PARADIGM MEDICAL INDUSTRIES INC
Form 10QSB/A
March 12, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C.

FORM 10-QSB/A-2

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2003

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From ___ to

Commission File Number: 0-28498

PARADIGM MEDICAL INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	87-0459536 (I.R.S. Employer Identification No.)
2355 South 1070 West, Salt Lake City, Utah (Address of principal executive office)	84119 (Zip Code)

Registrant's telephone number, including area code: (801) 977-8970

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO |_|

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, $.001 par value	24,991432
Title of Class	Number of Shares Outstanding as of September 30, 2003
Class A Warrant to Purchase One Share of Common Stock	1,000,000
Title of Class	Number of Warrants Outstanding as of September 30, 2003

FOR THE QUARTER ENDED SEPTEMBER 30, 2003

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PARADIGM MEDICAL INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	September 30, 2003 (Unaudited)
ASSETS	
Current Assets	
Cash & Cash Equivalents	$ 213,000
Receivables, Net	701,000
Inventory	1,865,000
Prepaid Expenses	296,000
Total Current Assets	3,075,000
Intangibles, Net	684,000
Property and Equipment, Net	245,000
Deposits and Other Assets, Net	57,000
Total Assets	$ 4,061,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Trade Accounts Payable	596,000
Accrued Expenses	1,759,000
Current Portion of Long-term Debt	118,000
Total Current Liabilities	2,473,000
Long-term Debt	75,000
Total Liabilities	2,548,000

See accompanying notes to financial statements

Stockholders' Equity:	
Preferred Stock, Authorized:	
5,000,000 Shares, $.001 par value	
Series A	
Authorized: 500,000 shares; issued and	
outstanding: 5,627 shares at September 30, 2003	-

Series B	
Authorized: 500,000 shares; issued and outstanding: 8,986 shares at September 30, 2003	-
Series C	
Authorized: 30,000 shares; issued and outstanding: zero shares at September 30, 2003	-
Series D	
Authorized: 1,140,000 shares; issued and outstanding: 5,000 shares at September 30, 2003	-
Series E	
Authorized: 50,000; issued and outstanding: 1,500 at September 30, 2003	-
Series F	
Authorized: 50,000; issued and outstanding: 5,623.75 at September 30, 2003	-
Series G	
Authorized: 2,000,000; issued and outstanding: 1,981,560 at September 30, 2003	-
Common Stock, Authorized: 80,000,000 Shares, $.001 par value; issued and outstanding: 24,991,432 at September 30, 2003	25,000
Common stock warrants	1,046,000
Additional paid-in-capital	56,404,000
Accumulated Deficit	(55,962,000)
Total Stockholders' Equity	1,513,000
Total Liabilities and Stockholders' Equity	$ 4,061,000

See accompanying notes to financial statements

PARADIGM MEDICAL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)
Sales	$ 853,000	$ 1,078,000	$ 2,225,000	$ 3,894,000
Cost of Goods Sold	354,000	1,116,000	1,237,000	2,738,000
Gross Profit	499,000	(38,000)	988,000	1,156,000
Operating Expenses:				
Marketing and Selling	171,000	619,000	711,000	2,381,000
General and Administrative	331,000	922,000	1,867,000	2,920,000
Research, Development and Service	203,000	1,085,000	789,000	2,449,000
IMPAIRMENT OF ASSETS	-	700,000	159,000	700,000

Total Operating Expenses	705,000	3,326,000	3,526,000	8,450,000
Operating Income (Loss)	(206,000)	(3,364,000)	(2,538,000)	(7,294,000)
Other Income and (Expense):				
Interest Income	-	-	3,000	6,000
Interest Expense	(4,000)	(17,000)	(17,000)	(37,000)
Other Income (Expense)	247,000	(6,000)	247,000	(6,000)
Total Other Income and (Expense)	243,000	(23,000)	233,000	(37,000)
Net income (loss) before provision for income taxes	37,000	(3,387,000)	(2,305,000)	(7,331,000)
Income taxes	-	-	-	-
Net Income (Loss)	$ 37,000	$ (3,387,000)	$ (2,305,000)	$ (7,331,000)
Net Income (Loss) Per Share -				
-Basic	$ -	$ (.21)	$ (.10)	$ (.45)
-Diluted	$ -	$ (.21)	$ (.10)	$ (.45)
Tighted Average Outstanding Shares-				
-Basic	23,668,000	16,499,000	22,795,000	16,316,000
-Diluted	26,752,000	16,499,000	22,795,000	16,316,000

See accompanying notes to financial statements

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PARADIGM MEDICAL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2003 (Unaudited)	Nine Months E September 30, (Unaudited
Cash Flows from Operating Activities:		
Net Loss	$ (2,305,000)	$ (7,331,000)
Adjustment to Reconcile Net Loss to Net Cash Used In Operating Activities:		
Depreciation and Amortization	268,000	396,000
Issuance of Common Stock and Warrants for Compensation, Services and Payables	83,000	211,000
Issuance of Common Stock for Settlement Of Potential Liabilities	190,000	-
Increase in Inventory Reserve	382,000	500,000
Provision for (Recovery Of) Losses		

On Receivables	83,000	(136,000)
Impairment of Intangible and Other Assets	159,000	700,000
Gain on settlement of obligations	(247,000)	-
Issuance of Common Stock for In-process R&D	-	630,000
(Increase) Decrease from Changes in:		
Trade Accounts Receivable	161,000	1,586,000
Inventories	402,000	871,000
Prepaid Expenses	(215,000)	36,000
Increase (Decrease) from Changes in:		
Trade Accounts Payable	(120,000)	(61,000)
Accrued Expenses and Deposits	447,000	101,000
Net Cash Used in Operating Activities	(712,000)	(2,497,000)
Cash Flow from Investing Activities:		
Purchase of Property and Equipment	(1,000)	(134,000)
Disposal of Property and Equipment	6,000	-
Other Assets	-	(4,000)
Net Cash Paid in Acquisition	-	(100,000)
Net Cash (Used) Provided by Investing Activities	5,000	(238,000)
Cash Flows from Financing Activities:		
Principal Payments on Indebtedness	(63,000)	(44,000)
Proceeds from Short-Term Borrowing	90,000	-
Net Proceeds from sale of Common Stock and Warrants	429,000	562,000
Net Proceeds from sale of Series G Preferred Stock and Warrants	270,000	-
Net Cash Provided by Financing Activities	726,000	518,000
Net Increase (Decrease) in Cash and Cash Equivalents	19,000	(2,217,000)
Cash and Cash Equivalents at Beginning of Period	194,000	2,702,000
Cash and Cash Equivalents at End of Period	$ 213,000	$ 485,000
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	$ 17,000	$ 37,000
Cash Paid for Income Taxes	$ -	$ -

See accompanying notes to financial statements

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PARADIGM MEDICAL INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

Significant Accounting Policies

In the opinion of management, the accompanying financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the financial position of Paradigm Medical Industries, Inc. (the Company) as of September 30, 2003 and the results of its operations for the three months and nine months ended September 30, 2003 and 2002, and its cash flows for the nine months ended September 30, 2003 and 2002. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year period.

Liquidity and Going Concern

Due to the declining sales, significant recurring losses and cash used to fund operating activities, the auditors' report for the year ended December 31, 2002 included an explanatory paragraph that expressed substantial doubt about its ability to continue as a going concern. The Company has taken significant steps to reduce costs and increase operating efficiencies. Specifically, during the second quarter of 2002, the Company closed its San Diego facility. In so doing, numerous manufacturing, accounting and management responsibilities were consolidated. In addition, such closure resulted in significant headcount reductions as well as savings in rent and other overhead costs. The Company has also significantly reduced the use of consultants, which has resulted in a large decrease in expenses, and reduced the direct sales force to five representatives, which has resulted in less payroll, travel and other selling expenses.

Historically, the Company has relied on the sale of equity securities to finance operations. The Company will continue to seek funding to meet working capital needs through the sale of equity securities. If the Company is unable to obtain such financing in the near future, it may be required to reduce or cease its operations.

As of September 30, 2003, the Company had accounts payable of $596,000, a significant portion of which is over 90 days past due. The Company has contacted many of the vendors or companies that have significant amounts of payables past due in an effort to delay payment, renegotiate a reduced settlement payment, or establish a longer-term payment plan. While some companies have been willing to renegotiate the outstanding amounts, others have demanded payment in full. Under certain conditions, including but not limited to judgments rendered against us in a court of law, a group of creditors could force us into bankruptcy due to our inability to pay the liabilities arising out of such judgments at that time. In addition to the accounts payable noted above, we also have noncancellable capital lease obligations and operating lease obligations that require the payment of approximately $103,000 in 2003, $51,000 in 2004, $38,000 in 2005, and $14,000 in 2006.

Reclassifications

Certain amounts in the financial statements for the three months and nine months ended September 30, 2002 have been reclassified to conform with the presentation of the current period financial statements.

Net loss Per Share

Net loss per common share is computed on the weighted average number of common and common equivalent shares outstanding during each period. Common stock equivalents consist of convertible preferred stock, common stock options and warrants. Common equivalent shares are excluded from the computation when their effect is anti-dilutive. Other common stock equivalents consisting of options and warrants to purchase 5,704,000 and 5,051,000 shares of common stock and preferred stock convertible into 2,384,000 and 437,000 shares of common stock at September 30, 2003 and 2002, respectively, have not been included in loss periods because they are anti-dilutive.

The shares used in the computation of the Company's basic and diluted earnings per share are reconciled as follows:

	Three Months Ended Sept. 30 2003	2002	Nine Mon 2003
Weighted average number of shares outstanding - basic	23,668,000	16,499,000	22,795
Assume conversion of preferred stock	2,384,000	-	
Dilutive effect of stock options	700,000	-	
Weighted average number of shares outstanding - diluted	26,752,000	16,499,000	22,795

Equity Line of Credit

The Company sold approximately 696,000 shares of common stock for approximately $84,000 during the nine months ended September 30, 2003 under the $20,000,000 equity line of credit with Triton West Group, Inc.

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Preferred Stock Conversions

Under the Company's Articles of Incorporation, holders of the Company's Class A and Class B Preferred Stock have the right to convert such stock into shares of the Company's common stock at the rate of 1.2 shares of common stock for each share of preferred stock. During the nine months ended September 30, 2003, no shares of Series A Preferred Stock and no shares of Series B Preferred Stock were converted to the Company's Common Stock.

Holders of Series D Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 1 share of common stock for each share of preferred stock. During the nine months ended September 30, 2003, no shares of Series D Preferred Stock were converted to the Company's Common stock.

Holders of Series E Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the nine months ended September 30, 2003, no shares of Series E Preferred Stock were converted to the Company's Common stock.

Holders of Series F Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the nine months ended September 30, 2003, 650 shares of Series F Preferred Stock were converted to shares of the Company's Common stock.

Holders of Series G Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 1 share of common stock for each share of preferred stock. During the nine months ended September 30, 2003, no shares of Series G Preferred Stock were converted to shares of the Company's Common stock.

Warrants

The fair value of warrants granted as described herein is estimated at the date of grant using the Black-Scholes option pricing model. The exercise price per share is reflective of the then current market value of the stock. No grant exercise price was established at a discount to market. All warrants are fully vested, exercisable and nonforfeitable as of the grant date. The Company granted 1,005,000 warrants to purchase the Company's common stock during the period ended September 30, 2003. Of these warrants, 423,000 were issued in connection with a private placement of the Company's common stock, 382,000 were issued in connection with a private placement of the Company's Series G preferred stock, and 200,000 warrants were issued for consulting services. The 200,000 warrants issued for consulting services were valued at $35,000 using the Black-Scholes option pricing model. During the period ended September 30, 2002, the purchase agreement between the Company and Innovative Optics included warrants to purchase 250,000 shares of the Company's common stock at $5.00 per share, exercisable over a period of three years from the closing date. The Company valued the warrants at approximately $295,000, which amount was included in the purchase price.

Stock - Based Compensation

For stock options and warrants granted to employees, the Company employs the footnote disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 encourages entities to adopt a fair-value based method of accounting for stock options or similar equity instruments. However, it also allows an entity to continue measuring compensation cost for stock-based compensation using the intrinsic-value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The Company has elected to continue to apply the provisions of APB 25 and provide pro forma footnote disclosures required by SFAS No. 123. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

Stock options and warrants granted to non-employees for services are accounted for in accordance with SFAS 123 which requires expense recognition based on the fair value of the options/warrants granted. The Company calculates the fair value of options and warrants granted by use of the Black-Scholes pricing model. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	Nine Months Ended September 30, 2003	2002	Three Months En 2003
Net income (loss) - as reported	$ (2,305,000)	$ (7,331,000)	$ 37,000

Deduct: total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects	(359,000)	-	(48,000)
Net loss - pro forma	$ (2,664,000)	$ (7,331,000)	$ (11,000)
Earnings per share:			
Basic and diluted - as reported	$ (.10)	$ (.45)	$ -
Basic and diluted - pro forma	$ (.12)	$ (.45)	$ -

The weighted average fair value of stock options and warrants granted to non-employees for services during the nine months ended September 30, 2003 was $.16.

Related Party Transactions

Payments for legal services to the firm of which the chairman of the board of directors is a partner were approximately $23,000 and $65,000 for the three months ended September 30, 2003 and 2002, respectively. The Company paid $7,500 during the third quarter of 2002 to a former officer and director of the Company for the rental of a house where employees from out of town stayed instead of incurring hotel expenses.

Supplemental Cash Flow Information

During the nine months ended September 30, 2003, the Company granted 200,000 warrants for consulting services, which were recorded as an expense of $35,000, which is recorded as an increase to general and administrative expense and additional paid-in capital.

During the nine months ended September 30, 2003, the Company issued 1,262,000 shares of common stock, valued at $190,000 based on the trading price on the date of issuance, as settlement of potential litigation. This amount is included in general and administrative expenses. The Company incurred an obligation of approximately $43,000 for the settlement of accrued liabilities. The Company incurred a prepaid expense of approximately $60,000 in exchange for a note payable.

Investment in International Bio-Immune Systems, Inc.

On September 19, 2002, the Company completed a transaction with International Bio-Immune Systems, Inc. (IBS), a Delaware corporation, in which it acquired 2,663,254, or 19.9%, of IBS outstanding shares and warrants to purchase 1,200,000 shares of IBS common stock at $2.50 per share for a period of two years, through the exchange and issuance of 736,945 shares of the Company's common stock, the lending of 300,000 shares of the Company's common stock to IBS, and the payment of certain of its expenses through the issuance of an aggregate of 94,000 shares of the Company's common stock to IBS and its counsel. The issuance of 736,945 shares was valued based on the market price of the Company's common stock on the date of the transaction and resulted in an investment in IBS, when combined with a cash investment of $65,000 made in 2000, of $879,000. Due to the uncertainty of future cash flows from IBS and the fact that the products under development by IBS had not been approved by the FDA, the

Company was unable to support the value of the investment in IBS by substantiated methods and determined that the likelihood of recovery of its investment was remote. Therefore, in accordance with generally accepted accounting principles, the investment of $879,000 was charged to impairment expense in 2002. The 300,000 shares were also valued at the market price on the date of issuance and were recorded as a stock subscription receivable of $294,000 because it was anticipated that such shares would either be paid for or returned in the future. Because of the decline in value of the 300,000 shares and because of the lack of evidence to support the receipt of payment for such shares, during the quarter ended September 30, 2003, the Company wrote off the subscription receivable of $294,000 against additional paid-in capital.

Accrued Expenses

Accrued expenses consist of the following at September 30, 2003:

Accrued consulting and litigation reserve	$ 580,000
Warranty and return allowance	659,000
Accrued royalties	208,000
Deferred revenue	119,000
Customer deposits	107,000
Accrued payroll and employee benefits	86,000
	$ 1,759,000

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This report contains forward-looking statements and information relating to us that is based on beliefs of management as well as assumptions made by, and information currently available to management. These statements reflect the Company's current view respecting future events and are subject to risks, uncertainties and assumptions, including the risks and uncertainties noted throughout the document. Although the Company has attempted to identify important factors that could cause the actual results to differ materially, there may be other factors that cause the forward-looking statements not to come true as anticipated, believed, projected, expected or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, projected, estimated, expected or intended.

Critical Accounting Policies

Revenue Recognition. The Company recognizes revenue in compliance with Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements (SAB 101). SAB 101 details four criteria that must exist before revenue is recognized:

1. Persuasive evidence of an arrangement exits. Prior to shipment of product, the Company requires a signed purchase order and, with most customers, a down payment toward the final invoiced price.

2. Delivery and performance have occurred. Unless the purchase order requires specific installation or customer acceptance, the Company recognizes revenue when the product ships. If the purchase order requires specific installation or customer acceptance, the Company recognizes revenue when such

installation or acceptance has occurred. Title to the product passes to the Company's customer upon shipment. This revenue recognition policy does not differ among the Company's various different product lines. The Company guarantees the functionality of its product. If the Company's product does not function as marketed when received by the customer, the Company either makes the necessary repairs on site or has the product shipped to the Company for the repair work. Once the product has been repaired and retested for functionality, it is re-shipped to the customer. The Company provides warranties that generally extend for one year from the date of sale. Such warranties cover the necessary parts and labor to repair the product as well as any shipping costs that may be required. The Company maintains a reserve for estimated warranty costs based on the Company's historical experience and management's current expectations.

3. The sales price is fixed or determinable. The purchase order received from the customer includes the agreed- upon sales price. The Company does not accept customer orders, and therefore does not recognize revenue, until the sales price is fixed.

4. Collectibility is reasonably assured. With limited exceptions, the Company requires down payments on product prior to shipment. In some cases the Company require payment in full prior to shipment. The Company also performs credit checks on new customers and ongoing credit checks on existing customers. The Company maintains an allowance for doubtful accounts receivable based on historical experience and management's current expectations.

Recoverability of Accounts Receivable. Accounts receivable are due from medical distributors, surgery centers, hospitals, optometrists and ophthalmologists located throughout the U.S. and a number of foreign countries. The receivables are generally due within thirty days for domestic customers with extended terms offered for some international customers. The Company maintains an allowance for estimated potentially uncollectible amounts.

Recoverability of Inventory. Since its inception, the Company has purchased several complete lines of inventory. In some circumstances the Company has been able to utilize certain items acquired and others remain unused. On a quarterly basis, the Company attempts to identify inventory items that have shown relatively no movement or very slow movement. Generally, if an item has shown little or no movement for over a year, it is determined to be obsolete and a reserve is established for that item. In addition, if the Company identifies products that have become obsolete due to product upgrades or enhancements, a reserve is established for such products. The Company intends to make efforts to sell these items at significantly discounted prices. If items are sold, the cash received would be recorded as revenue, but there would be no cost of sales on such items due to the reserve that has been recorded. At the time of sale, the inventory would be reduced for the item sold and the corresponding inventory reserve would also be reduced. To date the Company has not sold any of the inventory items that have been determined to be obsolete.

Recoverability of Goodwill and Other Intangible Assets. The Company's intangible assets consist of goodwill, product and technology rights, engineering and design costs, and patent costs. Intangibles with a determined life are amortized on a straight-line basis over their determined useful life and are also evaluated for potential impairment if events or circumstances indicate that the carrying amount may not be recoverable. Intangibles with an indefinite life, such as goodwill, are not amortized but are tested for impairment on an annual basis or when events and circumstances indicate that the asset may be impaired. Impairment tests include comparing the fair value of a reporting unit with its carrying net book value, including goodwill. To date, the Company's determination of the fair value of the reporting unit has been based on the estimated future cash flows of that reporting unit.

General

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements which involve risks and uncertainty. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors discussed in this section. The Company's fiscal year is from January 1 through December 31.

The Company is engaged in the design, development, manufacture and sale of high technology diagnostic and surgical eye care products. Given the "going concern" status of Paradigm Medical, management has focused efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow. As seen in the results for the nine months ended September 30, 2003, diagnostic products have been the major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. The new management team has reviewed the Company's financial position including the financial statements. In the course of this review, management made certain adjustments that are included in the nine months ended September 30, 2003, including an increase in the reserve of obsolete inventory of $382,000, an increase in the allowance for doubtful accounts receivable of $160,000, impairment of fixed assets and intangibles of $159,000, and increases in accruals to settle outstanding disputes in the amount of $443,000. Although management believes these adjustments are sufficient, it will continue to monitor and evaluate the Company's financial position and the recoverability of its assets.

The Company's ultrasound diagnostic products include a pachymeter, an A/B Scan and a biomicroscope, the technology for which was acquired from Humphrey Systems in 1998. The Company introduced the P45 in the fall of 2000, which combines the A/B Scan, and the biomicroscope in one machine. In addition, the Company markets the Blood Flow Analyzer(TM) acquired in the purchase of Ocular Blood Flow Ltd. in June 2000. Other diagnostic products are the Dicon(TM) Perimeter and the Dicon (TM) Corneal Topographer which were acquired in the acquisition of Vismed d/b/a Dicon in June 2000. The Company purchased the

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inventory, design and production rights of the SIStem(TM) from Mentor Corporation in October 1999 which was designed to perform minimally invasive cataract surgery. In November 1999, the Company entered into a Mutual Release and Settlement Agreement with the manufacturer of the Precisionist ThirtyThousand(TM) in which the Company purchased the raw material and finished goods inventory to bring the manufacturing of this product in-house. Because of the "going concern" status of the company, management has focused efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow to the company. As reflected in the results for the quarter ended September 30, 2003, diagnostic products are currently the Company's major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when the financial position of the company improves.

Activities for the nine months ended September 30, 2003, included sales of the Company's products and related accessories and disposable products. In March 2003, the Company named a new president and chief executive officer, Dr. Jeffrey F. Poore. The Company named a new vice president of sales and marketing, Ray Cannefax, during the first quarter of 2003, a new vice president of finance and chief financial officer, Gregory C. Hill, during the second quarter of 2003, and a new chief operating officer, David Cullumber, during the fourth quarter of 2003.

The Company believes that the positive net income of $37,000 for the quarter is a significant event for Paradigm. Although the income was partly due to a one-time gain resulting from the settlement of outstanding liabilities and disputes, the Company is encouraged by the overall reduction in expenses and related losses. The loss from operations decreased from approximately $3.4 million for the quarter ended September 30, 2002, to approximately $206,000 for the quarter ended September 30, 2003, a reduction of 94%. The Company believes that it has made the necessary reductions in costs to lead the Company toward profitability. The Company experienced an increase in revenue of approximately 32% in the third quarter of 2003 compared with the second quarter of 2003. The Company is focusing its efforts on increasing sales of its more stable higher margin products such as the Blood Flow Analyzer, the UBM microscope, the Perimeter, and the Corneal Topographer. The Company will continue to dedicate its efforts on increasing sales of its products while maintaining or continuing to reduce its overhead costs.

Results of Operations

Three Months Ended September 30, 2003, Compared to Three Months Ended September 30, 2002

Net sales decreased by $225,000, or 21%, to $853,000 for the three months ended September 30, 2003, from $1,078,000 for the comparable period in 2002. Sales of the Company's diagnostic products were $665,000, or 78% of total revenues, during the three months ended September 30, 2003, compared with $656,000, or 61% of total revenues, for the comparable period of 2002. Sales of surgical products totaled $46,000, or 5% of total revenues, for the third quarter of the current year in comparison with $28,000, or 3%, of total revenues in the comparable period of 2002. In the three months ended September 30, 2003, sales of the Ultrasonic Biomicroscope were $211,000, or 25% of total revenues, compared to $37,000, or 3% of total revenues, in the same period of 2002. Sales from the Blood Flow Analyzer(TM) decreased by $106,000 to $54,000, or 6% of total revenues, during the third quarter of 2003 compared with $160,000, or 15% of total revenues, in the same period of last year. During the third quarter of 2003 sales from other ultrasonic products totaled $93,000, or 11% of total revenues, compared with $106,000, or 10% of total revenues, in the same period last year. Sales of the perimeter and corneal topographer generated $306,000, or 36% of total revenues, in the three months ended September 30, 2003, compared with $353,000, or 33% of total revenues, during the same period of 2002.

There were a number of material reasons that contributed to the decrease in sales during the three months ended September 30, 2003, compared to the same period of 2002. Along with generally weak economic conditions in the United States, the Company initiated the restructuring of its sales organization and the development of new sales channels during the three months ended September 30, 2003. In addition, there were only three direct sales representatives during the third quarter 2003 compared to more than twice that number of direct sales representatives during the comparable period of 2002. International sales were impacted by weakness in the economies of the large industrial countries and by the residual impact of the Afghanistan situation, which had a negative impact on sales to the Middle East, Pakistan, India and other countries in that region. Other reasons for the decrease in sales were the

uncertainties resulting from the Company's efforts to reduce costs and constraints on availability of funds that reduced its ability to upgrade and enhance its products and pursue further regulatory approvals for its products. Additionally, changes in the exchange rate between these periods have generally made its products more expensive to customers outside of the United States. The Company's objective is to focus its sales efforts on the products with the highest potential for sales and strong margins.

Gross profit for the three months ended September 30, 2003 was 58% of total revenues, compared to (4%) for the same period in 2002. Cost of goods sold for the three months ended September 30, 2003, did not include significant write downs of inventory. Cost of goods sold for the three months ended September 30, 2002, included an increase in the reserve for obsolete inventory of $500,000. Since the Company's inception, it has purchased several complete lines of inventory. While the Company's initial intention was to utilize the substantial majority of inventory acquired in the manufacture of its products, in some circumstances it has been unable to utilize certain items acquired.

On a quarterly basis, the Company attempts to identify inventory items that have shown relatively no movement or very slow movement. Generally, if an item has shown little or no movement for over a year, it is determined to be obsolete and a reserve is established for that item. In addition, if the Company identifies products that have become obsolete due to product upgrades or enhancements, a reserve is established for such products. Such analysis has resulted in material increases in the reserve for obsolete inventory in both 2002 and 2003. The Company believes it has now identified all obsolete inventory and reserved for such inventory and does not expect material increases in the reserve in future periods, however there can be no assurance that it will not identify further obsolete inventory due to significant declines in sales of certain products or technological advances of products. The Company intends to make efforts to sell these items at significantly discounted prices. If items are sold, the cash received would be recorded as revenue, but there would be no cost of sales on such items due to the reserve that has been recorded. At the time of sale, the inventory would be reduced for the item sold and the corresponding inventory reserve would also be reduced. To date the Company has not sold any of the inventory items that have been determined to be obsolete. The Company does not expect the sales of these items, if any, to be significant.

Marketing and selling expenses decreased by $448,000, or 72%, to $171,000 for the three months ended September 30, 2003, from $619,000 for the comparable period in 2002 due primarily to the lower headcounts of sales persons and travel related and associated sales expenses.

General and administrative expenses decreased by $591,000, or 64%, to $331,000 for the three months ended September 30, 2003, from $922,000 for the same period in 2002, reflecting the results of the Company's efforts to reduce costs, specifically costs associated with maintaining two manufacturing facilities and consulting costs. As noted above, in April 2002, the Company announced the closure of its San Diego facility in anticipation of the termination of the lease for that location. All operations associated with the San Diego facility were transferred to the Salt Lake City facility. The Company incurred a reduction of force of 28 San Diego personnel. The consolidation was intended to save costs and to eliminate duplicities in functions and facilities that occurred with the acquisition of Dicon. The cost of the consolidation was approximately $80,000. The Company believes that the annual cost savings of the closure of the San Diego facility are approximately $2 million. Consulting expenses decreased from approximately $909,000 for the three months ended September 30, 2002 to approximately $75,000 in the same period in 2003. Depreciation and amortization expense, which includes amortization of leasehold improvements, decreased by approximately $50,000, or 46%, to $58,000 during the third quarter of 2003 compared to the same period of last year.

Research, development and service expenses decreased by $882,000, or

81%, to $203,000 for the three months ended September 30, 2003, from $1,085,000 for the same period in 2002. This decrease was mainly due to the issuance of common stock to Innovative Optics in the quarter ended September 30, 2002, which was valued at $630,000 and expensed as in-process research and development costs. Expenses associated with the development of new products during the third quarter of 2003 decreased compared to the same period in 2002 due to the Company's efforts to reduce costs and focus on products that are fully developed and have the highest potential for sales and strong margins.

Impairment of assets was $0 for the three months ended September 30, 2003, compared to $700,000 recorded in the same period of 2002. The impairment expense in the third quarter of 2002 was due to an evaluation by the Company of its intangible assets, namely goodwill, resulting in a charge of $700,000 as a write down of the goodwill.

Other income and (expense) increased by $266,000 to income of $243,000 for the three months ended September 30, 2003 from expense of $(23,000) for the same period in 2002. During the third quarter of 2003 other income of $247,000 compared with expense of $(6,000) during the comparable period in 2002. During the third quarter of 2003 other income was due to a gain of $188,000 on discounted settlements of accounts payable and obligations, a gain of $22,000 from reversing an over-accrual of fees related to prior years, and a gain of $37,000 associated with the settlement of litigation. The Company had a $13,000 reduction in interest expense to $(4,000) in the three months ended September 30, 2003, from $(17,000) in the same period of 2002 due to a decrease in interest expense related to capital leases.

Nine Months Ended September 30, 2003, Compared to Nine Months Ended September 30, 2002

Net sales decreased by $1,669,000, or 43%, to $2,225,000 for the nine months ended September 30, 2003, from $3,894,000 for the comparable period in 2002. Sales of the Company's diagnostic products were $1,750,000, or 79% of total revenues, during the first nine months of 2003 compared with $2,563,000, or 66% of total revenues, for the comparable period of 2002. Sales of surgical products totaled $94,000, or 4% of total revenues, for the first nine months of the current year in comparison with $238,000, or 6%, of total revenues in the comparable period of 2002. In the first nine months of 2003, sales of the P40 UBM Ultrasound Biomicroscope were $421,000, or 19% of total revenues, compared to $868,000, or 22% of total revenues, in the same period of 2002. Sales from the Blood Flow Analyzer(TM) increased by $2,000 to $297,000, or 13% of total revenues, during the first three quarters of 2003 compared with $295,000, or 8% of total revenues, in the same period of last year. During the first nine months of 2003, sales from other ultrasonic products totaled $222,000, or 10% of total revenues, compared with $452,000, or 12% of total revenues, in the same period last year. Sales of the perimeter and corneal topographer generated $808,000, or 36% of total revenues, in the first three quarters of 2003 compared with $948,000, or 24% of total revenues, during the same period of 2002.

There were a number of material reasons that contributed to the decrease in sales during the nine months ended September 30, 2003, compared to the same period of 2002. Along with generally weak economic conditions in the United States, the Company initiated the restructuring of its sales organization and the development of new sales channels during the nine months ended September 30, 2003. During the first three months of 2003, the Company reduced its direct sales force from ten representatives to three representatives, and during the remainder of the first nine months of 2003 there were only three direct sales representatives compared to ten direct sales representatives during the comparable period of 2002. International sales were impacted by weakness in the economies of the large industrial countries and by the residual impact of the Afghanistan situation, which had a negative impact on sales to the Middle East, Pakistan, India and other countries in that region. The decrease in sales of the P40 Ultrasound Biomicroscope as well as other products were the direct result of the restructuring of the sales and marketing organization. With respect to the decrease in sales of the Biomicroscope, there has not been an increase in price, competition remains similar to what it has been previously, and there are no other particular factors of which the Company is aware. This restructuring has significantly reduced the Company's sales expenses and funds dedicated to marketing. In addition, the sales channels have been altered to include distributor and independent sale representatives instead of relying more on a direct sales force. Domestic and international sales have also decreased as a result of the global financial markets declines beginning in 2000 and the adverse impact of the events of September 11, 2001.

The decrease in sales of the P40 Ultrasound Biomicroscope as well as other products were the direct result of the restructuring of the sales and marketing organization. As to the decrease in sales of the Ultrasonic Biomicroscope, there has not been an increase in price, competition remains similar to what it has been previously, and there are no other particular factors of which the Company is aware. This restructuring has significantly reduced the Company's sales expenses and funds dedicated to marketing. In addition, the sales channels have been altered to include distributor and independent sale representatives instead of relying exclusively on a direct sales force. Domestic and international sales have also decreased as a result of the global financial markets declines beginning in 2000 and the adverse impact of the events of September 11, 2001.

Other reasons for the decrease in sales were the uncertainties resulting from the Company's efforts to reduce costs and constraints on availability of funds that reduced its ability to upgrade and enhance its products and pursue further regulatory approvals for its products. Additionally, changes in the exchange rate between these periods have generally made the Company's products more expensive to customers outside of the United States. The Company's objective is to focus its sales efforts on the products with the highest potential for sales and strong margins.

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Gross profit for the nine months ended September 30, 2003 was 44% of total revenues, compared to 43% for the same period in 2002. Cost of goods sold for the nine months ended September 30, 2003 was $1,237,000 as compared to $2,738,000 for the same period in 2002, a reduction of $1,501,000. Cost of goods sold for the nine months ended September 30, 2003 included an increase in the reserve for obsolete or estimated non-recoverable inventory of $382,000. Cost of goods sold for the nine months ended September 30, 2002, included an increase in the reserve for obsolete or estimated non-recoverable inventory of $500,000. Since its inception, the Company has purchased several complete lines of inventory. While the Company's initial intention was to utilize the substantial majority of inventory acquired in the manufacture of its products, in some circumstances the Company has been unable to utilize certain items acquired.

Marketing and selling expenses decreased by $1,670,000, or 70%, to $711,000 for the nine months ended September 30, 2003, from $2,381,000 for the comparable period in 2002 due primarily to the lower headcounts of sales persons and travel related and associated sales expenses.

General and administrative expenses decreased by $1,053,000, or 36%, to $1,867,000 for the nine months ended September 30, 2003, from $2,920,000 for the same period in 2002, reflecting the results of the Company's efforts to reduce costs, specifically costs associated with maintaining two manufacturing facilities and consulting costs. As noted above, in April 2002, the Company announced the closure of its San Diego facility in anticipation of the termination of the lease for that location. All operations associated with the San Diego facility were transferred to the Salt Lake City facility. The Company incurred a reduction of force of 28 San Diego personnel. The consolidation was intended to save costs and to eliminate duplicities in functions and facilities that occurred with the acquisition of Dicon. The cost of the consolidation was approximately $80,000. The Company believes that the annual cost savings of the closure of the San Diego facility are approximately $2 million. Consulting expenses decreased from approximately $1,280,000 for the nine months ended September 30, 2002 to approximately $232,000 in the same period in 2003. Depreciation and amortization expense, which includes amortization of leasehold improvements, decreased by approximately $128,000, or 32%, to $268,000 during the first nine months of 2003 compared to the same period of last year. General and administrative expenses for the nine months ended September 30, 2003, included $83,000 for additions to the allowance for doubtful accounts and increases in accruals of $443,000 to settle outstanding disputes.

In addition, general and administrative expense for the nine months ended September 30, 2003, included $190,000 for 1,262,000 shares of common stock issued to settle potential litigation. The 1,262,000 common shares were issued to six investors due to a dispute arising from a private offering that was completed on January 22, 2003. The Company agreed to issue the shares to the investors in the offering at $.25 per share rather than $.50 per share, the original offering price (or an additional 1,262,000 shares) to resolve a dispute with the investors concerning certain statements made by a former officer in connection with the sale of said shares.

Research, development and service expenses decreased by $1,660,000, or 68%, to $789,000 for the nine months ended September 30, 2003, from $2,449,000 for the same period in 2002. This decrease was mainly due to the issuance of common stock to Innovative Optics in the quarter ended September 30, 2002, which was valued at $630,000 and expensed as in-process research and development costs. Expenses associated with the development of new products during the first nine months of 2003 decreased compared to the same period in 2002 as a consequence of the Company's efforts to reduce costs and focus on products that are fully developed and have the highest potential for sales and strong margins.

Impairment of assets was $159,000 for the nine months ended September 30, 2003, compared to $700,000 recorded in the same period of 2002. The impairment expense for the first nine months of 2003 was due to a reserve established for anticipated asset disposals and a reduction in the value of certain intangible assets based on their currently estimated fair value. The impairment expense for the nine months ended September 30, 2002, was due to an evaluation by the Company of its intangible assets, namely goodwill, resulting in a charge of $700,000 as a write down of the goodwill.

Other income and (expense) increased by $270,000 to income of $233,000 for the nine months ended September 30, 2003, from expense of $(37,000) for the same period in 2002. During the first nine months of 2003 interest income was $3,000 compared with $6,000 during the same period of 2002, and other income was $247,000 compared with expense of $(6,000) during the comparable period in 2002. During the nine months ended September 30, 2003, other income included a gain of $188,000 on discounted settlements of accounts payable and obligations, a gain of $22,000 from reversing an overaccrual of fees related to prior years, and a gain of $37,000 associated with the settlement of litigation. The Company had a $20,000 reduction in interest expense to $(17,000) in the nine months ended September 30, 2003, from $(37,000) in the same period of 2002 due to a decrease in interest expense related to capital leases.

Liquidity and Capital Resources

The Company used $712,000 cash in operating activities for the nine months ended September 30, 2003, compared to $2,497,000 for the nine months ended September 30, 2002. The reduction in cash used by operating activities for the first nine months of 2003 was primarily attributable to reduced operating costs, including the closure of the San Diego facility, as well as other savings resulting from its ongoing efforts to substantially reduce costs and management of its current assets and current liabilities. The Company generated $5,000 from investing activities for the nine months ended September 30, 2003, compared to cash used of $238,000 in the same period in 2002. Cash used in investing activities in the first nine months of 2002 was primarily due to the cash paid in the acquisition of certain assets of Innovative Optics and capital equipment. Net cash provided by financing activities was $726,000 for the nine months ended September 30, 2003 versus $518,000 in the same period in 2002. During the nine months ended September 30, 2003, the Company raised approximately $84,000 through a $20,000,000 equity line of credit under an investment banking arrangement and $699,000 through private placements from the sale of the Company's common stock and Series G preferred stock and warrants. However, the equity line of credit is not currently available as a source of equity because a registration statement is not currently effective registering the shares issuable under the equity line of credit. In the past, the Company has relied heavily upon sales of its common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to the Company in the future.

The Company will continue to seek funding to meet its working capital requirements through collaborative arrangements and strategic alliances, additional public offerings and private placements of its securities, and bank borrowings. The Company is uncertain whether or not the combination of existing working capital, benefits from sales of its products and the private equity line of credit will be sufficient to assure continued operations through December 31, 2003. As of September 30, 2003, the Company had accounts payable of $596,000, a significant portion of which is over 90 days past due. The Company has contacted many of the vendors or companies that have significant amounts of payables past due in an effort to delay payment, renegotiate a reduced settlement payment, or establish a longer-term payment plan. While some companies have been willing to renegotiate the outstanding amounts, others have demanded payment in full. Under certain conditions, including but not limited to judgments rendered against the Company in a court of law, a group of creditors could force the Company into bankruptcy due to its inability to pay the liabilities arising out of such judgments at that time. In addition to the accounts payable noted above, the Company has noncancellable capital lease obligations and operating lease obligations that require the payment of approximately $103,000 in 2003, $51,000 in 2004, $38,000 in 2005, and $14,000 in 2006.

The Company has taken numerous steps to reduce costs and increase operating efficiencies. These steps consist of the following:

1. The Company closed its San Diego facility. In so doing, numerous manufacturing, accounting and management responsibilities were consolidated. In addition, such closure resulted in significant headcount reductions as well as savings in rent and other overhead costs.

2. The Company has significantly reduced the use of consultants, which has resulted in a large decrease to these expenses.

3. The Company has reduced its direct sales force to five representatives, which has resulted in less payroll, travel and other selling expenses.

Because the Company has significantly fewer sales representatives, its ability to generate sales has been reduced.

At September 30, 2003, the Company had net operating loss carryforwards of approximately $40,000,000 and research and development tax credit carry-forwards of approximately $78,000. These loss carryforwards are available to offset future taxable income, if any, and have begun to expire in 2001 and extend for twenty years. The Company's ability to use net operating loss carryforwards to offset future income is dependant upon certain limitations as a result of the pooling transaction with Vismed and the tax laws in effect at the time of the loss carryforwards can be utilized. The Tax Reform Act of 1986 significantly limits the annual amount that can be utilized for certain of these loss carryforwards as a result of change of ownership.

As of September 30, 2003, the Company had raised approximately $1,584,000 through a $20,000,000 equity line of credit under an investment banking arrangement. As of September 30, 2003, approximately $18,416,000 was available under the equity line of credit. However, the equity line of credit expired by its terms on December 8, 2003, but the Company is currently in the process of renewing the agreement. Moreover, the equity line of credit is currently unavailable as a source of equity because there is currently no registration statement that is effective registering the shares of its common stock that may be sold under the equity line of credit. In the past, the Company has relied heavily upon sales of its common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to the Company in the future. The Company will continue to seek funding to meet its working capital requirements through collaborative arrangements and strategic alliances, additional public offerings and/or private placements of its securities or bank borrowings. The Company is uncertain whether or not the combination of existing working capital, benefits from sales of its products and the private equity line of credit will be sufficient to assure its operations through December 31, 2003.

The Company has taken measures to reduce the amount of uncollectible accounts receivable such as more thorough and stringent credit approval, improved training and instruction by sales personnel, and frequent direct communication with the customer subsequent to delivery of the system. The allowance for doubtful accounts was 27% of total outstanding receivables as of December 31, 2002 and 38% as of September 30, 2003. Much of the increase in the allowance relates to the Company's outstanding receivable balance pertaining to its international dealers. The downturn in the economy worldwide has resulted in increased difficulty in collecting certain accounts. Certain international dealers have some aged unpaid invoices that have not been resolved. The Company has addressed its credit procedures and collection efforts and have instituted changes that require more payments at the time of sale via letters of credit and not on a credit term basis. The Company intends to continue its efforts to reduce the allowance as a percentage of accounts receivable. While the allowance as a percentage of accounts receivable has grown, it is mainly a result of the significant decline in sales. The total amount of the allowance has increased from $347,000 at December 31, 2002, to $429,000 at September 30, 2003. The majority of the receivables included in the allowance for doubtful accounts are a result of sales before the Company implemented the various changes to improve the collectibility of its receivables. During 2002, the Company had a net recovery of receivables previously allowed for of $23,000 and during the nine months ended September 30, 2003, the Company added a net of $83,000 to the allowance for doubtful accounts. The Company believes that by requiring a large portion of payment prior to shipment, it has greatly improved the collectibility of its receivables.

The Company carried an allowance for obsolete or estimated non-recoverable inventory of $2,508,000 at September 30, 2003, and $2,126,000 as of December 31, 2002, or approximately 57% and 45% of total inventory, respectively. This inventory reserve was increased by $382,000 in the first nine months of 2003 and $1,755,000 during 2002 mainly due to sales declines and the discontinuance of the microkeratome purchased from Innovative Optics in 2002. The Company's means of expansion and development of product has been largely from acquisition of businesses, product lines, existing inventory, and the rights to specific products. Through such acquisitions, the Company has acquired substantial inventory, some of which the eventual use and recoverability was uncertain. In addition, the Company has a significant amount of inventory relating to the Photon(TM) laser system, which does not yet have FDA approval in order to sell the product domestically. Therefore, the allowance for inventory was established to reserve for these potential eventualities.

On a quarterly basis, the Company attempts to identify inventory items that have shown relatively no movement or very slow movement. Generally, if an item has shown little or no movement for over a year, it is determined not to be

recoverable and a reserve is established for that item. In addition, if the Company identifies products that have become obsolete due to product upgrades or enhancements, a reserve is established for such products. The Company intends to make efforts to sell these items at significantly discounted prices. If items are sold, the cash received would be recorded as revenue, but there would be no cost of sales on such items due to the reserve that has been recorded. At the time of sale, the inventory would be reduced for the item sold and the corresponding inventory reserve would also be reduced. During the fourth quarter of 2003, the Company sold all inventory and rights associated with the Phaco SIStem(TM) and Odyssey(TM) for $125,000. Because the full amount of inventory related to the SIStem(TM) and Odyssey(TM) had been fully reserved, no cost of sales were recorded in connection with this sale, thus resulting in gross profit equal to the sales price of $125,000. The Company does not expect the sales of these items, if any, to be significant in the future.

At this time, the Company's Photon(TM) Laser Ocular Surgery Workstation requires additional development and regulatory approvals. Any possible future efforts to complete development of the Photon(TM) and obtain the necessary regulatory approvals would depend on its economic evaluations and adequate funding. If these efforts were undertaken but proved to be unsuccessful, the impact would include the costs associated with these efforts and the anticipated future revenues that the Company would not receive as expected. The Company is unable to provide a detailed estimate of possible liquidity needs and expected sources of funds for possible future efforts to complete development of the Photon(TM) and obtain the necessary regulatory approvals since this estimate would depend on a comprehensive economic evaluation.

Effect of Inflation and Foreign Currency Exchange

The Company has not realized a reduction in the selling price of its products as a result of domestic inflation. Nor has the Company experienced unfavorable profit reductions due to currency exchange fluctuations or inflation with its foreign customers. All sales transactions to date have been denominated in U.S. Dollars.

Impact of New Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Statement of Financial Accounting Standards 149 provides for certain changes in the accounting treatment of derivative contracts. Statement of Financial Accounting Standards No. 149 is effective for contracts entered into or modified after June 30, 2003, except for certain provisions that relate to SFAS No. 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, which should continue to be applied in accordance with their respective effective dates. The guidance should be applied prospectively. The Company anticipates that the adoption of Statement of Financial Accounting Standards No. 149 will not have a material impact on its consolidated financial statements.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This new statement changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. It requires that those instruments be classified as liabilities in balance sheets. Most of the guidance in Statement of Financial Accounting Standards 150 is effective for all financial instruments entered into or modified after May 31, 2003. The Company anticipates that the adoption of Statement of Financial Accounting Standards 150 will not have a material impact on its consolidated financial statements.

The Emerging Issues Task Force issued EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables" addressing the allocation of revenue among products and services in bundled sales arrangements. EITF 00-21 is effective for arrangements entered into in fiscal periods after June 15, 2003. The Company does not expect the adoption of EITF 00-21 to have a material impact on its financial position or future operations.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement requires the classification of gains or losses from the extinguishments of debt to meet the criteria of Accounting Principles Board Opinion No. 30 before they can be classified as extraordinary in the income statement. As a result, companies that use debt extinguishment as part of their risk management cannot classify the gain or loss from that extinguishment as

extraordinary. The statement also requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The Company does not expect the adoption of Statement No. 145 to have a material impact on its financial position or future operations.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This standard, which is effective for exit or disposal activities initiated after December 31, 2002, provides new guidance on the recognition, measurement and reporting of costs associated with these activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date the company commits to an exit or disposal plan. The Company does not expect the adoption of Statement of Financial Accounting Standards No. 146 to have a material impact on its financial position or future operations.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of Financial Accounting Standards Board Statement No. 123," which is effective for all fiscal years ending after December 15, 2002. Statement No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock- based employee compensation under Statement No. 123 from the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25. Statement 148 also changes the disclosure requirements of Statement No 123, requiring a more prominent disclosure of the pro-forma effect of the fair value based method of accounting for stock- based compensation. The Company does not expect the adoption of Statement No. 148 to have a material impact on its financial position or future operations.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, Consolidation of Variable Interest Ethics, which addresses consolidation by business enterprises of variable interest entities. Interpretation No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not expect to identify any variable interest entities that must be consolidated. In the event a variable interest entity is identified, the Company does not expect the requirements of Interpretation No. 46 to have a material impact on its financial condition or future operations.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Interpretation No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in Financial Accounting Standard Board Statement No. 5, Accounting for Contingencies. Interpretation No. 45 also requires the Company to make significant new disclosures about guarantees. The disclosure requirements of Interpretation No. 45 are effective for the Company in the first quarter of fiscal year 2003. Interpretation No. 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's previous accounting for guarantees issued prior to the date of the initial application of Interpretation No. 45 will not be revised or restated to reflect the provisions of Interpretation No. 45. The Company do not expect the adoption of Interpretation No. 45 to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Item 3 Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Based on their evaluations as of September 30, 2003, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

(b) Changes in internal controls

There were no significant changes in the Company's internal controls over financial reporting or in other factors that occurred during the quarter ended September 30, 2003 that materially affected or is reasonably likely to affect its internal controls over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

An action was brought against the Company in March 2000 by George Wiseman, a former employee, in the Third District Court of Salt Lake County, State of Utah. The complaint alleges that the Company owes Mr. Wiseman 6,370 shares of its common stock plus costs, attorney's fees and a wage penalty (equal to 1,960 additional shares of its common stock) pursuant to Utah law. The action is based upon an extension of a written employment agreement. The Company disputes the amount allegedly owed and intends to vigorously defend against the action.

An action was brought against the Company on March 7, 2000 in the Third District Court of Salt Lake County, State of Utah, by the Merrill Corporation that alleges that the Company owes the Merrill Corporation approximately $20,000 together with interest thereon at the rate of 10% per annum from August 30, 1999, plus costs and attorney's fees. The complaint alleges a breach of contract relative to printing services. The Company filed an answer to the complaint. On August 12, 2003, the court dismissed the action without prejudice.

An action was brought against the Company on September 11, 2000 by PhotoMed International, Inc. and Daniel M. Eichenbaum, M.D. in the Third District Court of Salt Lake County, State of Utah. The action involves an amount of royalties that are allegedly due and owing to PhotoMed International, Inc. and Dr. Eichenbaum under a license agreement dated July 7, 1993, with respect to the sale of certain equipment, plus costs and attorneys' fees. Discovery has taken place and the Company has paid royalties of $14,736 to bring all payments up to date through June 30, 2001. The Company has been working with PhotoMed and Dr. Eichenbaum to ensure that the calculations have been correctly made on the royalties paid as well as the proper method of calculation for the future.

It is anticipated that once the parties can agree on the correct calculations on the royalties, the legal action will be dismissed. The issue in dispute concerning the method of calculating royalties is whether royalties should be paid on returned equipment. Since July 1, 2001, only one Photon(TM) laser system has been sold and no systems returned. Thus, the amount of royalties due, according to the Company's calculations, is $600. The Company intends to make payment of this amount to PhotoMed and Dr. Eichenbaum and, as a result, to have the legal action dismissed. However, if the parties are unable to agree on a method for calculating royalties, there is a risk that PhotoMed and Dr. Eichenbaum might amend their complaint to request termination of the license agreement and, if successful, the Company would lose its right to manufacture and sell the Photon(TM) laser system.

The Company received a demand letter dated December 9, 2002 from counsel for Dan Blacklock, dba Danlin Corp. The letter demands payment in the amount of $65,160 for manufacturing and supplying parts for microkeratome blades. The Company records show that it received approximately $34,824 in parts from the Danlin Corp., but that the additional amounts that the Danlin Corp contends are owed were from parts that were received but rejected by the Company because they had never been ordered. On August 14, 2003, the Company agreed to make a $13,650 payment to Danlin Corp. in settlement of the dispute. The Company has since made the $13,650 payment to Danlin Corp.

The Company received a demand letter dated December 30, 2002 from counsel for Thomas F. Motter, its former Chairman and Chief Executive Officer. Mr. Motter claims in the letter that he was entitled to certain stock options that had not been issued to him in a timely manner. By the time the options were actually issued to him, however, they had expired. Mr. Motter contends that if the options had been issued in a timely manner, he would have exercised them in a manner that would have given him a substantial benefit. Mr. Motter requests restitution for the loss of the financial opportunity. Mr. Motter also claims that he was defrauded by the Company by not being given an extended employment agreement when he terminated the change of control agreement that he had entered into with the Company.

Mr. Motter is further claiming payment for accrued vacation time during the 13 years he had been employed by the Company, asserting that he only had a total of four weeks of vacation during that period. Finally, Mr. Motter is threatening a shareholder derivative action against the Company because of the board of directors' alleged failure to conduct an investigation into conversations that took place in a chat room on Yahoo. Mr. Motter asserts that certain individuals participating in the conversations were the Company's officers or directors whose interests were in conflict with the interest of the shareholders. The Company believes that Mr. Motter's claims and assertions are without merit and intend to vigorously defend against any legal action that Mr. Motter may bring.

On January 24, 2003, an action was brought by Dr. John Charles Casebeer against the Company in the Montana Second Judicial District Court, Silver Bow County, State of Montana (Civil No. DU-0326). The complaint alleges that Dr. Casebeer entered into a personal services contract with the Company memorialized by a letter dated April 20, 2002, with it being alleged that Dr. Casebeer fully performed his obligations. Dr. Casebeer asserts that he is entitled to $43,750 per quarter for consultant time and as an incentive to be granted each quarter $5,000 in options issued at the fair market value. An additional purported incentive was $50,000 in shares of stock being issued at the time a formalized contract was to be signed by the parties. In the letter it is provided that at its election, the Company may pay the consideration in the form of stock or cash and that stock would be issued within 30 days of the close of the quarter. Prior to the litigation, the Company issued 43,684 shares to Dr. Casebeer. The referenced letter provides that termination may be made by either party upon giving 90 days written notice. Notice was given by us in early November 2002. The Company recently filed its answer in defense of the action. Issues include whether or not Dr. Casebeer fully performed as asserted. The case has been settled through the issuance of 300,000 additional shares of the Company's common stock to Dr. Casebeer.

On May 14, 2003, a complaint was filed in the United States District Court, District of Utah, captioned Richard Meyer, individually and on behalf of all others similarly suited v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00448TC. The complaint also indicates that it is a "Class Action Complaint for Violations of Federal Securities Law and Plaintiffs Demand a Trial by Jury." The Company has retained legal counsel to review the complaint, which appears to be focused on alleged false and misleading statements pertaining to the Blood Flow Analyzer(TM) and concerning a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation.

More specifically, the complaint alleges that the Company falsely stated in its Securities and Exchange Commission filings and press releases that the Company had received authorization to use an insurance reimbursement CPT code from the CPT Code Research and Development Division of the American Medical

Association in connection with the Blood Flow Analyzer(TM), adding that the CPT code provides for a reimbursement to doctors of $57.00 per patient for use of the Blood Flow Analyzer(TM). The complaint also alleges that on July 11, 2002, the Company issued a press release falsely announcing that the Company had received a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation for 200 sets of the Company's entire portfolio of products, with $70 million in systems to be delivered over a two-year period, then another $35 million of orders to be completed in the third year. As a result of these statements, the complaint contends that the price of the Company's shares of common stock was artificially inflated during the period from April 25, 2001 through May 14, 2003, and the persons who purchased the Company's common shares during that period suffered substantial damages. The complaint requests judgment for unspecified damages, together with interest and attorney's fees.

The Company disputes having issued false and misleading statements concerning the Blood Flow Analyzer(TM) and a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation. On April 25, 2001, the Company issued a press release that stated the Company had received

authorization to use common procedure terminology or CPT code number 92120 for its Blood Flow Analyzer(TM). This press release was based on a letter the Company received from the CPT Editorial Research and Development Department of the American Medical Association authorizing use of common procedure terminology or CPT code number 92120 for its Blood Flow Analyzer(TM), for reimbursement purposes for doctors using the device.

Currently, there is reimbursement by insurance payors to doctors using the Blood Flow Analyzer(TM) in 22 states and partial reimbursement in four other states. The amount of reimbursement to doctors using the Blood Flow Analyzer(TM) generally ranges from $56.00 to $76.00 per patient, depending upon the insurance payor. Insurance payors providing reimbursement for the Blood Flow Analyzer(TM) have the discretion to increase or reduce the amount of reimbursement. The Company is endeavoring to obtain reimbursement by insurance payors in other states where there is currently no reimbursement being made. The Company believes it has continued to correctly represent in its Securities and Exchange Commission filings that the Company has received authorization from the CPT Editorial Research and Development Department of the American Medical Association to use CPT code number 92120 for its Blood Flow Analyzer(TM), for reimbursement purposes for doctors using the device.

On July 11, 2002, the Company issued a press release that stated it received a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation for 200 complete sets of the Company's entire product portfolio of diagnostic and surgical equipment for Mexican ophthalmic practitioners, to be followed by a second order of 100 sets of equipment. The press release was based on a purchase order dated July 10, 2002 that the Company entered into with Westland Financial Corporation for the sale of 200 complete sets of the Company's surgical and diagnostic equipment to Mexican ophthalmic practitioners. The press release also stated that the initial order was for $70 million of the Company's equipment to be filled over a two-year period followed by the second order of $35 million in equipment to be completed in the third year. The press release further stated that delivery would be made in traunches of 25 complete sets of the Company's equipment, beginning in 30 days from the date of the purchase order.

On September 13, 2002, the board of directors issued a press release updating the status of its product sales to the Mexican ophthalmic practitioners. In that press release the board stated that the Company had been in discussions for the prior nine months with Westland Financial Corporation, aimed at supplying the Company's medical device products to the Mexican market. In the past, the Company has had a business relationship with Westland Financial. Upon investigation, the board of directors determined that the purchase order referenced in the July 11, 2002 press release was not of such a nature as to be enforceable for the purpose of sales or revenue recognition. In addition, the Company had not sent any shipment of medical products to Mexican ophthalmic practitioners nor received payment for those products pursuant to those discussions. The September 13, 2002 press release also stated that discussions were continuing with Westland Financial Corporation regarding sales and marketing activities for the Company's medical device products in Mexico, but the Company could not, at the time, predict or provide any assurance that any transactions would result.

On June 2, 2003, a complaint was filed in the United States District Court captioned Michael Marrone v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00513 PGC. On or about June 11, 2003, a complaint was filed in the same United States District Court captioned Milian v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00617PGC. Both complaints seek class action status. These cases are substantially similar in nature to the Meyer case, including the contention that as a result of allegedly false statements regarding the Blood Flow Analyzer(TM) and the purchase order from Valdespino Associates Enterprises and Westland Financial Corporation, the price of the Company's common stock was artificially inflated and the persons who purchased its common shares during the class period suffered substantial damages. The cases request judgment for unspecified damages, together with interest and attorney's fees. These cases have now been consolidated with the Meyer case into a single action. The Company believes the consolidated cases are without merit and intend to vigorously defend and protect its interests in the said cases.

The Company was issued a Directors and Officers Liability and Company Reimbursement Policy by United States Fire Insurance Company for the period from July 10, 2002 to July 10, 2003 that contains a $5,000,000 limit of liability, which is excess of a $250,000 retention. The officers and directors named in the

consolidated cases have requested coverage under the policy. U.S. Fire is currently investigating whether it may have a right to deny coverage for the consolidated cases based upon policy terms, conditions and exclusions or to rescind the policy based upon misrepresentations contained in the Company's application for insurance.

The Company has not paid any amounts toward satisfaction of any part of the $250,000 retention that is applicable to the consolidated cases. The Company has advised U.S. Fire that it cannot pay the $250,000 retention due to its current financial circumstances. As a consequence, on January 8, 2004, the Company entered into a non-waiver agreement with U.S. Fire in which U.S. Fire agreed to fund and advance its retention obligation in consideration for which the Company has agreed to reimburse U.S. Fire the sum of $5,000 a month, for a period of six months, with the first of such payments due on February 15, 2004. Thereafter, commencing on August 15, 2004, the Company is currently required to reimburse U.S. Fire the sum of $10,000 per month until the entire amount of $250,000 has been reimbursed to U.S. Fire.

In the event U.S. Fire determines that the Company or the former officers and directors named in the consolidated cases are not entitled to coverage under the policy, or that it is entitled to rescind the policy, or should the Company be declared in default under the non-waiver agreement, then the Company agree to pay U.S. Fire, on demand, the full amount of all costs advanced by U.S. Fire, except for those amounts that it may have reimbursed to U.S. Fire pursuant to the monthly payments due under the non-waiver agreement.

The Company will be in default under the non-waiver agreement if it fails to make any payment due to U.S. Fire thereunder when such payment is due, or institute proceedings to be adjudicated as bankrupt or insolvent. U.S. Fire's obligation to advance defense costs under the agreement will terminate in the event that the $5,000,000 policy limit of liability is exhausted. If U.S. Fire denies coverage for the consolidated cases under the policy and the Company is not successful in defending and protecting its interests in the cases, resulting in a judgment against the Company for substantial damages, the Company would not be able to pay such liability and, as a result, would be forced to seek bankruptcy protection.

On July 10, 2003, an action was filed in the United States District Court, District of Utah, by Innovative Optics, Inc. and Barton Dietrich Investments, L.P. Defendants include the Company, Thomas Motter, Mark Miehle and John Hemmer, former officers of the company. The complaint claims that Innovative and Barton entered into an asset purchase agreement with the Company on January 31, 2002, in which the Company agreed to purchase all the assets of Innovative in consideration for the issuance of 1,310,000 shares of the Company's common stock to Innovative. The complaint claims the Company breached the asset purchase agreement. The complaint also claims that the Company allegedly made false and misleading statements pertaining to the Blood Flow Analyzer(TM) and concerning a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation. The purpose of these statements, according to the complaint, was to induce Innovative to sell its assets and purchase the shares of the Company's common stock at artificially inflated prices while simultaneously deceiving Innovative and Barton into believing that the Company's shares were worth more than they actually were. The complaint contends that had Innovative and Barton known the truth they would not have sold Innovative to the Company, would not have purchased the Company's stock for the assets of Innovative, or would not have purchased the stock at the inflated prices that were paid. The complaint further contends that as a result of the allegedly false statements, Innovative and Barton suffered substantial damages in an amount to be proven at trial.

The complaint also claims that 491,250 of the shares to be issued to Innovative in the asset purchase transaction were not issued on a timely basis and the Company also did not file a registration statement with the Securities and Exchange Commission within five months of the closing date of the asset purchase transaction. As a result, the complaint alleges that the value of the shares of the Company's common stock issued to Innovative in the transaction declined, and Innovative and Barton suffered damages in an amount to be proven at trial. The Company filed an answer to the complaint and also filed counterclaims against Innovative and Barton for breach of contract. The Company believes the complaint is without merit and intend to vigorously defend and protect its interests in the action. If the Company is not successful in defending and protecting its interests in this action, resulting in a judgment against the Company for substantial damages, and U.S. Fire denies coverage in the litigation under the Directors and Officers Liability and Company Reimbursement Policy, the Company would not be able to pay such liability and, as a result, would be forced to seek bankruptcy protection.

On October 14, 2003, an action was filed in the Third Judicial District Court, Salt Lake County, State of Utah, captioned Albert Kinzinger, Jr., individually and on behalf of all others similarly situated vs. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle, Randall A. Mackey, and John

Hemmer, Case No. 030922608. The complaint also indicates that it is a "Class Action Complaint for Violations of Utah Securities Laws and Plaintiffs Demand a Trial by Jury." The Company has retained legal counsel to review the complaint, which appears to be focused on alleged false or misleading statements pertaining to the Blood Flow Analyzer(TM). More specifically, the complaint alleges that the Company falsely stated in Securities and Exchange Commission filings and press releases that the Company had received authorization to use an insurance reimbursement CPT code from the CPT Code Research and Development Division of the American Medical Association in connection with the Blood Flow Analyzer(TM), adding that the CPT code provides for a reimbursement to doctors of $57.00 per patient for the Blood Flow Analyzer(TM).

The purpose of these statements, according to the complaint, was to induce investors to purchase shares of the Company's Series E preferred stock in a private placement transaction at artificially inflated prices. The complaint contends that as a result of these statements, the investors that purchased shares of the Company's Series E preferred stock in the private offering suffered substantial damages to be proven at trial. The complaint also alleges that the Company sold Series E preferred shares without registering the sale of such shares or obtaining an exemption from registration. The complaint requests rescission, compensatory damages and treble damages, including interest and attorneys' fees. The Company filed an answer to the complaint. The Company believes the complaint is without merit and intends to vigorously defend its interests in the action. If the Company is not successful in defending and protecting its interests in the action, resulting in a judgment against the Company for substantial damages, and U.S. Fire denies coverage in the litigation under the Directors and Officers Liability and Company Reimbursement Policy, the Company would not be able to pay such liability and, as a result, would be forced to seek bankruptcy protection.

An action was filed on June 20, 2003, in the Third Judicial District Court, Salt Lake County, State of Utah (Civil No. 030914195) by CitiCorp Vendor Finance, Inc., formerly known as Copelco Capital, Inc. The complaint claims that $49,626 plus interest is due for the leasing of two copy machines that were delivered to the Company's Salt Lake City facilities on or about April of 2000. The action also seeks an award of attorney's fees and costs incurred in the collection. The Company disputes the amounts allegedly owed, asserting that the equipment it returned to the leasing company did not work properly. A responsive pleading has not yet been filed. The Company is currently engaged in settlement discussions with CitiCorp.

An action was filed in June, 2003 in the Third Judicial District Court, Salt Lake County, State of Utah (Civil No. 030914719) by Franklin Funding, Inc. in which it alleges that the Company had entered into a lease agreement for the lease of certain equipment for which payment is due. It is claimed that there is due and owing approximately $89,988 after accruing late fees, interest, repossession costs, collection costs and attorneys' fees. On August 28, 2003, the Company agreed to a settlement of the case with Franklin Funding by agreeing to make 24 monthly payments of $2,300 to Franklin Funding, with the first monthly payment due on August 29, 2003.

The Company received demand letters dated July 18, 2003, September 26, 2003 and November 10, 2003 from counsel for Douglas A. MacLeod, M.D., a shareholder of the company. In the July 18, 2003 letter, Dr. MacLeod demands that he and certain entities with which he is involved or controls, namely the Douglas A. MacLeod, M.D. Profit Sharing Trust, St. Marks' Eye Institute and Milan Holdings, Ltd., be issued a total of 2,296,667 shares of the Company's common stock and warrants to purchase 1,192,500 shares of its common stock at an exercise price of $.25 per share. Dr. MacLeod claims that these common shares and warrants are owing to him and the related entities under the terms of a mutual release dated January 16, 2003, which he and the related entities entered into with the Company. Dr. MacLeod renewed his request for these additional common shares and warrants in the September 26, 2003 and November 10, 2003 demand letters. The Company believes that Dr. MacLeod's claims and assertions are without merit and that neither he nor the related entities are entitled to any additional shares of its common stock or any additional warrants under the terms of the mutual release. The Company intends to vigorously defend against any legal action that Dr. MacLeod may bring.

On August 3, 2003, a complaint was filed against the Company by Corinne Powell, a former employee, in the Third Judicial District Court, Salt Lake County, State of Utah (Civil No. 030918364). Defendants consist of the Company and Randall A. Mackey, Dr. David M. Silver and Keith D. Ignotz, directors of the company. The complaint alleges that at the time the Company laid off Ms. Powell on March 25, 2003, she was owed $2,030 for business expenses, $11,063 for accrued vacation days, $12,818 for unpaid commissions, the fair market value of 50,000 stock options exercisable at $5.00 per share that she claims she was prevented from exercising, attorney's fees and a continuing wage penalty under Utah law. The Company disputes the amounts allegedly owed and intends to vigorously defend and protect its interests in the action.

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On September 10, 2003, an action was filed against the Company by Larry Hicks in the Third Judicial District Court, Salt Lake County, State of Utah, (Civil No. 030922220), for payments due under a consulting agreement with the Company. The complaint claims that monthly payments of $3,083 are due for the months of October 2002 to October 2003 under a consulting agreement and, if the agreement is terminated, for the sum of $110,000 minus whatever the Company has paid Mr. Hicks prior to such termination, plus costs, attorney's fees and a wage penalty pursuant to Utah law. The Company disputes the amount allegedly owed and intends to vigorously defend against such action.

The Company is not a party to any other material legal proceedings outside the ordinary course of its business or to any other legal proceedings which, if adversely determined, would have a material adverse effect on the Company's financial condition or results of operations.

The Company is not a party to any other material legal proceedings outside the ordinary course of its business or to any other legal proceedings which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

Item 2. Changes in Securities

During the period from August 24, 2003 to September 15, 2003, the Company sold a total of 1,981,560 shares of Series G convertible preferred stock to two accredited investors, as defined in Section 2(15) of the Securities Act of 1933 and Rule 501 of Regulation D thereunder, through a private placement under Regulation D promulgated under the Securities Act of 1933 at a price of $.17 per share. The Company received $300,000 in cash as a result of the private placement transaction and paid $30,000 in commissions and expenses. In addition, the Company issued warrants to purchase 88,236 shares of common stock at an exercise price of $.50 per share for commissions and expenses. The Series G convertible preferred stock is convertible into shares of common stock at a conversion price equal to $.17 per share of common stock. The accredited investors also received warrants to purchase a total of 382,353 shares of common stock at an exercise price of $.50 per share. These shares were issued without registration in reliance upon Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder.

Item 3. Defaults Upon Senior Securities

None

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-B or are incorporated by reference to previous filings.

Exhibit No.	Document Description
2.1	Amended Agreement and Plan of Merger between Paradigm Medical Industries, Inc., a California corporation and Paradigm Medical Industries, Inc., a Delaware corporation(1)
3.1	Certificate of Incorporation(1)
3.2	Amended Certificate of Incorporation(10)
3.3	Bylaws(1)
4.1	Warrant Agency Agreement with Continental Stock Transfer & Trust Company(3)
4.2	Specimen Common Stock Certificate (2)
4.3	Specimen Class A Warrant Certificate(2)
4.4	Form of Class A Warrant Agreement(2)
4.5	Underwriter's Warrant with Kenneth Jerome & Co., Inc.(3)
4.6	Warrant to Purchase Common Stock with Note Holders re bridge financing (1)
4.7	Specimen Series C Convertible Preferred Stock Certificate(4)
4.8	Certificate of the Designations, Powers, Preferences and Rights of the Series C Convertible Preferred Stock(4)
4.9	Specimen Series D Convertible Preferred Stock Certificate (5)
4.10	Certificate of the Designations, Powers, Preferences and Rights of the Series D Convertible Preferred Stock (6)
4.11	Warrant to Purchase Common Stock with Cyndel & Co. (5)
4.12	Warrant Agreement with KSH Investment Group, Inc. (5)
4.13	Warrant to Purchase Common Stock with R.F. Lafferty & Co., Inc. (5)
4.14	Warrant to Purchase Common Stock with Dr. Michael B. Limberg (6)
4.15	Warrant to Purchase Common Stock with John W. Hemmer (6)
4.16	Stock Purchase Warrant with Triton West Group, Inc.(8)
4.17	Warrant to Purchase Common Stock with KSH Investment Group, Inc.(8)
4.18	Warrant to Purchase Common Stock with Consulting for Strategic Growth, Ltd.(8)
4.19	Certificate of Designations, Powers, Preferences and Rights of the Series G Convertible Preferred Stock
5.1	Opinion of Mackey Price & Thompson
10.1	Exclusive Patent License Agreement with PhotoMed(1)
10.2	Consulting Agreement with Dr. Daniel M. Eichenbaum(1)
10.3	1995 Stock Option Plan (1)
10.4	Stock Purchase Agreement with Ocular Blood Flow, Ltd. and Malcolm

	Redman (6)
10.5	Consulting Agreement with Malcolm Redman (6)
10.6	Royalty Agreement with Malcolm Redman (6)
10.7	Registration Rights with Malcolm Redman (6)
10.8	Agreements with Steven J. Bayern and Patrick M. Kolenik (7)
10.9	Private Equity Line of Credit Agreement with Triton West Group, Inc. (8)
10.10	Asset Purchase Agreement with Innovative Optics, Inc. and Barton Dietrich Investments, L.P.(9)
10.11	Escrow Agreement with Innovative Optics, Inc., Barton Dietrich Investments, L.P. (9)
10.12	Assignment and Assumption Agreement with Innovative Optics, Inc.(9)
10.13	General Assignment and Bill of Sale with Innovative Optics, Inc.(9)
10.14	Non-Competition and Confidentiality Agreement with Mario F. Barton(9)
10.15	Termination of Employment Agreement with Mark R. Miehle(11)
10.16	Consulting Agreement with Mark R. Miehle(11)
10.17	Employment Agreement with Jeffrey F. Poore (12)
31.1	Certification pursuant to18 U.S.C. Section 1350 as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to18 U.S.C. Section 1350 as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

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(1)	Incorporated by reference from Registration Statement on Form SB-2, as filed on March 19, 1996.
(2)	Incorporated by reference from Amendment No. 1 to Registration Statement on Form SB-2, as filed on May 14, 1996.
(3)	Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on June 13, 1996.
(4)	Incorporated by reference from Annual Report on Form 10-KSB, as filed on April 16, 1998.
(5)	Incorporated by reference from Registration Statement on Form SB-2, as filed on April 29, 1999.
(6)	Incorporated by reference from Report on Form 10-QSB, as filed on August 16, 2000.
(7)	Incorporated by reference from Report on Form 10-QSB, as filed on November 1, 2000.
(8)	Incorporated by reference from Report on Form 10-QSB, as filed on March 15, 2001.
(9)	Incorporated by reference from Current Report on Form 8-K, as filed on March 5, 2002.
(10)	Incorporated by reference from Amendment No. 1 to Registration Statement on Form S-3, as filed on March 20, 2002.
(11)	Incorporated by reference from Report on Form 10-QSB, as filed on November 18, 2002.
(12)	Incorporated by reference from Registration Statement on Form SB-2, as filed on July 7, 2003.

(b) Reports on Form 8-K

No reports were filed by the Company during the quarter ended September 30, 2003.

SIGNATURES

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

PARADIGM MEDICAL INDUSTRIES, INC.

March 11, 2004

/s/ Jeffrey F. Poore

Jeffrey F. Poore
President and Chief Executive Officer

March 11, 2004

/s/ Luis A. Mostacero

Luis A. Mostacero, Controller