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Advanced Refractive Technologies, Inc.  
Form 10KSB/A  
June 20, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Amendment No. 1  
FORM 10-KSB

Annual report under Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Commission file number 0-25611

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

33-0838660  
(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 .

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

The registrant's revenues for fiscal year 2005 were \$0.

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$1.9 million (based on 60,188,698 shares held by non-affiliates and a closing share price of \$0.031 per share on June 2, 2006).

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As of June 2, 2006, the number of shares outstanding of the registrant's Common Stock was 240,064,625.

### PART I

#### FORWARD LOOKING STATEMENTS

This Form 10-KSB, press releases and certain information provided periodically in writing or orally by our officers or our agents contain forward-looking statements that involve risks and uncertainties within the meaning of Sections 27A of the Securities Act, as amended; Section 21E of the Securities Exchange Act of 1934; and the Private Securities Litigation Reform Act of 1995. The words, such as "may," "would," "could," "anticipate," "estimate," "plans," "potential," "projects," "continuing," "ongoing," "expects," "believe," "intend" and similar expressions and variations thereof are intended to identify forward-looking statements. These statements appear in a number of places in this Form 10-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.

#### ITEM 1. DESCRIPTION OF BUSINESS

##### COMPANY BACKGROUND AND SUMMARY

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. The Company was incorporated on February 2, 1996, as 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 the Company 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 the Company. The merger was consummated on February 11, 2003, and immediately thereafter, VisiJet, Inc. was merged into Ponte Nossa Acquisition Corp., and the surviving

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company's name was changed to "VisiJet, Inc.". It was subsequently changed to "Advanced Refractive Technologies, Inc."

In April 2004, we entered into an exclusive license agreement with Gebauer Medizintechnik GmbH, of Neuhausen Germany ("Gebauer"), pursuant to which we acquired worldwide marketing, sales and distribution rights for Gebauer's LASIK and Epi-LASIK products. In May 2004, we 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. In September 2004, ART began marketing the Epi-Lasik product in the United States, following receipt of clearance for marketing from the U.S. Food and Drug Administration.

After disputes arose with Gebauer, in October of 2005 we entered into an agreement with Gebauer terminating the license agreement, and sold our remaining inventory of products to CooperVision International Holding Company, LP. As a result, we currently have no products for sale and we have no source of revenues. We are in discussions with BioVision AG, a Swiss company, to license its FDA approved product, the Visitome 20-10 microkeratome. In its present form, this product can be used to perform LASIK surgery in the conventional way; however, the product is in the process of being modified, by BioVision, so that it can perform the epi-LASIK procedure, generally similar to the Gebauer device. These modifications will require an additional FDA approval under rule 510(k), which will require funding from BioVision or a potential partner to complete the regulatory procedures. Accordingly, additional financing will be required to complete an agreement with BioVision and gain final FDA approval for marketing these products in the United States. We currently have no commitments for such financing.

In addition, we are engaged in the research and development of ophthalmic surgery products based upon applications of our proprietary waterjet technology, designed to result in faster, safer and more efficacious laser eye and cataract surgery. To date, these efforts have been focused on bringing to market two products, with different applications and markets.

First is the Accupulse(R), which utilizes waterjet technology to remove the cataractous human crystalline lens in the eye during cataract surgery. Second is the HydroKeratome(R), a device that utilizes waterjet technology to cut the corneal flap immediately prior to applying an excimer laser in laser eye surgery to correct myopia, hyperopia and astigmatism.

We have also acquired the worldwide license rights to a cataract detection device and have started preliminary research and development on this product. Please refer to the Research and Development section of this document for additional information on this transaction.

### MARKETS

#### THE REFRACTIVE SURGERY MARKET

Our products assist in surgical procedures relating to the cornea. The cornea is the clear window that provides most of the focusing power of the vision system of the eye, as well as allowing light into the eye. The anterior surface of the cornea is covered with a thin layer called the epithelium. The epithelium is covered with a liquid tear film.

Physicians generally treat vision disorders by prescribing eyeglasses or contact lenses or through ophthalmic surgery, all of which compensate for or

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correct the vision error. The principal surgical techniques available to treat vision disorders are radial keratotomy ("RK"), Photo Refractive Keratectomy ("PRK")/LASIK and Refractive Lamellar Keratoplasty ("RLK"). In RK, PRK/LASIK and RLK, the object of the surgery is to change the shape of the anterior corneal surface and to eliminate or reduce refractive error. An additional objective is to minimize lens aberrations to improve visual acuity, which is not possible with eyeglasses or contact lenses.

The refractive surgery market in its current form began in late 1995 when the FDA approved the first excimer laser for PRK. Before 1995 refractive surgery was conducted by various manual, non-laser techniques, the most popular of which was RK. In RK, the surgeon uses a diamond knife to make radial incisions in the cornea to flatten it. This technique, and others like it, is highly dependent on the surgeon's skill, and often produces mixed results.

By contrast, in PRK utilizing the excimer laser, the computer-controlled laser is programmed to remove the specified amount of corneal tissue with precision, delivering a consistent outcome. In spite of its inherent accuracy and predictability, PRK was not widely accepted by patients, because it uses the laser to burn away the most sensitive top layers of the cornea. Patients undergoing PRK often experienced considerable pain, and were left with a persistent cloudiness of the cornea for days or weeks. PRK generally met the clinical expectations of the surgeon, but failed to satisfy the patient's desire for comfort and rapid recovery. For this and other reasons, PRK failed to attain broad market acceptance.

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In late 1996 many ophthalmic surgeons started utilizing a new procedure, Laser In Situ Keratomileusis ("LASIK"), which addressed many of the negative aspects of PRK from the patient's standpoint, while preserving the accuracy of PRK. LASIK utilizes a microkeratome, which is a mechanically driven razor to create a flap in the surface of the cornea. After creation of the flap, the excimer laser is used on the exposed internal tissue, called the stroma, underneath the flap. The excimer laser emits ultraviolet light in very short, high-energy pulses and ablates part of the corneal surface according to a prescribed spatial pattern, changing the curvature of the anterior corneal surface. The laser removes a predetermined amount of tissue to achieve the desired correction, and the hinged flap is reset as closely as possible to its original position, where it adheres to the underlying stroma. The adherence increases over a period of many months. The patient's vision is significantly improved within minutes of surgery.

Because the laser energy is used on the less sensitive inner tissue of the cornea, the patient experiences very little pain after surgery and there is generally no clouding of the corneal surface. The patient is usually able to return to normal function the next day with immediate vision improvement.

Recently, a new refractive surgery technique, referred to as Epi-LASIK, was introduced. The Epi-LASIK procedure utilizes an automated device to mechanically separate the epithelium, or outer layer of the cornea, in a sheath, approximately 30 microns thick. This is in contrast to cutting into the cornea using a microkeratome blade and creating a flap, from 120 - 180 microns thick, as is done in the traditional LASIK procedure. Once the epithelium has been separated, the curvature of the corneal surface is changed to predetermined specifications using an excimer laser. Following the laser procedure, the epithelium sheath is then returned to its original position.

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### THE CATARACT SURGERY MARKET

Currently, the majority of cataract surgical procedures are performed using an ultrasonic phacoemulsifier device. The phaco, as it is commonly called, utilizes an ultrasonic generator which vibrates the tip of the phaco hand piece 40,000 times per second. When the tip is introduced into the eye and placed in contact with the cataractous lens, the lens is gradually reduced to smaller pieces until it can be aspirated out of the eye.

### PRODUCTS

#### WATERJET TECHNOLOGY AND PRODUCTS UNDER DEVELOPMENT

Waterjet technology is an established method for precision cutting of materials in a variety of industrial applications. It uses the principle of pressurizing water to extremely high levels, and allowing the water to escape in a controlled manner through a very small opening, or orifice. Water jets use the high pressure beam of water exiting the orifice to cut various materials, including tile, wood, plastic, metal, and stone. In general, industrial applications of waterjet technology are used in place of a laser or other device when the "cut" needs to be quicker, cleaner, and with minimum distortion and temperature increase.

The technology uses a pneumatic-hydraulic pressure intensifier to produce a collimated high pressure water beam that is approximately the diameter of a human hair. This self-cleaning, eversharp "hydro-laser" can cut through tissue at 12mm (.5 inch) per second. The hydraulics are controlled by an embedded central processing unit with displays, gauges, controls, aspiration and irrigation fluidics familiar to ophthalmic surgeons.

ART is currently developing two ophthalmic surgical products utilizing its proprietary waterjet technology. The first is Accupulse(R), a device that uses pulsed waterjet technology to remove cataracts, and the second is Hydrokeratome(R), a device that uses a high-pressure micro beam of water to cut a corneal flap during LASIK surgery. Although our waterjet based products under development have different applications, they share certain basic characteristics. Each of the waterjet products consists of a modular console with an intensifier and a hand piece. The modular unit is attached to a delivery tube, which is in turn attached to a hand piece. The hand piece delivers the water jet to the tissue and its integral aspirator removes any debris tissue and water through a disposable tube that returns to the console.

ACCUPULSE(R) CATARACT EMULSIFIER. The Accupulse(R) Cataract Emulsifier is an emulsification device designed for the quick and safe removal of the cataractous human crystalline lens in the eye, a necessary procedure before installing a new intraocular lens ("IOL"). The device creates a pulsating stream of saline solution, and the impact from the pulsating fluid emulsifies the cataractous human lens and breaks the lens into small pieces. The Accupulse simultaneously aspirates the emulsified tissue and removes it from the interior of the eye.

The Accupulse requires minimal technical skill, as it functions like a hydraulic eraser or paint brush. No sculpting or lens elevation or rotation is necessary. The balanced irrigation/aspiration fluidics complement the embedded CPU controlled micro pulses. The foot switch initiates the mode activity selected by surgeon for the balanced and ergonomically shaped hand piece.

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Based on the experience of our management team and consultants in the ophthalmic industry, we believe that the waterjet platform of the Accupulse will be easier to learn to use and will require less skill than that required by current ultrasound phaco emulsification devices. The Company also expects that Accupulse and its disposable package will be priced in the low range of current ultrasound devices, which will make it attractive in underdeveloped markets, and also attractive in the U.S. and other nations where cost containment is critical.

HYDROKERATOME(R) CORNEAL CUTTING DEVICE. The HydroKeratome(R) is a corneal cutting device for use in the LASIK procedure. The HydroKeratome works by using a high-pressure micro beam of water to force a blunt dissection of tissue in the path of the water beam. The HydroKeratome uses an embedded CPU controlled pneumatic-hydraulic pressure intensifier to make the corneal flap. The suction ring and applanation plate on the hand piece allow holding the eye centered while the corneal flap is cut underneath the applanation plate. The water jet traverses perpendicular to the visual axis, driven by a precision miniature Swiss motor with gear box and encoder. A foot switch controls the start of the transverse water jet motion, and the travel distance pre-programmed by the surgeon stops the travel and shuts off the water jet beam. Approximate travel time is one-half second. The HydroKeratome is designed to address many of the problems that are common with mechanical "blade" microkeratomes, such as poor visualization, inconsistent thickness of flaps, hazing, loose flaps, off center cuts, and lashes caught in gears.

Development activities for both Accupulse and Hydrokeratome are subject to significant risks and uncertainties. These risks and uncertainties include, but are not limited to, our ability to obtain sufficient funding on a timely basis, unanticipated failure of required testing activities, unexpected delays in completion of milestones and inability to obtain, or delays in obtaining, required marketing clearance from the U.S. FDA.

### COMPETITION

Our Hydrokeratome product, if successfully developed and cleared for marketing, will provide an additional alternative for creating a corneal flap, using a high-pressure micro beam of water, instead of a metal blade, to expose the corneal tissue prior to the application of the excimer laser.

Our Accupulse product, if successfully developed and cleared for marketing, will compete in the cataract emulsification market.

### COMPETITION IN CREATING THE CORNEAL FLAP

EPI-LASIK COMPANIES - Epi-LASIK devices were first introduced to the marketplace in 2004, and have not yet captured a significant share of the corneal flap market. Currently, we are aware of only one company, Norwood Abbey, with an Epi-LASIK product on the market. In addition, we are aware of two other Epi-LASIK products under development using similar technology that may become competition in the future if development efforts are completed and regulatory clearance is received.

MICROKERATOME COMPANIES - The corneal flap market is currently dominated by microkeratome devices which maintain approximately 89% of the total market. There are a number of companies that manufacture and or supply microkeratomes including Bausch & Lomb, Moria, Advanced Medical Optics and Nidek. All of these companies have significantly greater financial resources, greater name recognition, larger product offerings and customer bases and longer operating histories than ART.

LASER COMPANIES - We are aware of one company, Intralase, that has

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developed and markets a device for creating a corneal flap utilizing laser technology that has captured approximately 11% of the total market.

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### COMPETITION FROM NEW TECHNOLOGIES

The medical device industry for ophthalmologic surgery products is highly competitive. Many other companies are engaged in research and development activities, and many of these have substantially greater financial, technical and human resources than ART. As such, they may be better equipped to develop, manufacture and market their technologies. Accordingly, we also face competition in the future from new products and technologies that may provide safer and more cost effective alternatives to our products, or that may render our products obsolete.

### RESEARCH AND DEVELOPMENT

Our research and development efforts are focused on completion of final product development and testing and securing of regulatory approval for our two internally developed products, Hydrokeratome and Accupulse. During the fiscal years ended December 31, 2005 and 2004 we spent approximately \$103,088 and \$416,203, respectively, on research and development activities.

In December 2005 the Company acquired OptiMetrix Technologies, Inc. (OTI), a wholly owned subsidiary of UTEK Corporation (UTEK). OTI owns technology licensed from Los Alamos National Laboratory (LANL), operated by the University of California for the National Security Administration of the U.S. 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.

Consideration to UTEK was 100,000 shares of Series B convertible stock in the Company, of which 2,000 shares went to the original developer of the technology.

In addition, the Company is commencing research and development on a cataract detection device.

### MANUFACTURING

We plan to outsource manufacturing for our internally developed products to an ISO 9001 approved local contract manufacturing facility. This contractor will purchase and stock parts, assemble, test and burn-in units, and will stock finished goods and ship as required from a bonded warehouse.

### GOVERNMENT REGULATION

ART's products are medical devices. As such, we are subject to the relevant provisions and regulations of the Federal Food, Drug and Cosmetic Act, under which the United States Food and Drug Administration ("FDA") regulates the manufacture, labeling, distribution, and promotion of medical devices in the United States. The Act provides that, unless exempted by regulation, medical devices may not be commercially distributed in the United States unless they have been approved or cleared by the FDA for marketing. There are two review procedures by which medical devices can receive such approval or clearance. Some products may qualify for clearance under a 510(k) notification. Under the 510(k)

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procedure, the manufacturer submits to the FDA a pre-market notification that it intends to begin marketing its product. The notification must demonstrate that the product is substantially equivalent to another legally marketed product (i.e., it has the same intended use, is as safe and effective, and does not raise different questions of safety and effectiveness than does a legally marketed device).

A successful 510(k) notification results in the issuance of a letter from the FDA in which the FDA acknowledges the substantial equivalence of the reviewed device to a legally marketed device and clears the reviewed device for marketing.

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### FDA STATUS OF CURRENT PRODUCTS AND PRODUCTS UNDER DEVELOPMENT

HydroKeratome - We have received successful 510(k) notification with respect to our initial filing for the HydroKeratome, and have filed a 510(k) submission with the FDA for upgrades to the product. Before commencement of marketing the HydroKeratome, we must obtain 510(k) approval from the FDA for the product enhancements. We are currently addressing issues raised by the FDA in our product enhancement submission for HydroKeratome, and hope to file our response during the first quarter of 2008.

Accupulse - Based on successful completion of required product development and testing issues, we anticipate filing a 510(k) application for marketing clearance of Accupulse in the first quarter of 2007.

In addition to laws and regulations enforced by the FDA, our products may also be subject to labeling laws and regulations enforced by the United States Federal Trade Commission ("FTC"). Any additional requirements related to FTC laws and regulations will be addressed and monitored by the Company's Regulatory Affairs department, although we do not expect that any such laws and/or regulations will have a significant impact on our products.

### MARKETING

We plan to distribute our products internationally through a series of agreements with distribution companies in major countries that handle other American and European manufactured ophthalmic products, and that are familiar with applicable local government rules and regulations, as well as with the customer base and key ophthalmic surgeons in the region.

Although specifics vary based on countries and territories covered, our international distribution agreements generally provide for a specified term and exclusive territory, fixed sales prices from ART to the distributor and minimum purchase quantity requirements for the distributor.

Distribution of our products in countries other than the United States may be subject to regulation in those countries. In some countries, the regulations governing such distribution are less burdensome than in the United States, and we may pursue marketing our products in such countries prior to receiving permission to market from the FDA in the United States. We will endeavor to obtain the necessary government approvals in those foreign countries where we decide to manufacture, market and sell our products.

### PATENTS AND TRADEMARKS



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On September 17, 2003, we entered into a license agreement with Robert M. Campbell, Jr., M.D., pursuant to which the Company obtained exclusive worldwide rights for all medical applications for a patented technology invented by Dr. Campbell that provides for the sterile flow of fluid through a surgical water jet apparatus. The license agreement provides for a royalty of 6% on revenues from products utilizing licensed technology and is subject to a minimum royalty of \$24,000 per year.

### EMPLOYEES

As of December 31, 2005 we employ 6 persons full time. Of these employees, three are in corporate management and legal affairs, and one each in research, product development, customer relations and accounting. None of our employees are covered by collective bargaining agreements and we believe that our relationship with our employees is good. Any future increase in the number of employees will depend upon the growth of our business, the successful commercialization of our products and on our obtaining sufficient funding.

### RISK FACTORS

ART IS AN EARLY-STAGE BUSINESS WITH A LIMITED OPERATING HISTORY, AND AS A RESULT, MAKING AN EVALUATION OF ITS BUSINESS PROSPECTS MAY BE DIFFICULT.

We are an early-stage company with limited prior business operations and operating revenues. We do not currently have any products on the market, and all revenues to date have come from operations that have since been discontinued. You should be aware of the increased risks, uncertainties, difficulties and expenses we face, and that because of our limited operating history, you may not have adequate information on which you can base an evaluation of our business and prospects.

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OUR FINANCIAL STATEMENTS INCLUDE A GOING CONCERN OPINION FROM OUR OUTSIDE AUDITORS WHICH RAISES DOUBT AS TO OUR ABILITY TO STAY IN BUSINESS AND MAY LIMIT OUR ABILITY TO RAISE REQUIRED FUNDING.

The Company received a going concern opinion on its financial statements for the fiscal years ended December 31, 2005, 2004 and 2003. Our auditors have stated that due to our lack of profitability and our negative working capital, there is "substantial doubt" about our ability to continue as a going concern. The going concern opinion from our auditors represents a strong warning regarding our financial condition and ability to stay in business. In addition, the going concern opinion may limit our ability to obtain the financing required to stay in business, in which case you could lose your entire investment.

IF WE ARE UNABLE TO GENERATE REVENUES IN THE FUTURE, WE MAY NOT BE ABLE TO CONTINUE OUR BUSINESS.

We are an early-stage company and, prior to May 2004, had not generated any revenues from operations. Although we generated revenues in 2004 and 2005, the products we carried were sold under a licensing arrangement, which has since been terminated. We do not currently have any products on the market or any source of revenues. We cannot assure our stockholders that our proposed business plans, as described in this prospectus, will materialize or prove successful, or that revenues generated through the sale of potential products currently under development will be sufficient to result in profitable operations. If we cannot operate profitably our business may fail and you could lose your entire

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investment.

WE ARE IN DEFAULT UNDER OUR OUTSTANDING CONVERTIBLE DEBENTURES, AND HAVE VIOLATED OUR OBLIGATION TO REGISTER THE RESALE OF THE SHARES ISSUABLE UPON CONVERSION.

We are in default of our payment obligations under certain Convertible Debentures, so the holders could bring collection actions at any time. In addition, we have failed to register the Common Stock issuable upon conversion of these obligations within the time frame required, exposing us to penalties. Through December 31, 2005, such penalties totaled \$1,518,524, and continue to accrue.

WE WILL BE DEPENDENT ON THIRD PARTIES FOR THE MANUFACTURING AND SUPPLY OF ANY PRODUCTS WE ARE ABLE TO DEVELOP. IF WE ARE UNABLE TO OBTAIN PRODUCTS ON A TIMELY BASIS, WE MAY NOT BE ABLE TO ACHIEVE OR MAINTAIN PROFITABLE OPERATIONS AND OUR BUSINESS MAY FAIL.

We do not intend to engage in the direct manufacture of products, and plan to outsource the production of any products we introduce to the market. If, once we begin to sell products, we are unable to obtain products from suppliers on a timely basis, we will be unable to fulfill sales orders as planned and we will not be able to generate sufficient revenues to achieve or maintain profitable operations. If we cannot operate profitably you could lose your entire investment.

GOVERNMENT CLEARANCE IS REQUIRED IN ORDER FOR US TO MARKET OUR PRODUCTS. IF WE ARE UNABLE TO OBTAIN REQUIRED CLEARANCE ON A TIMELY BASIS, WE MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUE TO ACHIEVE OR MAINTAIN PROFITABLE OPERATIONS AND OUR BUSINESS MAY FAIL.

Our products will be considered to be medical devices, and as such will require clearance from the United States Food and Drug Administration ("FDA") for sales in the United States and from comparable regulatory agencies in other markets. Our ability to obtain timely regulatory clearance for sales of products under development is dependent on our ability to obtain adequate financing, on the successful completion of remaining product development and testing, and on the satisfactory review and approval by regulatory agencies of required marketing clearance submissions. If these approvals are not obtained, or are significantly delayed, we may be unable to generate revenues from product sales necessary for us to achieve or maintain profitable operations. If we cannot operate profitably our business may fail.

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WE HAVE LIMITED FINANCIAL RESOURCES AND ARE DEPENDENT ON RAISING ADDITIONAL CAPITAL IN ORDER TO SUCCESSFULLY LAUNCH OUR PRODUCTS AND TO BEGIN GENERATING REVENUES FROM PRODUCT SALES. IF WE ARE UNABLE TO RAISE SUFFICIENT CAPITAL, OUR BUSINESS MAY FAIL.

Because we have limited financial resources and no current source of operating revenues, we need to secure additional funding in order to successfully launch our products, and to fund operating losses until such time as we can generate enough revenue to sustain our business. If we are unable to obtain adequate additional funding, we may not be able to generate sufficient revenues to achieve profitability. If we cannot operate profitably our business may fail.

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WE MAY HAVE VIOLATED THE REGISTRATION REQUIREMENTS OF THE FEDERAL SECURITIES LAWS IN CONNECTION WITH THE SALES OF CERTAIN SECURITIES, AND THE PURCHASERS OF THE SECURITIES MAY HAVE A RIGHT TO RESCIND THE TRANSACTIONS AND DEMAND THE RETURN OF THEIR CAPITAL INVESTED

We sold substantial amounts of securities in private transactions while a Registration Statement filed with the Securities and Exchange Commission was pending. We could be considered to have engaged in a "general solicitation," which would preclude reliance on the exemptions from registration provided by Section 4(2) of the Securities Act and Regulation D thereunder. Accordingly, the sales of securities after the date of filing of this Registration Statement may have been in violation of the Securities Act of 1933, as amended. If so, we could be subject to claims for damages by the purchasers of the securities, claims for rescission of the transactions and return of all funds received, and regulatory proceedings by the Securities and Exchange Commission or other regulatory agencies. Also, persons who purchased the securities from the original purchasers may also be entitled to rescission rights. The transactions affected include the sale or restructuring of more than \$8 million in securities. The original purchase price of these securities far exceeds their current market value. However, no purchaser of the securities has sought rescission of the transactions or asserted any claims against us. If the purchasers of these securities are entitled to rescission of the transactions, we could be required to pay them the full purchase price, plus interest and attorneys' fees. These amounts far outstrip our liquid assets, and such claims, if asserted and successful, could require us to file bankruptcy. In addition, we could be subject to regulatory proceedings by the Securities and Exchange Commission or other regulatory agencies, which could, among other sanctions, require us to make a rescission offer to the purchasers of the securities.

A DEFAULT IN THE COMPANY'S OBLIGATIONS TO CREDITORS COULD CAUSE A FORECLOSURE ON OUR ASSETS, WHICH WOULD IMPAIR OUR ABILITY TO CONTINUE AS A GOING CONCERN.

The Company has issued security interests in its assets to various creditors. Should we be unable to meet our obligations to these creditors, they would be entitled to foreclose on our assets. If this were to happen we would be unable to continue our business.

RAISING ADDITIONAL CAPITAL MAY CAUSE SIGNIFICANT DILUTION TO OUR STOCKHOLDERS AND MAY RESULT IN INCREASED LOSSES OR REDUCED EARNINGS, WHICH MAY RESULT IN A DECREASE IN THE MARKET PRICE OF OUR COMMON STOCK.

To secure additional financing, we may have to sell additional stock or borrow money. Selling additional stock, either privately or publicly, will dilute the equity interests of our stockholders. If we borrow more money, we will incur interest expenses which will negatively impact our operating results, and may also be subject to restrictions in the debt agreement that limit our operating flexibility. Dilution of existing stockholders and additional interest expense may result in a lower stock price.

WE HAVE A HISTORY OF LOSSES AND A LARGE ACCUMULATED DEFICIT.

For the fiscal years ended December 31, 2005 and 2004 we incurred net losses of \$18,561,753 and \$11,910,530, respectively. We expect to continue to incur significant operating, marketing and research and development expenses to support anticipated operations. We cannot be certain whether we will ever earn a significant amount of revenues to achieve and maintain profitability. If we cannot operate profitably our business could fail.

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IF OUR RESEARCH AND DEVELOPMENT EFFORTS DO NOT RESULT IN PRODUCTS THAT RECEIVE CLEARANCE FOR SALE OR THAT ARE SUCCESSFUL IN THE MARKETPLACE, WE MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUE TO ACHIEVE OR MAINTAIN PROFITABLE OPERATIONS.

Our waterjet based technologies are in the development stage and further development and testing is required before they can be submitted for marketing clearance from the FDA and appropriate foreign regulatory agencies. Furthermore, even if required marketing clearance is received, our products may not be successful in the marketplace and may not be able to generate sufficient revenues to achieve or maintain profitability.

WE ARE DOING BUSINESS IN AN INDUSTRY THAT IS VERY COMPETITIVE. IF WE ARE UNABLE TO COMPETE SUCCESSFULLY, WE MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUE TO ACHIEVE OR MAINTAIN PROFITABLE OPERATIONS AND OUR BUSINESS MAY FAIL.

The ophthalmic surgical device industry is very competitive. Our future success depends on our ability to compete effectively with other manufacturers and marketers of ophthalmic surgical devices. We may have difficulty competing with larger, established surgical device companies that have:

- \* substantially greater financial, technical and marketing resources;
- \* larger customer bases;
- \* better name recognition;
- \* related product offerings; and
- \* larger marketing areas.

Companies such as Bausch & Lomb, Advanced Medical Optics, Intralase, VISX, Alcon, LaserSight, and Nidek are major international providers of ophthalmic surgical devices relating to LASIK and cataract surgery. These companies represent a wide array of devices and products, technologies and approaches. Most of these companies have more resources than we do and, therefore, a greater opportunity to develop comparable products and bring those products to market more efficiently than we. If we are not able to compete effectively with current and future competitors, we will not be able to generate sufficient revenue to achieve or maintain profitability.

OUR PRODUCTS MAY NOT ACHIEVE ACCEPTANCE IN THE MARKETPLACE OR MAY BECOME OBSOLETE BASED ON NEW TECHNOLOGY OR CHANGES IN THE MARKETPLACE. IF OUR PRODUCTS DO NOT ACHIEVE OR MAINTAIN ACCEPTANCE, WE MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUE TO ACHIEVE OR MAINTAIN PROFITABLE OPERATIONS AND OUR BUSINESS MAY FAIL.

The demand for our products will be based upon the existence of markets for the technology and products and the markets for products of others, which may utilize our technology. The extent to which we may gain a share of our intended markets will depend, in part, upon the cost effectiveness and performance of our technology and products when compared to alternative technologies, which may be conventional or heretofore unknown. If the technology or products of other companies provide more cost-effective alternatives or otherwise outperform our technology or products, the demand for our technology or products may not be strong enough to generate sufficient revenue to achieve or maintain profitability. If we cannot operate profitably our business may fail and you could lose your entire investment.

OUR DEVELOPMENT EFFORTS WITH RESPECT TO WATERJET BASED PRODUCTS ARE HIGHLY DEPENDENT ON OUR PROPRIETARY INTELLECTUAL PROPERTY RIGHTS. FAILURE TO PROTECT OUR RIGHTS COULD SIGNIFICANTLY IMPAIR OUR BUSINESS AND ENFORCING OUR RIGHTS MAY CAUSE US TO INCUR SUBSTANTIAL EXPENSE.

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Proprietary rights are critically important to us. We currently have exclusive licenses to thirteen U.S. patents and three foreign patents for our waterjet technology and we intend to aggressively pursue additional patent protection for our technologies as we continue to develop them. Although we will seek to defend our licenses and to protect our other proprietary rights, our actions may be inadequate to protect our patents and other proprietary rights from infringement by others, or to prevent others from claiming infringement of their patents and other proprietary rights.

Policing unauthorized use of our technology is difficult, and some foreign laws do not provide the same level of protection as U.S. laws. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or patents that we may obtain, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources, and may result in decreased earnings and a decline of our stock price.

OUR COMMON STOCK HAS EXPERIENCED IN THE PAST, AND IS EXPECTED TO EXPERIENCE IN THE FUTURE, SIGNIFICANT PRICE AND VOLUME VOLATILITY, WHICH SUBSTANTIALLY INCREASES THE RISK THAT YOU MAY NOT BE ABLE TO SELL YOUR SHARES AT OR ABOVE THE PRICE THAT YOU PAY FOR THE SHARES.

Because of the limited trading market for our common stock, and because of the possible price volatility, you may not be able to sell your shares of common stock when you desire to do so. Between January 2003 and May 2006 our common stock was sold and purchased at prices that ranged from a high of \$2.41 to a low of below \$0.01 per share. The inability to sell your shares in a rapidly declining market may substantially increase your risk of loss because of such illiquidity and because the price for our common stock may suffer greater declines because of its price volatility.

The price of our stock that will prevail in the market after this offering may be higher or lower than the price you pay. Certain factors, some of which are beyond our control, that may cause our share price to fluctuate significantly include, but are not limited to, the following:

- \* results of our initial product introduction and sales efforts;
- \* our ability to obtain timely clearance for marketing in the United States from the U.S. FDA
- \* variations in our quarterly operating results;
- \* our ability to complete the research and development of our technologies;
- \* the development of a market for our products;
- \* changes in market valuations of similar companies;
- \* announcement by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- \* loss of a major customer or failure to complete significant transactions;
- \* additions or departures of key personnel; and
- \* fluctuations in stock market price and volume.

Additionally, in recent years the stock market in general, and the Over-the-Counter Bulletin Board and technology stocks in particular, have experienced extreme price and volume fluctuations. In some cases, these fluctuations are unrelated or disproportionate to the operating performance of the underlying company. These market and industry factors may cause a material decline in our stock price regardless of the progress we make with respect to

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our product development and marketing efforts and our operating performance.

THE "PENNY STOCK RULE" COULD MAKE IT DIFFICULT FOR BROKERS AND DEALERS TO TRADE IN OUR STOCK, WHICH COULD CAUSE THE MARKET FOR OUR STOCK TO BE LESS LIQUID, WHICH COULD CAUSE THE PRICE OF OUR STOCK TO DECLINE.

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Trading of our common stock on the OTC Bulletin Board may be subject to certain provisions of the Securities Exchange Act of 1934, commonly referred to as the "penny stock" rule. A penny stock is generally defined to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. If our stock is deemed to be a penny stock, trading in our stock will be subject to additional sales practice requirements on broker-dealers. These may require a broker dealer to:

- \* make a special suitability determination for purchasers of our shares;
- \* receive the purchaser's written consent to the transaction prior to the purchase; and
- \* deliver to a prospective purchaser of our stock, prior to the first transaction, a risk disclosure document relating to the penny stock market.

Consequently, penny stock rules may restrict the ability of broker- dealers to trade and/or maintain a market in our common stock. Also, prospective investors may not want to get involved with the additional administrative requirements, which may have a material adverse effect on the trading of our shares.

### ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases an office, research and warehouse facility of approximately 6,500 square feet in San Clemente, California for a monthly rent of \$6,413. The lease expires in February 2008.

### ITEM 3. LEGAL PROCEEDINGS

ART is currently engaged in the following 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2005.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The primary market for the Company's common stock has been the Nasdaq OTC

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Bulletin Board, where it trades under the symbol "ARFR". The following table sets forth the high and low closing prices for shares of our Common Stock for the periods noted, as reported by the National Daily Quotation Service and the Over-the-Counter Bulletin Board.

|                | High | Low  |
|----------------|------|------|
| FY 2005        |      |      |
| -----          |      |      |
| Fourth Quarter | .035 | .007 |
| Third Quarter  | .070 | .026 |
| Second Quarter | .040 | .035 |
| First Quarter  | .580 | .300 |
|                |      |      |
| FY 2004        |      |      |
| -----          |      |      |
| Fourth Quarter | 0.57 | 0.39 |
| Third Quarter  | 0.84 | 0.49 |
| Second Quarter | 1.12 | 0.57 |
| First Quarter  | 1.39 | 0.99 |

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Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

On June 2, 2006, the closing price as reported by the OTC Bulletin Board was \$0.031. As of June 2, 2006, there were 240,064,625 shares of common stock outstanding, held by 224 record holders and approximately 830 beneficial holders.

On June 6, 2006, due to its failure to file this document in a timely manner, 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 may only be traded pursuant to pink sheet listings. Upon the filing of this document the Company intends to apply to be re-listed.

The Company has never declared or paid cash dividends on its Common Stock and currently does not anticipate paying cash dividends in the future.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial position and operating results during the periods included in the accompanying financial statements, and should be read in conjunction with such financial statements and notes thereto.

Certain information included herein contains 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. These sections provide that the safe harbor for forward looking statements does not apply to statements made in initial public offerings. 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

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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.

### CORPORATE HISTORY

Advanced Refractive Technologies, Inc. (the "Company" or "ART") is a Delaware corporation engaged in the research and development of surgical equipment for use in the field of ophthalmology based on proprietary waterjet technology.

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The Company was originally incorporated in California on February 2, 1996 as a wholly owned subsidiary of SurgiJet, Inc ("SurgiJet"), a developer of waterjet technology for a variety of medical and dental applications. In May 1999, the Company was spun off from SurgiJet through a distribution of common stock to its shareholders, after which SurgiJet had no remaining ownership interest in the Company.

On February 11, 2003 the Company completed a merger with PNAC, a Delaware corporation incorporated in 1997. Pursuant to the merger agreement between VisiJet and PNAC (the "Merger Agreement"), the Company merged into PNAC. Since this transaction resulted in the shareholders of VisiJet acquiring a majority of the outstanding shares of PNAC, for financial reporting purposes the business combination was accounted for as a recapitalization of PNAC (a reverse acquisition with the Company as the accounting acquirer). Subsequently, the Company changed its name to Advanced Refractive Technologies, Inc.

### CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Notes to the Financial Statements. At this stage of our development, these policies primarily address matters of revenue and expense recognition. The Company has consistently applied these policies in all material respects. The timing of revenue recognition and the amount of revenue actually recognized depends upon a variety of factors, including the specific terms of each arrangement and the nature of our deliverables and obligations. Determination of the appropriate amount of revenue recognized involves judgments and estimates that we believe are reasonable, but it is possible that actual results may differ from our estimates.

### OVERVIEW



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In May 2004, the Company initiated sales of the LasiTome and EpiLift systems, both of which were obtained pursuant to a license agreement with Gebauer Medizintechnik GmbH. Both systems may be used in the LASIK vision correction surgical procedure to expose the cornea prior to application of the excimer laser for reshaping of the cornea. The LasiTome is a mechanical device used for cutting a corneal flap, the methodology used in traditional LASIK procedures. The EpiLift system provides the LASIK surgeon with an alternative methodology for exposing the cornea in which the epithelium, or top layer of the eye, is separated in an intact sheet of tissue, and then returned to its original position for healing following the application of the laser.

Initial sales of the EpiLift and LasiTome systems were in Europe and certain countries in which the products had received required regulatory clearance for marketing. Marketing of the EpiLift System in the United States began in September 2004, following receipt of 510(K) clearance for marketing from the United States Food and Drug Administration ("FDA"). Revenues from both the EpiLift and LasiTome Systems were generated through both the initial sale of the respective devices and accessories and through recurring sales of disposable separators or blades.

In October 2005, the Company terminated the license agreement with Gebauer and discontinued sales of the LasiTome and EpiLift systems. Under the terms of the termination agreement, inventory was returned to Gebauer and unpaid invoices canceled and both parties were relieved from fulfilling any further responsibilities under the agreement. In accordance with the terms of the settlement, finished goods inventory of \$1,916,215 was returned to Gebauer and related Gebauer unpaid invoices for the inventory, totaling \$846,781, were cancelled. In addition, the net capitalized value of the distribution agreement of \$1,464,078 was impaired and charged to operating expense. These amounts were recorded during the three months ended September 30, 2005, and the net effect of the settlement upon the financial statements is as follows:

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|   |              |
|---|--------------|
| Finished goods inventory write off                                      | \$ 1,916,215 |
| Less: liability to Gebauer  | (846,781)    |
|   | -----        |
| Charge to Cost of Goods Sold  | \$ 1,069,434 |
|   | -----        |
| <br>  |              |
| Operating expense - Impairment of capitalized<br>distribution agreement | \$ 1,464,078 |
|   | -----        |
|   | \$ 2,533,512 |
|   | ==+=====     |

Demonstration and clinical units of \$211,343 and \$164,385, respectively, were excluded from the settlement agreement and included in inventory at September 30, 2005. On October 12, 2005, all of the units were sold to CooperVision International for \$375,732. The sale eliminates all inventory balances and was recorded during October 2005 when the sale was completed

As a result of termination of the Gebauer agreement, we currently have no products on the market and no source of operating revenues. Also, as a result of the termination, we laid off our entire sales force of four direct sales representatives, plus our sales manager. Two additional internal administrative managers and one administrative assistant were also laid off, leaving only individuals directly responsible for product development and administration on

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staff.

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.

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.

### RESULTS OF OPERATIONS

#### FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

##### SALES AND COST OF SALES

Due to the discontinuance of the EpiLift and LasiTome product lines during 2005, the Company reported no revenues from continuing operations for either of the years ended December 31, 2005 or 2004. The losses from discontinued operations of \$4,273,298 and \$4,229,346 during 2005 and 2004 respectively, reflect the costs and expenses associated with those operations, less revenues generated by them.

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General and administrative expenses relating to continuing operations declined by \$1,490,511, from \$3,281,455 in 2004 to \$1,791,744 in 2005, reflecting the effect of a reduction in personnel in 2005, as well as the discontinuance of the EpiLift and LasiTome product lines. Also, research and development expense decreased by \$516,899, from \$695,100 in 2004 to \$178,201, reflecting the change in direction as well as the lack of funds to finance research and development activities in 2005.

### OTHER INCOME AND EXPENSE

ART incurred penalties and interest expense of \$2,792,582 during 2005, as a result of defaults under its outstanding Convertible Debentures. Interest expense during 2004 totaled \$392,251. Also, non-cash interest expense arising out of the beneficial conversion aspect of its Convertible Debentures totaled \$7,491,743 during 2005, compared to \$1,671,550 in 2004. This expense was recorded based on the intrinsic value of the beneficial conversion feature of convertible debt entered into during 2004 and 2005.

### NET LOSS APPLICABLE TO COMMON SHARES

The combined effect of all these items was to increase the net loss by \$6,651,233, from \$11,910,530 in 2004 to \$18,561,753 in 2005.

### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, our cash and cash equivalents totaled \$1,085. Our principal source of liquidity has been the private placement of equity securities and the issuance of notes payable and convertible debt. Based on our history of losses and negative working capital balance, our financial statements for the year ended December 31, 2005 included a going concern opinion from our outside auditors, which stated there "is substantial doubt" about our ability to continue operating as a going concern.

Subject to availability of funding, we expect operating expenses, and related cash requirements, to increase during 2006 in connection with anticipated sales and marketing and product development activities.

### ITEM 7. FINANCIAL STATEMENTS

See Financial Statements following Item 14 of this Annual Report on Form 10-KSB.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 8A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and our Treasurer, referred to in this context as certifying officers, are responsible for the establishing and maintaining our disclosure controls and procedures. Such officers have concluded (based on the evaluation conducted of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of

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report, that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in this report is accumulated and communicated to our management as appropriate, to allow timely decisions regarding required disclosure. The certifying officers also have indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses

### ITEM 8B. OTHER INFORMATION

None.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The executive officers and directors of ART are as follows:

| Name                            | Age | Position   | Director Since |
|---------------------------------|-----|--|----------------|
| ----                            | --- | -----  | -----          |
| Richard H. Keates, M.D. (1) (2) | 72  | Chairman of the Board of Directors                           | 2003           |
| Randal A. Bailey                | 62  | President, Chief Executive Officer and a Director            | 2003           |
| Laurence M. Schreiber           | 64  | Chief Operating Officer, Secretary, Treasurer and a Director | 2003           |
| Norman Schwartz (1) (2)         | 62  | Director   | 2003           |

(1) Member of the Executive Committee

(2) Member of the Audit Committee

Dr. Keates has been Chairman of the Board of Directors since February 2003. He is an ophthalmologist, consultant, and professor, and has been a Professor of Ophthalmology at New York Medical College since 1997. Dr. Keates has served on various boards of directors, including Frigitronics (NYSE), Med Chem (NYSE), Autonomous Technologies (NASDAQ) and Chiron Vision. Dr. Keates has consulted for leading health care companies including IO Lab, Alcon, and Bausch & Lomb. He is a founding partner of Intelligent Biocides, and has published over 100 articles in ophthalmology. Among his many faculty appointments, Dr. Keates has been a professor at Ohio State University, Professor and Chairman of the Ophthalmology Department at the University of California, Irvine. He is the President of the New York Intraocular Lens Society and recently completed his term as the President of the New York Keratorefractive Society. Dr. Keates graduated from the University of Pennsylvania and from the Jefferson Medical College. He completed his Ophthalmology training at Harvard Basic Sciences in Ophthalmology and The Manhattan Eye, Ear & Throat Hospital.

Mr. Bailey has served as President of Advanced Refractive Technologies,

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Inc. (formerly VisiJet) since February 2003, and was appointed to the Board of Directors in September 2003. Between 1995 and 2003 he had been affiliated with Advanced Refractive Technologies' predecessors in an executive management capacity. He has more than twenty-five years experience in management roles at both medical device and pharmaceutical companies. From 1991 to 1995, Mr. Bailey was the leader of the sales organization of Pharmacia Ophthalmics, Inc. Between 1989 and 1991, Mr. Bailey was the Vice President of Sales and Marketing for Novoste, Inc. (NASDAQ) a start up cardiovascular company. Mr. Bailey was a co-founder and Vice President of Sales and Marketing for Chiron Vision, Inc., which was acquired by Bausch & Lomb in 1997. Chiron Vision, now Bausch & Lomb Surgical, is a leader in the manufacturing and sales of ophthalmic devices worldwide. From 1980 to 1986 Mr. Bailey was the initial Vice President of Sales and Marketing for Allergan Medical Optics, Inc.

Mr. Schreiber has served as Chief Operating Officer, Secretary and Treasurer of Advanced Refractive Technologies since February 2003, and was appointed to the Board of Directors in September 2003. Prior to February 2003, Mr. Schreiber was an executive officer and a member of the Board of Directors of Ponte Nossa Acquisition Corporation, where he played an integral role in the merger between Ponte Nossa and Advanced Refractive Technologies that was finalized in February 2003. Prior to joining Ponte Nossa in 2001, he founded Diversified International, a multilevel marketing system, and served as Chief Executive Officer of Learn America, a multimedia productions company combining advanced computer technology and educational systems. Mr. Schreiber also served as President and a director of Philibus Systems, a private educational system, and was President of Advanced Nutritional Associates, which distributed health care products in the United Kingdom and Europe. He has developed an independent sales distribution system for Herbalife, and pioneered markets in the United Kingdom, Spain and Israel.

Mr. Schwartz has been a member of the board of directors since February 2003, and has served as Advanced Refractive Technologies' contract and legal coordinator since March 2003. Mr. Schwartz has over thirty years of experience in providing legal and financial advice to individuals and companies. He has acted as Chief Financial Officer and president of several companies, both public and private, including Acubid International, Ameritrust, and Farm Energy Corp. He served on the Board of International Acuvision Systems, a public company that developed and patented vision Training equipment. He is a member of the Arizona Bar Association. Mr. Schwartz graduated from Arizona State University, completed his JD at the University Of Arizona, and received his LLM in taxation from New York University.

Directors hold office until a successor is elected and qualified or until their earlier resignation in the manner provided in the Bylaws.

### SCIENTIFIC ADVISOR

Richard Lindstrom, M.D. is the Chief Ophthalmic Consultant to Advanced Refractive Technologies, and is in charge of assisting and advising us in connection with product development in the ophthalmic surgical arena. After serving as Clinical Professor of Ophthalmology at the University of Minnesota from 1980 to 1990, Dr. Lindstrom entered private practice and now directs an outpatient clinic adjacent to the Phillips Eye Institute in Minneapolis. He conceptualized the Phillips Eye Institute Center for Teaching and Research, a state-of-the-art ophthalmic research and surgical skills education facility, where he currently serves as Medical Director. Dr. Lindstrom plays an active role in the teaching program at the Phillips Eye Institute and at the University of Minnesota Hospital. He also serves as an Associate Director of the Minnesota Lions Eye Bank. Dr. Lindstrom holds 27 patents in ophthalmology in intraocular lens implant technology, corneal preservation, irrigation solutions, viscoelastic solutions, intracorneal lenses, and associated surgical instruments. Dr. Lindstrom serves on the editing board of a variety of medical

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journals, including Journal of Cataract and Refractive Surgery, Ophthalmic Surgery, European Journal of Implant and Refractive Surgery, Implants in Ophthalmology, Ocular Surgery News, Ophthalmology Times, and Journal Review of Ophthalmology. He is Chief Medical Advisor to Laser Vision Centers and Vision 21 Centers.

### DIRECTORS' COMPENSATION

The members of the Board of Directors do not receive any monetary compensation for their service as directors, but are eligible for reimbursement of their expenses incurred in connection with attendance at Board meetings in accordance with Company policy.

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### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (the "10% Stockholders"), to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Officers, directors and 10% Stockholders of the Company are required by Commission regulation to furnish the Company with copies of all Section 16(a) forms so filed.

Based solely upon a review of filings made and other information available to it, the Company believes that each of the Company's present Section 16 reporting persons filed all forms required of them by Section 16(a) during the year 2005.

### COMMITTEES OF THE BOARD OF DIRECTORS

Currently, the Company's Audit Committee of the Board of Directors is comprised of two directors, as noted above. The Audit Committee held no meetings during 2005. The Company has no Nominating Committee, and these functions are performed by the Board of Directors.

### ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes the annual compensation paid to our named executive officers during the three years ended December 31, 2005:

| Name and Principal Position   | Year | Annual Compensation |            |                                | Long Term Co |
|---|------|---------------------|------------|--------------------------------|--------------|
|   |      | Salary (\$)         | Bonus (\$) | Other Annual Compensation (\$) | Awa          |
|   |      |                     |            | Restricted Stock Awards        | U            |
| Randal A. Bailey,<br>President and Chief<br>Executive Officer (1) (2) | 2005 | 90,000              | -          | -                              | -            |
|   | 2004 | 172,500             | -          | -                              | -            |
|   | 2003 | 165,000             | -          | 6,800                          | -            |
| Laurence M. Schreiber,<br>Chief Operating Officer,                    | 2005 | 90,000              | -          | -                              | -            |
|   | 2004 | 225,000             | -          | -                              | -            |

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|                                     |      |         |   |        |   |
|-------------------------------------|------|---------|---|--------|---|
| Treasurer, Secretary (2) (3)        | 2003 | 97,000  | - | 22,500 | - |
| Larry Hood,                         | 2005 | 84,375  |   |        |   |
| Director of Research and            | 2004 | 129,375 | - | -      | - |
| Development, Chief Engineer (1) (2) | 2003 | 122,500 | - | -      | - |

(1) During 2003, Advanced Refractive Technologies issued 164,319 shares of common stock, and issued a two year promissory note in the amount of \$150,000 to Mr. Bailey and 46,948 shares of common stock, and issued a one year promissory note in the amount of \$100,000 to Mr. Hood in satisfaction of an aggregate of \$700,000 of unpaid compensation accrued between 1999 and 2002. Amounts noted as All Other Compensation represent respective payments made by the Company pursuant to these promissory notes.

(2) Messrs. Bailey, Schreiber, and Hood became President and CEO, Chief Operating Officer, Dir. of Research & Development respectively, on March 1, 2003 and earned consulting income from January to February 2003. Amounts noted as Other Annual Compensation represent respective consulting fees paid in 2003 prior to March 1, 2003. Messrs. Bailey, Schreiber, and Hood did not receive any compensation from Advanced Refractive Technologies in 2001 and 2002.

(3) Mr. Schreiber's salary for 2004 includes back pay of \$85,000 that was accrued under the merger agreement in the amount \$5,000 per month until July of 2004.

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### STOCK OPTIONS

On November 10, 2003, the Board of Directors adopted the VisiJet, Inc. 2003 Stock Option Plan. The Option Plan provides for the grant of incentive and non-qualified stock options to selected employees, the grant of non-qualified options to selected consultants and to directors and advisory board members. The Option Plan is administered by the Compensation Committee of the Board of Directors and authorizes the grant of options for 3,000,000 shares. The Compensation Committee determines the individual employees and consultants who participate under the Plan, the terms and conditions of options, the option price, the vesting schedule of options and other terms and conditions of the options granted pursuant thereto.

As of December 31, 2005, a total of 1,975,000 options to purchase shares of our common stock were outstanding pursuant to the 2003 Option Plan.

No stock options were issued during 2005.

No named executive officer exercised options in the fiscal year ended December 31, 2005. The following table presents the number and values of exercisable and unexercisable options as of December 31, 2005:

| Name  | Number of securities underlying unexercised options/SARs at FY-end (#) | Value of unexercised in-the-money options/SARs at FY-end (\$) |
|-------|--|---|
|       | Exercisable/Unexercisable  | Exercisable/Unexercisable                                     |
| ----- |  |   |

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|                       |         |        |
|-----------------------|---------|--------|
| Randal A. Bailey      | 400,000 | \$0.00 |
| Laurence M. Schreiber | 400,000 | \$0.00 |

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below lists the beneficial ownership of our common stock, as of May 1, 2006, by each person known by us to be the beneficial owner of more than 5% of our common stock, by each of our directors and officers, and by all of our directors and officers as a group.

| Name and Address of<br>Beneficial Owner                                       | Number of Shares<br>Beneficially Owned(1) (2) | Percent<br>of Class |
|---|---|---------------------|
| Florescia Mate Garabito<br>6, Rue Adolphe Fischer, L-1520<br>Luxemburg        | 178,571,428                                   | 76%                 |
| Randal A. Bailey **<br>1062 Calle Negocio, Suite D<br>San Clemente, CA 92673  | 510,357 (3)                                   | *                   |
| Richard H. Keates, M.D.**<br>20 Sutton Place South<br>New York, NY 10022      | 425,000 (3)                                   | *                   |
| Laurence Schreiber**<br>1062 Calle Negocio, Suite D<br>San Clemente, CA 92673 | 243,478 (3)                                   | *                   |
| Norman Schwartz**<br>1062 Calle Negocio, Suite D<br>San Clemente, CA 92673    | 125,664 (3)                                   | *                   |
| All directors and executive<br>officers as a group (4 persons)                |   |                     |

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\* Denotes less than one percent. \*\* Denotes Member of the Board of Directors.

(1) Except as set forth, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) Applicable percentage of ownership is based on 240,064,025 shares outstanding as of June 2, 2006, together with applicable warrants, options and convertible debt for such stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to shares. Shares subject to options, warrants and convertible debt currently exercisable/convertible or exercisable/convertible within 60 days are included in the number of shares beneficially owned and are deemed outstanding for purposes of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage of any other stockholder.

(3) Includes shares issuable upon exercise of currently exercisable options or warrants, or conversion of debt.



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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 13. EXHIBITS

| Exhibit No. | Exhibit Description   |
|-------------|---|
| -----       | -----   |
| 2.1         | Second Amended and Restated Agreement and Plan of Merger, dated December 20, 2002 among Ponte Nossa Acquisition Corp., VisiJet, Inc., and VisiJet Acquisition Corporation (1) |
| 2.2         | Amendment No. 1, dated January 15, 2003, to Second Amended and Restated Agreement and Plan of Merger (2)  |
| 3.1         | Restated Certificate of Incorporation of the Company (3)  |
| 3.2         | Certificate of Designation of Rights and Preferences of Series A 0% Convertible Preferred Stock (9)   |
| 3.3         | Certificate of Amendment of Certificate of Incorporation (9)  |
| 3.4         | Amended and Restated Bylaws (4)   |
| 20          |   |
| 10.1        | Patent License Agreement between SurgiJet, Inc. and VisiJet, Inc., dated October 23, 1998 (4)   |
| 10.2        | Amendment No. 1 to Patent License Agreement, dated November 6, 2002 (3)   |
| 10.3        | Technology License Agreement between SurgiJet, Inc. and VisiJet, Inc., dated October 23, 1998 (4)   |
| 10.4        | Amendment No. 1 to Technology License Agreement, dated 2002 (3)   |
| 10.5        | Trademark License Agreement between SurgiJet, Inc. and VisiJet, Inc., dated October 23, 1998 (4)  |
| 10.6        | Amendment No. 1 to Trademark License Agreement, dated November 6, 2002 (3)  |
| 10.7        | Warrant, dated February 11, 2003, issued to PCL Associates (4)  |
| 10.8        | Warrant, dated February 11, 2003, issued to David E. Eisenberg Trust (4)  |
| 10.9        | Warrant, dated February 11, 2003, issued to Laurence Schreiber (4)  |
| 10.10       | Warrant, dated February 11, 2003, issued to Financial Entrepreneurs Incorporated (4)  |
| 10.11       | Form of Stock Purchase Warrant Used in February 2004 Private Placement (5)  |
| 10.12       | Form of 24% Secured Subordinated Debenture Used in February 2004 Private Placement (5)  |

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- 10.13 Securities Purchase Agreement, dated June 24, 2004, between the Company, Bushido Capital Master Fund, L.P. and Bridges & Pipes, LLC (6)
  - 10.14 Form of Convertible Debenture Issued Pursuant to June 24, 2004 Stock Purchase Agreement (6)
  - 10.15 Form of Warrant (stepped price) issued pursuant to June 24, 2004 Stock Purchase Agreement (6)
  - 10.16 Form of Warrant (fixed price) issued pursuant to June 24, 2004 Stock Purchase Agreement (6)
  - 10.17 Registration Rights Agreement, dated June 24, 2004, between the Company, Bushido Capital Master Fund, L.P. and Bridges & Pipes, LLC (6)
  - 10.18 Pledge and Escrow Agreement, dated June 24, 2004, between the Company, Bushido Capital Master Fund, L.P., Bridges & Pipes, LLC, and Tarter Krinsky & Drogin LLP, as Escrow Agent (6)
  - 10.19 Term Credit Agreement, dated May 6, 2004, between the Company and HIT Credit Union (7)
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- 10.20 Form of \$750,000 Term Note, dated May 6, 2004, issued by the Company to HIT Credit Union(7)
  - 10.21 Security Agreement, dated May 6, 2004, between the Company and HIT Credit Union(7)
  - 10.22 Stock Purchase Agreement, dated May 6, 2004 between the Company, Platinum Long Term Growth LLC and Rock II, LLC (7)
  - 10.23 10% Convertible Debenture for \$550,000,dated May 6, 2004, issued by the Company to Platinum Long Term Growth LLC (7)
  - 10.24 10% Convertible Debenture for \$250,000,dated May 6, 2004, issued by VisiJet, Inc., to Rock II, LLC (7)
  - 10.25 Warrant To Purchase 366,666 Shares of Common Stock of the Company, issued to Platinum Long Term Growth LLC (7)
  - 10.26 Warrant To Purchase 166,667 Shares of Common Stock of the Company, issued to Rock II, LLC (7)
  - 10.27 Form of Registration Rights Agreement, dated May 6, 2004 between the Company, Platinum Long Term Growth LLC and Rock II, LLC (7)
  - 10.28 Manufacturing, Supply and Distribution Agreement, dated May 7,2004 between the Company and Gebauer Medizintechnik GmbH (7)
  - 10.29 Securities Purchase Agreement, dated July 23, 2004 between the Company and Libertyview Special Opportunities Fund, LP (7)
  - 10.30 8% Convertible Note for \$1,000,000, dated July 23, 2004, issued by

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- the Company to Libertyview Special Opportunities Fund, LP (7)
- 10.31 Warrant To Purchase 750,000 Shares of Common Stock of Company, issued to Libertyview Special Opportunities Fund, LP (7)
- 10.32 Registration Rights Agreement, dated July 23, 2004, between the Company and Libertyview Special Opportunities Fund, LP (7)
- 10.33 Convertible Preferred Stock Purchase Agreement, dated August 24, 2004 between the Company and Langley Park Investments PLC
- 10.34 Securities Purchase Agreement, dated October 6, 2004, between the Company and certain investors relating to \$885,000 in convertible debentures (8)
- 10.35 Form of Convertible Debenture issued under October 6, 2004 Securities Purchase Agreement (8)
- 10.36 Form of Stock Purchase Warrant issued under October 6, 2004 Securities Purchase Agreement (8)
- 10.37 Registration Rights Agreement, dated October 6, 2004 between the Company, Bushido Capital Master Fund L.P., Bridges & Pipes LLC, Libertyview Special Opportunities Fund, LP, Gamma Opportunity Capital Partners LP, Blue Fin Partners, Inc. and Little Gem Life Sciences Fund, LLC (8)
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- 10.38 Amendment To Securities Purchase Agreement dated October 6, 2004 between the Company, Gamma Opportunity Capital Partners L.P., Bridges & PIPES LLC, Libertyview Special Opportunities Fund, LP, Blue Fin Partners, Inc. and Little Gem Life Sciences Fund, LLC (8)
- 10.39 Securities Purchase Amendment Agreement dated October 7, 2004, between the Company, Bushido Capital Master Fund L.P., Bridges & Pipes LLC, and Libertyview Special Opportunities Fund, LP (8)
- 10.40 Amended Convertible Debenture, dated October 7, 2004, issued to Bridges & Pipes LLC (8)
- 10.41 Amended Convertible Debenture, dated October 7, 2004, issued to Bushido Capital Master Fund LP (8)
- 10.42 \$1,000,000 Convertible Note, dated July 23, 2004, as amended October 6, 2004, issued to Libertyview Special Opportunities Fund, LP (8)
- 10.43 Warrant to Purchase 750,000 shares, dated October 6, 2004, issued to Libertyview Special Opportunities Fund, LP (8)
- 10.44 Warrant to Purchase 250,000 shares, dated October 6, 2004, issued to Libertyview Special Opportunities Fund, LP (8)
- 10.45 Patent License Agreement, dated September 17, 2003, between the Company and Robert M. Campbell, M.D. (9)
- 10.46 Subscription Agreement, dated December 30, 2005 between the

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- Company and Alpha Capital Aktiengesellschaft (9)
- 10.47 Form of International Distributor Agreement (9)
- 10.48 Form of Securities Purchase Agreement used in January 2005 Financing (9)
- 10.49 Form of Convertible Debenture used in January 2005 Financing (9)
- 10.50 Form of Stock Purchase Warrant used in January 2005 Financing(9)
- 10.51 Amended and Restated Registration Rights Agreement, dated January 14, 2005, between the Company and the Investors named therein(9)
- 10.52 Amended and Restated Security Agreement, dated January 14, 2005, between the Company and the Investors named therein (9)
- 10.53 Settlement Agreement, dated October 13, 2005 between the Company and Gebauer Medizintechnik GmbH (10)

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- 10.54 Asset Purchase Agreement, dated October 12, 2005, between the Company and CooperVision International Holding Company, LP (10)
- 10.55 Agreement and Plan of Acquisition, dated December 13, 2005, between the Company, Optimetrix Technologies, Inc. and UTEK Corporation
- 10.56 Workout Consulting Services Agreement, dated March 3, 2006 between the Company and Florencia Mate Garabito
- 14 Code of Ethics(5)
- 23 Consent of Peterson & Co., LLP
- 31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of Treasurer (principal financial officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certificate of Treasurer (principal financial officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference from Report on Form 8-K of the Company, filed January 7, 2003
- (2) Incorporated by reference from Report on Form 8-K of the Company, filed February 14, 2003
- (3) Incorporated by reference from Quarterly Report on Form 10-QSB of the Company for the quarter ended June 30, 2003, filed August 15, 2003

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- (4) Incorporated by reference from Annual Report on Form 10K-SB of the Company for the year ended December 31, 2002, filed on April 14, 2003.
- (5) Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, filed April 14, 2004.
- (6) Incorporated by reference from Report on Form 8-K of the Company, dated June 24, 2004, filed on
- (7) Incorporated by reference from Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004, filed on August 18, 2004.
- (8) Incorporated by reference from Registration Statement on Form SB-2 (Registration No. 333-120449), filed on November 12, 2004.
- (9) Incorporated by reference from Amendment No. 1 to Registration Statement on Form SB-2 (Registration No. 333-120449), filed on February 15, 2005.
- (10) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2 (Registration No. 333-120449), filed on June 6, 2005.

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### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Summarized below is the aggregated amount of various professional fees billed by our principal accountants, Peterson & Co., LLP with respect to the last two fiscal years:

|   | 2005      | 2004       |
|---|-----------|------------|
|   | -----     | -----      |
| Audit fees  | \$ 98,086 | \$ 105,182 |
| Audit - related fees  | 1,470     | 14,145     |
| Tax fees  |           | 4,040      |
| All other fees, including tax<br>consultation and preparation | --        | --         |
|   | -----     | -----      |
|   | \$ 99,556 | \$ 123,367 |
|   | =====     | =====      |

All audit fees were approved by our audit committee and board of directors. Peterson & Co. did not provide any non-audit services other than tax services to the Company.

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Advanced Refractive Technologies, Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Advanced Refractive Technologies, Inc., Inc.

We have audited the accompanying consolidated balance sheets of Advanced Refractive Technologies, Inc., Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Advanced Refractive Technologies, Inc., as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations and has a net capital deficiency. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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PETERSON & CO., LLP

San Diego, California

June 9, 2006

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ADVANCED REFRACTIVE TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

|   | December 31,<br>2005 | Decem |
|---|----------------------|-------|
|   | -----                | ----- |
| ASSETS  |                      |       |
| Current assets:   |                      |       |
| Cash and cash equivalents   | \$ 1,085             | \$    |
| Marketable securities   | --                   |       |
| Prepays and deposits  | 27,413               |       |
| Assets of discontinued operations   | 60,872               | 2     |
|   | -----                | ----- |
| Total current assets  | 89,370               | 3     |
| Property and equipment, net   | 76,833               |       |
| Goodwill  | 1,225,000            |       |
| License agreement, net  | 74,809               |       |
| Patents and trademarks, net   | 78,347               |       |
| Deferred debt costs   | 426,857              |       |
|   | -----                | ----- |
| Total assets  | \$ 1,971,216         | \$ 3  |
|   | =====                | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIT   |                      |       |
| Current liabilities:  |                      |       |
| Accounts payable  | 940,364              |       |
| Customer deposits   | 427                  |       |
| Accrued interest  | 1,307,085            |       |
| Warrant derivative liability  | 102,951              |       |
| Accrued settlement agreement  | 54,863               |       |
| Accrued expenses  | 915,801              |       |
| Income tax payable  | 800                  |       |
| Royalty payable   | 49,027               |       |
| Notes payable to related parties  | 780,232              |       |
| Notes payable   | 10,000               |       |
| Convertible debenture debt, net   | 3,589,071            |       |
| Accrued penalties on debentures   | 1,518,524            |       |
| Secured debenture debt, net   | --                   | 1     |
| Liabilities of discontinued operations  | 563,436              |       |
|   | -----                | ----- |
| Total current liabilities   | 9,832,581            | 5     |
| Convertible debenture debt - long term, net   | --                   | 1     |
| Series A convertible preferred stock, 450,000 shares issued and<br>outstanding at December 31, 2005 and December 31, 2004, net of |                      |       |

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|  |              |       |
|--|--------------|-------|
| unamortized discount of \$656,250 and 1,031,250, respectively<br>(redemption value \$4,500,000)  | 880,404      |       |
| Series B Convertible Preferred stock, 100,000 shares issued and<br>outstanding at December 31, 2005, no shares issued and outstanding<br>at December 31 2004 (redemption value \$1,500,000)              | 1,500,000    |       |
|  | -----        | ----- |
| Total liabilities  | 12,212,985   | 7     |
|  | -----        | ----- |
| Shareholders' deficit:   |              |       |
| Common stock, 100,000,000 shares authorized, \$.001 par value,<br>55,975,308 shares issued and outstanding at December 31,<br>2005, and 28,909,662 shares issued and outstanding at<br>December 31, 2004 | 56,380       |       |
| Additional paid in capital   | 30,950,353   | 19    |
| Accumulated other comprehensive loss   | --           |       |
| Accumulated deficit  | (41,248,502) | (22)  |
|  | -----        | ----- |
| Shareholders' deficit  | (10,241,769) | (3)   |
|  | -----        | ----- |
| Total liabilities and shareholders' deficit  | \$ 1,971,216 | \$ 3  |
|  | =====        | ===== |

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

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### ADVANCED REFRACTIVE TECHNOLOGIES, INC.

#### CONSOLIDATED STATEMENT OF OPERATIONS

|  | Twelve Months Ended  |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2005 | December 31,<br>2004 |
|  | -----                | -----                |
| Operating expenses:                                  |                      |                      |
| General and administrative expenses                  | 1,791,744            | 3,281,455            |
| Research and development expenses                    | 178,201              | 695,100              |
| Depreciation and amortization                        | 50,834               | 16,359               |
|  | -----                | -----                |
| Total operating expenses                             | 2,020,779            | 3,992,914            |
|  | -----                | -----                |
| Loss from operations                                 | (2,020,779)          | (3,992,914)          |
| Other income (expense):                              |                      |                      |
| Amortization of debt discount and debt issuance fees | (8,413,570)          | (3,222,917)          |
| Interest and penalties expense                       | (2,792,582)          | (392,251)            |
| Loss on sale of securities                           | (714,733)            | --                   |
| Loss on warrant derivative liability                 | (8,122)              | --                   |
| Other income - net                                   | 37,131               | --                   |
| Gain on debt restructure                             | --                   | 21,448               |
| Interest cost of preferred stock accretion           | (375,000)            | (93,750)             |
|  | -----                | -----                |
| Total other expense net of other income              | (12,266,876)         | (3,687,470)          |



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|   |              |              |
|---|--------------|--------------|
| Loss from continuing operations before provision for taxes                | (14,287,655) | (7,680,384)  |
| Provision for income taxes  | 800          | 800          |
| <hr/>   |              |              |
| Loss from continuing operations   | (14,288,455) | (7,681,184)  |
| Discontinued operations   |              |              |
| Loss from discontinued operations   | (4,273,298)  | (4,229,346)  |
| <hr/>   |              |              |
| Net loss  | (18,561,753) | (11,910,530) |
| <hr/>   |              |              |
| Net loss per common share - basic and diluted:                            |              |              |
| Continuing operations   | \$ (0.39)    | \$ (0.29)    |
| Discontinued operations   | \$ (0.12)    | \$ (0.16)    |
| <hr/>   |              |              |
| Total loss per share  | \$ (0.51)    | \$ (0.45)    |
| <hr/>   |              |              |
| Basic and diluted weighted average number of<br>common shares outstanding | 36,715,726   | 26,688,583   |
| <hr/>   |              |              |

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

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ADVANCED REFRACTIVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Twelve Months Ended<br>December 31,<br>2005 | December 31,<br>2004 |
|---|---|----------------------|
|   | <hr/>                                       | <hr/>                |
| Cash flows from operating activities  |   |                      |
| Net loss  | (\$18,561,753)                              | (\$11,638,000)       |
| Less: Net loss from discontinued operations   | 4,273,298                                   | 4,229,346            |
| <hr/>   |   |                      |
| Net loss from continuing operations   | (14,288,455)                                | (7,681,184)          |
| Adjustments to reconcile net loss from continuing<br>operations to net cash used by operating activities: |   |                      |
| Operating activities of discontinued operations   | (1,835,813)                                 | (4,229,346)          |
| Depreciation and amortization   | 50,834                                      | 41,700               |
| Debt discount amortization  | 8,386,331                                   | 1,533,900            |
| Accretion of interest cost on preferred stock   | 375,000                                     | 93,700               |
| Adjustment for beneficial conversion of debt  | --  | 1,671,500            |
| Commission from preferred shares conversion   | --  | 153,600              |
| Common stock issued for services  | 533,878                                     | 3,277,100            |
| Common stock issued for origination fees  | 64,286                                      | --                   |
| Loss on sale of securities  | 721,968                                     | --                   |
| Warrant repricing for debt guarantee  | --  | 546,400              |
| Gain from debt restructure  | --  | (21,400)             |
| Loss on warrant derivative liability  | 8,122                                       | --                   |
| Changes in operating assets and liabilities:  |   |                      |
| Prepaid expenses  | 14,812                                      | 66,500               |
| Deferred debt costs   | 27,239                                      | --                   |

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|  |             |          |
|--|-------------|----------|
| Accounts payable   | 427,167     | (166,6   |
| Accrued penalties on debentures                              | 1,518,524   |          |
| Customer deposits  | (48,771)    | 49,1     |
| Royalties payable  | 34,027      | (45,0    |
| Accrued Settlement agreement                                 | (11,539)    | (37,7    |
| Other accrued expense  | 217,366     | 239,5    |
| Accrued interest   | 1,029,300   | 243,4    |
|  | -----       | -----    |
| Net cash flow used in operating activities                   | (2,775,724) | (5,486,9 |
| Cash flows from investing activities:                        |             |          |
| Cash received in acquisition                                 | 200,000     |          |
| Purchase of property and equipment                           | (30,230)    | (15,6    |
|  | -----       | -----    |
| Net cash provided by (used in) investing activities          | 169,770     | (15,6    |
| Cash flows from financing activities:                        |             |          |
| Advance from related party                                   | --          | 272,6    |
| Repayment of advances from related parties                   | (67,428)    | (260,6   |
| Repayment of notes payable                                   | (2,550,000) | (4,0     |
| Proceeds from secured debenture                              | --          | 1,109,6  |
| Proceeds from convertible debt                               | 4,540,500   | 3,845,3  |
| Proceeds from private placement - net                        | --          | 526,5    |
| Proceeds from marketable securities                          | 661,021     |          |
|  | -----       | -----    |
| Net cash provided by financing activities                    | 2,584,093   | 5,489,5  |
| Net decrease in cash   | (21,861)    | (12,9    |
| Cash, beginning of the year                                  | 22,946      | 35,8     |
|  | -----       | -----    |
| Cash, end of the year  | \$ 1,085    | \$ 22,9  |
|  | =====       | =====    |
| Supplemental disclosures of cash flow information            |             |          |
| Interest paid  | \$ --       | \$ 170,2 |
| Taxes paid   | --          | 8        |
| Non-cash investing and financing transactions:               |             |          |
| Debenture costs and fees                                     | --          | 562,1    |
| Reclass of interest to current liability                     | --          | 67,0     |
| Warrants issued in connection with secured debenture         | --          | 417,9    |
| Warrants issued in connection with convertible debenture     | 543,785     | 1,264,3  |
| Warrants issued for debt modification                        | --          | 866,0    |
| Common stock issued in connection with convertible debenture | --          | 267,3    |
| Common stock issued for debt default and penalties           | --          | 248,1    |
| Conversion of debt to stock                                  | (1,108,000) |          |

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

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ADVANCED REFRACTIVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

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|   | Common<br>Shares | Stock<br>Amount | Common Stock<br>Subscriptions | Additi<br>Paid<br>Capit |
|---|------------------|-----------------|-------------------------------|-------------------------|
|   | -----            | -----           | -----                         | -----                   |
| Balance,<br>December 31, 2003                                   | 21,691,163       | \$ 21,691       | \$ 1,018,500                  | \$ 7,84                 |
| Common stock issued in<br>connection with<br>private placements | 585,000          | 585             | --                            | 58                      |
| Costs of private<br>placements                                  | --               | --              | --                            | (5                      |
| Common stock given for<br>services                              | 2,730,000        | 2,730           | --                            | 2,50                    |
| Common stock<br>subscriptions                                   | 998,500          | 999             | (1,018,500)                   | 1,01                    |
| Common stock issued for<br>distribution agreement               | 750,000          | 750             | --                            | 71                      |
| Common stock issued with<br>debt agreements and<br>collateral   | 1,303,571        | 1,304           | --                            | 26                      |
| Common stock issued with<br>debt default and<br>penalties       | 611,428          | 611             | --                            | 37                      |
| Common stock issued with<br>litigation settlements              | 240,000          | 240             | --                            | 12                      |
| Warrants issued with<br>secured and<br>convertible debt         | --               | --              | --                            | 1,67                    |
| Warrants issued for debt<br>modification                        | --               | --              | --                            | 86                      |
| Warrants issued for debt<br>guarantee                           | --               | --              | --                            | 54                      |
| Warrants issued for<br>services                                 | --               | --              | --                            | 20                      |
| Warrants issued for<br>commissions                              | --               | --              | --                            | 28                      |
| Adjustment for<br>beneficial conversion<br>- convertible debt   | --               | --              | --                            | 1,67                    |
| Adjustment for<br>beneficial conversion<br>- preferred stock    | --               | --              | --                            | 1,12                    |
| Accumulated<br>Comprehensive<br>Adjustment                      | --               | --              | --                            |                         |
| Stock Option Expense  | --               | --              | --                            | 3                       |
| Net Loss  | --               | --              | --                            |                         |
| Balance, December 31, 2004                                      | 28,909,662       | \$ 28,910       | --                            | \$ 19,78                |
| Common stock given for<br>services                              | 15,243,256       | 15,243          | --                            | 52                      |
| Common stock issued with<br>debt agreements                     | 1,039,370        | 1,039           | --                            | 56                      |
| Common stock given for<br>origination fees                      | 142,857          | 143             | --                            | 6                       |
| Common stock issued for<br>conversion of debt                   | 11,687,013       | 11,687          | --                            | 53                      |
| Common stock cancelled  | (642,400)        | (642)           | --                            | (8                      |

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|   |            |           |       |          |
|---|------------|-----------|-------|----------|
| Warrants issued with secured and convertible debt       | --         | --        | --    | 2,01     |
| Adjustment for beneficial conversion - convertible debt | --         | --        | --    | 6,99     |
| Accumulated Comprehensive Adjustment                    | --         | --        | --    |          |
| Reclass of debt discount to interest                    | --         | --        | --    | 56       |
| Net Loss  | --         | --        | --    |          |
|   | -----      | -----     | ----- | -----    |
| Balance, December 31, 2005                              | 56,379,756 | \$ 56,380 | \$ -- | \$ 30,95 |
|   | =====      | =====     | ===== | =====    |

(CONTINUED ON NEXT PAGE)

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ADVANCED REFRACTIVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(CONTINUED)

|   | Other Comprehensive Loss | Accumulated Deficit | Net Shareholders' Equity (Deficit) |
|---|--------------------------|---------------------|------------------------------------|
|   | -----                    | -----               | -----                              |
| Balance, December 31, 2003                                | \$ --                    | \$ (10,776,219)     | \$ (1,890,662)                     |
|   | -----                    | -----               | -----                              |
| Common stock issued in connection with private placements | --                       | --                  | 585,000                            |
| Costs of private placements                               | --                       | --                  | (58,500)                           |
| Common stock given for services                           | --                       | --                  | 2,512,100                          |
| Common stock subscriptions                                | --                       | --                  | --                                 |
| Common stock issued for distribution agreement            | --                       | --                  | 712,500                            |
| Common stock issued with debt agreements and collateral   | --                       | --                  | 267,394                            |
| Common stock issued with debt default and penalties       | --                       | --                  | 379,214                            |
| Common stock issued with litigation settlements           | --                       | --                  | 125,250                            |
| Warrants issued with secured and convertible debt         | --                       | --                  | 1,679,379                          |
| Warrants issued for debt                                  | --                       | --                  |                                    |

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|   |              |                 |                 |
|---|--------------|-----------------|-----------------|
| modification  | --           | --              | 866,017         |
| Warrants issued for debt guarantee                      | --           | --              | 546,403         |
| Warrants issued for services                            | --           | --              | 205,903         |
| Warrants issued for commissions                         | --           | --              | 282,183         |
| Adjustment for beneficial conversion - convertible debt | --           | --              | 1,671,550       |
| Adjustment for beneficial conversion - preferred stock  | --           | --              | 1,125,000       |
| Accumulated Comprehensive Adjustment                    | (792,009)    | --              | (792,009)       |
| Stock Option Expense                                    | --           | --              | 30,506          |
| Net Loss  | --           | (11,910,530)    | (11,910,530)    |
|   | -----        | -----           | -----           |
| Balance, December 31, 2004                              | \$ (792,009) | \$ (22,686,749) | \$ (3,663,302)  |
|   | -----        | -----           | -----           |
| Common stock given for services                         | --           | --              | 539,156         |
| Common stock issued with debt agreements                | --           | --              | 561,260         |
| Common stock given for origination fees                 | --           | --              | 64,286          |
| Common stock issued for conversion of debt              | --           | --              | 543,785         |
| Common Stock Cancelled                                  | --           | --              | (90,254)        |
| Warrants issued with secured and convertible debt       | --           | --              | 2,012,211       |
| Adjustment for beneficial conversion - convertible debt | --           | --              | 6,994,351       |
| Accumulated Comprehensive Adjustment                    | 792,009      | --              | 792,009         |
| Reclass of debt discount to interest                    | --           | --              | 566,482         |
| Net Loss  | --           | (18,561,753)    | (18,561,753)    |
|   | -----        | -----           | -----           |
| Balance, December 31, 2005                              | \$ --        | \$ (41,248,502) | \$ (10,241,769) |
|   | =====        | =====           | =====           |

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

-----

HISTORY of the Company

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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 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. (OTI). OTI has 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.

### 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.

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For the fiscal year 2005, the Company incurred net losses of approximately \$18.6 million and through December 31, 2005 has incurred cumulative losses of approximately \$41.2 million. In addition, at December 31, 2005 the Company's current liabilities exceeded its current assets by approximately \$ 9.8 million, and the Company had a net capital deficiency of approximately 10.2 million. The Company's future capital requirements will depend on many factors, including but not limited to its ability to complete development efforts and successfully market and generate operating revenue through product sales, its ability to finalize development and successfully market its waterjet technology, its on-going operational expenses and overall product development costs, including the cost of clinical trials, and competing technological and market developments.

To address the going concern issue, the Company has continued to raise operating capital through private placements of debt and equity securities, and is currently in discussions with several parties regarding additional financing arrangements. However, the Company does not currently have sufficient cash or working capital available to continue to fund operations, to meet its contractual obligations, to market the recently licensed products or to complete its on-going product development efforts. As such, our ability to secure additional financing on a timely basis is critical to our ability to stay in business and to pursue planned operational activities.

While the Company believes that the additional financing arrangements will be completed, there can be no assurance that new financing will be completed or that the proceeds from new financing will be sufficient for the Company to meet its contractual obligations and on-going operating expenses.

The accompanying consolidated financial statements do not include any adjustments that might result from the resolution of these matters.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REVENUE RECOGNITION

Revenue during 2005 and 2004 was from sales of ophthalmic surgical products pursuant to the Manufacturing, Supply and Distribution Agreement completed in May 2004 and terminated in October 2005. Revenue from such sales was recognized when the earnings process was 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. Accounts receivable of \$194,500 are included in assets of discontinued operations and as of December 31, 2005, the allowance for doubtful accounts was \$133,660.

#### INVENTORY

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Inventory was valued at lower of cost or market on first-in, first-out method. Reserves for obsolescence or slow moving inventory were recorded when such conditions were identified. Inventory that was held at December 31, 2004 has been reclassified to Assets of Discontinued Operations.

### ADVERTISING

Advertising costs are charged to expense as incurred during the years ended December 31, 2005 and 2004. The Company incurred \$14,515 and \$5,453 in advertising expenses respectively.

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### MARKETABLE SECURITIES

Investments in available-for-sale securities are accounted for in accordance with Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("FAS") 115 "Accounting for Certain Investments in Debt and Equity Securities". 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. As of December 31, 2004, the Company recognized an initial unrealized loss on available for sale securities of \$792,009 which was included in other comprehensive income. The loss was recognized as of December 31, 2005 with the sale of available for sale securities as follows:

|  | 2005      |
|--|-----------|
|  | -----     |
| Fair market value of marketable securities | \$590,980 |
| Proceeds from sale                         | (661,021) |
| Gross realized gain                        | (70,041)  |
| Reclassification of comprehensive income   | 792,009   |
|  | -----     |
| Net loss                                   | \$721,968 |
|  | =====     |

### 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 a mandatory redemption rights are to be recorded as liabilities unless the redemption is to occur upon the liquidation or termination of the issuer. SFAS 150 also specifies that a financial instrument that embodies a conditional obligation is based solely or predominantly on variations inversely related to changes in the fair value of the issuer's equity shares. Based on these characteristics, the Company has recorded the Preferred Series A shares as a long term liability on the balance sheet. See Note 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



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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 Income", which established the standards for the display of comprehensive income and its components in a full set of financial statements. Comprehensive income includes all changes in equity during a period except those resulting from the issuance of shares of stock and distributions to shareholders. The Company recorded a comprehensive loss that was incurred as a result of the write down to market of the marketable securities on December 31, 2004 in the amount of \$792,009. As of December 31, 2005, the loss was recognized and reclassified to the net loss on sale of the securities.

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### FOREIGN CURRENCY TRANSACTIONS

The Company uses the U.S. dollar as the reporting and functional currency for its financial statements. Transaction gains and losses are the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Transactions that are denominated in other currencies are recorded using the exchange rate in effect on the date of the transaction. Transaction adjustments arising from such are re-measured and included in the determination of net (loss) income.

### STOCK-BASED COMPENSATION

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,

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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.

On November 10, 2003, the Board of Directors adopted the Advanced Refractive Technologies, Inc. 2003 Stock Option Plan. The Option Plan provides for the grant of incentive and non-qualified stock options to selected employees, the grant of non-qualified options to selected consultants and to directors and advisory board members. The Option Plan is administered by the Compensation Committee of the Board of Directors and authorizes the grant of options for 3,000,000 shares. The Compensation Committee determines the individual employees and consultants who participate under the Plan, the terms and conditions of options, the option price, the vesting schedule of options and other terms and conditions of the options granted pursuant thereto.

During fiscal year 2004, the Company issued 180,000 stock options to consultants to purchase the Company's common stock in exchange for services rendered. The Company has accounted for these issuances in accordance with SFAS No. 123 and has recorded an expense of \$30,506 representing the fair value of the options using a Black-Scholes option-pricing model. The options are exercisable at a price of \$0.40 per share and have a term of 10 years.

During fiscal year 2004, the Company issued options to employees and directors to purchase 1,190,000 shares of its common stock, at an exercise price of \$0.40. All options granted during the period have a term of ten years and were issued at an exercise price equal to the market value of the underlying stock at the date of grant. As of December 31, 2004 a total of 2,470,000 options to purchase shares of the Company's common stock were outstanding pursuant to the 2003 Plan.

The Company issued no additional options to employees of directors during 2005. A summary of changes in common stock options during 2005 and 2004 follows:

|                                  | Number of<br>Shares | Weighted<br>average<br>Exercise<br>Price | Exercisable<br>Shares |
|----------------------------------|---------------------|--|-----------------------|
|                                  |                     |  |                       |
| Outstanding at December 31, 2003 | 1,165,000           | \$1.10                                   | 818,612               |
| Granted                          | 1,370,000           | \$0.40                                   | 588,889               |
| Forfeited                        | (45,000)            | \$1.10                                   | --                    |
| Cancelled                        | (20,000)            | \$1.10                                   | (20,000)              |
| Outstanding at December 31, 2004 | 2,470,000           | \$0.73                                   | 1,387,501             |
| Granted                          | --                  | --                                       | --                    |
| Forfeited                        | (486,944)           | \$0.61                                   | --                    |
| Cancelled                        | (8,056)             | \$1.10                                   | (8,056)               |
| Outstanding at December 31, 2005 | 1,975,000           | \$0.76                                   | 1,379,445             |

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SFAS No. 123 requires the Company to provide pro forma information regarding net income (loss) and income (loss) per share as if compensation cost for the Company's stock option issuances had been determined in accordance with the fair value based method prescribed in SFAS No. 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following assumptions used for grants in the year ended December 31, 2004. No stock options were granted in the year ended December 31, 2005.

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|  |      |        |
|--|------|--------|
| Assumptions used for Black-Scholes option pricing model: | 2005 | 2004   |
|  | ---- | ----   |
| Dividend Yield   | --   | 0.00%  |
| Risk free interest rate, 5 years                         | --   | 3.35%  |
| Expected Life  | --   | 5 yrs  |
| Volatility   | --   | 43.14% |

No additional options were granted during 2005.

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 years ended December 31, 2005 and 2004 would have been as follows:

|   |                |                |
|---|----------------|----------------|
|   | 2005           | 2004           |
|   | ----           | ----           |
| Net Loss:   |                |                |
| As reported   | (\$18,561,753) | (\$11,910,530) |
| SFAS No. 123 effect                                   | (225,851)      | (340,667)      |
|   | -----          | -----          |
| Pro forma net loss                                    | (\$18,707,604) | (\$12,251,197) |
|   | =====          | =====          |
| Loss per share:                                       |                |                |
| As reported   | (\$0.51)       | (\$0.45)       |
|   | =====          | =====          |
| Pro forma   | (\$0.51)       | (\$0.46)       |
|   | =====          | =====          |
| Basic and diluted weighted average shares outstanding | 36,715,726     | 26,688,583     |
|   | =====          | =====          |

The following table summarizes information about stock options outstanding at December 31, 2005:

| Exercise Price | Number Outstanding | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Number Exercisable |
|----------------|--------------------|--|---------------------------------|--------------------|
| \$1.10         | 945,000            | 7.87                                     | \$1.10                          | 790,556            |
| \$0.40         | 1,030,000          | 8.81                                     | \$0.40                          | 916,111            |
|                | -----              |  |                                 | -----              |
|                | 1,975,000          |  |                                 | 1,676,667          |
|                | =====              |  |                                 | =====              |

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### 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

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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.

### 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 assessment as of December 31, 2005, no impairment of goodwill 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 and patents are amortized over the life of the respective agreement or patent.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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

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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.

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### 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 current year presentation.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". The statement amends Accounting Research Bulletin ("ARB") No. 43, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. ARB No 43 previously stated that these costs must be "so abnormal as to require treatment as current-period charges." SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of 'so abnormal.' The statement is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005, with earlier application permitted for fiscal years beginning after the issue date of the statement. The adoption of SFAS No. 151 is not expected to have any significant impact on the Company's current financial condition or results of operations.

In December 2004, the FASB revised SFAS No. 123 ("SFAS No. 123R"), "Accounting for Stock Based Compensation." The revision establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, particularly transactions in which an entity obtains employees services in share-based payment transactions. The revised statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is to be recognized over the period during which the employee is required to provide service in exchange for the award. The provisions of the revised statement are effective for financial statements issued for the first interim or reporting beginning after December 15, 2005 for small business issuers, with early adoption encouraged. The Company is currently evaluating the effect of this standard on their operations.

In February 2006, the financial accounting standards board ("FASB:") released statement No.155. Accounting for certain hybrid financial instruments. ("SFAS

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No.155") SFAS No. 155 is an amendment of statement No. 133, Accounting for derivative instruments and hedging activities, and statement No. 140, Accounting for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 155 establishes, among other items, the accounting for certain derivative instruments embedded within other types of financial instruments: and, eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. Effective for the Company beginning January 1, 2007, SFAS No. 155 is not expected to have any impact on the Company's financial position, results of operations or cash flow.

In March 2006, the FASB released statement No. 156, Accounting for servicing of financial assets, an amendment of FASB statement No. 140, ("SFAS No. 156"). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities in accordance with SFAS No. 140 be initially measured as fair value, if practicable. Furthermore, this standard permits, but does not require, fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. SFAS No. 156 is also effective for the Company beginning January 1, 2007: however, the standard is not expected to have any impact on the Company's financial position, results of operation or cash flow.

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### NOTE 3 - Business Combination

The Company acquired OTI in November 2005 in return for the issuance of 100,000 convertible preferred class B shares valued at \$1,500,000. These shares cannot be converted for a period of one year from the date of acquisition. The acquisition was recorded under the purchase method of accounting, and the purchase price was allocated based on the fair value of the assets acquired and the liabilities assumed. In accordance with generally accepted accounting principals, costs allocated to the license were capitalized and will be amortized over its estimated useful life. The goodwill recorded as a result of the acquisition is not amortized, but is included in the Company's review of goodwill for impairment.

The Company allocated the consideration paid to \$200,000 in cash held by OTI, technology licenses valued at \$75,000 and goodwill in the amount of \$1,225,000. As of December 31, 2005, no revenues have been generated by OTI.

### NOTE 4 - DISCONTINUED OPERATIONS

In April 2004, ART entered into an exclusive license agreement with Gebauer Medizintechnik GmbH, of Neuhausen Germany ("Gebauer"), pursuant to which we 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 were as follows:

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|                            | 2005<br>---- | 2004<br>---- |
|----------------------------|--------------|--------------|
| Sales, net                 | \$ 1,087,136 | \$ 1,725,435 |
| Cost of goods sold         | (1,849,697)  | (738,917)    |
| General and administrative | (3,510,737)  | (5,215,864)  |
|                            | -----        | -----        |
| Operating loss             | (4,273,298)  | (4,229,346)  |
|                            | =====        | =====        |

Assets of the discontinued operations were comprised of the following at December 31, 2005 and 2004:

|                                       | 2005<br>---- | 2004<br>---- |
|---------------------------------------|--------------|--------------|
| Accounts receivable, net of allowance | \$ 60,872    | \$ 180,1455  |
| Inventory                             | --           | 634,430      |
| Distribution agreement, net           | --           | 1,654,218    |
|                                       | -----        | -----        |
| Operating loss                        | \$ 60,872    | \$ 2,655,997 |
|                                       | =====        | =====        |

Liabilities of the discontinued operations were comprised of the following at December 31, 2005 and 2004:

|                     | 2005<br>---- | 2004<br>---- |
|---------------------|--------------|--------------|
| Accounts payable    | \$ --        | \$ 376,795   |
| Accrued liabilities | 563,436      | 344,282      |
|                     | -----        | -----        |
| Operating loss      | \$ 563,436   | \$ 721,072   |
|                     | =====        | =====        |

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NOTE 5 - INVENTORY

Inventory includes finished goods of ophthalmic surgical products purchased pursuant to the Manufacturing, Supply and Distribution Agreement completed in May 2004 and terminated in October 2005. Accordingly, inventory totaling \$634,430 has been included in assets of discontinued operations on the Company's balance sheet at December 31, 2004.

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

NOTE 5 - PROPERTY AND EQUIPMENT

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

|                             | December 31, 2005<br>----- | December 31, 2004<br>----- |
|-----------------------------|----------------------------|----------------------------|
| 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                     |                            |
|                             | -----                      | -----                      |

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|                                |           |           |
|--------------------------------|-----------|-----------|
|                                | 208,932   | 178,703   |
| Less: Accumulated depreciation | (132,099) | (90,905)  |
|                                | -----     | -----     |
|                                | \$ 76,833 | \$ 87,798 |
|                                | =====     | =====     |

Depreciation expense for the fiscal years ended December 31, 2005 and 2004, was \$41,194 and \$32,254, respectively.

NOTE 6 - DISTRIBUTION AND PATENT AGREEMENTS

In May 2004, the Company entered into a Manufacturing, Supply and Distribution Agreement with a German company ("licensor") pursuant to which the Company acquired exclusive worldwide distribution, sales and marketing rights for certain ophthalmic surgical products used in LASIK refractive surgery procedures.

The Company capitalized a total of \$1,901,400 in connection with this agreement based on non-refundable cash license fee paid, plus the fair market value of 750,000 shares of common stock issued to the licensor, as consideration under the agreement. In October 2005, the Company terminated the distribution agreement and expensed the remaining capitalized balance of \$1,654,218 as part of discontinued operations as of December 31, 2005.

In November 2005 the Company acquired the 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.

Distribution, Patent and License agreements consisted of the following at December 31, 2005 and 2004:

|                                | December 31, |           |
|--------------------------------|--------------|-----------|
|                                | 2005         | 2004      |
|                                | -----        | -----     |
| Patent agreements              | 100,000      | 100,000   |
| License Agreement              | 75,000       |           |
| Less: accumulated amortization | (21,844)     | (12,205)  |
|                                | -----        | -----     |
|                                | \$ 153,156   | \$ 87,795 |
|                                | =====        | =====     |

The distribution agreement with Gebauer in the amount of \$1,901,400 and related amortization of \$247,182 was reclassified at December 31, 2004 to assets related to discontinued operations.

Amortization expense for the fiscal years ending December 31, 2005 and 2004, was \$19,322 and \$256,631, respectively. The unamortized Gebauer distribution agreement balance of \$1,654,218 was charged to expense during 2005.

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NOTE 7 - ACCRUED EXPENSES

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



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|                            | December 31, |            |
|----------------------------|--------------|------------|
|                            | 2005         | 2004       |
| Payroll and related taxes  | \$ 142,763   | 60,755     |
| Litigation settlement fees | 129,669      | 159,669    |
| Accrued consulting fees    | 325,000      | 235,000    |
| Accrued professional fees  | 60,000       | 60,000     |
| Other accruals             | 258,369      | 183,010    |
|                            | \$ 915,801   | \$ 698,434 |
|                            | =====        | =====      |

Portions of the accrued expenses have been reclassified to current liabilities related to discontinued operations for 2005 and 2004.

### NOTE 8 - SECURED DEBENTURES

#### FEBRUARY 2004 SECURED DEBENTURE

In February 2004, the Company entered into secured debenture agreements with an aggregate principal balance of \$500,000, and received net proceeds of \$447,500 after subtracting related placement agent fees and legal expenses totaling \$52,500.

The debentures bear interest at an annual rate of 24%, which is payable monthly beginning April 1, 2004. In addition, the debenture holders received warrants to purchase 250,000 shares of the Company's common stock, exercisable through March 1, 2009, at an exercise price of \$1.10 per share.

The principal balance of the debentures is due and payable on the earlier of (i) thirty (30) days from the date the Registration Statement is declared effective by the Securities and Exchange Commission, provided that a specified affiliate of the investors has not defaulted in its obligation to purchase shares of the Company's common stock, or (ii) twelve (12) months from the date the Registration Statement is declared effective, or (iii) eighteen (18) months from the date of the debenture agreement. The debentures are secured by all accounts and equipment of the Company, now owned, existing or hereafter acquired.

In October 2004, the Company received a notice of default from the holders of an aggregate of \$400,000 of these debentures due to the non-timely payment of interest that was owed under the debenture agreements. In order to cure the default, the Company made the required interest payments, and in October 2004 the Company agreed to reduce the exercise price of the original 250,000 warrants issued to \$0.75 per share, and to issue total additional warrants to purchase 125,000 shares at an exercise price of \$0.75 per share.

In January 2005, the Company repaid the entire \$500,000 outstanding principal balance and the secured debenture agreement was cancelled.

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#### MAY 2004 SECURED DEBENTURE

In May 2004, the Company entered into a secured debenture agreement with HIT Credit Union with a principal balance of \$750,000, and received net proceeds of \$662,188 after subtracting related placement agent fees and expenses totaling \$80,000 and prepaid interest totaling \$7,812. The principal balance of the debenture was due and payable on July 5, 2004, and the debentures bore interest

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at an annual rate of 15%, which was payable monthly beginning June 1, 2004. In addition, the debenture holder received a warrant to purchase 500,000 shares of the Company's common stock, exercisable through May 6, 2009, at an exercise price of \$0.90 per share. The debenture was secured by 750,000 shares of the Company's common stock that were issued by the Company as collateral under this agreement.

The Company did not repay the principal on the scheduled maturity date of July 5, 2004, and such failure to pay constitutes a default under the obligation. In October 2004 the debenture holder entered into a forbearance agreement with the holders of convertible debentures entered into in June and July 2004 with an aggregate principal amount of \$2,000,000, pursuant to which the debenture holder agreed not to take any action with respect to the non-payment of the \$750,000 principal balance until the earlier of (i) February 2, 2005 and (ii) the date of notice of default from the convertible debenture holders to the Company. In January 2005, the Company repaid the entire \$750,000 outstanding principal balance, plus accrued interest totaling \$6,744, and the 750,000 shares of the Company's common stock held as collateral on the debt were returned and the secured debenture agreement was cancelled.

### 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.

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

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The Company received funding from the above financing with an aggregate principal balance of \$4,720,000, and received net proceeds of \$4,540,500, after subtracting related placement agent fees and expenses totaling \$179,500. The

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

The debenture debt was recorded net of discounts totaling \$2,752,971 recorded in connection with the \$179,500 of loan fees, expenses of \$1,288,231, based on a Black-Scholes model valuation, related to the 4,720,000 warrants issued to debenture holders and \$561,260, based on the closing price of our common stock on February 15, 2005 of \$0.54, for 1,039,370 shares of common stock issued for commission fees and warrants issued for commission of \$723,980, based on a Black-Scholes model valuation, related to the 2,652,617 additional warrants issued for commissions and fees.

The market price of the Company's common stock on the date of issuance 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 was recorded as non-cash interest expense during 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 to a price of \$.095 per share. The price was above the closing stock price thus no additional beneficial conversion was recorded.

The Company is in default of the Amended and Restated Registration Rights Agreement entered into with the Debenture holders due to its failure to have a Registration Statement declared effective within 135 days of the Agreement. The penalty provided for such failure is 3% per month of the principal balance still owing, commencing with the 136th day. Through December 31, 2005 the Company has accrued \$1,518,524 of penalties.

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.

### CONVERSION PRICE AND WARRANT TERM ADJUSTMENT

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

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terms of new convertible debenture agreements entered into in January 2005, as described above. Under the replacement agreements, the maturity dates of the debentures were extended to January 14, 2015, and other principal terms (i.e. interest rate, conversion price, warrants issued and warrant exercise price) are the same as in the amended agreements described above.

During the year ended December 31, 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.

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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 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.

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

| Current:                       | December 31,<br>2005 | December 31,<br>2004 |
|--------------------------------|----------------------|----------------------|
|                                | -----                | -----                |
| Convertible debenture          | \$ 6,587,000         | \$ 1,300,000         |
| Convertible debenture discount | (2,997,929)          | (402,345)            |
|                                | -----                | -----                |
| Convertible debenture - net    | \$ 3,589,071         | \$ 897,655           |
|                                | =====                | =====                |
| Long Term:                     |                      |                      |
|                                | December 31,<br>2005 | December 31,<br>2004 |
|                                | -----                | -----                |
| Convertible debenture          | --                   | \$ 2,975,000         |
| Convertible debenture discount | --                   | (1,641,399)          |
|                                | -----                | -----                |
| Convertible debenture - net    | \$ --                | \$ 1,333,601         |
|                                | =====                | =====                |

At December 31, 2005, the Company is in default of their convertible note agreements. Accordingly, its convertible notes with maturity dates greater than one year from the balance sheet date are classified as current liabilities as of December 31, 2005.

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### Note 10 - Derivative Liabilities

In December 2005, the Company's 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" resulted in the determination that the Company's outstanding warrants should be reclassified as a derivative liability. 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.

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

In October 1998, the Company issued a demand promissory note in the amount of \$400,000, plus interest at a variable rate based on the prime rate, to SurgiJet, Inc. ("SurgiJet"), VisiJet's former parent company. In connection with the Merger Agreement, an amendment to the note agreement was executed in February 2003 under which the accrual of additional interest was halted, and scheduled principal and interest payments were established.

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During 2002, the Company entered into a promissory note in the amount of \$91,000 plus interest at the rate of 10% per annum with DentaJet, Inc. ("DentaJet"), a Company then related through common shareholders. During 2002 and 2003, the Company borrowed an additional \$72,000 from, and made payments totaling \$27,482, to DentaJet, resulting in an outstanding principal balance of \$135,518 at December 31, 2003

During 2002, the Company entered into a promissory note with Lance Doherty, a principal of SurgiJet and shareholder of the Company, for a principal sum of \$19,000 plus interest at the rate of 10% per annum. At December 31, 2003 the outstanding principal balance of this note was \$19,000.

During 2003 the Company initiated litigation against SurgiJet, challenging the validity of the SurgiJet Note, as well as other notes and liabilities to DentaJet, Lance Doherty and Rex Doherty.

In October 2004 the parties to the litigation entered into a settlement agreement pursuant to which revised note payable amounts and payment schedules were agreed upon. Based on this agreement, outstanding principal and accrued interest balances related to these notes as of September 30, 2004 have been adjusted to reflect the agreed upon amounts, and as a result, the balances at December 31, 2005 and 2004 are as follows:

December 31, 2005

December 31, 2004

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|               | Principal  | Interest  | Principal  | Interest  |
|---------------|------------|-----------|------------|-----------|
| SurgiJet      | \$ 495,242 | \$ 27,439 | \$ 549,774 | \$ 14,347 |
| Lance Doherty | 19,000     | 8,894     | 19,000     | 6,293     |
| Total         | \$ 514,242 | \$ 36,333 | \$ 568,774 | \$ 20,640 |

The Company has been in default of the settlement agreement since June 2005 when it stopped making the stipulated monthly principal payments. The other parties to the agreement have not filed a notice of default, and the Company intends to resume making payments if its intentions to raise working capital for operating purposes are successful.

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. As of December 31, 2005, the outstanding principal and accrued interest on the note was \$265,990 and \$76,259, respectively.

NOTE 12 - COMMITMENTS

LICENSE AGREEMENTS

Under the terms of a 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 acquired from UTEK Corporation all the stock of OTI, which owns an exclusive license for a patented technology. The Company is required to pay to UTEK royalties of three percent (3%) of sales of equipment and five percent (5%) of sales of disposables and services, excluding customary discounts and sales to the U.S. Government. In addition the Company is required to pay an annual license fee payable in advance on March 31 of each calendar year as follows:

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YEAR  
-----

ANNUAL LICENSE FEE  
-----

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|                     |           |
|---------------------|-----------|
| 2006                | 0         |
| 2007                | \$10,000  |
| 2008 and 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.

OTI 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 in order to help implement the technology.

### NOTE 13 - SERIES A PREFERRED SHARES

In August 2004, the Company entered into an agreement with Langley Park Investments PLC ("Langley"), a corporation organized under the laws of England and Wales, in which the Company issued convertible preferred stock in exchange for "ordinary" shares of Langley stock. In October 2004, the Company issued 450,000 shares of Series A Convertible Preferred Stock ("Series A shares"), with a stated value of \$10 per share and a redemption value of \$4,500,000, to Langley in exchange for 2,477,974 newly issued ordinary shares of Langley with an initial agreed upon value of 1.00 LB(pound) per share. The Company was charged a commission in conjunction with the sale equal to 10% of the Langley shares leaving 2,230,177 shares available to the Company. Consummation of the transaction was subject to admission of the Langley shares to the London Stock Exchange ("LSE"), which occurred on September 30, 2004 and the initiation of trading on the LSE which began on October 8, 2004. The Series A shares were recorded at a total value of \$1,536,653 based on the fair value of the Langley shares on October 8, 2004. On December 31, 2004, the market value of the shares decreased to \$590,980. As the Company classified the shares as an available-for-sale marketable security, the Company recorded an unrealized loss of \$792,009, as an accumulated comprehensive loss which is a separate component of equity. The Company recorded commission expense of \$153,664 in the fourth quarter based on the value of the commission shares.

The Series A Preferred Stock is non-voting and the shareholders are not entitled to receive any dividends. The preferred stock is convertible after one year for a period of three years from the date of issuance into shares of the Company's common stock ("Common Stock"). The number of shares of common stock to be issued upon conversion is determined by dividing the aggregate stated value of the preferred stock by the ("Conversion Price"). The Conversion Price is defined as the lesser of \$0.609 (The "Fixed Conversion Price") or eighty percent (80%) of the lowest closing bid price for the common stock in the ten (10) trading days preceding the date of conversion, but in no event is it less than 30 percent (30%) of the Fixed Conversion Price. However, Langley may not convert to the extent that conversion would result in it's owning more than 4.99% of the

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outstanding common stock of the Company. The conversion price is subject to adjustment based on anti-dilution provisions. Any shares of preferred stock not previously converted will automatically be converted into common stock at the end of the three year period. If the Company defaults under certain covenants, the holders of the preferred stock may compel redemption at the stated value.

In accordance with SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", financial instruments with mandatory redemption rights are to be recorded as liabilities unless the redemption is to occur upon the liquidation or termination of the issuer. SFAS 150 also specifies that a financial instrument that embodies a conditional obligation that is based on settlement by the issuance of a variable number of the issuer's equity shares associated with a fixed monetary amount is required to be classified as a liability. Based on characteristics of the agreement as described above, the Company has recorded the Preferred Series A shares as a long term liability on the balance sheet.

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The market price of the Company's common stock on the date of commitment was \$0.48 per share. In accordance with EITF 98-5, as amended by EITF 00-27, because the effective conversion price associated with the preferred shares is less than the market value, a beneficial conversion should be recognized as a return to the preferred shareholders over the minimum period from the date of issuance to the date at which the preferred shareholders can realize that return. Since the convertible preferred stock is automatically converted to common stock at the end of three years, (if not previously converted), the discount should be accreted over the three year life.

As the Preferred Series A shares are classified as a liability, the accretion of the recorded discount resulting from the beneficial conversion is recognized as interest expense and is reflected in the income statement of operations. Accordingly, the Company recorded a preferred stock discount of \$1,125,000. On December 31, 2005 and 2004, accretions of the discount of \$375,000 and \$93,750, respectively, were recorded resulting in a net preferred discount of \$656,250 at December 31, 2005.

Based on the price of the Company's common stock at December 31, 2005, the number of shares conditionally issuable to settle the redemption obligation at that date approximates 150,000,000 shares.

### NOTE 14 - SERIES B PREFERRED SHARES

In December 2005 the Company acquired OptiMetrix Technologies, Inc. (OTI), a wholly owned subsidiary of UTEK Corporation (UTEK). OTI holds technology licensed from Los Alamos National Laboratory (LANL), 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 Series B Convertible Preferred Stock ("Series B shares"). These shares can be converted after a period of one year from the date of acquisition in December 2005. The Series B preferred stock is non-voting, and no dividends will be paid to the Series B shareholders. They will be convertible into common shares of the Company valued at \$1,500,000, based on the 10 day closing stock price average at the time of conversion. Additionally, UTEK received a warrant for 750,000 shares of the Company's common stock. The warrant exercise price is 50% Of the conversion



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price of the Series B shares. Series B shares will be paid out of the assets of the Company before all other holders of other classes of series of capital stock of the Company. Yield, if paid in kind, is paid at the time of conversion based on the 10-day closing average price of the Company's common stock.

In accordance with SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", financial instruments with mandatory redemption rights are to be recorded as liabilities unless the redemption is to occur upon the liquidation or termination of the issuer. SFAS 150 also specifies that a financial instrument that embodies a conditional obligation that is based on settlement by the issuance of a variable number of the issuer's equity shares associated with a fixed monetary amount is required to be classified as a liability. Based on characteristics of the agreement as described above, the Company has recorded the Preferred Series B shares as a long term liability on the balance sheet.

Based on the price of the Company's common stock at December 31, 2005, the number of shares conditionally issuable to settle the redemption obligation at that date approximates 24,630,000 shares.

### NOTE 15 - SHAREHOLDERS' EQUITY (DEFICIT)

#### COMMON STOCK ACTIVITY

##### ISSUANCE OF COMMON STOCK FOR LOAN ORIGINATION FEES

On January 6, 2005 the Company issued 142,857 shares of common stock as an origination fee in consideration of replacing a delinquent loan with a new loan.

##### ISSUANCE OF COMMON STOCK FOR SERVICES

During the period February 15, 2005 through December 14, 2005 the Company issued 5,243,256 shares of common stock for services rendered to the Company.

##### ISSUANCE OF COMMON STOCK PURSUANT TO A DEBT AGREEMENT

On from February 15, 2005 the Company issued 1,039,370 shares of common stock pursuant to a debt agreement.

##### ISSUANCE OF COMMON STOCK ON CONVERSION OF DEBENTURES

During the period July 15, 2005 through November 23, 2005 the Company issued 11,687,013 shares of stock upon conversion of convertible debentures.

##### ISSUANCE OF COMMON STOCK AS COLATTEAL FOR LEGAL FEES

On September 27, 2005 the Company issued 10,000,000 shares of common stock as collateral for legal fees.

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#### WARRANT ACTIVITY

During 2005, the Company issued 5-year warrants to purchase an aggregate of 9,797,150 shares of its common stock at an exercise price of \$0.40 per share and subsequently adjusted the exercise price to \$0.095, pursuant to the anti-dilution provisions of the warrants.

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The following table summarizes the number of outstanding common stock warrants as of December 31, 2005:

|                                  | Number      | Weighted Average<br>Exercise Price |
|----------------------------------|-------------|------------------------------------|
|                                  | -----       | -----                              |
| Outstanding at December 31, 2003 | 12,102,480  | \$ 2.530                           |
| Granted                          | 8,730,238   | 0.640                              |
| Forfeited                        | --          | --                                 |
| Exercised                        | --          | --                                 |
|                                  | -----       | -----                              |
| Outstanding at December 31, 2004 | 20,832,718  | \$ 1.450                           |
| Granted                          | 9,797,150   | 0.200                              |
| Exchanged                        | (2,424,533) | 2.550                              |
| Exercised                        | --          | --                                 |
|                                  | -----       | -----                              |
| Outstanding at December 31, 2005 | 28,205,335  | \$ 0.960                           |

The following table summarizes additional information with respect to outstanding common stock warrants at December 31, 2005:

| Exercise Price | Number<br>Outstanding | Weighted Average Life<br>Remaining in Months | Number<br>Exercisable |
|----------------|-----------------------|--|-----------------------|
|                | -----                 | -----  | -----                 |
| \$.095         | 7,367,857             | 54   | 7,367,857             |
| \$0.40         | 6,538,331             | 53   | 6,538,331             |
| 0.62           | 700,000               | 48   | 700,000               |
| \$0.65         | 20,000                | 45   | 20,000                |
| \$0.70         | 829,295               | 28   | 829,295               |
| \$0.75         | 375,000               | 51   | 375,000               |
| \$0.90         | 86,667                | 39   | 86,667                |
| \$1.00         | 6,326,480             | 32   | 6,326,480             |
| \$1.23         | 45,000                | 28   | 45,000                |
| \$1.50         | 30,000                | 13   | 30,000                |
| \$2.25         | 4,441,000             | 36   | 4,441,000             |
| \$2.50         | 505,000               | 25   | 505,000               |
| \$3.00         | 50,000                | 28   | 50,000                |
| \$5.00         | 890,705               | 28   | 890,705               |
|                | -----                 |  | -----                 |
|                | 28,205,335            |  | 28,205,335            |
|                | =====                 |  | =====                 |

### 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.

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The 3,000,000 shares that were borrowed were outstanding at December 31, 2005. In January 2006, HIT Credit Union returned 750,000 of the borrowed shares.

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### ACCUMULATED COMPREHENSIVE INCOME (LOSS)

The following chart depicts the changes in the accumulated comprehensive income for periods ending December 31, 2005 and 2004:

|   | 2005      | 2004      |
|---|-----------|-----------|
|   | ----      | ----      |
| Beginning balance                                 | (792,009) | --        |
| Change in Accumulated Comprehensive Income (Loss) | --        | (792,009) |
| Amounts recognized with sale of Securities        | 792,009   | --        |
|   | -----     | -----     |
| Total Accumulated Comprehensive Income/(Loss)     | --        | (792,009) |
|   | =====     | =====     |

This loss was incurred as a result of the write down of the marketable securities to market on December 31, 2004. Refer to the Preferred Series A Stock section above for more detail on this transaction. During the year ended December 31, 2005, the loss was recognized with the sale of available for sale securities.

#### 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 December 31, 2005 and 2004, the aggregate balance on these notes was \$54,863 and \$66,402 and the respective accrued interest payable balances were \$12,462 and \$10,102, respectively.

#### NOTE 17 - RELATED PARTY TRANSACTIONS

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 2005 were \$84,250 and \$15,237, respectively, of which \$44,149 was included in accounts payable at December 31, 2005.

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 December 31, 2005 consulting fees and related expenses totaling \$180,000 and \$26,784, respectively, were recorded pursuant to this agreement, of which \$15,256 is included in accounts payable at December 31, 2005.

In October 2004, directors Richard H. Keates, M.D., Norman Schwartz, and Adam

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Krupp were granted 200,000, 100,000 and 25,000 10-year options, respectively, to purchase shares of the company's common stock at an exercise price of \$0.40. No additional options were granted to related parties during 2005.

### 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. (See Note 14.)

### NOTE 19 - INCOME TAXES

The provision for income taxes consist of the following for the years ended December 31:

|                 | 2005   | 2004   |
|-----------------|--------|--------|
| Current:        |        |        |
| Federal         | \$ --  | \$ --  |
| State           | 800    | 800    |
|                 |        |        |
| Total provision | \$ 800 | \$ 800 |

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The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

|  | 2005  | 2004  |
|--|-------|-------|
| Federal statutory rate   | 35%   | 35%   |
| Increase in deferred income tax asset valuation allowance                | (24%) | (35%) |
| Warrants and beneficial conversion feature and preferred stock accretion | (17%) | (6%)  |
| State income taxes, net of federal effect                                | 6%    | 6%    |
|  | 0%    | 0%    |

The components of the net deferred income tax assets are as follows as of December 31:

|                                    | 2005          | 2004      |
|------------------------------------|---------------|-----------|
| Deferred income tax assets:        |               |           |
| Net operating loss carry forward   | \$ 12,572,537 | 8,924,252 |
| Other temporary timing adjustments | 353,790       | 273,128   |
|                                    | 12,926,327    | 9,197,380 |
| Deferred tax liability:            |               |           |
| State taxes                        | ( )           | (641,509) |
| Other temporary timing adjustments | ( 2,565)      |           |
|                                    |               |           |

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|                                       |                 |                 |
|---------------------------------------|-----------------|-----------------|
| Deferred income tax asset, net before |                 |                 |
| Valuation allowance                   | 12,923,762      | 8,555,871       |
| Less: valuation allowance             | (12,923,762)    | (8,555,871)     |
|                                       | -----           | -----           |
| Deferred income tax asset, net        | \$           -- | \$           -- |
|                                       | =====           | =====           |

Since 1996, the company has generated federal and state net operating losses (NOL) of approximately \$30.9 million and \$30.6 million, respectively. The total carry forward amounts are available to offset future taxable income and expire in various years beginning through 2020 and 2007, respectively. The ability to use some or all of this carryforward is limited by future events such as a failure to generate positive taxable income or a change in ownership as stated under the rules of Internal Revenue Code Section 382.

The net deferred tax asset is primarily associated with its net operating loss carryforwards, state taxes and other timing adjustments. The Company has recorded a valuation allowance for the entire amount due to the uncertainty surrounding the likelihood of the Company generating sufficient taxable income in the future.

### NOTE 20 - SUBSEQUENT EVENTS

#### DELISTING BY NASDAQ

On June 6, 2006, due to its failure to file this document in a timely manner, 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 may only be traded pursuant to pink sheet listings. Upon the filing of this document the Company intends to apply to be re-listed.

#### CONSULTING AGREEMENT

On March 3, 2006 the Company entered into a Workout Consulting Services Agreement with Florencia Mate Garabito (Consultant). The contract was for a minimum term of one year. The consultant was retained to assist the Company in the areas of valuation, structuring, and re-structuring debt. For her services, the Consultant was paid 178,571,420 shares of the Company's common stock.

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#### ACQUISITION OF OCULAR THERAPEUTICS, INC. (OthI)

In February of 2006 the Company acquired all of the stock of Ocular Therapeutics Inc. (OthI) . a wholly owned subsidiary of UTEK Inc. OThI owns technology licensed from Motility Inc. OThI holds an exclusive license to a patented technology for a small protein therapeutic (LD22-4) developed for the treatment of the wet form of age related macular degeneration. In addition to license technology, the Company acquired cash held by OthI in the amount of \$325,000 in connection with this acquisition. Consideration paid by the Company was 100,000 series C convertible preferred shares of the Company. The shares are not convertible until the first anniversary of the agreement. The preferred shares shall convert into \$2,800,000 worth of common shares of the Company. Additional consideration was a warrant to purchase 1,400,000 shares of the Company at 50% of the conversion price. The Company is required to pay royalties and meet certain milestones as follows:

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

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SIGNATURES

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

Advanced Refractive Technologies, Inc., a Delaware corporation

By: /s/ Laurence Schreiber

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Laurence Schreiber, Secretary,  
Treasurer, Chief Operating Officer

Date: June 16, 2006