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AMPLIDYNE INC
Form 10QSB
May 24, 2004

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, 2004.

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

22-3440510

(State or other jurisdiction of
incorporation or organization)

(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 17, 2004 was 10,376,500.

AMPLIDYNE, INC.
FORM 10-QSB
THREE MONTHS ENDED MARCH 31, 2004

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMPLIDYNE, INC. BALANCE SHEETS

ASSETS

	March 31 2004	December 31 2003
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,116	\$ --
Accounts receivable, net of allowance for doubtful accounts of \$275,000 and \$143,000 in 2004 and 2003, respectively	140,104	91,482
Inventories	378,403	407,709
Loan receivable - officer	1,000	--
Prepaid expenses and other	--	12,307
	-----	-----
Total current assets	539,623	511,498
	-----	-----

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PROPERTY AND EQUIPMENT - AT COST		
Machinery and equipment	567,906	565,629
Furniture and fixtures	43,750	43,750
Autos and trucks	66,183	66,183
Leasehold improvements	8,141	8,141
	-----	-----
	685,980	683,703
Less accumulated depreciation and amortization	(656,627)	(646,627)
	-----	-----
	29,353	37,076
	-----	-----
SECURITY DEPOSITS AND OTHER NON-CURRENT ASSETS	35,625	35,625
	-----	-----
	\$ 604,601	\$ 584,199
	=====	=====

Note: The balance sheet at December 31, 2003 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

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AMPLIDYNE, INC.
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31 2004	December 31, 2003
	-----	-----
CURRENT LIABILITIES		
Overdraft	\$ --	\$ 17,855
Advances pursuant to financing agreement	99,220	--
Customer advances	60,000	60,000
Accounts payable	570,120	411,171
Accrued expenses	107,645	81,486
Accrued settlement of litigation	140,000	170,000
Loans payable - officers	305,689	256,997
	-----	-----
Total current liabilities	1,282,674	997,509
Notes payable, convertible into common stock at the holders' option	21,273	20,973
	-----	-----
TOTAL LIABILITIES	1,303,947	1,018,482
	-----	-----

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OTHER COMMENTS - NOTE I

STOCKHOLDERS' EQUITY

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, 2004 and December 31, 2003, respectively	1,038	1,038
Additional paid-in capital	22,494,854	22,494,854
Accumulated deficit	(23,195,238)	(22,930,175)
	-----	-----
	(699,346)	(434,283)
	-----	-----
	\$ 604,601	\$ 584,199
	=====	=====

Note: The balance sheet at December 31, 2003 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

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AMPLIDYNE, INC. STATEMENTS OF OPERATIONS THREE MONTHS ENDED MARCH 31

	Three Months Ended March 31	
	2004	2003
	-----	-----
Net sales	\$ 315,367	\$ 509,608
Cost of goods sold	288,400	278,857
	-----	-----
Gross profit	26,967	230,751
Operating expenses		
Selling, general and administrative	213,004	193,731
Research, engineering and development	79,526	97,142
	-----	-----
Operating loss	(265,563)	(60,122)
Nonoperating income (expenses)		
Interest income and other income	--	2
Interest expense	(300)	(69)
Gain on sale of property and equipment	4,000	--
	-----	-----
Loss before income taxes	(261,863)	(60,189)
Provision for income taxes	3,200	--
	-----	-----

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NET LOSS	\$ (265,063)	\$ (60,189)
	=====	=====
Net loss per share - basic and diluted	\$ (0.03)	\$ (0.01)
	=====	=====
Weighted average number of shares outstanding	10,376,500	10,143,167
	=====	=====

The accompanying notes are an integral part of these financial statements

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AMPLIDYNE, INC.
STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31

	Three Months Ended March 31	
	2004	2003
	-----	-----
Cash flows from operating activities:		
Net Loss	\$ (265,063)	\$ (60,189)
	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	10,000	7,400
Gain of sale of property & equipment	(4,000)	
Provision for doubtful accounts	28,260	
Interest accrued on convertible promissory note	300	
Salary deferred, added to officer loans	30,692	20,500
Changes in assets and liabilities		
Accounts receivable	(76,882)	34,000
Inventories	29,306	1,900
Prepaid expenses and other assets	12,307	(4,200)
Customer advances	--	100,000
Accounts payable and accrued expense	155,108	(95,200)
	-----	-----
Total adjustments	185,091	64,400
	-----	-----
Net cash provided (used) for operating activities	(79,972)	4,200
	-----	-----
Cash flows from investing activities:		
Loans to officers	(1,000)	
Proceeds on sale of property & equipment	4,000	
Purchase of property and equipment	(2,277)	
	-----	-----
Net cash provided by (used for) investing activities	723	
	-----	-----

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Cash flows from financing activities:		
Overdraft	(17,855)	(11,9
Payment of lease obligations	--	(2,0
Officer loans	18,000	9,5
Proceeds from convertible promissory note	--	20,0
Advances pursuant to financing agreement (Note C. 2.)	99,220	
	-----	-----
Net cash provided by financing activities	99,365	15,5
	-----	-----
NET INCREASE (DECREASE) IN CASH	20,116	19,7
Cash (overdraft) and cash equivalents beginning of period	--	
	-----	-----
Cash and cash equivalents at end of period	\$ 20,116	\$ 19,7
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid for: Interest	\$ --	\$
Income taxes	\$ --	\$

The accompanying notes are an integral part of these financial statements

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AMPLIDYNE, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2003 AND THREE MONTHS ENDED MARCH 31, 2004

	Preferred Stock		C SHARES
	SHARES	PAR VALUE	
	-----	-----	-----
BALANCE AT DECEMBER 31, 2002	--	\$ --	9,676,5
Net loss for the year ended December 31, 2003			
Issuance of common stock in connection with litigation settled in the year ended December 31, 2002			700,0
	-----	-----	-----
BALANCE AT DECEMBER 31, 2003	--	--	10,376,5
Net loss for the three months ended March 31, 2004			
	-----	-----	-----
BALANCE AT MARCH 31, 2004	--	\$ --	10,376,5
	=====	=====	=====

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	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	SU
	-----	-----	--
BALANCE AT DECEMBER 31, 2001	\$ 22,494,924	\$(21,949,679)	\$
Net loss for the year ended December 31, 2003		(980,496)	
Issuance of common stock in connection with litigation settled in the year ended December 31, 2002	(70)		
	-----	-----	--
BALANCE AT DECEMBER 31, 2003	22,494,854	(22,930,175)	
Net loss for the three months ended March 31, 2004		(265,063)	
	-----	-----	--
BALANCE AT MARCH 31, 2004	\$ 22,494,854	\$(23,195,238)	\$
	=====	=====	==

The accompanying notes are an integral part of these financial statements

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AMPLIDYNE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

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 six and three month periods ended March 31, 2004 and 2003 (b) the financial position at March 31, 2004 (c) the statements of cash flows for the six and three month period ended March 31, 2004 and 2003, and (d) the changes in stockholders' equity for the three month period ended March 31, 2004 have been made. The results of operations for the three months ended March 31, 2004 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, 2003 included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 14, 2004.

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 \$265,063 for the three months ended March 31, 2004, has limited cash reserves and has seen its working capital decline by \$257,040 to a deficiency of \$(743,051) since the

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beginning of the fiscal year. Current liabilities exceed cash and receivables by \$1,122,454 indicating that the Company will have 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.

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AMPLIDYNE, INC. NOTES TO FINANCIAL STATEMENTS MARCH 31, 2004

NOTE C - STOCKHOLDERS' EQUITY

1. WARRANTS AND OPTIONS

At March 31, 2004, the following 945,000 warrants, remained outstanding:

- (1) 20,000 exercisable at \$1.00 through May 2010
- (2) 20,000 exercisable at \$7.00 through December 2004
- (3) 30,000 exercisable at \$6.00 through November 2004
- (4) 50,000 exercisable at \$2.00 through December 2004
- (5) 50,000 exercisable at \$4.00 through December 2004
- (6) 16,000 exercisable at \$1.75 through December 2004
- (7) 41,500 exercisable at \$1.80 through July 31, 2004
- (8) 207,500 exercisable at \$3.00 through July 31, 2004
- (9) 55,000 exercisable at \$1.20 through September 30, 2004
- (10) 300,000 exercisable at \$2.00 through December 31, 2005
- (11) 75,000 exercisable at \$.96 through March 2007
- (12) 80,000 exercisable at \$1.50 through December 2004.

At March 31, 2004, the Company had employee stock options outstanding to acquire 2,221,000 shares of common stock at exercise prices of \$0.15 to \$3.25.

2. SERIES C CONVERTIBLE PREFERRED STOCK

On January 28, 2004, the Company closed a \$0.1 million financing from

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Phoenix and Phoenix Opportunity Fund III, L.P. ("Phoenix III"), which are managed by Phoenix Capital Holdings. Pursuant to the terms of the subscription agreement between the Company and Phoenix, Phoenix agreed to make an aggregate investment of approximately \$100,000 in the Company in exchange for 282,700 shares of Series C Convertible Preferred Stock, representing approximately 80% of the outstanding stock of the Company on a fully diluted basis. As the Company would need 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 was to make an initial investment of approximately \$20,000 intended to be in exchange for 54,325 shares of Series C Convertible Preferred Stock of the Company, with the remaining portion of the equity investment to be completed after the recapitalization. The preferred shares were not issued because the Company is not in good standing with the State of Delaware and could not amend its certificate of incorporation to authorize the new shares.

Phoenix also entered into a stock restriction agreement with Devendar Bains, 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, gives Phoenix effective control over 53% of the Company's voting stock. In connection with the investment, Phoenix III has agreed to loan to the Company up to \$0.4 million. The loan is secured by substantially all of the assets of the Company. The Company has drawn down approximately \$99,220 of the loan. \$50,000 of the original loan commitment had been placed into an escrow fund to be made available at such time as the Company completes its recapitalization, but Phoenix allowed the draw down without the recapitalization having taken place. The Company has been allowed to draw down \$99,220 (including the \$20,000 intended to be in exchange for the Series C Convertible Preferred Stock) without completing the recapitalization. Generally, the remaining portion of the commitment is reserved for specific, enumerated purposes, and Phoenix III retains substantial discretion over the availability of the funds.

The Company and Phoenix are presently in serious negotiations to rescind the financing and stock purchase agreements. Pursuant to these negotiations, the Phoenix principals intend to resign their board and officer positions with the Company. It is expected that to effectuate the rescission, the Company will pay back to Phoenix \$100,000. Phoenix is requesting that the Company be required to pay for its efforts and expenses, with such amount proposed to be approximately \$40,000, to be satisfied in the form of an interest bearing promissory note with a tentative maturity date in May 2005. Phoenix has further requested that such note be substantially secured by Company assets.

The Company has identified a potential replacement investor and discussions are in advanced stages. Under the terms of a preliminary and unsigned agreement, the potential new investor would advance the Company an aggregate of \$500,000 initially in the form of loans expected to be in three (3) installments. The first installment is expected to be \$150,000 and is scheduled to be received upon signing of the agreement. The proposed agreement also provides for an advance of \$50,000 to be received shortly after the initial installment and \$300,000 to be received in October 2004. The entire \$500,000 advance is expected to be payable immediately upon written demand for such payment; provided, however, that a demand cannot be made prior to December 31, 2004, unless the Company is in default of the Note Purchase Agreement between the Holder and the Company. The proposed agreement also provides for the amount advanced to be converted into Series C Convertible Preferred Stock which would be convertible into common stock representing 80% of the issued and outstanding capital stock of the Company.

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NOTES TO FINANCIAL STATEMENTS MARCH 31, 2004

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.

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 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, 2004.

2. The Company (as well as an officer and director of the Company) was a defendant in a complaint brought in the Superior Court of New Jersey, Law Division, Somerset County, In January 2003, the Company entered into a Stipulation of Settlement and Release before the Court. A remaining balance of \$45,000 as of March 31, 2004 is payable in full by May 28, 2004. The Company is delinquent with \$20,000 of the balance and, as a result, is in default of the settlement agreement. Default of the agreement could result in an additional cost to the Company of \$95,000 if it remains uncured, which would have a material adverse financial impact if the default provisions are exercised.

3. In April 2004, a law firm filed a judgment 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 judgment will have a material impact on the financial position of the Company.

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AMPLIDYNE, INC. NOTES TO FINANCIAL STATEMENTS MARCH 31, 2004

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

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been adversely affected in recent years by significant losses from operations. The Company has incurred losses of \$265,063 and \$60,189 for the three months ended March 31, 2004 and 2003, 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.
- 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 Reducing costs 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, 2004, the Company owes \$244,908 to the Chief Executive Officer for loans and unpaid salaries. During the three months ended March 31, 2004, the Chief Executive Officer advanced \$18,000 to the Company. Additionally, salaries of \$23,192 were deferred for this quarter

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NOTE H - SEGMENT INFORMATION

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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:

	Three Months Ended March 31 2004 -----	Three Months Ended March 31 2003 -----	Year Ended December 31, 2003 -----
Sales - external			
Amplifier	\$ 290,332	445,037	\$1,128,453
Internet business	25,035 -----	64,571 -----	222,772 -----
	\$ 315,367 =====	\$ 509,608 =====	\$1,351,225 =====
Inventory	--		
Amplifier	\$ 262,973	\$ 442,069	\$ 248,575
Internet business	115,430 -----	482,667 -----	159,134 -----
	\$ 378,403 =====	\$ 924,736 =====	\$ 407,709 =====

NOTE I -- OTHER COMMENTS

1. IMPAIRMENT OF CORPORATE GOOD STANDING

The Company is delinquent with certain franchise taxes and filing fees for the State of Delaware. Consequently, this delinquency affects the Company's ability to amend its certificate of incorporation, issue new classes of stock and, reorganize its capital structure among other potential ramifications. Additionally, the Company is delinquent in paying its transfer agent, which may limit transferability of shares.

2. NOTICE OF OPPOSITION ON TRADEMARK

The Company's registration of the Ampwave trademark was opposed at the U.S. Patent Office. The Company has settled with the opposing party by agreeing to stop using the Ampwave name after a period of one (1) year from the date of signing, which has not as yet occurred. Sales under the Ampwave label were \$25,035 for the three months ended March 31, 2004. Management believes that the settlement will have no material financial effect.

3. PREMISES RENT DELINQUENCY

On May 12, 2004, The Company and an officer entered into an agreement with the landlord of its premises whereby the landlord agreed not to proceed with a complaint for the possession of the property due to delinquent rental payments of \$25,200 in exchange for: the payment of \$10,000; the personal guarantee of the officer and his wife and; full payment of the balance of the arrears by June 18, 2004.

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AMPLIDYNE, INC.
MARCH 31, 2004

PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THE THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003.

Revenues for the three months ended March 31, 2004 decreased by \$194,241 from \$509,608 to \$315,367, or 38% compared to the three months ended March 31, 2003. 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, 2004 were obtained from the Wireless Local Loop amplifier products to a major European customer.

The Company has continued to develop its IMT 2000 amplifiers for the worldwide 3G market, however, deployment of this technology has been delayed. The Company has focused its sales and marketing efforts in the more stable United States, European and Canadian markets.

Cost of sales was \$288,400 or 91% of sales compared to 55% during the same period for 2003. The decline in gross margin was principally due to pricing pressures and increased material costs. The Company is continuing to assess cost reduction of its products and sales volume increases to improve gross margins in 2004.

Selling, general and administrative expenses (excluding stock based compensation) increased in 2004 by \$19,273 to \$213,004 from \$193,731, in 2003. Expressed as a percentage of sales, the selling, general and administrative (SG&A) expenses (excluding stock based compensation) were 68% in 2004 and 38% in 2003. Most of the SG&A expenses are fixed and management has cut costs about as low as operations can sustain. Increased percentages are due to the sales decline as the actual dollar increase in SG&A from the previous year was \$19,273 or 10%. In the quarter ended March 31, 2004, we continued to maintain the lower staffing and overhead levels that we instituted in 2002.

Research, engineering and development expenses were 25% of net sales for the three months ended March 31, 2004 compared to 19% in 2003. In 2004 and 2003, the principal activity of the business related to the design and production of product for OEM manufacturers, particularly for the IMT 2000 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.

We had no appreciable interest income in 2004 and 2003 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 \$265,063 or \$0.03 per share for the year ended March 31, 2004 compared with net losses of

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\$60,189 or \$0.01 per share for the same period in 2003.

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AMPLIDYNE, INC.
MARCH 31, 2004

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, 2004, we had an accumulated deficit of \$23,195,238. 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, 2004, our current liabilities exceeded our cash and receivables by \$1,122,454. Our current ratio was 0.42 to 1.00, but our ratio of accounts receivable to current liabilities was only 0.11 to 1.00. This indicates that we will have difficulty meeting our obligations as they come due. We are carrying \$378,403 in inventory, of which \$249,571 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, 2004, we had cash of \$20,116 compared to an overdraft of \$17,855 at December 31, 2003. Overall our cash and cash equivalents increased \$20,116 during 2004. Our cash used for operating activities was \$79,972. We received loans and deferred salary payments to officer/stockholders of \$18,000 and advances pursuant to the financing agreement of \$99,220.

The allowance for doubtful accounts on trade receivables increased from \$143,000 (61% of accounts receivable of \$234,482) in 2003 to \$275,000 (66% of accounts receivable of \$415,104) in 2004. 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 decreased by \$29,306 to \$378,403 in 2004 compared to \$407,709 at December 31, 2003, a decrease of 7%

Although the Company did not convert salaries to officers through the issuance of Common Stock in 2003 or 2002, it may do so in 2004. To help alleviate the cash flow difficulties, the Chief Executive Officer and the Vice President of Operations agreed to defer salaries of \$23,192 and \$6,538, 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.

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AMPLIDYNE, INC.
MARCH 31, 2004

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

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 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.

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.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company's registration of the Ampwave trademark was opposed at the U.S. Patent Office. The Company has settled with the opposing party by agreeing to stop using the Ampwave name after a period of one (1) year. The agreement has not been finalized. Management believes that the settlement will have no material financial effect.

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, 2004, the Company issued no securities.

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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 21, 2004

By: /S/ DEVENDAR S. BAINS

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

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