AMPLIDYNE INC
Form 10QSB
November 19, 2003

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

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003.

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 0-21931

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

DELAWARE	22-3440510
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No ___

The number of shares outstanding of the Issuer's Common Stock, $.0001 Par Value, as of October 31, 2003 was 10,376,500.

AMPLIDYNE, INC.
FORM 10-QSB
NINE MONTHS ENDED SEPTEMBER 30, 2003

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMPLIDYNE, INC.
BALANCE SHEETS (UNAUDITED)

ASSETS

	Septembe 2003
CURRENT ASSETS	
Cash and cash equivalents	$ 8
Accounts receivable, net of allowance for doubtful accounts of $186,000 and $143,000 in 2003 and 2002, respectively	232
Inventories	952
Loan receivable - officer	
Prepaid expenses and other	26
Total current assets	1,219
PROPERTY AND EQUIPMENT - AT COST	
Machinery and equipment	725
Furniture and fixtures	43

Autos and trucks	66
Leasehold improvements	8
	843
Less accumulated depreciation and amortization	(782
	60
SECURITY DEPOSITS AND OTHER NON-CURRENT ASSETS	33
TOTAL ASSETS	$ 1,314

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the Unites States for complete financial statements.

The accompanying notes are an integral part of these financial statements

AMPLIDYNE, INC.
BALANCE SHEETS (UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	Septembe 2003
CURRENT LIABILITIES	
Overdraft	$
Current maturities of lease obligations	
Accounts payable	410
Accrued expenses	193
Accrued settlement of litigation	195
Loans payable - officers	314
Total current liabilities	1,112
Convertible notes payable	20
TOTAL LIABILITIES	1,132
STOCKHOLDERS' EQUITY	
Common stock - authorized, 25,000,000 shares of $.0001 par value; shares 10,376,500 and 9,676,500 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	1
Additional paid-in capital	22,494
Accumulated deficit	(22,314
	181

	$ 1,314

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the Unites States for complete financial statements.

The accompanying notes are an integral part of these financial statements

AMPLIDYNE, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30

	THREE MONTHS ENDED SEPTEMBER 30		NINE MON SEPTE
	2003	2002	2003
Net sales	$ 356,834	325,584	$ 1,230,344
Cost of goods sold	183,730	213,226	741,512
Gross profit	173,104	112,358	488,832
Operating expenses			
Selling, general and administrative	154,309	435,058	565,050
Research, engineering and development	93,114	98,846	287,629
Litigation settlement costs	--	--	--
Operating loss	(74,319)	(421,546)	(363,847)
Nonoperating income (expenses)			
Interest income and other income	--	118	3
Interest expense	--	--	--
Loss before income taxes	(74,319)	(421,428)	(363,844)
Provision for income taxes	--	--	698
NET LOSS	$ (74,319)	$ (421,428)	$ (364,542)
Net loss per share - basic and diluted	$ (0.01)	$ (0.04)	$ (0.04)
Weighted average number of shares outstanding	10,376,500	9,675,500	10,259,666

The accompanying notes are an integral part of these financial statements

AMPLIDYNE, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30

	Nine Months End September 30 2003	2
Cash flows from operating activities:		
Net Loss	$ (364,542)	$ (2
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	22,200	
Bad debt expense	74,702	
Litigation loss	--	
Provision for inventory write-down	--	
Deferred officer compensation	51,416	
Other costs paid with restricted common stock	--	
Changes in assets and liabilities		
Accounts receivable	133,568	
Inventories	(25,553)	
Prepaid expenses and other assets	(2,088)	
Customer advances	--	
Accounts payable and accrued expense	(61,824)	
Total adjustments	192,421	1
Net cash provided (used) for operating activities	(172,121)	(1
Cash flows from investing activities:		
Officer loans	--	
Change in security deposits	11,086	
Net cash provided by (used for) investing activities	11,086	
Cash flows from financing activities:		
Payment of lease obligations	(2,041)	
Officer loans	163,466	
Proceeds from convertible promissory note	20,000	
Proceeds from sale of common stock, net of costs	--	
Subscriptions receivable preferred stock - net	--	
Net cash provided by financing activities	181,425	
NET INCREASE (DECREASE) IN CASH	20,390	
Cash (overdraft) and cash equivalents beginning of period	(11,939)	

Cash (overdraft) and cash equivalents at end of period	$ 8,451	$
Supplemental disclosures of cash flow information:		
Cash paid for: Interest	$ --	$
Income taxes	$ 698	$

The accompanying notes are an integral part of these financial statements

AMPLIDYNE, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2002 AND NINE MONTHS ENDED SEPTEMBER 30, 2003

	Preferred Stock	
	Shares	Par Value
BALANCE AT DECEMBER 31, 2001	55,000	$
Net loss for the year ended December 31, 2002		
Cost of litigation to be settled by the issuance of common stock		
Collection of subscription receivable		
Issuance of common stock in settlement of class action		
Issuance of common stock, net of costs		
Conversion of preferred stock to common stock	(55,000)	
Issuance of common stock for services rendered by third party		
BALANCE AT DECEMBER 31, 2002	--	--
Net loss for the nine months ended September 30, 2003		
Issuance of common stock in connection with litigation settlement		
BALANCE AT SEPTEMBER 30, 2003	--	$ --

	Additional Paid-In Capital	Accumulat Deficit
BALANCE AT DECEMBER 31, 2001	$ 21,921,495	$(19,569,6
Net loss for the year ended December 31, 2002		(2,380,0
Cost of litigation to be settled by the issuance of common stock	29,400	
Collection of subscription receivable		

Issuance of common stock in settlement of class action	(32)	
Issuance of common stock, net of costs	539,925	
Conversion of preferred stock to common stock	(64)	
Issuance of common stock for services rendered by third party	4,200	--
BALANCE AT DECEMBER 31, 2002	22,494,924	(21,949,6
Net loss for the nine months ended September 30, 2003		(364,5
Issuance of common stock in connection with litigation settlement	(70)	
BALANCE AT SEPTEMBER 30, 2003	$ 22,494,854	$(22,314,2

The accompanying notes are an integral part of these financial statements

AMPLIDYNE, INC.
NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE A - ADJUSTMENTS

In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of (a) results of operations for the six and three month periods ended September 30, 2003 and 2002 (b) the financial position at September 30, 2003 (c) the statements of cash flows for the six and three month period ended September 30, 2003 and 2002 , and (d) the changes in stockholders' equity for the three month period ended September 30, 2003 have been made. The results of operations for the three and six months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year.

NOTE B - UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for financial statements. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2002 included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 15, 2003.

The Company's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The liquidity of the Company has been adversely affected in recent years by significant losses from operations. As further discussed in Note F, the Company incurred losses of $364,542 for the nine months ended September 30, 2003, has no cash and has seen its working capital decline by $311,256 to $106,819 since the beginning of the fiscal year. Current liabilities exceed cash and receivables by $872,151 indicating that the Company will have difficulty meetings its financial obligations for the balance of this fiscal year. These factors raise substantial

doubt as to the Company's ability to continue as a going concern. Recently, operations have been funded by loans from the Chief Executive Officer and costs have been cut through substantial reductions in labor and operations.

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

NOTE C - STOCKHOLDERS' EQUITY

At September 30, 2003, the following 945,000 warrants, remained outstanding:

(1) 20,000 exercisable at $1.00 through May 2010

(2) 20,000 exercisable at $7.00 through December 2004

(3) 30,000 exercisable at $6.00 through November 2004

(4) 50,000 exercisable at $2.00 through December 2004

(5) 50,000 exercisable at $4.00 through December 2004

(6) 16,000 exercisable at $1.75 through December 2004

(7) 41,500 exercisable at $1.80 through July 31, 2004

(8) 207,500 exercisable at $3.00 through July 31, 2004

(9) 55,000 exercisable at $1.20 through September 30, 2004

(10) 300,000 exercisable at $2.00 through December 31, 2005

(11) 75,000 exercisable at $.96 through March 2007

(12) 80,000 exercisable at $1.50 through December 2004.

At September 30, 2003, the Company had employee stock options outstanding to acquire 2,251,000 shares of common stock at exercise prices of $0.15 to $4.00.

During the first quarter ended March 31, 2003, the Company issued 700,000 shares of the Company's restricted common stock to High Gain Antenna Co., Ltd. of Korea (see Note E.4.) in connection with the settlement of the litigation.

In March 2003, two stockholders loaned the Company $10,000 each under a Convertible Promissory Note due in March 2005, with interest, due at maturity,

of 6%. The note is convertible into restricted common stock at the rate of $.10 per share.

During the first quarter ended March 31, 2003, the Company re-priced and extended employee stock options to certain employees as follows: officers and directors, 1,150,000 options re-priced from $4.00 to $0.15 and extended to May 2006; all other employees 145,000 options re-priced from $4.00 to $0.15 and extended to May 2006. Additionally, the Vice President of Operations has been granted an additional 200,000 options at $0.15 and expiring in May 2006.

NOTE D - LOSS PER SHARE

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

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

NOTE E - LITIGATION

From time to time, the Company is party to what it believes are routine litigation and proceedings that may be considered as part of the ordinary course of its business. Except for the proceedings noted below, the Company is not aware of any pending litigation or proceedings that could have a material effect on the Company's results of operations or financial condition.

The Company is a party to the following matters:

1. AIRNET COMMUNICATIONS CORPORATION VS AMPLIDYNE, INC.

AirNet filed a complaint in the Circuit Court of the Eighteenth Judicial District of the State of Florida on January 23, 1997 alleging breach of contract. During 2000, the Company settled with AirNet at a cost of $175,000; $25,000 is to be paid quarterly over two years. $95,000 remained unpaid at September 30, 2003.

2. ENS ENGINEERING VS AMPLIDYNE, INC.

The Company was also a defendant in a complaint filed in the United States District Court for the District of New Jersey on May 13, 1998. The complaint alleges breach of contract of a representative agreement between the Company and ENS Engineering of South Korea. The Company reached oral settlement terms and, based upon such oral settlement, the court dismissed the case in the first quarter of 2000. The terms of the oral settlement called for the Company

to pay $85,000 in twelve equal monthly installments, none of which has been paid as of December 31, 2000. The Company has not received any required documents and releases from ENS. The financial statements do not include any provision for this settlement.

3. The Company was subject to a SEC formal order of investigation relating to the subject matter of the Class Action Lawsuit that was commenced in 1999 and settled in 2001. On May 22, 2003, the Commission filed a settled action in the United States District Court for the District of New Jersey against Amplidyne, Inc. ("Amplidyne") and its President, Chairman and Chief Executive Officer, Devendar S. Bains ("Bains"). The Commission's Complaint alleges that Amplidyne and Bains violated the antifraud provision of the federal securities laws by making false statements concerning Amplidyne's purported entry into the high-speed Internet wireless access market. Simultaneously with the filing of the Complaint, Amplidyne and Bains, without admitting or denying the allegations in the Complaint, consented to the entry of a final judgment permanently enjoining both from violating Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. In addition, Bains agreed to pay a civil penalty of $50,000.

4. HIGH GAIN ANTENNA CO., LTD. OF KOREA

The Company (as well as an officer and director of the Company) was a defendant in a complaint brought in the Superior Court of New Jersey, Law Division, Somerset County, by High Gain Antenna Co., Ltd. of Korea in November 2000. The complaint sought damages for an alleged breach of a contract for the repair of certain equipment purchased by plaintiff from a distributor of the Company's products and the Company. A trial commenced on May 7, 2002, and on May 13, 2002, the jury brought in a verdict against the Company for $400,000. The Company had filed a motion in the Law Division for a new trial, which was denied and gave notice of appeal to file an appeal of the verdict and judgment to the Superior Court of New Jersey, Appellate Division. Management latter determined

that pursuing the appeal would not be in the best interest of the Company and its shareholders.

In January 2003, the Company entered into a Stipulation of Settlement and Release before the Superior Court of New Jersey, Somerset County. The settlement stipulates that the Company pay a total of $200,000 plus 700,000 shares of restricted common stock of the Company valued by the agreement at $105,000 (management has determined that the discounted value of the 700,000 restricted shares was $29,400 in January 2003 based on quoted market price of $0.07 per share discounted for lack of marketability). The stipulation calls for an initial payment of $75,000 (paid in March 2003) with the remaining balance payable in $25,000 increments on the following dates: June 2, 2003, August 31, 2003, November 29, 2003, February 27, 2004 and May 28, 2004. The record judgment of $400,000 shall remain until the payment obligations are made in full. In the event of default, the plaintiff shall have the right to execute the judgment after crediting $105,000 for the agreed value of the shares issued plus any payments made pursuant to the settlement. Failure by the Company to timely meet the settlement terms will have a material adverse effect on the Company's financial position and prospects.

5. AMPLIDYNE, INC. V. WAYNE FOGEL, DIGITAL COMMUNICATIONS NETWORK, INC.

AND INTERNET NETWORK CORPORATION

On May 30, 2002, the Company filed a two count lawsuit against the above mentioned defendants in the Superior Court of New Jersey, Law Division, Somerset County, seeking, among other things, declaratory relief that the Company is not obligated to pay a finders fee (in connection with the Company's purchase of the Darwin Assets), and that the Company is entitled to monetary damages as a result of defendant's misrepresentations. On July 10, 2002, the matter was removed to the United States District Court of New Jersey but later transferred to the United States Bankruptcy Court and then transferred back to the United States District Court of New Jersey. On July 29, 2002, defendants filed a counterclaim seeking $200,000 in damages as a result of a finders fee agreement. In January 2003, the matter was transferred to the United States District Court for the Middle District of Florida. The defendants sought a further transfer to the United States Bankruptcy Court for the Middle District of Florida, but such motion was denied. Internet Network Corporation has a pending motion seeking sanctions against the Company for violating the bankruptcy automatic stay for actions against debtors in bankruptcy proceedings. Although the Company is confident in its position, it cannot predict the outcome of the case and any negative outcome may have a material adverse effect on the Company's financial position or prospects.

NOTE F - LIQUIDITY

The Company's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The liquidity of the Company has been adversely affected in recent years by significant losses from operations. The Company has incurred losses of $364,542 and $2,535,008 for the nine months ended September 30, 2003 and 2002, respectively.

With little remaining cash and no near term prospects of private placements, options or warrant exercises and reduced revenues, management believes that the Company will have great difficulty meeting its working capital and litigation settlement obligations over the next 12 months. The Company is presently dependent on cash flows generated from sales and loans from officers to meet our obligations. Our failure to consummate a merger with an appropriate

partner or to substantially improve our revenues will have serious adverse consequences and, accordingly, there is substantial doubt in our ability to remain in business over the next 12 months. There can be no assurance that any financing will be available to the Company on acceptable terms, or at all. If adequate funds are not available, the Company may be required to delay, scale back or eliminate its research, engineering and development or manufacturing programs or obtain funds through arrangements with partners or others that may require the Company to relinquish rights to certain of its technologies or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations.

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

- Increasing sales of its high speed internet connectivity products through both individual customers, strategic

alliances and mergers.

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

NOTE G - OTHER COMMENTS

1. Officer Loans

As of September 30, 2003, the Company owes $252,440 to the Chief Executive Officer for loans and unpaid salaries. During the nine months ended September 30, 2003, the Chief Executive Officer advanced $249,466 to the Company and was repaid $87,000. During the nine months ended September 30, 2003 salaries of $51,416 were deferred.

2. Advance payments from customer

In March 2003, a customer advanced $100,000 to the Company for future orders. These orders began shipping in April 2003 and were completed in the third quarter. No balance remains as of September 30, 2003

NOTE H - SEGMENT INFORMATION

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

	Nine Months Ended September 30 2003	Nine Months Ended September 30 2002	Year Ended December 31, 2002
Sales - external			
Amplifier	$ 1,013,262	$ 559,643	$ 992,361
Internet business	217,082	522,889	621,371
	$ 1,230,344	$ 1,082,532	$ 1,613,732
Inventory			
Amplifier	$ 454,946	$ 313,575	441,654
Internet business	497,320	590,827	485,059
	$ 952,266	$ 904,402	$ 926,713

AMPLIDYNE, INC.

PART I - FINANCIAL INFORMATION

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

RESULTS OF OPERATIONS - THE THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002.

Revenues for the three months ended September 30, 2003 increased by $31,250 from $325,584 to $356,834, or 10% compared to the three months ended September 30, 2002. The sales increases were primarily in amplifiers. Coupled with the staff reductions and other aggressive cost cuts, this quarter's losses were reduced compared with the first 3 quarters of last year.

The majority of the amplifier sales for the three months ended September 30, 2003 were obtained from the Wireless Local Loop amplifier products to a major European customer. The Company has also supplied 3.5GHz linear amplifiers to its major North American customer. Sales of amplifiers were approximately 84.4% of total sales compared to 47% of total sales for the same period last year. The Ampwave high speed wireless Internet products and broadband solutions accounted for approximately 15.6% of total sales, against 53% of total sales for the same period last year.

The Company has continued to develop and refine its amplifier products for the wireless communications market. The Company has also refined its wireless internet amplifiers for the indoor market. Sales and marketing efforts have been focused in the more stable United States, European and Canadian markets.

Cost of sales was $183,730 or 51% of sales compared to 65% during the same period for 2002. The cost of sales for same quarter last year included an inventory write-down of $233,995 representing 93% of sales for that quarter. Gross margin for the three months ended September 30, 2003 amounted to $173,104 (48%) compared to $112,358 (34%), for the same period ended September 30, 2002. The improvement in gross margin was principally due to improved production

efficiency from staff reductions over the past 4 quarters. The Company is continuing to assess cost reduction and is promoting increased product demand to improve gross margins in 2003.

Selling, general and administrative expenses (excluding stock based compensation) decreased in 2003 by $280,749 to $154,309 from $435,058, in 2002. Expressed as a percentage of sales, the selling, general and administrative expenses (excluding stock based compensation) were 13% in 2003 and 40% in 2002. The principal factors contributing to the decrease in selling, general and administrative expenses were related to the effects of our cost cutting program implemented in the 3rd and 4th quarters of 2002. In the quarter ended September 30, 2003, we continued to maintain the lower staffing and overhead levels that we instituted in 2002.

Research, engineering and development expenses were 26% of net sales for the three months ended September 30, 2003 compared to 30% in 2002. In 2003 and 2002, the principal activity of the business related to the design and production of product for OEM manufacturers, particularly for the IMT 2000 and 3.5 GHz single channel products and refinements to the High Speed Internet products. The research, engineering and development expenses consist principally of salary cost for engineers and the expenses of equipment purchases specifically for the design and testing of the prototype products. The Company's research and development efforts are influenced by available funds and the level of effort required by the engineering staff on customer specific projects.

The Company had interest income and other income in the third quarter of 2002 of $118 due to influx of new capital during 2000 and 2001 from our private placements and exercise of warrants and options. Interest income went down to $NIL in 2003 because our cash balances which we have historically temporarily invested in interest bearing accounts have been largely depleted.

As a result of the foregoing, the Company incurred net losses of $74,319 or $0.01 per share for the quarter ended September 30, 2003 compared with net losses of $421,428 or $0.04 per share for the same quarter in 2002.

RESULTS OF OPERATIONS - THE NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002.

Revenues for the nine months ended September 30, 2003 increased by $147,812 from $1,082,532 to $1,230,344, or 14% compared to the nine months ended September 30, 2002. Coupled with the staff reductions and other aggressive cost cuts, the first six months losses were reduced compared with the first six months of last year.

The majority of the amplifier sales for the nine months ended September 30, 2003 were obtained from the Wireless Local Loop amplifier products to a major European customer. The Company has also supplied 3.5GHz linear amplifiers to its major North American customer.

The Company has continued to develop and refine its amplifier products for the wireless communications market. The Company has also refined its wireless internet amplifiers for the indoor market. Sales and marketing efforts have been focused in the more stable United States, European and Canadian markets.

Cost of sales was $741,512 or 60% of sales compared to $1,243,116 or 115% of sales during the same period for 2002. The cost of sales for same period last year included an inventory write-down of $233,995 representing 19% of sales for that period. The improvement in gross margin was principally due to and due improved production efficiency from staff reductions over the past 4 quarters. The Company is continuing to assess cost reduction and is promoting increased product demand to improve gross margins in 2003.

Selling, general and administrative expenses (excluding stock based compensation) decreased in 2003 by $1,106,808 to $565,050 from $1,671,858, in 2002. Expressed as a percentage of sales, the selling, general and administrative expenses (excluding stock based compensation) were 46% in 2003 and 154% in 2002. The principal factors contributing to the decrease in selling, general and administrative expenses were related to the effects of our cost cutting program implemented in the 3rd and 4th quarters of 2002. In the quarter ended September 30, 2003, we continued to maintain the lower staffing and overhead levels that we instituted in 2002.

Research, engineering and development expenses were 23% of net sales for the nine months ended September 30, 2003 compared to 36% in 2002. In 2003 and 2002, the principal activity of the business related to the design and production of product for OEM manufacturers, particularly for the IMT 2000 and 3.5 GHz single channel products and refinements to the High Speed Internet products. The research, engineering and development expenses consist principally of salary cost for engineers and the expenses of equipment purchases specifically for the design and testing of the prototype products. The Company's research and development efforts are influenced by available funds and the level of effort required by the engineering staff on customer specific projects.

The Company had interest income and other income in 2002 of $3,170 due to influx of new capital during 2000 and 2001 from our private placements and exercise of warrants and options. Interest income went down to $NIL in 2003 because our cash balances which we have historically temporarily invested in interest bearing accounts have been largely depleted.

As a result of the foregoing, the Company incurred net losses of $364,542 or $0.04 per share for the nine months ended September 30, 2003 compared with net losses of $2,535,008 or $0.27 per share for the same period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to our ability to generate adequate amounts of cash to meet our needs. We have been generating the cash necessary to fund our operations from continual loans from the President and Chief Executive Officer of the Company, Devendar Bains. We have incurred a loss in each year since inception. We expect to incur further losses, that the losses may fluctuate, and that such fluctuations may be substantial. As of September 30, 2003 we had an accumulated deficit of $22,314,221. Potential immediate sources of liquidity are loans from Mr. Bains. Another potential source of liquidity is the sale of restricted shares of our common stock, but there are no immediate plans for such sale.

As of September 30, 2003, our current liabilities exceeded our cash and receivables by $872,151. Our current ratio was 1.10 to 1.00, but our ratio of

accounts receivable to current liabilities was only 0.22 to 1.00. This indicates that we will have difficulty meeting our obligations as they come due. We are carrying $952,266 in inventory, of which $693,418 represents component parts. Based on year to date usage, we are carrying 675 days worth of parts inventory. Because of the lead times in our manufacturing process, we will likely need to replenish many items before we use everything we now have in stock. Accordingly, we will need more cash to replenish our component parts inventory before we are able realize cash from all of our existing inventories.

As of September 30, 2003, we had cash of $8,451 compared to an overdraft of $11,939 at December 31, 2002. Overall our cash and cash equivalents increased $20,390 during 2003. Our cash used for operating actives was $172,121 This year we received loans of $249,466 and deferred salary payments to officer/stockholders of $51,416. We also received proceeds from the issuance of convertible promissory notes of $20,000.

The allowance for doubtful accounts on trade receivables increased form $143,000 (25% of accounts receivable of $583,506) in 2002 to $186,000 (44% of accounts receivable of $418,236) in 2003. Additionally, we reserved an aggregate of $31,702 against leases that appear to be uncollectible. Because of our relatively small number of customers and low sales volume, accounts receivable balances and allowances for doubtful accounts do not reflect a consistent relationship to sales. We determine our allowance for doubtful accounts based on a specific customer-by-customer review of collectiblity.

Our inventories increased by $25,553 to $952,266 in 2003 compared to $926,713 at December 31, 2002, a decrease of 3%.

The Company has several lease obligations for its premises and certain equipment requiring minimum monthly payments of approximately $9,800 through 2005. Although the Company did not convert salaries to officers through the issuance of Common Stock in 2003 or 2002, it may to do so in 2003. To help alleviate the cash flow difficulties, the Chief Executive Officer and the Vice President of Operations agreed to additional salary deferrals of $19,666 and $10,000, respectively.

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

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

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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

(b) Changes in Internal Controls.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

SIGNATURES

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

AMPLIDYNE, INC.

Dated: November 18, 2003

By: /s/ Devendar S. Bains

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