SCIENCE DYNAMICS CORP
Form 10KSB
April 09, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

(Mark One)
[x] Annual report under Section 13 or 13(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003

[ ] Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____________ to ____________.

Commission File Number: 0-10690

SCIENCE DYNAMICS CORPORATION
(Name of Small Business Issuer in its Charter)

DELAWARE	22-2011859
(State of Other Jurisdiction Incorporation or organization)	(IRS Employer Identification Number)

7150 N. Park Drive, Suite 500
Pennsauken, New Jersey 08109
(Address of principal executive offices)

Issuer's telephone number: 856-910-1166

Securities registered under Section 12(b) of the Exchange Act:

Title of each Class	Name of each exchange on which registered
None	N/A

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $0.01 PAR VALUE
(Title of Class)

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 past 90 days.
Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The issuer's revenues for the fiscal year ending December 31, 2003 were $4,108,510.

As of April 7, 2004, the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant computed by reference to the average bid and asked price of such common equity on that date was $8,103,813.

As of April 7, 2004, the issuer had 41,418,655 outstanding shares of Common Stock.

Transitional small business format Yes ___ No X

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL OVERVIEW

Science Dynamics Corporation (the "Company, "SciDyn" or "Science Dynamics") was incorporated in the State of Delaware in May 1973 and commenced operations in July 1977. The Company has been developing and delivering technologically advanced telecommunication solutions for over twenty-five years.

2003 has been a transition year for the Company, with the continuing slowdown in deployment of infrastructure in our traditional customer base and many organizational changes in the Inmate Telephony arena. Our efforts were refocused on diversifying our customer base and product offering to offset the risks associated with the telecommunications market.

Even though the Inmate Telephony business continues to provide revenue for the company, we have been rebuilding the business by partnering with many other organizations and providing them with custom solutions accented toward their individual requirements. Science Dynamics still regards itself as a market leader in this business and is one of a few companies in this area with applicable patented technology.

As a result of these efforts, on December 22, 2003, Evercom Systems, Inc. (Evercom) and Science Dynamic Corp. (SDC) executed a series of agreements which provide, among other things, that SDC will assist Evercom in accelerating its development of a next generation IP based inmate telephony system. In concert with this development effort, SDC has sold to Evercom certain Intellectual Property that relates to technology known as "voice over Internet protocol". As a condition of the purchase and consulting agreements, SDC will receive a perpetual, royalty-free, non-exclusive license to use the technology primarily developed by SDC during this contract term with the condition that SDC may only exploit such technology outside of the law enforcement market place. Under this contract, SciDyn engineering resources will be required for the development of the new platform, design and consultancy services for the next four years.

In conjunction with our efforts to diversify our product offering and customer base into other business sectors, on March 31, 2003, the Company, through its newly formed majority owned subsidiary M3 Acquisition Corp., acquired certain business assets and assumed certain liabilities of Modern Mass Media, Inc. ("Modern Mass Media" or "MMM"), a privately held company based in Florham Park, NJ. Modern Mass Media is in the business of providing audio/video technology that includes consultation, custom engineering, facility design, audio/visual products, installation, testing, user training and repair service. The acquisition should expand the product offerings and capabilities of the Company.

BUSINESS DEVELOPMENT

We have maintained a long and highly reputable position as a supplier of call control technology to service providers offering Collect-Only calling to inmates of correctional institutions. We have been a primary supplier to a major Local Exchange Carrier (LEC) and, in recent years, have expanded our customer base to include the newly emerging cadre of unregulated companies offering the same service in today's more highly competitive telecom environment. Our Commander product line continues to receive high marks as a versatile and feature rich platform, well prepared to deal with the increasing demand for investigative tools and security.

Even with SciDyn's favorable reputation as a supplier within the telecommunications sector, the continued uncertainty surrounding the sector requires SciDyn to focus on expanding its existing product line to encompass a more diverse customer base. This will enable SciDyn to reduce its exposure to certain sector declines while capitalizing on other sector gains. As SciDyn expands product offerings into other sectors, the Company will also move from primarily offering products to offering a mix of products and services that will generate consistent recurring revenue streams. Some of the key areas SciDyn intends to focus on expanding are:

1. OEM Licensing - This would include licensing existing technology SciDyn has developed to other equipment manufacturers either to incorporate into their existing product offering or for resale.
2. Voice and Data Security Products - SciDyn's current product offering provides feature rich call control technology that can be expanded to serve additional markets.
3. Network Based Technology Services - With the acquisition of Modern Mass Media's assets, SciDyn has access to a diverse Fortune 500 customer base who currently are being provided Audio Visual services from Modern Mass Media. This service offering can be expanded to include a full suite of technology services.

The first step in realizing this strategy requires enhancing existing product lines to address the needs of other sectors. SciDyn continues to maintain its reputable position as a supplier of call control technology to service providers offering Collect-Only calling to inmates of correctional institutions. SciDyn's Commander product line continues to receive high marks as a versatile and feature-rich platform, well prepared to deal with the increasing demand for investigative tools and security. With the advent of a more security sensitive environment, the Commander has positioned SciDyn to address the growing needs in this expanding market. This has created two opportunities for SciDyn. Firstly, to license the technology to other vendors and secondly, to modify the product to meet the needs of other markets.

With SciDyn's recent acquisition of Modern Mass Media's assets, SciDyn will continue to develop products and services that will build on Modern Mass Media's long standing relationship with its Fortune 500 customer base. SciDyn's engineering expertise coupled with Modern Mass Media's ability to provide continual high quality service, enables the combined companies to provide a full suite of products and services to an existing customer base. This will allow SciDyn to move from primarily a product based offering to a mix of products and services, resulting in a more consistent recurring revenue stream. In addition to providing an expanded product and service offering, the acquisition will create the opportunity to take advantage of operating synergies between the two companies, enabling not only increased revenue opportunities but also a reduction in overall operating costs.

Modern Mass Media currently provides high quality audio visual services to

Fortune 500 clients in the northeastern U.S. The company is well positioned to provide additional technology based services that will enable SciDyn to enhance the existing service offerings of Modern Mass Media. New services will include a full suite of network based services that will enable SciDyn to maximize product margins while having a minimal impact on operating expenses. With the majority of the new services being network based, the geographical reach of the service offering will be improved without incurring large expenses to expand facilities currently required to deliver services to a geographically disperse customer base.

PRODUCTS

IP Telephony

SciDyn has continued efforts in the development of Voice over Internet technology. The focus of these efforts revolves around upgrading existing product technology and adapting the technology into new and existing applications. IP technology is being deployed within the Commander system at specific installations. This is a major step in the Inmate phone control industry, and SciDyn is at the forefront of this technology. SciDyn is also in the process of adding direct IP trunking capability to the MinuteMan platform. Additionally SciDyn will be enhancing the MinuteMan with a complete Radius interface to allow any Voice Over IP gateway that supports this common protocol to use the MinuteMan as a centralized platform to create and manage pre and post paid services.

Commander Call Control System

The Commander call control system is built on SciDyn's unique BubbleLINK(T) software architecture. This open system platform is a combination of integrated Computer Telephony (CTI) hardware and software, which can handle thousands of call transactions per hour and provide correctional facility officials with effective tools to manage and control inmate telephone calls using the Commander system software.

The Commander I models are designed for the small to midsize municipal and county correctional facilities requiring control for up to 40 inmate telephone lines. The Commander I base system provides telephone control for 4 lines and can be expanded in 4 line increments. This modular design provides a cost effective solution with an abundance of inmate phone control features.

Commander call control systems are supported by an integrated array of administrative and investigative programs that provide a management solution suite. All programs interact in real-time with Commander calls and databases via an Ethernet Local Area Network (LAN) or a Wide Area Network (WAN).

Commander provides state of the art call control and some of the first tools targeted at investigation and law enforcement in the inmate telephone control industry. The Commander Live Monitoring, Debit and Recording continue to be some of the leading features required within the industry today.

The DebitCard feature set provides flexible capability in card creation and management. DebitCard supports specialized tariffs and call timing. By being totally integrated with the Commander, no external network facility is necessary. This provides complete control and security when using pre-paid cards. As with all of the Commander feature sets, integrity of the system is not compromised with the use of pre-paid cards.

During 2003, Scidyn commenced deployment of its next generation Commander system. This next Commander system operates on the latest technology and provides greater capabilities for new features, including SciDyn's first internal recording solution, now a fully integrated component providing great cost savings over the traditional recording equipment used today. Commander Systems are no longer assembled exclusively from components purchased from a single vendor. Our software has now been successfully ported to support multiple vender's equipment and currently two vendors have been selected as sources for components of the next generation Commander. This provides SciDyn greater flexibility, reliability and pricing in producing and supporting new systems.

Scidyn is also continuing development and integration of new biometric technology interfaces to the Commander. Biometric technology is fast becoming a realistic tool for increasing system security at many levels. SciDyn and the Commander product will lead the industry with practical and effective biometric solutions.

Development will also continue in the area of more powerful investigative tools. The Investigator's File Cabinet will provide a single repository for storing call records, recordings and other documents related to a specific case or investigation.

Early 2003 saw the introduction of a new Commander system targeted at multi-facility with centralized control. This solution allows Inmate phone providers to offer all of the Commander features including the extensive call control, debit, and pre-paid solutions to the smallest facilities. Utilizing SciDyn's VoIP technology, this system provides an aggregated point of switching and control for the provider, minimizing on-site equipment and maintenance costs. The Commander will still maintain all, per facility branding and rating without the need for dedicated switching equipment at the institution.

SciDyn continues to explore opportunities with the major telephone companies in providing the Commander inmate phone control system with call transaction (price per call) programs. Management believes that the recent and continued drive to develop new capabilities for the Commander will establish the Commander and SciDyn as the leader in inmate telephone control.

MinuteMan

The MinuteMan product, built on SciDyn's core BubbleLINK(T) technology, is a complete turnkey system providing all aspects of a pre-paid and debit card platform. MinuteMan provides PSTN interface, card databases, IVR and SMDR collection. The MinuteMan is ideal for smaller pre-paid card vendors that want to break free from the resale only mode of the card business. MinuteMan is also the ideal front end for VoIP carriers that are looking to complete their offerings for low cost international traffic. Most VoIP Gateways do not offer a robust solution for pre-paid calling. Most of these carriers have been forced to purchase or lease expensive adjunct systems to integrate pre-paid solutions into their VoIP networks. The MinuteMan provides all of the necessary functions to convert an existing VoIP toll bypass network into a full-featured international pre-paid network.

MinuteMan development is continuing based on requirements from customers and other industry trends. Enhancements to the original MinuteMan include expanded rating capabilities for specialized charges and dynamic rates.

New applications for the MinuteMan were released this year expanding the service offerings of the platform beyond traditional Pre-Paid calling cards to account based calling and calling card services, making the MinuteMan a versatile revenue source for the owner and operator. The latest releases of the MinuteMan also provide greater flexibility in system integration with support for various database technologies. including Microsoft SQL Server, the open source MYSQL server, and the original embedded data engine of the MinuteMan. All applications developed for the MinuteMan will operate on any of the supported database solutions. This allows system owners to operate at a cost and performance level which they feel appropriate.

A specialized version of MinuteMan has been developed and deployed for use in the Inmate Marketplace. This version provides an Inmate Phone Service provider with a centralized system to switch and manage pre-paid calling from all of its contracted facilities. This Version of MinuteMan capitalizes on SciDyn's years of experience in inmate phone control to provide a full featured pre-paid switch without compromising the security and fraud protection required for this specialized calling application.

Video over Frame Relay

The market for the VFX continues to be the international arena in which customers benefit from the most substantial cost savings versus peak long distance rates. Scidyn maintains a small but steady revenue stream from the VFX.

Error Correction Algorithm

To date a suitable entity has not been identified to exploit this new technology in the near term. SciDyn's near term strategy and capital priorities preclude it from investing additional time and funds into exploiting this patent independently.

PRODUCT DEVELOPMENT

New applications are also being investigated within our product development team. We believe that new vertical markets exist and can be penetrated with ongoing platform enhancements. We believe that the robust capabilities of our current technology along with the ability to integrate a voice over packet interface can combine traditional network systems with new market requirements.

Our products have primarily been designed and developed by our internal engineering staff. We consider the features and performance of our products to be generally competitive to those of other available applications.

We believe that continual enhancements of our products will be required to enable us to maintain our competitive position. We intend to focus our principal future product development efforts on developing new, innovative, technical products and updating existing products in the communications arena to enable us to take advantage of opportunities resulting from the expected direction of technology.

We continue to refine our core BubbleLINK(R) software architecture. This software architecture provides the foundation for hosting applications for various Telephony and transaction oriented processes. Currently the BubbleLINK(R) architecture supports our existing products such as the Commander family of inmate products, the MinuteMan pre-paid card system, and the IntegratorC-2000(R) Series of IP Telephony gateway products. Management believes that the product design strategy will keep us competitive in the changing communications marketplace.

INTEGRATION OF PRODUCTS

We continue to maintain a primary focus on the development and use of software technology. Most hardware requirements are filled through the use of OEM components. New vendors are routinely evaluated for several critical product components. The general goal is to maintain a multi-source solution for critical components.

We strive to integrate the highest quality components from various vendors to allow us to bring the best solutions to market. Some of the components include chassis, telephony interfaces and other critical computer components.

Product integration involves careful testing to ensure compatibility with existing system configurations and reliability in accordance with product objectives.

SOURCES AND AVAILABILITY OF MATERIAL

Although most materials are available from a number of different suppliers on an off-the-shelf basis, several suppliers are the sole source of each of certain components. If a supplier should cease to deliver a component, another source would have to be developed. We believe we would be able to do so by acquiring a substitute part or module that could require a hardware or software change in the unit in order to provide satisfactory performance, although added costs and delays of unknown amount and duration could be experienced.

SALES AND MARKETING

The Company's sales and marketing resources are positioned to market individually through targeted sales activities. Due to the highly competitive telecom environment, the Company has focused on the next generation independent companies providing the same services as the major Local Exchange Carriers.

With the recent acquisition of the Modern Mass Media assets, SciDyn is currently developing a comprehensive sales and marketing plan that will leverage the Modern Mass Media customer base while taking advantage of the developments SciDyn has made with the Commander and MinuteMan product lines.

RESEARCH & DEVELOPMENT

Research efforts are focused on adapting new technology to current and potential products. Efforts in research cover new techniques in software development and component technologies. Research also covers emerging hardware technologies and improvements in current technology.

Existing products are currently being redesigned to integrate the latest generation of specific key components. These changes will increase the capability of products such as the Commander and provide new features while reducing overall cost of the product. As penetration into existing markets increases and as we make initial steps into new markets, increases in research expenditures will become necessary.

During the past year, we successfully launched a new service offering based on the back office needs of our customers. This effort involved creating the systems and procedures to offer 24 by 7 transaction services delivered over the Internet and telephone networks. This operations center runs in a totally automated manner and requires minimal daily maintenance.

The majority of the research and development activities are conducted at our facility using our array of telephony resources and the technical expertise of our engineering staff. We anticipate that an increase in future research and development expenditures will be necessary to remain competitive in the rapidly changing telecommunications industry.

INTELLECTUAL PROPERTY

It is our practice to apply for patents as new products or processes appropriate for patent protection are developed. We applied for a patent on our three-way Call Detection System and on January 21, 1998 received a Notice of Allowance from the U.S. Patent Office. The formal United States Patent was received in June 1998. We hold other patents related to some of our other products. No assurance can be given as to the scope of the patent protection.

In 2001 we started the patent application process on the use of IP Telephony as it relates to certain call control applications. The process is often slow but we expect it to be completed in a routine manner and timeframe.

We believe that the rapid technological developments in the telecommunications industry may limit the protection afforded by patents. Since a patent generally defines what and how to competitors, that information often allows mutations by rivals to circumvent the original patent. Accordingly, we believe that our success will be dependent upon our engineering competence, service, and the quality and economic value of our products.

We also own trademarks, copyrighted material and intellectual property relating to proprietary technology utilized in the development of some of the products.

CUSTOMER SUPPORT

Our technical support staff provides telephone support to our customers using a computerized call tracking and problem reporting system. We also provide initial installation and training for our products. We have instituted an annual maintenance contract entitling customers to software updates, technical support and technical bulletins.

INDUSTRY

There is a trend within the Industry to privatize jails and there are a number of entities emerging to administer such facilities. In some cases, these private entities operate with some autonomy with respect to selecting call control vendors. In other cases, the governing body retains such oversight. We are reviewing this changing landscape in order to position the Company to capitalize on opportunities as they materialize.

IDC estimates the market for prepaid calling cards will expand from $3.4 billion in 2000 to $5.3 billion at the end of 2005, which represents a compound annual growth rate of 9.2 percent over the forecast period. This growth is expected to be driven by increased awareness and adoption of prepaid calling cards by U.S. consumers as well as increased minutes of use.

Most organizations utilizing integration services have restrained capital expenditures and focused on maintaining infrastructure as an alternative to large scale upgrades. This trend has expanded to complete outsourcing of maintenance and support functions traditionally kept in-house. The trend in outsourcing is expected to continue as corporations are focused on minimizing capital expenditures.

COMPETITION

The competitive field is somewhat convoluted in that there are traditional equipment manufacturers who have breached their traditional roles to become service providers. Several companies have recently positioned themselves to prime bid several big contracts. Traditional Tier I network service providers who have used these platforms in the past in their role as prime bidders, find themselves competing with their selected vendor. While this might appear to be an anomaly, it is becoming commonplace and clearly an example of how desirable these inmate call control contracts are. This is a relatively small but highly profitable marketplace with only a handful of viable competitors.

There are six major competitors in the call control platform field. We realize the stiffness of our competition but believe we have the skills, resources and technology to garner a substantial portion of this business. With efforts directed toward transaction pricing and our keen awareness of this transitioning competitive landscape, we anticipate being able to capture a significant portion of the equipment business and a piece of each related transaction as well.

Competition in integration services comes from three primary sources:

1. Regional audio visual resellers.
2. IT services companies focusing on integration services.
3. Video Teleconferencing companies aligned with telecommunication service providers.

Each of these competitors provides specialized service but only the Video

Teleconferencing companies are positioned to provide a centralized network based outsourcing service. This gap in the market is an opportunity Scidyn and M3 are well positioned to pursue.

CUSTOMERS

During 2003, the Company was successful in diversifying our customer base. Currently no one customer accounts for more than 10% of total sales. This is a significant improvement over 2002 when three customers accounted for an aggregate of 55% of total sales. Due to our acquisition of the Modern Mass Media assets, the telecommunications sector now accounts for less than 50% of our sales, providing us with both customer and industry diversification.

EMPLOYEES

As of December 31, 2003, SciDyn and its subsidiaries employed thirty-one persons on a full time basis. SciDyn supplements full-time employees with subcontractors and part-time individuals, consistent with workload requirements. The Company's continued success depends heavily upon its ability to retain highly qualified and competent personnel. The Company is operating in a high growth industry, which is experiencing fierce competition for experienced and talented personnel. SciDyn continues to provide its employees with appropriate equity-linked incentives to advance the interests of the Company and its stockholders.

GOVERNMENT APPROVAL

The Federal Communications Commission (FCC) requires that some of the Company's products meet Part 15 and Part 68 of the code of Federal Regulations (CFR). Part 15 (subpart B) deals with the suppression of radio frequency and electro-magnetic radiation to specified levels. Part 68 deals with protection of the telephone network. Other than FCC requirements, there is no known Company effect resulting from existing or probable Government regulations requiring approval.

COMPLIANCE WITH ENVIRONMENTAL LAWS

Company operations do not pollute or involve discharge of material into the environment. As a result, no expenditure is budgeted or required for environment protection or restoration. SciDyn is concerned about protecting the environment and participates in recycling programs.

ITEM 2. DESCRIPTION OF PROPERTY

Science Dynamics, pursuant to a three-year lease commencing June 1, 2003, leases a 3,000 square foot office in an industrial park in Pennsauken, New Jersey, utilized for office space and testing of our products and other corporate activities. As of January 2004, Modern Mass Media is on a month to month lease in Florham Park, New Jersey.

ITEM 3. LEGAL PROCEEDINGS

The Company is not now a party to any litigation and no action against the Company has been threatened or is known to be contemplated by any governmental agency or subdivision or any other entity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Over the Counter Bulletin Board (OTCBB) as of August 24, 2001. The symbol for the Company's Common Stock is "SIDY". The Company's Common Stock has been traded publicly since April 22, 1981. The "high" and "low" bid quotations for the Company's Common Stock for each quarterly period for the fiscal years ended December 31, 2002 and December 31, 2003 were as follows:

Calendar Quarter	High Bid Price	Low Bid Price
2002		
First	$.09	$ .06
Second	.28	.05
Third	.08	.03
Fourth	.06	.02
2003		
First	$.11	$ .03
Second	.11	.05
Third	.09	.05
Fourth	.13	.05

The above listed quotes reflect inter-dealer prices without retail mark-up, markdown, or commissions and are not necessarily representations of actual transactions or the true value of the Common Stock.

As of December 31, 2003, there were approximately 262 holders of record of the Common Stock of the Company.

The Company has paid no cash dividends since its inception. The Company presently intends to retain any future earnings for use in its business and does not presently intend to pay cash dividends in the foreseeable future. Holders of the Common stock are entitled to share ratably in dividends when and as declared by the Board of Directors out of funds legally available therefore.

The market price of the Company's common stock, like that of other technology companies, is highly volatile and is subject to fluctuations in response to variations in operating results, announcements of technological innovations or new products by the Company, or other events or factors. The Company's stock price may also be affected by broader market trends unrelated to the Company's performance.

Recent Sales of Unregistered Securities

Convertible Notes and Warrants

In connection with the acquisition of MMM, Laurus Master Fund, Ltd. agreed to make advances and investments available to the Company in the aggregate amount of up to $1,000,000. The Company issued a convertible note on March 31, 2003, for the advancement of $247,750 in connection with the acquisition of MMM. In addition, Laurus made available a revolving credit line based on MMM accounts receivable. $203,500 was borrowed at the time of the acquisition. In connection with these agreements, 250,000 common stock warrants were issued.

The offering of the convertible debenture was exempt from registration under Rule 506 of Regulation D and under Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. All persons were accredited investors, represented that they were capable of analyzing the merits and risks of their investment.

Option Grants

During 2003 the Company issued 660,000 options to purchase shares of the Company's common stock pursuant to the 2002 employee stock option plan, of which 280,000 options expired in 2003.

On March 1, 2003, in connection with his employment agreement as Chief Operating Officer, the Company granted Paul Burgess an option to purchase 2,000,000 shares of the Company's common stock at $.03 per share.

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

Forward Looking Statements

The Company is making this statement in order to satisfy the "safe harbor" provisions contained in the Private Securities Litigation Reform Act of 1995.

This Form 10-KSB includes forward-looking statements relating to the business of SciDyn. Forward-looking statements contained herein or in other statements made by SciDyn are made based on management's expectations and beliefs concerning future events impacting SciDyn and are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed in or implied by forward-looking statements. The Company believes that the following factors, among others, could affect its future performance and cause actual results of the Company to differ materially from those expressed in or implied by forward-looking statements made by or on behalf of the Company: (a) the effect of technological changes; (b) increases in or unexpected losses; (c) increased competition; (d) fluctuations in the costs to operate the business; (e) uninsurable risks; and (f) general economic conditions.

GENERAL BUSINESS OVERVIEW

Throughout the majority of fiscal 2003 the traditional global telecommunications market did not show any signs of significant growth; however, it did show signs of stabilization. A number of factors continue to stagnate growth in the sector including a decline in the global economy, a result of the excess capacity that was built up during the telecom boom of the late 1990s, and regulatory uncertainty. Even though the traditional Telecommunications market was not very robust, we have seen a growing demand for VoIP technology.

While the Company continued to generate revenue from the Inmate Telephony industry the Company has continued to build on its well-founded expertise in Internet Protocol telephony. Now with the added benefit of Modern Mass Media, the Company has concentrated its future in the "Converged Communications" arena. IP Telephony is now an established, accepted and respected voice medium, with users demanding the deployment of many services and functions that this technology promises. The Company's focus is on developing and deploying these services and functions in its Intelligent Peripheral products built on its highly successful and adaptable "BubbleLINK(T)" technology. The Company's many years of experience working with the Regional Bell Operating Companies (RBOC's) has brought it the capability to integrate security, process, reliability and control together with complex billing methodologies to its product set. This experience is now being put to good use providing security, management and billing to converged IP communications.

Over the past year, the Company has created several new software releases for the Commander I and II models that have repositioned the product to capitalize on the demand for a centralized VoIP solution. This has opened the door to allow the Commander product to fill the needs of the independent service providers. This is a segment of the industry that had previously been overlooked as development centered on the needs of the large Local Exchange Carrier (LEC) customers. In addition, the product is better positioned to penetrate markets outside of the inmate telephony business. Consistent with this strategy SciDyn has engaged several upcoming independent inmate call control service providers that in the past year have been successful in displacing the local LEC competition in contract awards that were not possible without the strength and reputation of a system such as the Commander.

During the past year, SciDyn has successfully leveraged our partnerships and intellectual property to grow and diversify the Company's customer base. The Company has rebuilt the business by partnering with many other organizations and providing them with custom solutions accented toward their individual requirements. This strategy has diversified the Company's customer base mitigating the risks associated with having the majority of the Company's revenue obtained from a single customer.

Along with system improvements to reposition Commander equipment sales, SciDyn has been developing the necessary back-office operation systems necessary to provide the complete offering required by many inmate call control companies in today's market. Back-office services include Billed Number Screening (BNS), billing data collection, and customer support. Additional services will be introduced over time to increase the value to our customers. Typically, these back-office services are charged on a monthly or transaction basis and apply to calls made through Commander platforms installed in the field. This introduces a new revenue producing operation that can extend the value of a typical system beyond the initial equipment sale to a potential three to five year revenue source.

Science Dynamics regards itself as a market leader in this business and is one of a few companies in this area with applicable patented technology. To maximize revenue potential, the Company made the decision to license its technology and take on custom development projects for other organizations. Science Dynamics is now entering a phase where the Company will be actively developing new relationships for the deployment of its IP based technology across many other business sectors. The Company has undertaken to meet its goals in the deployment of its IP technology not only through the sale of equipment but also through partnering with others in the development of new and innovative systems for specific vertical markets such as the current development contract with Evercom Systems Inc.

In addition, SciDyn acquired certain assets and assumed certain liabilities of Modern Mass Media. The acquisition of Modern Mass Media has positioned the Company to supply high quality Audio Visual, Video conferencing, and Multi Media solutions to many Fortune 500 companies. This provides SciDyn further customer and product diversification, mitigating the risks associated with the uncertainties surrounding the telecommunications market. In the coming months the revised and reconstructed Company intends to develop these new relationships to extend the product and service offering both within vertical markets and geographically.

Our success depends upon effective cash management. The Company believes it has made significant progress in lowering the Selling General & Administration and Research & Development expenses. We continue to drive down costs, take decisive steps to restructure the Company's business and reduce our cost structure. At December 31, 2003 we had a total of thirty-four employees. We intend to continue to increase the scope of our operations while also facing the challenge of maximizing resources effectively.

With the advent of the industry's renewed demand for VoIP technology and the Company's underlying strength in this area, the Company believes it is well positioned to take advantage of this market opportunity. In order to effectively capitalize on this opportunity the Company is continually evaluating different alternatives for raising the additional capital required to execute these strategies.

-12-

RESULTS OF OPERATIONS

The following table sets forth income and certain expense items as a percentage of total revenue and the change in dollar amounts of such items compared to the previous fiscal year:

	For the Years Ending December 31,	
	2003	2002
Sales	$4,108,510	$975,473

Net Loss	$(282,167)	$(2,771,090)
Net Loss Per Share	(0.01)	(0.08)

	OPERATING EXPENSES		PERCENT OF SALES	
	2003	2002	2003	2002
Cost of Goods Sold	$1,940,959	$429,933	47.2%	44.1%
Research & Development	382,764	748,501	9.3%	76.7%
Selling, General & Admin	2,952,218	2,274,019	71.9%	233.1%
Total Operating Costs and Expenses	$5,275,941	$3,452,453	128.4%	353.9%

Sales for the fiscal year ended December 31, 2003 were $4,108,510 compared to $975,473 in the 2002 fiscal year. For the fiscal year ended December 31, 2003, sales from our audiovisual division amounted to $2,617,676 and sales from our software technology division amounted to $1,490,834. Revenues in 2003 and 2002 for software technology sales were predominantly derived from the Commander Product Lines, as well as revenue generated from the maintenance and support of those products

Cost of Goods Sold for the fiscal year ended December 31, 2003 increased to $1,940,959 from $429,933 in the year ended December 31, 2002. Costs of $1,516,974 were derived from the audiovisual division and costs of $423,985 were derived from the software technology division. The cost of sales in the audiovisual division are substantially higher than those for the software technology. The audiovisual division is more dependent on its supplier for pricing and credit than the software technology.

Research and development expenses decreased from $748,501 in the year ended December 31, 2002 to $382,764 in the year ended December 31, 2003, a decrease of $365,737. The decrease in research and development expenses during the year ended December 31, 2003 was due to the limited resources available for product development. We believe that continual enhancement of our products will be required to enable SciDyn to maintain its competitive position. SciDyn will have to focus its principal future product development and resources on developing new, innovative, technical products and updating existing products in the communications arena which will enable the Company to explore other established markets that are considered "safe" from the telecom disruption currently facing the industry.

Selling, general and administration expenses increased to $2,952,218 in the year ended December 31, 2003 compared to $2,274,019 in the year ended December 31, 2002. For the year ended December 31, 2003, $1,411,354 of such expenses was derived from the Software technology division and $1,540,864 of such expenses was derived from the audiovisual division. During the year ended December 31, 2003, we made significant cost cuts in this area due to the consolidation of Science Dynamics' and Modern Mass Media's back offices.

Interest Expense for the year ended December 31, 2003 includes interest accrued on our convertible notes, interest paid on the Company's bank note and a short term note from a stockholder. Interest expense for the year ended December 31, 2003 was $199,713 compared to $158,131 for the year ended December 31, 2002. The increase in interest expenses was due to additional financing that was used for the acquisition of Modern Mass Media. In December 2003 we paid down $600,000 of convertible debt.

Finance Expense in the twelve months ended December 31, 2003 was $125,942, compared to $362,731 for the twelve months ended December 31, 2002 The finance expense includes the recognition of a debt discount resulting from a beneficial conversion feature embedded in the convertible notes issued to Laurus Master Fund, Ltd. and the amortization of the financing cost.

Per Emerging Issues Task Force (EITF) Number 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," this beneficial conversion feature was assigned an intrinsic value of $43,721 and $218,407 for December 31, 2003 and 2002, respectively, as calculated under the provisions of the EITF. This amount was immediately expensed as the Notes were convertible into common shares of the Company at the time of the signing of the Agreement.

LIQUIDITY & CAPITAL RESOURCES

Net cash provided (used) by operating activities for the years ended December 31, 2003 and 2002 was $404,578 and ($839,987), respectively. Net cash provided from operating activities for the year ended December 31, 2003 included adjustments to the net loss of $282,167, which amounted to $686,745 and was comprised of depreciation, non-cash items, increases in accounts payable and accrued expenses offset by an increase in accounts receivable.

Net cash used in investing activities for the years ended December 31, 2003 and 2002 was $34,590 and $133,455, respectively. The decrease in investing activities in 2003 was attributable to the limited resources available for capital investment.

Net cash provided (used) by financing activities for the years ended December 31, 2003 and 2002 was ($338,879) and $999,508, respectively. In December 2003 we repaid Laurus Master Fund, Ltd. $600,000 against convertible notes and $55,000 of bank notes. In connection with the acquisition of Modern Mass Media we issued a convertible note in the amount of $247,000 and borrowed against a revolving AR credit facility. We also repaid $100,000 against a loan in connection with the acquisition of Modern Mass Media.

At December 31, 2003, the Company had $74,250 in cash and cash equivalents and a $3,459,054 deficit in working capital, compared with $43,141 in cash and cash equivalents and $3,756,391 deficit in working capital at December 31, 2002. Current liabilities at December 31, 2003 were $4,164,295, compared to $4,079,786 at December 31, 2002. The deficit in working capital for the year ended December 31, 2003 is attributable to the low sales results. The increase in the current liabilities for the year ended December 31, 2003 resulted from the minimal cash flows from operation.

We have renegotiated our capital lease obligation where by the balance of the lease will be repaid at a rate of $2,654.85 monthly for 60 months.

The cash requirements for funding our operations have greatly exceeded cash flows from operations. We have satisfied our capital needs primarily through debt and equity financing. Our liabilities consist of over extended accounts payable and accrued executive compensation. We have successfully negotiated a payment arrangement with our prior landlord and our capital lease obligation. In addition, we have successfully negotiated payment arrangements with some of our vendors and are attempting to negotiate payment arrangements with others. We are in discussion with other creditors to renegotiate extended terms. We cannot guarantee that any of these discussions will be successful. If we are unable to successfully renegotiate any of the above payment arrangements, our business may be materially and adversely affected.

SciDyn's currently anticipated levels of revenue and cash flow are subject to many uncertainties and cannot be assured. In order to have sufficient cash to meet our anticipated cash requirements for the next twelve months we must increase sales to provide cash flow from operations. However, SciDyn does not have sufficient cash on hand to continue its operations without successfully raising additional funds. The inability to generate sufficient cash from operations or to obtain the required additional funds could require SciDyn to reduce or curtail operations.

Our auditors have expressed a substantial doubt about the Company's ability to continue as a going concern and the Company acknowledges that concern.

ITEM 7. FINANCIAL STATEMENTS

The Company's Financial Statements set forth at the end of this report.

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

There have been no disputes or disagreements of any nature between the Company or its management and its public auditors with respect to any aspect of accounting or financial disclosure during the Company's two most recent fiscal years.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Within the 90 days prior to the filing date of this report, we carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of our Chief Executive Officer. Based upon that evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy our disclosure obligations under the Securities Exchange Act.

Changes in internal controls

There were no significant changes in our internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

PART III

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

The Company's executive officers and directors and their ages and positions are as follows:

Name	Age	Position with the Company
Alan C. Bashforth	53	Chairman of the Board, President, Chief Executive Officer, acting Chief Financial Officer and Secretary
Paul Burgess	39	Chief Operating Officer

There were no board meetings during the fiscal year ended December 31, 2003.

BIOGRAPHIES

Alan C. Bashforth, is currently our Chairman, President, CEO, acting CFO and Secretary and has been since April 4, 2002. Prior to his present positions, Mr. Bashforth served as a director with active duties in seeking finance for the Company. Prior to serving as director, Mr. Bashforth was President and Chief Executive Officer of SciDyn until January 2000 and served as Chairman of the Board until November 30, 2000. He was President of Cascadent Communications, a major customer of SciDyn until December 15, 2000. Previously he was President of Innovative Communications Technology, LTD. (ICT), a data communications company, located in Jersey, Channel Islands, until the acquisition of the intellectual property of ICT by SciDyn in November 1996. Prior experience included ownership of the CSL Group of companies from its inception in 1975. CSL is a Communications and Computer engineering group and employed over 100 people in 1992 when Mr. Bashforth sold the company. From 1970 to 1975, Mr. Bashforth was employed by Automaten CI, LTD., an office equipment and telecommunications company, in various engineering and sales positions leading to the position of General Manager. Mr. Bashforth was educated in electronic engineering at Mid Herts Polytechnic College in England and holds a Higher National Diploma in Electronic Engineering.

Paul Burgess, most recently, Mr. Burgess was with Plan B Communications where he held positions as President and Chief Financial Officer. Mr. Burgess was responsible for successfully restructuring the business and bringing the company to profitability. Mr. Burgess was also responsible for increasing the company's annual sales from $1.7 million to over $15 million. Prior to Plan B Communications Mr. Burgess spent three years with MetroNet Communications, where he had major responsibilities for the development of MetroNet's coast to coast intra and inter city networks. MetroNet Communications was recently acquired by AT&T for $5 billion. In addition, Mr. Burgess was influential in developing the operations of MetroNet during the early growth stage of the company. Prior to joining MetroNet, Mr. Burgess was with ISM, a company recently acquired by IBM Global Services, where he was responsible for developing and deploying the company's distributed computing strategy. In addition, Mr. Burgess successfully negotiated and secured $130 million in new business for ISM.

Audit Committee

The Company does not have a separately designated standing audit committee, or a committee performing similar functions. Accordingly, the Company also does not have an audit committee financial expert since it does not have an audit committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of filings with the Securities and Exchange Commission and written representations that no other reports were required, the Company believes that all of the Company's directors and executive officers complied during fiscal 2003 with the reporting requirements of Section 16(a) of the Securities Exchange Acts of 1934.

Code of Ethics

The Company has adopted its Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of the officers, directors and employees of the Company. The Code of Ethics is filed herewith as Exhibit 14.1.

ITEM 10. EXECUTIVE COMPENSATION

Executive Compensation Summary Table

The following table sets forth all information concerning total compensation earned or paid to the Company's Chief Executive Officer and the four other most highly compensated executive officers of the Company who served in such capacities as of December 31, 2003 for services rendered to the Company during each of the last three fiscal years.

-16-

SUMMARY COMPENSATION TABLE

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long term compensation			
					Awards			All
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restrict-ed Stock Award(s)($)	Options/ SARs(#)	LTIP Pay-outs($)	Other Compensa-tion ($)
Alan C Bashforth President/CEO(1)	2003			126,000	-0-			75,000(6)
	2002			165,000	130,909(3)			
Paul Burgess	2003	80,208			-0-	2,000,000		

COO(5)								
Joy C.Hartman,	2003	96,346	-0-	-0-	-0-	160,000	-0-	-0-
CFO(2)	2002	92,308	-0-	-0-	30,000(4)	-0-	-0-	-0-
	2001	159,519	-0-	6,731	-0-	-0-	-0-	-0-

(1) Consultancy fee paid to Calabash Consulting LTD, the remaining $114,000 has been accrued for the year ended December 31,2003. The contractual fee for the year 2003 is $240,000.

(2) On November 3, 2003, Ms. Hartman resigned as CFO and is no longer employed with the Company. Ms. Hartman is now a consultant to company on as needed basis.

(3) Pursuant to his consulting agreement, Mr. Bashforth is entitled to a bonus equal to 4,363,636 shares of the Company's common stock for the year ended December 31, 2002. These shares are valued at $.03 per share, and although the shares have not been issued to date, they have been expensed by the Company.

(4) For the year ended December 31, 2002, Ms. Hartman was granted 1,000,000 shares of the Company's common stock. These shares are valued at $.03 per share, and although the shares have not been issued to date, they have been expensed by the Company.

(5) Mr. Burgess was hired as COO on March 1, 2003 at a contractual fee of $175,000 per year. Of Mr. Burgess' $145,833 compensation for 2003, the remaining $65,625 has been accrued for the year ended December 31,2003.

(6) Consultancy fee paid to Calabash Consulting LTD, was the remaining balance of his 2002 contract.

Options Grants for Fiscal 2003

Aggregate Options Exercised During the most recently completed financial year and financial year-end option values.

No options were exercised by our executive officers and directors during the most recent financial year.

Options Granted During Most Recent Financial Year.

A total of 660,000 options were granted on February 28, 2003 to 13 employees, of which Joy Hartman the former CFO was granted 160,000.

-17-

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Securities Authorized for Issuance Under Equity Compensation Plans

The following table shows information with respect to each equity compensation plan under which the Company's Common Stock is authorized for issuance as the fiscal year ended December 31, 2003.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a)) (c)
Equity compensation plans approved by security holders	380,000	$.03	19,620,000
Equity compensation plans not approved by security holders	-0-	-0-	-0-
TOTAL	380,000	$.03	19,620,000

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information as of March 22, 2004 with respect to the beneficial ownership of the common stock by each beneficial owner of more than 5% of the outstanding shares thereof, by each director, each nominee to become a director and each executive officer named in the Summary Compensation Table and by all executive officers, directors and nominees to become directors of the Company as a group. Under the rules of the Commission, a person is deemed to be the beneficial owner of a security if such person has or shares the power to vote or direct the voting of such security or the power to dispose or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities if that person has the right to acquire beneficial ownership within 60 days. Accordingly, more than one person may be deemed to be a beneficial owner of the same securities. Unless otherwise indicated by footnote, the named entities or individuals have sole voting and investment power with respect to the shares of common stock beneficially owned. There are no arrangements known to the Company including pledges of securities, which might, at a subsequent date, result in any change of control of the Company.

Name and Address Beneficial Owner	Title	Shares of Common Stock Beneficially Owned	Percent of Outstanding Shares(1)
NEObliviscaris Partnership 200 Bar harbor Drive Suite 300 West Conshohocken, PA 19428	5% Owner	3,852,451	9.3%
Cumberland Investments LLC Golf Corporate Centre 415 W. Golf Road, Suite 17 Arlington Heights, IL 60005	5% Owner	3,630,951	8.8%
Alan C. Bashforth Le Virage La Route de Sainte Marie, St. Mary, Jersey, UK JE3 3DB	CEO/President Chairman of the Board, Secretary	1,520,000(2)	3.7%
All Directors, 5% owners and Officers As a group		9,003,402	21.7%

If Laurus Master Fund, Ltd fully converted its debt, the potential conversion would be 12,929,052 shares. Contractually, it is not permitted to hold more than 4.99% of the Company's outstanding common stock at any time. Laurus Master Fund, Ltd is only permitted to convert the debt into the Company stock if we are in default, at the present time we are not in default.

(1) Based upon a total number of 41,418,655 shares outstanding as of March 26, 2004.
(2) Shares in the name of Innovative Communications Technology, LTD., a corporation, controlled by Mr. Bashforth.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On April 1, 2003 in connection with the acquisition of Modern Mass Media the Company entered into an employment agreement with Chip Del Coro the sole shareholder of MMM. The agreement is for a term of three years with salary of $65,000 the first year, $65,000 plus $25,000 and $30,000 draw against commission in the in the second and third year respectively.

As of November 2003, Joy Hartman, the Company's former CFO, is now a consultant to Company on an as needed basis.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. FINANCIAL STATEMENTS

2. INDEX OF EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Articles of Incorporation (1)
3.2	By-Laws (1)
4.1	Purchase Agreement between M3 Acquisition Corp, a subsidiary of Science Dynamics Corporation and Modern Mass Media, Inc. (2)
10.1	Employment Agreement with Chip Del Coro (2)
14.1	Code of Ethics
21.1	List of Subsidiaries
31.1	Certification by Alan C. Bashforth, Chief Executive Officer and acting Chief Financial Officer, pursuant to Section 302 ofthe Sarbanes-Oxley Act of 2002.
32.1	Certification by Alan C. Bashforth, Chief Executive Officer and acting Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release reporting the acquisition of Modern Mass Media, Inc. (2)

(1) Incorporated by reference to the Company's Registration Statement on Form S-18, File Number 33-20687, effective April 21, 1981.

(2) Incorporated by reference to the Company's current report on Form 8-K filed on April 15, 2003.

(b) Reports on Form 8-K:

On April 15, 2003, the Company filed a current report on Form 8-K disclosing the acquisition, through its newly formed majority owned subsidiary M3 Acquisition Corp., of certain business assets and assumed certain liabilities of Modern Mass Media, Inc., a privately held company based in Florham Park, NJ.

On July 16, 2003, the Company filed a current report on Form 8-K/A with the following financial statements of Modern Mass Media, Inc.: (1) audited balance sheet for the year ended December 31, 2002; (2) audited statement of operations for the year ended December 31, 2002; (3) audited statement of cash flows for the year ended December 31, 2002; (4) unaudited balance sheet for the period ended March 31, 2003; and (5) unaudited statement of operations for the period ended March 31, 2003. Also filed were the following pro forma financial statements of Science Dynamics Corporation and its subsidiaries: (1) unaudited combined pro forma balance sheet as of March 31, 2003; and (2) unaudited combined pro forma statement of operations for the year ended December 31, 2002.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees. The aggregate fees billed by our auditors to date, for professional services rendered for the audit of the Company's annual financial statements for the years ended December 31, 2003 and December 31, 2002, and for review of the financial statements included in the Company's quarterly reports on Form 10-QSB during those fiscal years, were $ 3,800, and $ 28,000, for the respective years ended December 31, 2003 and 2002.

Audit-Related Fees. The aggregate fees billed for assurance and related services by our auditors that are reasonably related to the performance of the audit or review of our financial statements were $ 0 and $ 47,000 for the years ended December 31, 2003 and 2002, respectively. Of which $15,000 was from our subsidiary.

All Other Fees. For the fiscal year ended December 31, 2003, the Company incurred fees to auditors of $ 7,400 for services rendered to the Company, other than the services covered in "Audit Fees," "Audit-Related Fees" or "Tax Fees." The nature of such services were preparation of 8-K filing.

SIGNATURES

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

SCIENCE DYNAMICS CORPORATION

BY: /s/ Alan C. Bashforth

CEO/President/Acting CFO

DATED: April 8, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
BY: /s/ Alan C. Bashforth Alan C. Bashforth	CEO/President/Acting CFO Chairman of the Board Secretary	April 8, 2004

-22-

SCIENCE DYNAMICS CORPORATION

Index to Consolidated Financial Statements

-23-

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Science Dynamics Corp.

We have audited the accompanying consolidated balance sheets of Science Dynamics Corp. and Subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Science Dynamics Corp. and subsidiaries as of December 31, 2003 and 2002, and results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note1(l) to the financial statements, the Company has generated significant losses and requires additional capital to continue operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1(l). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Peter C. Cosmas Co., CPAs

370 Lexington Ave.
New York, NY 10017

March 15, 2004

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31

ASSETS

	2003	2002
Current assets:		
Cash and cash equivalents	$ 74,250	$ 43,141
Accounts receivable trade	447,061	46,428
Inventories	181,119	205,551
Other current assets	2,812	28,275
Total current assets	705,241	323,395

Property and equipment, net	209,654	514,417
Deferred Asset	66,847	149,068
Other assets	2,812	17,370
Goodwill	250,498	-
Total assets	$1,235,052	$1,004,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term payable	111,860	128,413
Bank Note	-	33,550
Customer deposits	137,004	286,990
Deferred Income	35,404	-
SBA Loan	50,000	-
Revolving Credit Line	336,309	-
Loan payable stockholders	163,192	163,192
Accounts payable	1,488,690	1,214,792
Accrued expenses	443,474	413,534
Convertible Debenture	1,198,362	1,839,315
Subscribed Stock Payable	200,000	-
Total current liabilities	4,164,294	4,079,786
Long Term liabilities:		
Long Term Debt	428,828	-
Non current portion of bank Note	-	50,326
Total liabilities	4,593,123	4,130,112
Shareholders' equity -		
Preferred stock - .01 par value		
10,000,000 shares authorized	-	-
No shares issued		
Common stock - .01 par value,		
200,000,000 and 45,000,000 shares authorized,		
41,554,454 and 41,254,454 issued		
41,428,654 and 41,128,654 outstanding		
in 2003 and 2002 respectively.	415,545	412,545
Additional paid-in capital	15,593,569	15,546,611
Reserve for stock compensation	160,909	160,909
(Deficit)	(19,130,261)	(18,848,094)
	(2,960,238)	(2,728,029)
Common stock held in treasury, at cost	(397,833)	(397,833)
Total shareholders' equity	(3,358,071)	(3,125,862)
Total liabilities and shareholders' Equity	$ 1,235,052	$ 1,004,250

See accompanying notes to the consolidated financial statements.

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	Twelve Months Ended December 31, 2003	2002
NET SALES	$ 4,108,510	$ 975,473
Operating costs and expenses:		
Cost of sales	1,940,959	429,933
Research and development	382,764	748,501
Selling, general And administrative	2,952,218	2,173,466
	5,275,941	3,351,903
Operating (Loss) before other income (expenses) and Cumulative effect of accounting change	(1,167,431)	(2,376,430)
Other income (expenses):		
Sale of NJ NOL	217,021	190,752
Sale of Intangible Asset	1,350,000	-
Write Down of Assets	(105,603)	(100,550)
Interest Expense	(199,713)	(158,131)
Finance Expense	(125,942)	(326,731)
Net Loss before cumulative effect of accounting Change	(31,668)	(2,771,090)
Cumulative effect of accounting change	(250,499)	-
Net Loss	(282,167)	(2,771,090)
Net (loss) per common share basic and diluted	$ (0.01)	$ (0.08)

	=========	=========
Weighted average shares outstanding basic and diluted	41,418,655	34,485,986
	=========	=========

See accompanying notes to the consolidated financial statements.

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2003	2002
Cash flows from operating activities:		
Net (loss)	$(282,167)	$ (2,771,090)
Adjustments to reconcile net (loss) to net cash provided by (used for) operating activities:		
Depreciation	277,772	324,215
Interest expense non cash	665	107,365
Write-off long lived assets	105,603	100,550
Other non cash items	73,187	160,909
Financing expense non cash	125,942	326,731
Impairment of Goodwill	250,499	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(400,633)	(33,194)
Other receivable	-	60,721
Inventories	24,432	105,306
Other current assets	25,463	97,171
Other assets	14,558	7,993
Increase (decrease) in:		
Accounts Payable and accrued expenses	303,839	675,714
Deferred Income	35,404	-
Customer Deposits	(149,986)	(2,378)
Total adjustments	686,745	1,931,103
Net cash provided by (used for) operating activities	404,578	(839,987)
Cash flows from investing activities:		

Purchase of property and equipment - net	(34,590)	(133,455)
Net cash (used) in investing activities	(34,590)	(133,455)
Cash flows from financing activities:		
Increase (decrease) in		
Repayment of Loan Payable	(100,000)	-
Bank Note	(83,876)	(15,659)
Subscribed Stock	200,000	-
Issuance of Convertible Debt	-	1,046,975
Repayment of convertible debt	(661,312)	(31,808)
Net borrowing on Revolving AR credit facility	306,309	-
Net cash (used in) provided by financing activities	(338,879)	999,508
Net increase (decrease) in cash and cash equivalents	31,109	26,066
Cash and cash equivalents - beginning of period	43,141	17,075
Cash and cash equivalents - end of period	$ 74,250	$ 43,141

See accompanying notes to the consolidated financial statements.

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE TWO YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained (Deficit)	Reserve Stock Compensation	T
Balance December 31, 2001	20,879,500	208,795	14,681,858	(16,077,004)	-	
Issuance of common stock net of related expenses	20,374,954	203,750	864,753		-	

Net Loss				(2,771,090)	-	
Other					160,909	
Balance	----------	-------	----------	----------	-------	-
December 31, 2002	41,254,454	$412,545	$ 15,546,611	$ (18,848,094)	$ 160,909	1
Issuance of common stock net of related expenses	300,000	3,000	46,958		-	
Net Loss				(282,167)	-	
Balance	----------	-------	----------	----------	-------	-
December 31, 2003	41,454,454	$ 415,545	$ 15,593,569	$ (19,130,261)	$ 160,909	1

See accompanying notes to the consolidated financial statements.

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Summary of Significant Accounting Policies:

a) Principles of Consolidation:

The consolidated financial statements included the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. All significant intercompany accounts and transactions have been eliminated in consolidation. For those consolidated subsidiaries where Company ownership is less than 100%, the outside stockholders' interests are shown as minority interests. Investments in affiliates over which the Company has significant influence but not a controlling interest are carried on the equity basis.

b) Organization and Description of Business:

Science Dynamics Corporation (the "Company", "SciDyn" or "Science Dynamics") was incorporated in the State of Delaware May 1973 and commenced operations in July 1977. The Company began as a provider of specialized solutions to the telecom industry. Throughout its history, SciDyn has adapted to the changes in this industry by reinventing itself to be more responsive and open to the dynamic pace of change experienced in the broader converged communications industry of today. Currently SciDyn still provides advanced solutions for several vertical markets. The greatest change in operations is in the shift from being a component Manufacturer to a solution provider focused on developing applications through software on our core platform technology.

Science Dynamics Corporation formed a subsidiary M3 Acquisition Corp. (M3) and has acquired certain business assets and liabilities of Modern Mass Media, Inc. (MMM), a privately held company based in Florham Park, NJ.

Modern Mass Media is a company with a 30-year history of selling media solutions to some of the most widespread corporations in the Northeast. Since the company's inception in the early 1970s, it has been a leader in providing audio/video technology to corporate clients that span the spectrum from finance and advertising to healthcare and pharmaceuticals. MMM has also provided and continues to provide solutions to public institutions from local governments to educational institutions such as regional school boards and colleges.

c) Use of Estimates:

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in the financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to impairment of goodwill and equity investments, revenue recognition, recoverability of inventory and receivables, the useful lives long lived assets such as property and equipment, the future realization of deferred income tax benefits and the recording of various accruals. The ultimate outcome and actual results could differ from the estimates and assumptions used.

d) Inventories:

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis.

e) Depreciation, Amortization and Long-Lived Assets

Long-lived assets include:

Property, plant and equipment - These assets are recorded at original cost and increased by the cost of any significant improvements after purchase. We depreciate the cost evenly over the assets' estimated useful lives. For tax purposes, accelerated depreciation methods are used as allowed by tax laws.

Goodwill- Goodwill represents the difference between the purchase price of acquired business and the fair value of the their net assets. Good will is not amortized.

Identifiable intangible assets - These assets are recorded at original cost. Intangible assets with finite live are amortized evenly over their estimated useful lives. Intangible assets with indefinite lives are not amortized.

At least annually, we review all long-lived assets for impairment. When necessary, we record charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

f) Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

g) Income Taxes:

The Company elected to adopt the provisions of Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes", (SFAS No. 109) in 1992. Under SFAS No. 109, deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expenses (credit) is the tax payable (receivable) for the period and the change during the period in deferred tax assets and liabilities.

h) Revenue Recognition:

Revenue is recognized when all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenue from product sales is recognized when the goods are shipped and title passes to the customer. Sales of services are recognized at time of performance.

i) Impairment of Long-Lived Assets:

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of long-lived Assets and for long-lived Assets to be Disposed of." SFAS No. 121 requires the Company to review the recoverability of the carrying amounts of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the asset might not be recoverable.

In the event that facts and circumstances indicate that the carrying amount of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the assets' carrying amount to determine if a write-down to fair value is required. Fair value may be determined by reference to discounted future cash flows over the remaining useful life of the related asset.

j) Fair Value Disclosures:

The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value because of the immediate or short-term maturity of these financial instruments.

k) Stock Options:

In December 2002, the Financial Accounting Standard Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", SFAS No. 148 amends Statement of Financial Accounting Standards No. 123, " Accounting for Stock-Based Compensation," to provide alternate methods of transition for companies electing to voluntarily change to the fair value method of accounting for stock-based compensation and also amends the disclosure provisions of SFAS No. 123. The provisions of SFAS No. 148 are effective for fiscal years ending December 15, 2002. The Company has adopted the disclosure provisions of SFAS No. 148.

The Company accounts for its stock options in accordance with the provisions of Accounting principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted the disclosure requirements of SFAS No. 123, Accounting for Stock Based Compensation. Had the company determined compensation cost based on fair value at the grant date for stock options under SFAS No. 123 the effect would have been immaterial.

1) Basis of Financial Statement Presentation:

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has generated significant losses and is unable to predict profitability for the future. These factors indicate that the Company's continuation, as a going concern is dependent upon its ability to obtain adequate financing.

2) Accounts Receivable:

The Company evaluates its accounts receivable on a customer-by-customer basis and has determined that no allowance for doubtful accounts is necessary at December 31, 2003 and 2002.

3) Property and Equipment:

A summary of the major components of property and equipment is as follows:

	2003	2002
Computers, fixtures And equipment	$1,566,545	$1,487,894
Less accumulated Depreciation	(1,356,891)	(973,477)
Totals	$ 209,654	$ 514,417

4) Segment Reporting

Management views its business in two divisions, the software engineering division and the audiovisual division.

	Year Ended December 31, 2003	Year Ended December 31, 2002

Revenue		
Audio Visual Division	$ 2,617,676	-
Software Technology Division	1,490,834	975,473
Total Consolidated Revenue	$ 4,108,510	$ 975,473
Net Income (loss)		
Audio Visual Division	$ (691,429)	-
Software Technology Division	409,262	2,771,090
Total Consolidated Net Loss	$(282,167)	$2,771,090
Assets		
Audio Visual Division	$ 496,883	-
Software Technology Division	739,169	1,004,250
Total Consolidated Assets	$ 1,235,052	$ 1,004,250

5) Acquisitions of Assets

On March 31, 2003, Science Dynamics Corp. (the "Company") through its newly formed majority owned subsidiary, M3 Acquisition Corp., acquired certain Business assets and assumed certain liabilities of Modern Mass Media, Inc. for $600,000.The acquisition was funded through an additional Purchase and Security Agreement between Laurus Master Fund, Ltd. and the Company. Laurus Master Funds, Ltd. agrees to make advances and investments available to the Company in the aggregate amount of up to $1,000,000.The Company issued a convertible note on March 31, 2003, for the advancement of $247,750 in connection with the acquisition. In addition Laurus made available a revolving credit line based on MMM accounts receivable. $203,500 was borrowed at the time of the acquisition. In connection with these agreements 250,000 common stock warrants were issued.

Upon execution of the Purchase Agreement between the Company and Modern Mass Media, Inc. an initial payment of $100,000 was due at closing and a further payment of $100,000 due sixty days after the first payment. Modern Mass Media retained $100,000 to cover the initial payment and a holdback reserve of $55,000 to cover any outstanding checks or open items. The balance on account was remitted to M3 Acquisition .The remaining portion of the purchase price will be paid out over the next sixty months in increments of $80,000 per year, plus interest equivalent to the "Cost of Living" index, in cash or stock or a combination of both at the Buyer's discretion.

6) Income Taxes:

In 1992, the Company adopted SFAS No. 109, Accounting for Income taxes. Under the provision of SFAS No. 109, the Company elected not to restate prior years due to immateriality. In 1992, the effect of the change was to decrease the net loss by $308,000 (.10 per share). The deferred tax asset recognized was recovered through the sale of New Jersey State net-operating loss carryovers as permitted by the State in the amount of $308,000. In 2003 and 2002 the Company recovered $ $217,021 and $163,252 respectively through the sale of New Jersey State net-operating loss carryovers as permitted by the State. This recovery was recognized as other income in the years ended 2003 and 2002 Statement of Operations.

At this time, the Company does not believe it can reliably predict profitability for the long-term. Accordingly, the deferred tax asset applicable to 2003 and 2002 operations has been reduced in its entirety by the valuation allowance.

As a result of the operating losses for the years ended December 31, 1990 and 1992-2003 the Company has available to offset future taxable income a net operating loss of approximately $20,000,000 expiring 2005-2023. In addition, research credits expiring 2005-2017 are available to offset future taxes.

The components of the provision (credit) for income taxes from continuing operations is as follows:

	2003	2002
Deferred		
Federal	$ -	$ -
Current		
Federal	-	-
State	-	-
	$ -	$ -

Differences between the tax provision computed using the statutory federal income tax rate and the effective income tax rate on operations is as follows:

	2003	2002
Federal		
Statutory rate	$(93,295)	$(934,653)
Research tax Credits	$ -	$ -
Tax benefit not Provided due To valuation Allowance	93,295	934,653
	$ -	$ -

Components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2003	December 31, 2002
Deferred tax assets: Tax benefits related To net operating Loss carry forwards And research tax Credits	$6,814,245	$6,720,950
Total deferred tax Asset	6,814,245	6,720,950
Valuation Allowance for Deferred tax Assets	6,814,245	6,720,950
Net deferred tax Assets	$ -0-	$ -0-

7) Commitments:

a. Leases

The Company leases their office, sales and manufacturing facilities and certain vehicles under non-cancelable operating leases with varying terms. The leases generally provide that the Company pay the taxes, maintenance and insurance expenses related to the leased assets. Future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of December 31, 2003 are as follows:

2004	$111,744
2005	111,744
2006	16,875
2007	-0-
Total minimum lease payments	$240,363

8) Goodwill and other Intangible Assets:

In 2002, as a result of adoption SFAS No. 142, Goodwill and Other Intangible Assets, we recorded a write-down of $250,499 for the impairment provisions related to goodwill in our Audio Visual business. The fair value of the Audio Visual business was using discounted cash flows. This write-down, was report as a cumulative effect of a change in accounting principle.

On December 22, 2003, Evercom Systems, Inc. (Evercom) and Science Dynamic Corp. (SDC) executed a series of agreements which provide, among other things, that SDC will assist Evercom in accelerating its development of a next generation IP based inmate telephony system. In concert with this development effort, SDC has sold to Evercom certain Intellectual Property that relates to technology known as "voice over Internet protocol". As a condition of the purchase agreement, SDC will receive a perpetual, royalty-free, non-exclusive license to use the technology primarily developed by SDC during this contract term with the condition that SDC may only exploit such technology outside of the law enforcement market place.

In connection with this sale the Company booked a sale of intangible asset for $1,350,000. Included in other income in the consolidated statement of operations.

The company has concluded that due to the nature of this extraordinary sale, the company will account for this transaction as a Sale of Intangible Asset outside of normal recognized revenue. The Company now considers this activity to be part of it's core business and is undertaking further initiatives to develop communication software and systems for licensing and outright sale.

9) Notes payable

a) Short Term Loans Payable
The short-term loan payable consists of a loan from one stockholder at December 31, 2003. Short-term borrowing amounted to $163,192 and $163,192 in 2003 and 2002 respectively.

-34-

b) Convertible Notes Payable
In 2002 the Company entered into various securities purchase agreements with one accredited investor for the issuance of 8% convertible debentures in the aggregate amount of $1,240,520 respectively. The debentures are convertible into common stock at a conversion price of the lower of 85% of the average of the three lowest closing bid prices for the common stock thirty days prior to the closing date or 85% of the average of the three lowest closing bid prices for the common stock thirty days prior to conversion. We paid a fund management fee of 8% amounting to $103,125 in 2002 respectively. In addition we issued 840,000 commons stock purchase warrants in 2002 respectively ranging in price from $1.46 to $.355. The offering of convertible debentures was exempt from registration under Rule 506 of Regulation D and under Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. All persons were accredited investors, represented that they were capable of analyzing the merits and risks of their investment. On October 16, 2002, the Company entered into a security agreement with Laurus Master Fund, Ltd. In order to secure all its obligations pursuant to this security agreement the company granted a security interest in all its assets.

c) Credit Line
On March 31, 2003 the Company entered into a revolving credit line up to $1,000,000 with Laurus to factor the accounts receivable of M3 Acquisition Corp. Availability is based on accounts receivable which are less than 90 days old. Balance outstanding at December 31, 2003 is $336,309.

d) Other Loan and Notes Payable

In connection with the acquisition of Modern Mass Media we assumed a $50,000 SBA loan. It bears and interest rate of 4%. Principal and interest payments are deferred for 25 months. The notes is due July , 2004. The note is secured by Chip Del Cordo personal residence.

On March 31, 2003 the Company entered into a loan agreement for the purchase of MMM. The loan amounted to $600,000. $100,000 was paid at the time of closing, an additional $100,000 was paid during 2003 The balance will paid over the next five years in equal installments of $80,000 plus interest. All or part of the loan maybe converted into the companies stock at the buyers discretion buyer's discretion. The balance at December 31, 2003 is $400,000.

10) Employment agreements
In January 2002 the Company entered into a three year employment agreement with Calabash Consulting LTD. for the services of Alan Bashforth to act as Chief Executive officer and President of the Company for an annual fee of $240,000 and a bonus of 4,363,636 shares of the Company's common stock at the end of the term or on 31st December 2002. The Company has recorded additional compensation expense of $130,909 and reserved against the capital account for the issuance of such. To date the stock has not been issued. In addition the company is responsible for payment of any state or federal tax arising out of this agreement.

On March 1, 2003 the Company entered into a three year employment agreement with Paul Burgess to become the Chief operating Officer for an annual salary of $175,000. In addition he has been granted an option to purchase 2,000,000 shares of stock at .03 a share.

On April 1, 2003 in connection with the acquisition of Modern Mass Media the Company entered into an employment agreement with Chip Del Coro the sole shareholder of MMM. The agreement is for a term of three years with salary of $65,000 the first year, $65,000 plus $25,000 and $30,000 draw against commission in the in the second and third year respectively.

11) Stock
On November 6, 2002 by written consent of the majority of stockholders, the Company, adopted an amendment to the Corporations' Certificate of Incorporation to increase the number of authorized shares of common stock, from 45,000,000 to 200,000,000 shares and create 10,000,000 shares of preferred stock,$.01 par value per share of which the Board of Directors of the Corporation shall have the right to determine the terms, rights upon issuance.

-35-

12) Stock Options and Warrants:

a. Stock option
The Company issued 660,000 at an exercise price of .03 in 2003 in connection with the 2002 Employee Stock Option Plan. 280,000 shares expired in 2003.

b. Warrants
The Company issued 250,000 and 840,000 common stock purchase warrants in 2003 and 2002 respectively at a prices ranging from $1.4339 to $0.052 per share in connection with the issuance of various convertible notes.

13) Major Customers:

Currently no one customer accounts for more than 10% of total sales compared to 2002. This is a significant improvement over 2002 when three customers accounted for an aggregate of 55% of total sales.

14) Earnings (Loss) Per Share:

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128. "Earnings Per Share" applicable for financial statements issued for periods ending after December 15, 1997. As required the Company adopted SFAS No. 128 for the year ended December 31, 1997 and restated all prior period earnings per share figures. The Company has presented basic earnings per share. Basic earnings per share excludes potential dilution and is calculated by dividing income available to common stockholders by the weighted average number of outstanding common shares. Diluted earnings per share incorporates the potential dilutions from all potentially dilutive securities that would have reduced earnings per share. Since the potential issuance of additional shares would reduce loss per share they are considered anti-dilutive and are excluded from the calculation.

The weighted average number of shares used to compute basic loss per share was 41,418,655 in 2003 and 34,485,986 in 2002.