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LASERSIGHT INC /DE  
Form 10QSB  
November 08, 2005

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

FORM 10-QSB  
-----

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended September 30, 2005.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the Transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number: 0-19671

-----  
LASERSIGHT INCORPORATED  
-----

(Exact name of small business issuer as specified in its charter)

-----  
Delaware

65-0273162  
-----

(State of Incorporation)

(IRS Employer Identification No.)

-----  
6848 Stapoint Court., Winter Park, Florida 32792  
-----

(Address of principal executive offices) (Zip Code)

(407) 678-9900  
-----

(Issuer's telephone number)

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

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The number of shares of the registrant's common stock outstanding as of November 8, 2005 is 9,997,193.

Transitional Small Business Disclosure Format (Check one):

Yes  No

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## LASERSIGHT INCORPORATED AND SUBSIDIARIES

Except for the historical information contained herein, the discussion in this report contains forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934) that involve risks and uncertainties. LaserSight's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors and Uncertainties" in this report and in LaserSight's Annual Report on Form 10-KSB for the year ended December 31, 2004. LaserSight undertakes no obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect any future events or developments.

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PART 1 - FINANCIAL INFORMATION

LASERSIGHT INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
(unaudited)

ASSETS	September 30, 2005
	-----
Current assets:	
Cash and cash equivalents .....	\$ 94,796
Accounts receivable - trade, net (including receivables from related parties of \$1,937,298) .....	1,944,814
Notes receivable - current portion, net .....	101,113
Inventories, net .....	1,509,764
Prepaid expenses .....	23,578
	-----
Total Current Assets	3,674,065
Property and equipment, net .....	94,993
Patents, net .....	424,775
Deposits with suppliers .....	358,191
Deferred financing costs, net .....	194,840
	-----
Total Assets	\$ 4,746,864
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities:	
Note Payable .....	\$ 736,491
Accounts payable .....	181,467
Accrued expenses .....	258,431
Accrued license fees .....	181,211
Accrued Warranty .....	454,000
Deferred revenue .....	816,742
	-----
Total Current Liabilities	2,628,342
Note Payable Related party- convertible .....	1,000,000
Note Payable long term portion .....	315,368
Deferred royalty revenue .....	4,065,491
Commitments and contingencies	
Stockholders' deficit:	
Convertible preferred stock, par value \$.001 per share; authorized 10,000,000 shares; non- issued .....	-
Common stock - par value \$.001 per share; authorized 100,000,000 shares; 9,997,195 shares issued and 9,997,193 outstanding .....	9,997
Additional paid-in capital .....	104,625,869
Accumulated deficit .....	(107,898,203)
Less treasury stock, at cost; 2 common shares .....	-
	-----
Total Stockholders' Deficit	(3,262,337)
	-----
Total Liabilities and Stockholders' Deficit	\$ 4,746,864
	=====

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See accompanying notes to the condensed consolidated financial statements.

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LASERSIGHT INCORPORATED AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

	Three Months Ended Sept 30,	Three Months Ended Sept 30,	Nine Months Ended Sept 30,	Nine En Sep
	2005	2004	2005	2004
Revenues:				
Products .....	\$ 1,069,988	\$ 930,816	\$ 4,222,546	\$ 3,
(including revenues from related parties of \$894,224, \$778,807, \$3,917,829 and \$3,509,714, respectively)				
Royalties .....	266,091	234,810	797,303	
	1,336,079	1,165,626	5,019,849	4,
Cost of revenues:				
Product cost .....	482,969	626,776	2,159,009	2,
Gross profit .....	853,110	538,850	2,860,840	1,
Research and development and regulatory expenses .....	46,705	42,747	146,523	
Other general and administrative expenses	576,773	707,258	1,841,367	2,
Selling-related expenses .....	38,575	117,807	312,072	
Amortization of intangibles .....	8,379	8,379	25,137	
	623,727	833,444	2,178,576	2,
Income (loss) from operations .....	182,678	(337,341)	535,741	(
Other income and expenses:				
Interest and other income .....	654	275,476	3,066	
Interest expense .....	(78,396)	(189,509)	(249,688)	(
Income (loss) before income tax benefit .	104,936	(251,374)	289,119	(
Income tax expense/benefit .....	-	-	-	
Net income (loss) before extinguishment of debt .....	104,936	(251,374)	289,119	(
Gain of extinguishment of debt .....	-	-	-	15,
Net Income(loss) .....	\$ 104,936	\$ (251,374)	\$ 289,119	\$ 14,
Income(loss) per common share				
Basic: .....	\$ 0.01	\$ (0.03)	\$ 0.03	\$

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Diluted: .....	\$	0.01	\$	(0.03)	\$	0.03	\$
Weighted average number of shares outstanding							
Basic: .....		9,997,000		9,997,000		9,997,000	21,
Diluted: .....		9,997,000		9,997,000		9,997,000	34,

See accompanying notes to the condensed consolidated financial statements.

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LASERSIGHT INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED SEPTEMBER 30, 2005 and 2004  
(unaudited)

	September 30, 2005	September 30, 2004
Cash flows from operating activities		
Net income .....	\$ 289,119	\$ 14,327,
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	45,051	80,
Amortization of discount on note payable and deferred financing cost .....	80,474	
Issuance of stock options .....	7,800	
Additions to notes payable for fees and penalties ..	-	305,
Gain on extinguishment of debt .....	-	(15,287,
Changes in assets and liabilities:		
Accounts and notes receivable, net .....	(252,988)	(333,
Inventories .....	206,160	633
Accounts payable .....	17,624	447,
Accrued expenses .....	13,876	231,
Deferred revenue .....	79,532	(704,
Other .....	43,822	(502,
Net cash provided by (used in) operating activities ...	530,470	(801,
Cash flows from investing activities		
Purchases of property and equipment .....	(5,558)	(109,
Net cash used in investing activities .....	(5,558)	(109,
Cash flows from financing activities		
Payments on debt financing .....	(807,628)	(243,
Proceeds from DIP Financing .....	-	1,250,
Net cash provided by (used in) financing activities ...	(807,628)	1,006,
Change in cash and cash equivalents .....	(282,716)	95,

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Cash and cash equivalents, beginning of period .....	377,512	564,
	-----	-----
Cash and cash equivalents, end of period .....	\$ 94,796	\$ 660,
	=====	=====

See accompanying notes to the condensed consolidated financial statements.

LASERSIGHT INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 Three-Month and Nine-Month Periods Ended September 30, 2005 and 2004

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited, condensed consolidated financial statements of LaserSight Incorporated and subsidiaries ("LaserSight" or the "Company") as of September 30, 2005, and for the three-month and nine-month periods ended September 30, 2005 and 2004, have been prepared in accordance with accounting principles generally accepted in the United States, , and the rules and regulations of the United States Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes necessary for a comprehensive presentation of financial position and the results of operations.

The Company's business is subject to various risks and uncertainties, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has suffered recurring losses from operations and has a significant accumulated deficit that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described below. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounts receivable due from Shenzhen New Industries Medical Development Co., Ltd. ("NIMD") as of September 30, 2005 totaled \$1,937,298, which was virtually all of the accounts receivable balance at September 30, 2005. \$1,043,074 of NIMD's balance is over ninety days past due. As of November 8, 2005, \$1,296,941 of the Company's accounts receivable balance remains unpaid. While we have verbal promises from the NIMD to pay the accounts receivable balance, we have no guarantee that payment will be made on time. Management continues to believe that it will fully realize the balance due, but the ultimate realization thereof cannot be assured. The loss of NIMD as a customer or the non-payment or slow payment of monies owed to the Company would have a significant adverse effect on the Company's ability to continue as a going concern.

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The condensed consolidated financial statements have been prepared in accordance with the requirements for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in LaserSight's annual report on Form 10-KSB for the year ended December 31, 2004. In the opinion of management, the condensed consolidated financial statements include all adjustments necessary, consisting only of normal, recurring adjustments, for a fair presentation of consolidated financial position and the results of operations and cash flows for the periods presented. There are no other components of comprehensive income other than the Company's consolidated net income for the three-month and nine-month periods ended September 30, 2005 and 2004. The results of operations for the three-month and nine-month periods ended September 30, 2005 are not necessarily indicative of the operating results for the full year.

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### NOTE 2 CRITICAL ACCOUNTING POLICIES

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates that affect the amounts and disclosures in the financial statements. Actual results could differ from these estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2004 Annual Report on Form 10-KSB, filed in March 2005, in the Critical Accounting Policies and Estimates section of "Item 7. - Management's Discussion and Analysis or Plan of Operation."

### NOTE 3 PER SHARE INFORMATION

Basic income per common share is computed using the weighted average number of common shares and contingently issuable shares (to the extent that all necessary contingencies have been satisfied). Diluted income per common share is computed using the weighted average number of common shares, contingently issuable shares (to the extent that all necessary contingencies have been satisfied), and common share equivalents outstanding during each period. Common share equivalents, including options and warrants to purchase Common Stock, are included in the computation using the treasury stock method. The dilutive effect of convertible securities is computed using the if-converted method. The computation of dilutive earnings per shares excludes the effect of the assumed conversion of exercise or contingent issuance of securities that would have an antidilutive effect on earnings per share. For the period ended September 30, 2005, 596,000 shares attributable to outstanding stock options and warrants were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options and warrants were greater than or equal to the average price of common shares during the period, and therefore inclusion would have been antidilutive. As a result of the September 5, 2003 Chapter 11 filing, all common and preferred shares outstanding at and prior to June 30, 2004, including options and warrants, were cancelled and new shares were distributed, effective June 30, 2004, as

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follows:

Creditors of LaserSight Incorporated	1,116,000
Creditors of LaserSight Technologies	1,134,000
Old preferred stockholders	360,000
Old common stockholders	539,997 (1)
Cancel treasury stock	(2,802)
Conversion of \$1 million DIP	
Financing	6,850,000
	-----
	9,997,195
	=====

(1) The old common stock was converted at a 51.828 to 1 ratio.

The following table presents earnings per share figures as if this reorganization of the capital structure had taken place as of the beginning of the first period presented:

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	Three Months Ended September 30, 2004
	-----
Net income per common share - basic and diluted	(\$0.03)
	=====
Weighted average number of common shares outstanding - basic and diluted	9,997,000
	=====

NOTE 4 INVENTORIES

Inventories, which consist primarily of excimer and erbium laser systems and related parts and components, are stated at the lower of cost or market. Cost is determined using the standard cost method, which approximates cost determined on the first-in first-out basis. The components of inventories at September 30, 2005 are summarized as follows:

	September 30, 2005
	-----
Raw material	\$ 1,143,971
Work in Process	408,277
Finished Goods	57,516
Reserve	(100,000)
	-----
	\$ 1,509,764
	=====

NOTE 5 AMENDED LOAN AGREEMENT

The Company signed a three-year note with Heller Healthcare Finance,



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Inc ("Heller") and GE Healthcare Financial Services, Inc., as successor-in-interest to Heller (collectively "GE") on August 30, 2004. The note expires on June 30, 2007. The note bears interest of 9%. Certain covenants were modified such that the Company is required to maintain a net worth of \$750,000, a tangible net worth of \$1,000,000 and minimum quarterly revenues of \$1,000,000. GE was issued a warrant to purchase 100,000 shares of common stock at \$0.25 per share, or \$0.40 per share if the New Industries Investment Group (the "China Group"), see Note 6, converts its DIP loan to equity. The warrant expires June 30, 2008. The Company was not in compliance with certain covenants of the amended loan agreements and a waiver was obtained on May 23, 2005. The revised agreement removed the net worth and tangible net worth covenants and added an annual net income provision. For the year ended December 31, 2005 and any subsequent trailing twelve month periods, as measured on the last day of each calendar quarter, the Company's earnings before interest, taxes, depreciation and amortization cannot fall below \$550,000. As of November 8, 2005, we are in compliance with all covenants of our loan agreement.

### NOTE 6 CHINA BACKGROUND

Shenzhen New Industries Medical Development Co., Ltd. ("NIMD") was founded and incorporated by the Medical Investment Department of the People's Republic of China in 1995 by its parent company, New

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Industries Investment Group ("NII"). It specializes in marketing and distribution of LASIK surgery devices and equipment, as well as in investment and operation of LASIK clinical centers in Chinese market.

In the past decade, NIMD invested and operated PRK/LASIK excimer laser refractive surgery centers in joint venture with hospitals and medical institutes in China. New Industries Investment Consultants (H.K.) Ltd ("NIIC") specializes in hi-tech business investment and consulting services. It is registered in Hong Kong. It was incorporated in 1994 by its principal investor Mr. Xianding Weng (a major shareholder of NII, NII's CEO and the Company's Chairman of the Board of Directors). NIIC, NII and NIMD are collectively referred to herein as the "China Group".

In 2003 and 2004, the China Group provided \$2 million of debtor-in-possession ("DIP") financing to the Company. On June 30, 2004, \$1 million of the DIP financing was converted into 6,850,000 shares of common stock. As of September 30, 2005, the China Group controlled approximately 72% of the Company's common stock. Company revenues from the China Group were approximately \$3.9 million and \$3.5 million in the nine months ended September 30, 2005 and 2004, respectively. Accounts receivable due from the China Group as of September 30, 2005 was \$1,937,298, virtually all of the accounts receivable balance at September 30, 2005. \$1,043,074 of the China Group's balance is over ninety days past due. As of November 8, 2005, \$1,296,941 of the accounts receivable balance remains unpaid. See Note 1.

### NOTE 7 STOCK BASED COMPENSATION

The Company accounted for stock-based employee compensation plans using the intrinsic value method under Accounting Principles Board Opinion No. 25 and related interpretations. Accordingly, stock-based employee compensation cost was not reflected in net earnings, as all stock

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options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. No stock options were awarded in 2004, and the Company had no pro forma stock-based compensation.

As previously announced, as a result of the Chapter 11 filing, the Company cancelled all of the common and preferred shares, options and warrants outstanding at June 30, 2004. Effective January 1, 2005 the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, using the retroactive restatement method described in SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure. There was no effect to the financial statements from the implementation of the retroactive restatement method. In May 2005 the Board of Directors approved the issuance of options to purchase 496,000 shares of the Company's Common Stock with an estimated fair value of approximately \$119,000. The options were issued to employees and Directors and have various vesting schedules, but all are exercisable for ten years. Amortization of unearned stock-based compensation for the nine months ended September 30, 2005 and 2004 was \$7,800 and \$0, respectively.

NOTE 8 BANKRUPTCY

On September 5, 2003 LaserSight and two of its subsidiaries filed for Chapter 11 bankruptcy protection and reorganization in the United States Bankruptcy Court, Middle District of Florida, Orlando Division. The cases filed were LaserSight Incorporated, ("LSI") Case No.

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6-03-bk-10371-ABB; LaserSight Technologies, Inc., ("LST") Case No. 6-03-bk-10370-ABB; and LaserSight Patents, Inc., Case No. 6-03-bk-10369-ABB.

On April 28, 2004, the Bankruptcy Court confirmed the Re-organization Plan. The effective date of the Plan was June 30, 2004. On December 22, 2004 a final decree of bankruptcy was issued.

In June of 2004, the effective date of the re-organization plan, the following liabilities were relieved:

Accounts Payable	\$ 2,905,814
Accrued TLC license fee	825,500
Accrued salaried/severance	235,367
Accrued warranty	6,125,730
Accrued Ruiz license fees	3,471,613
Deposits/service contracts	720,399
Other accrued expenses	1,331,711
	-----
	\$ 15,616,134
Stock issued to creditors	(328,500)
	-----
Gain on forgiveness of debt	\$ 15,287,634
	=====

The new common stock issued to the creditors was valued at \$0.146 per share, or \$328,500, which was deducted from the forgiven liabilities. The stock value is the same amount as the \$1,000,000 of DIP financing converted to equity.

NOTE 9 CONTINGENCIES

Liquidity

-----

The Company had incurred significant losses and negative cash flows from operations in each of the years in the three-year period ended December 31, 2003, and had an accumulated deficit of \$108 million at September 30, 2005. Net cash flows were negative during the nine-month period ended September 30, 2005. The substantial portion of these losses is attributable to the Company's continued lack of adequate funding and working capital, and additional administrative and professional expenses, attributable to the Chapter 11 filing, have also contributed to these losses. In past years the substantial portion of these losses were attributable to an inability to sell certain products in the U.S. due to delays in Food and Drug Administration (FDA) approvals, various procedures using the Company's excimer laser system in the U.S. and continued development efforts to expand clinical approvals of the Company's excimer laser and other products. The Company's new focus is on China, and it is no longer pursuing additional FDA approvals.

In 2004, the Company had net income of \$14.7 million, which included \$15.3 million of gain on forgiveness of debt. In 2004 the Company incurred \$398,000 of bankruptcy-related expenses for legal services, financial advisor fees, printing and postage, priority claims and new stock certificates.

Contractual obligations with one of our creditors require that one-third of the payments received from WaveLight Laser Technologie AG for licensing our patents be used for additional principal payments. During the first three quarters of 2005, additional principal payments were \$275,000.

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The Company's ability to continue as a going concern is uncertain and dependent upon continuing to achieve improved operating results and cash flows or obtaining additional equity capital and/or debt financing.

Litigation

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Italian Distributor. In February 2003, an Italian court issued an order restraining LaserSight Technologies from marketing our AstraPro software at a trade show in Italy. This restraining order was issued in favor of LIGI Tecnologie Medicali S.p.a. (LIGI), a distributor of our products, and alleged that our AstraPro software product infringes certain European patents owned by LIGI. We had retained Italian legal counsel to defend us in this litigation, and we were informed that the Italian court had revoked the restraining order and ruled that LIGI must pay our attorney's fees in connection with our defense of the restraining order. In addition, our Italian legal counsel informed us that LIGI had filed a motion for a permanent injunction. We believe that our AstraPro software does not infringe the European patents owned by LIGI, but due to limited cash flow the Company has not defended its position. Management believes that the outcome of this litigation will not have a material adverse impact on LaserSight's business, financial condition or results from operations. Since the Chapter 11 petition

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does not apply to foreign courts, this action is still pending.

Routine Matters. In addition, we are involved from time to time in routine litigation and other legal proceedings incidental to our business. Although no assurance can be given as to the outcome or expense associated with any of these proceedings, we believe that none of such proceedings, either individually or in the aggregate, will have a material adverse effect on the financial condition of LaserSight.

### NOTE 10 SEGMENT INFORMATION

The Company's operations principally include refractive products. Refractive product operations primarily involve the development, manufacture and sale of ophthalmic lasers and related devices for use in vision correction procedures. Patent services involve the revenues and expenses generated from the ownership of certain refractive laser patents.

Operating profit is total revenue less operating expenses. In determining operating profit for operating segments, the following items have not been considered: general corporate expenses, non-operating income and expense and income tax expense. Identifiable assets by operating segment are those that are used by or applicable to each operating segment. General corporate assets consist primarily of cash and income tax accounts.

The table below summarizes information about reported segments as of and for the three and nine months ended September 30, 2004 and 2005:

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### SEGMENT INFORMATION

Three months ended Sept 30,  
-----

	Operating Revenues -----	Operating Profit (Loss) -----	Assets -----	Depreciation and Amortization -----	
2005 ----					
Operating segments:					
Refractive products	\$1,069,988	\$ 66,965	\$4,552,024	\$ 14,026	
Patent services	266,091	266,091	-	-	
General corporate	-	(150,378)	194,840	28,158	
Consolidated total	\$1,336,079	\$ 182,678	\$4,746,864	\$ 42,184	
2004 ----					
Operating segments:					
Refractive products	\$ 930,816	\$ (437,139)	\$4,652,012	\$ 12,736	
Patent services	234,810	234,810	-	-	
General corporate	-	(135,012)	648,738	-	



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MORE COMPLETE UNDERSTANDING OF THE PRINCIPAL RISKS ASSOCIATED WITH AN INVESTMENT IN THE COMPANY'S STOCK.

### Overview

LaserSight is principally engaged in the manufacture and supply of narrow beam scanning excimer laser systems, topography-based diagnostic workstations, and other related products used to perform procedures that correct common refractive vision disorders such as nearsightedness, farsightedness and astigmatism. Since 1994, we have marketed our laser systems commercially in over 30 countries worldwide. We are currently focused on selling in selected international markets; primarily China.

We have significant liquidity and capital resource issues relative to the timing of our accounts receivable collection and the successful completion of new sales compared to our ongoing payment obligations and our recurring losses from operations and net capital deficiency raises substantial doubt about our ability to continue as a going concern. We have experienced significant losses and operating cash flow deficits, and we expect that operating cash flow deficits will continue without improvement in our operating results.

### Bankruptcy

On September 5, 2003 we filed for Chapter 11 bankruptcy protection and reorganization. We operated in this manner from September 5, 2003 through June 10, 2004, when the re-organization was approved by the Bankruptcy Court. A final decree of bankruptcy was obtained on December 22, 2004. As a result of the bankruptcy re-structuring, we have recorded credits for debt forgiveness of approximately \$15.3 million during the three months ended June 30, 2004. Additionally, we recognized charges of approximately \$8.0 million during 2003 for patent impairment, accounts receivable and inventory write offs. We cancelled all of its outstanding common and preferred stock, including warrants and options, and issued 9,997,195 new common shares on June 30, 2004. We emerged from bankruptcy with approximately \$0.7 million in unsecured liabilities, approximately \$2.1 million in secured debt, approximately \$5.3 million in deferred revenue and approximately \$1.0 million of DIP financing provided by a related party, as part of the approved bankruptcy plan. The related party converted \$1.0 million of the DIP financing for an additional 6,850,000 common shares.

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### China Transaction

In February 2004, we received a commitment from a related party purchaser to purchase at least \$12.0 million worth of our products during the 12-month period ending February 2005 and to distribute our products in Mainland China, Hong Kong, Macao and Taiwan. The purchase agreement provides for two one-year extensions. From February 2004 through September 2005, approximately \$10.1 million worth of products were sold under this agreement. Product issues reduced shipments during the third and fourth quarters of 2004 and the first and second quarters of 2005. These issues have been resolved through revisions to product crating for shipment, software modifications and revised shipper instructions. An extension has not been signed, but the parties have continued to conduct business under similar terms as set forth in the purchase agreement.

### WaveLight Transaction

In March 2005 we executed a worldwide non-exclusive license agreement with WaveLight Laser Technologie AG ("WaveLight") to use and reproduce the Lin Scanning Patents for products to be used in ophthalmic surgery, which became

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effective on March 3, 2005, and an option to acquire a license to the Company's Apple Patents. Both the non-exclusive license and the option include certain WaveLight co-enforcement rights. As consideration for the license, we had received payments totaling \$825,000 by September 30, 2005. The receivable balance as of September 30, 2005 was \$75,000 and we received the final payment of \$75,000 on October 17, 2005. \$45,000 in broker fees were paid to an unrelated party for their assistance in closing this transaction. The agreement terminates when the patents expire, or earlier in the event of the occurrence of certain events of default.

### Results of Operations

The following table sets forth for the periods indicated information derived from our statements of operations for those periods expressed as a percentage of net sales, and the percentage change in such items from the comparable prior year period. Any trends illustrated in the following table are not necessarily indicative of future results.

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	As a Percentage of Net Sales				Percent
	-----		-----		Over
	Three Months Ended Sept 30, 2005	2004	Nine Months Ended Sept 30, 2005	2004	Three Months Ended Sept 30, 2005 vs. 2004
-----	-----	-----	-----	-----	-----
<b>Statement of Operations Data:</b>					
<b>Net Revenues:</b>					
Refractive products.....	80.1%	79.9%	84.1%	84.8%	15.0%
Patent services.....	19.9%	20.1%	15.9%	15.2%	13.3%
Net Revenues.....	100.0%	100.0%	100.0%	100.0%	14.6%
Cost of Revenue.....	36.1%	53.8%	43.0%	57.2%	-22.9%
Gross Profit (1).....	63.9%	46.2%	57.0%	42.8%	58.3%
Research, development and regulatory expenses (2)...	3.5%	3.7%	2.9%	2.9%	9.3%
Other general and administrative expenses.....	43.2%	60.7%	36.7%	48.0%	-18.4%
Selling-related expenses (3).	2.9%	10.1%	6.2%	10.2%	-67.3%
Amortization of intangibles..	0.6%	0.7%	0.5%	0.5%	0.0%
Net Income from operations...	13.7%	-28.9%	10.7%	-18.8%	-154.2%

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- (1) As a percentage of net revenues, the gross profit for refractive products only for the three months ended September 30, 2005 and 2004 were 55% and 33%, respectively, and for the nine months ended September 30, 2005 and 2004 were 49% and 33%, respectively.
- (2) As a percentage of refractive product net sales, research, development and regulatory expenses for the three months ended September 30, 2005 and 2004, were 4% and 5%, respectively, and for the nine months ended September 30, 2005 and 2004 were 3% and 3%, respectively.
- (3) As a percentage of refractive product net sales, selling-related expenses for the three months ended September 30, 2005 and 2004 were 4% and 13%, respectively, and for the nine months ended September 30, 2005 and 2004 were 7% and 12%, respectively.

Three Months Ended September 30, 2005, Compared to Three Months Ended September 30, 2004

Our consolidated revenues totaled \$1.3 million for the three months ended September 30, 2005, an increase of approximately \$0.2 million or 15% compared to revenues for the three months ended September 30, 2004 of \$1.2 million. The increase was primarily attributable to increased sales of laser systems. Four lasers systems were sold in the third quarter of 2005 and three were sold in the third quarter of 2004. For the three months ended September 30, 2005, parts revenues were \$0.2 million compared to \$0.1 million for the three months ended September 30, 2004. This was offset by a \$0.1 million reduction in sales of our AstraMax(R) diagnostic workstation; no AstraMax sales were recorded in the three months ended September 30, 2005 compared to four for the comparable period in 2004. Our 2005 budget projected laser sales at 12 per quarter, or 48 for the year. Delayed collections of accounts receivables have necessitated further reducing the annual forecast for 2005 to 29 lasers.

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Net revenues from patent services increased by \$31,000, or 13%, from \$235,000 for the three months ended September 30, 2004 to \$266,000 for the three months ended September 30, 2005. During the first quarter of 2005, the Company licensed its Lin scanning patent for \$855,000, net of expenses of \$45,000. This deferred revenue is being amortized over the remaining life of the patent, approximately seven years.

Geographically, China has become our most significant market with \$0.9 million in revenue during the three months ended September 30, 2005, as compared to \$0.8 million for the three months ended September 30, 2004.

Consolidated cost of sales includes direct material costs, manufacturing wages, inbound freight, rework, scrap and standard cost variances. For the three months ended September 30, 2005, consolidated cost of sales of \$0.5 million was approximately 36% of net revenues of \$1.3 million, compared to the same period in 2004 when our cost of sales was approximately 54% of net revenues. For the three months ended September 30, 2005, consolidated cost of sales of \$0.5 million was approximately 45% of product revenues of \$1.1 million, compared to the same period in 2004 when our cost of sales was approximately 67% of product revenues. The improvement of 2005 margins is primarily related to significantly less inventory write offs in 2005 and improved margins on part sales. For the remainder of 2005, our emphasis will be on continued unit cost reductions driven by efficient purchasing and limited re-design of our product. Our goal is to maintain a 47% consolidated cost of sales.

Selling-related expenses consist of those items directly related to sales activities, including commissions on sales, royalty or license fees, warranty



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expenses, and costs of shipping and installation. Selling-related expenses for the three months ended September 30, 2005 decreased \$79,000, or 67%, to \$39,000 from \$118,000 during 2004. This decrease was primarily attributable to a review of the warranty reserve, the reduction to the reserve of \$60,000 and lower shipping costs. The warranty reserve was adjusted to remove reserves for lasers out of the warranty period. Our 2005 operating plan projected our selling-related expense ratio to be 11% of net revenues. For the three months ended September 30, 2005, selling-related expenses were 1% of revenues primarily due to the reduction in the warranty reserve. Our current plan projects our selling-related expense ratio to be 9% of net revenues for the remainder of 2005.

General and administrative expenses decreased by \$130,000 to \$577,000 in the three months ended September 30, 2005, from \$707,000 for the same period in 2004. The decrease was primarily due to lower legal fees, and accounting fees and insurance premiums. Our operating plan for fiscal 2005 projected business levels that would require general and administrative expenses to be lower due to reduced legal, printing and postage fees relating to the bankruptcy filing. The current plan projects our general and administrative expenses ratio to be 28% of net revenues. This is a higher percentage than our original budget which is caused by general and administrative expenses remaining similar to our original projections while revenues were lower than originally forecasted.

Research, development and regulatory expenses increased by \$4,000 to \$47,000 for the three months ended September 30, 2005 from \$43,000 for the three months ended September 30, 2004. Even though our resources are limited, we continue to offer improvements to our product. Our operating plan for fiscal 2005 projected business levels that would require research, development and regulatory expenses to be similar to 2004.

In the three months ended September 30, 2005, amortization of intangibles remained unchanged at \$8,400. In accordance with our operating plan, amortization of intangibles will be at a rate of approximately \$33,000 per year.

Other income and expense for the three months ended September 30, 2005 consisted of the following:

- o We received \$654 of interest income on notes receivable.

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- o In the three months ended September 30, 2005, we accrued \$78,000 in interest expense. All of the accrued interest was paid except for \$22,500 of accrued interest for the DIP financing. The interest expense includes \$28,000 of amortized financing costs. The amortization of financing costs is \$8,600 per month and will continue until June of 2007.

For the three months ended September 30, 2005 and 2004, we had no income tax expense due to our net operating loss carryforwards.

Net income for the three months ended September 30, 2005 was approximately \$105,000 compared to a \$251,000 loss for the same period in 2004, an increase of approximately \$356,000. This \$356,000 increase in the current quarter was comprised approximately of:

- o decreased transfer agent expenses of \$18,000 due to the bankruptcy reorganization.
- o increased computer expenses of \$11,000 for upgrading computer

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systems.

- o decreased interest expense of \$110,000 due to lower loan balances.
- o increased bank charges of \$20,000 due to lender audit fees.
- o decreased professional expenses of \$96,000 for accounting and legal fees.
- o increased gross profit of \$314,000.
- o decreased selling related expenses of \$79,000 related to reduced warranty estimates and unit shipping charges.
- o decreased other income of \$275,000 due to shareholder derivative lawsuit proceeds received in 2004.
- o decreased insurance expense of \$45,000 for D&O coverage.

Nine Months Ended September 30, 2005, Compared to Nine Months Ended September 30, 2004

Our consolidated revenues totaled \$5.0 million for the nine months ended September 30, 2005, an increase of approximately \$0.4 million or 8% compared to revenues for the nine months ended September 30, 2004 of \$4.6 million. The increase was primarily attributable to increased sales of laser systems. 17 lasers systems were sold in the three quarters ended September 30, 2005 and 14 were sold in the three quarters ended September 30, 2004. For the nine months ended September 30, 2005, parts revenues were \$0.3 million compared to \$0.5 million for the nine months ended September 30, 2004. This was offset by \$0.2 million in reduced sales of our AstraMax(R) diagnostic workstation; four AstraMax sales were recorded in the nine months ended September 30, 2005 compared to 10 for the comparable period in 2004. Our 2005 budget projected laser sales at 12 per quarter, or 48 for the year. Delayed collections of accounts receivables have necessitated reducing the annual forecast for 2005 to 29 lasers.

Net revenues from patent services increased by \$93,000, or 13%, from \$704,000 for the nine months ended September 30, 2004 to \$797,000 for the nine months ended September 30, 2005. During the first quarter of 2005, we licensed our Lin scanning patent for \$855,000, net of expenses of \$45,000. This deferred revenue is being amortized over the remaining life of the patent, approximately seven years.

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Geographically, China has become our most significant market with \$3.9 million in revenue during the nine months ended September 30, 2005, as compared to \$3.5 million for the nine months ended September 30, 2004.

Consolidated cost of sales includes direct material costs, manufacturing wages, inbound freight, rework, scrap and standard cost variances. For the nine months ended September 30, 2005, consolidated cost of sales of \$2.2 million was approximately 43% of net revenues of \$5.0 million, compared to the same period in 2004 when our cost of sales was approximately 57% of net revenues. This improvement was caused by the reduction of costs for inventory adjustments, rework and cost variances. The improvement of 2005 margins is primarily related to significantly less inventory write offs in 2005 and improved margins on part sales. For the remainder of 2005, our emphasis will be continued unit cost reductions driven by efficient purchasing and limited re-design of our product. Our goal is to maintain a 47% consolidated cost of sales.

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Selling-related expenses consist of those items directly related to sales activities, including commissions on sales, royalty or license fees, warranty expenses, and costs of shipping and installation. Selling-related expenses for the nine months ended September 30, 2005 decreased \$160,000, or 34%, to \$312,000 from \$473,000 during 2004. This decrease was primarily attributable to a decrease in warranty costs, due to a review of the warranty reserve and the reduction of shipping costs. The warranty reserve was adjusted to remove reserves for lasers out of the warranty period. Our 2005 operating plan projected our selling-related expense ratio to be 11% of net revenues. For the nine months ended September 30, 2005, selling-related expenses were 6% of revenues primarily due to the reduction in the warranty reserve. Our current plan projects our selling-related expense ratio to be 9% of net revenues for the remainder of 2005.

General and administrative expenses decreased by \$384,000 to \$1.8 million in the nine months ended September 30, 2005, from \$2.2 million for the same period in 2004. The decrease was primarily due to reductions of legal fees, accounting fees and insurance expense. Our operating plan for fiscal 2005 projected business levels that would require general and administrative expenses to be lower due to reduced legal, printing and postage fees relating to the bankruptcy filing. The current plan projects our general and administrative expenses ratio to be 28% of net revenues. This is a higher percentage than our original budget which is caused by general and administrative expenses remaining similar to our original projections while revenues were lower than originally forecast .

Research, development and regulatory expenses increased \$11,000 to \$147,000 for the nine months ended September 30, 2005 from \$135,000 for the nine months ended September 30, 2004. Even though our resources are limited, we continue to offer improvements to our product. Our operating plan for fiscal 2005 projected business levels that will require research, development and regulatory expenses to be similar to 2004.

In the nine months ended September 30, 2005, amortization of intangibles remained unchanged at \$25,100. In accordance with our operating plan, amortization of intangibles will be at a rate of approximately \$33,000 per year.

Other income and expense for the nine months ended September 30, 2005 consisted of the following:

- o We received \$3,066 of interest income on notes receivable.
- o In the nine months ended September 30, 2005, we accrued \$250,000 in interest expense. Of the accrued interest only \$52,500 was not paid. This was the interest due on the DIP financing. The interest expense includes \$80,000 of amortized financing costs. The amortization of financing costs is \$8,600 per month and will continue until June of 2007.

For the nine months ended September 30, 2005 and 2004, we had no income tax expense due to our net operating loss carryforwards.

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Net income for the nine months ended September 30, 2005 was approximately \$289,000 compared to \$14.3 million for the same period in 2004, a decline of approximately \$14 million. This \$14 million decline for the first three quarters of 2005 was comprised approximately of:

- o decrease of \$15.3 million due to forgiveness of debt income in 2004.

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- o increased gross profit of \$874,000.
- o decreased salaries of \$64,000.
- o decreased other income of \$275,000 due to shareholder derivative lawsuit proceeds in 2004.
- o decreased interest expense of \$170,000 due to lower loan balances.
- o decreased selling related expenses of \$160,000 related to reduced warranty estimates.
- o decreased professional expenses of \$240,000 for legal and accounting fees and printing fees due to the Company's bankruptcy filing.

### Inflation and Currency Fluctuation

Inflation and currency fluctuations have not previously had a material impact upon the results of operations and are not expected to have a material impact in the near future.

### Liquidity and Capital Resources

On September 5, 2003 we filed for Chapter 11 bankruptcy protection and reorganization. We operated in this manner from September 5, 2003 through June 10, 2004, when the re-organization was approved by the Bankruptcy Court, effective June 30, 2004. A final decree of bankruptcy was obtained on December 22, 2004. We cancelled all of our outstanding common and preferred stock, including warrants and options, and issued 9,997,195 new common shares on June 30, 2004. We emerged from bankruptcy with approximately \$0.7 million in unsecured liabilities, approximately \$2.1 million in secured debt, approximately \$5.3 million in deferred revenue and approximately \$1.0 million of DIP financing provided by NIIC. NIIC converted \$1.0 million of the DIP financing for additional equity.

With the new revenues being generated from the China Group and projected sales to other customers, management expects that our cash and cash equivalent balances and funds from operations (which are principally the result of sales and collection of accounts receivable) will be sufficient to meet our anticipated operating cash requirements for the next several months. This expectation is based upon assumptions regarding cash flows and results of operations over the next several months and is subject to substantial uncertainty and risks beyond our control. If these assumptions prove incorrect, the duration of the time period during which we could continue operations could be materially shorter. We continue to face liquidity and capital resource issues relative to the timing of the successful completion of new sales compared to our ongoing payment obligations. To continue our operations, we will need to generate increased revenues, collect them and reduce our expenditures relative to our recent history. While we are working to achieve these improved results, we cannot assure you that we will be able to generate increased revenues and collections to offset required cash expenditures. Our revenues from the China Group were approximately \$3.9 million in the nine-months ended September 30, 2005. Accounts receivable due from the China Group as of September 30, 2005 totaled \$1,937,298, which was virtually all of our accounts receivable balance at September 30, 2005. \$1,043,074 of the China Group's balance is over ninety

days past due. As of November 8, 2005, \$1,296,941 of the accounts receivable

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balance remains unpaid. While we have verbal promises from the China Group to pay the accounts receivable balance and management continues to believe that we will fully realize the balance due, the ultimate realization thereof can not be assured. The loss of the China Group as a customer or the non-payment or slow payment of monies owed to us could have a significant adverse effect on our ability to continue as a going concern.

On August 30, 2004 we signed a three-year note with GE, which will expire on June 30, 2007. The note bears interest of 9%. Certain covenants were modified such that we are required to maintain a net worth of \$750,000, a tangible net worth of \$1,000,000 and minimum quarterly revenues of \$1,000,000. GE was issued a warrant to purchase 100,000 shares of common stock at \$0.25 per share, or \$0.40 per share if the China Group converts their DIP loan to equity. The warrant expires on June 30, 2008. We were not in compliance with certain covenants of the amended loan agreements and a waiver was obtained on May 23, 2005. The revised agreement removed the net worth and tangible net worth covenants and added an annual net income provision. For the year ended December 31, 2005 and any subsequent trailing twelve month periods, as measured on the last day of each calendar quarter, earnings before interest, taxes, depreciation and amortization cannot fall below \$550,000.

There can be no assurance as to the correctness of the assumptions underlying our business plan or our expectations regarding our working capital requirements or our ability to continue operations.

Our ability to continue operations is based on factors including the success of our sales efforts in China and in other foreign countries where our efforts will initially be primarily focused, increases in accounts receivable and inventory purchases when sales increase, the uncertain impact of the market introduction of our AstraMax diagnostic workstations, and the absence of unanticipated product development and marketing costs. Our expectations regarding future working capital requirements and our ability to continue operations are based on various factors and assumptions that are subject to substantial uncertainty and risks beyond our control, and no assurances can be given that these expectations will prove correct. The occurrence of adverse developments related to these risks and uncertainties or others could result in our incurring unforeseen expenses, being unable to generate additional sales, to collect new and outstanding accounts receivable, to control expected expenses and overhead, or to negotiate payment terms with creditors, and we would likely be unable to continue operations.

### Item 3. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carry out a variety of on-going procedures, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are currently effective at the reasonable assurance level.

PART II - OTHER INFORMATION

Item 1 Legal Proceedings.

Certain legal proceedings against LaserSight are described in Item 3 (Legal Proceedings) of LaserSight's Form 10-KSB for the year ended December 31, 2004, and in Note 9 to the Financial Statements in Part I, Item 1 of this report, which are incorporated herein by this reference.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3 Defaults Upon Senior Securities.

On September 5, 2003 the Company filed a Chapter 11 bankruptcy petition. The Company had been in default under its loan agreements with GE. On August 30, 2004 the Company signed a three-year note expiring on June 30, 2007. The note bears interest of 9%. Certain covenants were modified such that the Company is required to maintain a net worth of \$750,000, a tangible net worth of \$1,000,000 and minimum quarterly revenues of \$1,000,000. The Company issued GE a warrant to purchase 100,000 shares of common stock at \$0.25 per share, or \$0.40 per share if the China Group converts their DIP loan to equity. The warrant expires on June 30, 2008. The Company was not in compliance with certain covenants of the amended loan agreements and a waiver was obtained on May 23, 2005. The revised agreement removed the net worth and tangible net worth covenants and added an annual net income provision. For the year ended December 31, 2005 and any subsequent trailing twelve month periods, as measured on the last day of each calendar quarter, the Company's earnings before interest, taxes, depreciation and amortization cannot fall below \$550,000.

Item 4 Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5 Other Information.

Not applicable.

Item 6 Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Form 10-Q filed on November 14, 2002, and incorporated herein by this reference).
3.2	Bylaws, as amended (filed as Exhibit 3.2 to the Company's Form 10-Q/A filed on November 21, 2002, and incorporated herein by this reference).
3.3	Certificate of Amendment to Certificate of Incorporation, as amended on March 2, 2005 (filed as Exhibit 10.11 to the Company's Form 10-KSB filed on March 23, 2005, and incorporated herein by this reference).

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- 4.1 Rights Agreement, dated as of July 2, 1998, between the Company and American Stock Transfer & Trust Company, as Rights Agent, which includes (i) as Exhibit A thereto the form of Certificate of

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Designation of the Series E Junior Participating Preferred Stock, (ii) as Exhibit B thereto the form of Rights Certificate (separate certificates for the Rights will not be issued until after the Distribution Date), and (iii) as Exhibit C thereto the Summary of Stockholder Rights Agreement (filed as Exhibit 99.1 to the Company's Form 8-K filed on July 8, 1998, and incorporated herein by this reference).

- 10.1 Non-Exclusive License Agreement between the Company and WaveLight Laser Technologie AG, dated February 24, 2005, and effective March 3, 2005 (filed as Exhibit 10.1 to the Company's Form 10-QSB filed on April 25, 2005, and incorporated herein by this reference).
- 10.2 Amendment Number One to the Third Amended and Restated Secured Term Note between the Company and GE dated May 23, 2005 (filed as Exhibit 10.2 to the Company's Form 10-QSB filed on August 5, 2005, and incorporated herein by this reference).
- 11 Statement Re: Computation of Per Share Earnings (included in Financial Statements in Part I, Item 1, of this report).
- 31.1 Certifications of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).
- 31.2 Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).
- 32.1 Certifications of Chief Executive Officer pursuant to Section 1350 (filed herewith).
- 32.2 Certifications of Chief Financial Officer pursuant to Section 1350 (filed herewith).

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SIGNATURES

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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.

Dated: November 8, 2005  
LaserSight Incorporated  
By: /s/ Danghui ("David") Liu  
-----  
Danghui ("David") Liu, President,  
Chief Executive Officer and Director

Dated: November 8, 2005  
By: /s/ Dorothy M. Cipolla  
-----  
Dorothy M. Cipolla,

