities were not eligible for continued quotation on the OTCBB. Consequently, since June 6, 2006 the Company's securities have only been traded on the "pink sheets." Upon the filing of this document the Company intends to seek re-listing of its Common Stock on the OTC Bulletin Board.

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

FORWARD LOOKING STATEMENTS

This Report on Form 10-QSB, press releases and certain information provided in our 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-KSB and include all statements that are not statements of historical fact regarding intent, belief or current expectations of the Company, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans; (iii) our continued development of our technology; (iv) market and other trends affecting our future financial condition; (v) our growth and operating strategy.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others the following: (i) we have incurred significant losses since our inception; (ii) any material inability to successfully develop our products; (iii) any adverse effect or limitations caused by government regulations; (iv) any adverse effect on our ability to obtain acceptable financing; (v) competitive factors; and (vi) other risks including those identified in our other filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise the forward looking statements made in this Form 10-KSB to reflect events or circumstances after the date of this Form 10-KSB or to reflect the occurrence of unanticipated events.

OVERVIEW

The Company has two ophthalmic surgery products under development utilizing proprietary waterjet technology. The first is Accupulse, 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.

In December 2005 the company acquired OptiMetrix Technologies, Inc. ("OMTI"). OMTI owns rights to technology licensed from Los Alamos National Laboratory, operated by the University of California for the Nuclear Security Administration of the US Department of Energy. The technology is designed to determine optical aging, optical metrics and the presence of cataracts and other optical diseases. The company plans to conduct the necessary research and development of these technologies to bring the product to market during the first quarter of 2008.

In February of 2006 the Company acquired all of the stock of Ocular

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

Therapeutics Inc. ("OTI"), a wholly owned subsidiary of UTEK Inc. OTI holds the exclusive license to a patented technology for a small protein therapeutic (LD22-4) for the treatment of the wet form of age related macular degeneration. Because LD22-4 directly targets a fundamental requirement for the proliferation of blood vessels, i.e. cell migration, we believe that its mode of action is distinct from other drugs that are on the market or that are in development by other biotechnology or pharmaceutical companies.

24

The primary markets to be 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, when completed and available for sale, will address important needs in each of these markets.

There are numerous factors that could affect our ability to achieve revenues, 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 Accupulse 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, 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.

ITEM 3.CONTROLS AND PROCEDURES

At the end of the period covered by this Form 10-QSB, the Company's management, including its Chief Executive Officer and its Treasurer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Treasurer determined that such controls and procedures are effective to ensure that information relating to the Company required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. There have been no changes in the Company's internal controls over financial reporting that were identified during the evaluation that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ART is a defendant in Steven J. Baldwin vs. VisiJet, Inc. et al, a case pending in San Francisco County Superior Court, filed on February 9, 2004 (Case NO. 04-428696). The Plaintiff alleges that the Company failed to compensate him for services performed, prior to the merger with PNAC, pursuant to a consulting agreement and is seeking monetary damages in the approximate amount of \$450,000. The case is currently in a preliminary stage.

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

In February of 2006 the Company issued 100,000 shares of Series C Preferred Stock and a warrant to purchase 1,400,000 shares of Common Stock of the Company. The shares and warrant were issued to UTEK Corporation as the consideration for the purchase of all the shares of Ocular Therapeutics Inc.

The Company believes that the issuance of the shares of Series C Preferred Stock and the warrant were exempt from the registration requirements of the Securities Act of 1933, as amended, by reason of Section 4(2) thereof.

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

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant

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

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 Schreiber

Laurence Schreiber, Secretary,
Treasurer, Chief Operating Officer

Date: July 26, 2006