PARADIGM MEDICAL INDUSTRIES, INC.
ANNUAL REPORT
December 31, 2011

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PART A

GENERAL COMPANY INFORMATION

ITEM I. *NAME OF ISSUER*

Paradigm Medical Industries, Inc.

ITEM II. *ADDRESS OF ISSUER'S PRINCIPAL EXECUTIVE OFFICES*

4273 South 590 West
Salt Lake City, Utah 84123
Phone: (801) 977-8970
Fax: (801) 977-8973
Website: www.Paradigm-Medical.com

ITEM III. *JURISDICTION AND DATE OF THE ISSUER'S INCORPORATION*

State of Delaware, October 23, 1995

PART B

SHARE STRUCTURE

ITEM IV. *EXACT TITLE AND CLASS OF SECURITIES OUTSTANDING*

A. Common Stock - The Company is authorized to issue 20,000,000,000 shares of Common Stock. As of December 31, 2011, 3,248,785,287 shares of the Company's Common Stock were outstanding.

B. Preferred Stock - The Company is authorized to issue 5,000,000 shares of Preferred Stock. As of December 31, 2010, the following preferred shares were authorized and outstanding: Series A Preferred Stock (500,000 authorized, 5,627 outstanding); Series B Preferred Stock (500,000 authorized, 8,986 outstanding); Series C Preferred Stock (30,000 authorized, 0 outstanding); Series D Preferred Stock (1,140,000 authorized, 5,000 outstanding); Series E Preferred Stock (50,000 authorized, 250 outstanding); Series F Preferred Stock (50,000 authorized, 4,399 outstanding) and Series G Preferred Stock (2,000,000 authorized, 588,235 outstanding).

ITEM V. *PAR OR STATED VALUE AND DESCRIPTION OF SECURITIES*

A. Common Stock - The Company is authorized to issue 20,000,000,000 shares of Common Stock, $.0001 par value. The Company's Common Stock is traded through the Pink Sheets Electronic Quotation Service under the symbol "PDMI" (Cusip 69900Q 18 1). Prior to July 22, 1996, there was no public market for the common stock. From July 22, 1996 to June 25, 2003, the Company's common stock was listed on the Nasdaq SmallCap Market. From June 25, 2003 to August 11, 2009, the common stock has traded on the OTC Bulletin Board. Since August 12, 2009, the common stock has traded on the Pink Sheets Electronic Quotation Service. As of December 31, 2011, the closing sale price of the common stock was $.0001 per share. The following are the high and low sale prices for the common stock by quarter as reported by the OTC Bulletin Board from January 1, 2009 to August 11, 2009, and by the Pink Sheets Electronic Quotation Service from August 12, 2009 to December 31, 2011.

	Period (Calendar Year)	Common Stock Price Range High	Low
2009			
	First Quarter	$ .0015	$ .0015
	Second Quarter	.0064	.001
	Third Quarter	.002	.001
	Fourth Quarter	.0067	.0011
2010	First Quarter	$ .002	$ .0012
	Second Quarter	.0012	.0002
	Third Quarter.	.0003	.0001
	Fourth Quarter.	.0001	.0001
2011	First Quarter.	$.0001	$ .0001
	Second Quarter	.0001	.0001
	Third Quarter.	.0001	.0001
	Fourth Quarter.	.0001	.0001

B. Preferred Stock - The Company is authorized to issue 5,000,000 shares of Preferred Stock, $.001 par value. The Company has created seven classes of preferred stock, designated as Series A, Series B, Series C, Series D, Series E, Series F and Series G Preferred Stock. The preferred shares are non-voting. The preferred shares also have preferred liquidation rights. Holders of preferred shares have the right to convert their shares into shares of the Company's common stock. In the event the Company increases the number of outstanding shares of Common Stock (by stock split, reclassification or otherwise) or decreases the number of outstanding shares of Common Stock (by stock split, reclassification or otherwise), the conversion ratio for the preferred shares will be adjusted so that the holders of the preferred shares will receive, upon conversion, the same pro rata portion of the Common Stock after such adjustment as they were initially entitled to receive.

The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends on its common stock in the foreseeable future. The Company must pay cash dividends to holders of its Series A preferred, Series B preferred, Series C preferred, Series D preferred stock, Series E preferred, Series F preferred stock and Series G preferred stock before it can pay any cash dividend to holders of its common stock. Dividends paid in cash pursuant to outstanding shares of its Series A, Series B, Series C, Series D, Series E, Series F and Series G preferred stock are only payable from its surplus earnings, and are non-cumulative and therefore, no deficiencies in dividend payments from one year will be carried forward to the next.

The Company currently intends to retain future earnings, if any, to fund the development and growth of its proposed business and operations. Any payment of cash dividends in the future on the common stock will be dependent upon its financial condition, results of operations, current and anticipated cash requirements, plans for expansion, restrictions, if any, under any debt obligations, as well as other factors that its board of directors deems relevant. The Company issued 6,764 shares of its Series A preferred and 6,017 shares of its Series B preferred on January 8, 1996 as a stock dividend to Series A and Series B preferred shareholders of record as of December 31, 1994.

On December 5, 2008, the Company's shareholders approved a 1-for-100 reverse stock split, which became effective on December 5, 2008. All references to share and per-share data for all periods presented in this report have been adjusted to give effect to this reverse split.

On December 18, 2009, the Company's shareholders approved amendments to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 1,400,000,000 shares to 20,000,000,000 shares and to reduce the par value of common stock from $.001 per share to $.0001 per share.

On September 17, 2010, the Company was notified by the Depository Trust and Clearing Corporation ("DTCC") that it had imposed a "chill" on the Company's common stock because of the significant number of shares that were issued through the DTCC during the period from March 1, 2010 to September 9, 2010. This has adversely affected the ability of the Company to issue new shares of its common stock by means of electronic transfers, or DWACs. On January 11, 2011, counsel for the Company submitted an opinion letter to the DTCC responding to certain issues raised by the DTCC. The Company has had discussions with the DTCC staff in an effort to have the chill removed. There can be no assurance, however, that the DTCC will remove the chill.

On November 24, 2010, the Company's Board of Directors approved a 1-for-100 reverse stock split, subject to approval of the reverse split by the Financial Industry Regulatory Authority (FINRA). FINRA approved the reverse split, effective as of February 3, 2011. References to share and per-share data for all periods presented in this report have not been adjusted to give effect to this reverse split.

ITEM VI. *THE NUMBER OF SHARES OR TOTAL AMOUNT OF SECURITIES OUTSTANDING FOR EACH CLASS OF SECURITIES AUTHORIZED*

Current information:

Common Stock, $.0001 par value, at December 31, 2011
- Number of Shares Authorized: 20,000,000,000
- Number of Shares Outstanding: 3,248,785,287
- Number of Shares Freely Tradeable: 3,248,785,287
- Shareholders of Record: 495

Preferred Stock, $.001 par value, at December 31, 2011
- Number of Shares Authorized: 5,000,000
- Series A
  - Authorized: 500,000 shares
  - Outstanding: 5,627 shares
  - Common Shares Issuable Upon Conversion of Series A Preferred Stock: 68
  - Shareholders of Record: 6
- Series B
  - Authorized: 500,000 shares
  - Outstanding: 8,986 shares
  - Common Shares Issuable Upon Conversion of Series B Preferred Stock: 108
  - Shareholders of Record: 4
- Series C
  - Authorized: 30,000 shares
  - Outstanding: 0 shares
  - Common Shares Issuable Upon Conversion of Series C Preferred Stock: 0
  - Shareholders of Record: 0
- Series D
  - Authorized: 1,140,000 shares
  - Outstanding: 5,000 shares
  - Common Shares Issuable Upon Conversion

of Series D Preferred Stock: 88
Shareholders of Record: 1

Series E
Authorized: 50,000 shares
Outstanding: 250 shares
Common Shares Issuable Upon Conversion of Series E Preferred Stock: 133
Shareholders of Record: 1

Series F
Authorized: 50,000 shares
Outstanding: 4,398.75 shares
Common Shares Issuable Upon Conversion of Series F Preferred Stock: 235
Shareholders of Record: 17

Series G
Authorized: 2,000,000 shares
Outstanding: 588,235 shares
Common Shares Issuable Upon Conversion of Series G Preferred Stock: 5,882
Shareholders of Record: 1

PART C

BUSINESS INFORMATION

ITEM VII. *NAME AND ADDRESS OF TRANSFER AGENT*

Continental Stock Transfer & Trust Company
28 Battery Place, 8th Floor
New York, New York 10004-1123

ITEM VIII. *NATURE OF ISSUER'S BUSINESS*

Overview

The Company is engaged in the design, development, manufacture and sale of high technology diagnostic eye care instruments and related products for early detection of glaucoma and other eye disorders. The Company's primary objective is to capture a niche market within the glaucoma and ultrasound microscopy fields. The Company primarily markets its products to ophthalmologists, optometrists, universities, hospitals and clinics throughout the United States and internationally.

One of the most common eye disorders is glaucoma. Glaucoma is the second leading cause of adult blindness in the world. Glaucoma is described as a partial or total loss of visual field resulting from certain progressive disease or degeneration of the retina, macula or nerve fiber bundle. The cause and mechanism of the glaucoma pathology is not completely understood. Present detection methods focus on the measurement of intra-ocular pressure in the eye, visual field and observation of the optic nerve head to determine the possibility of pressure being exerted upon the retina and optic nerve bundle, which can diminish the visual field. More recently, retinal blood circulation has been indicated as a key component in the presence of glaucoma.

According to the Glaucoma Research Foundation, over four million Americans have glaucoma but only about a half are aware they have it, and worldwide over 65 million individuals have glaucoma. If glaucoma goes untreated, it can lead to blindness. In the United States alone, over 120,000 individuals are blind from glaucoma. Glaucoma is not curable, and any vision lost cannot be regained. With early detection of glaucoma, however, medication and surgery

can be used to prevent further loss of vision. Because glaucoma is a chronic condition, an individual who has been diagnosed with glaucoma must be carefully monitored throughout over his or her life. It has been estimated that there are over seven million physician visits annually involving the monitoring of patients with glaucoma.

The diagnostic products the Company manufactures, markets and sells include the P60 UBM Ultrasound Biomicroscope, the Blood Flow Analyzer™ and two perimeters (the LD 500 and the TKS 6000). The diagnostic products that the Company markets and sells, but which are manufactured by its Italian partner, Costruzione Strumentic Oflalmici srl (CSO), include two corneal topographers (the Paravue 300 and the Surveyor 500) and the Paracam 1000.

The P60 UBM Ultrasound biomicroscope is the third generation of UBM devices, the earliest version being the P40 UBM Ultrasound Biomicroscope. In 1998, the Company acquired the P40 UBM Ultrasound Biomicroscope from Humphrey Systems, a division of Carl Zeiss. The P40 utilizes microscopic digital ultrasound resolution for the detection of tumors and improved glaucoma management. In 2000, the Company developed the P45 UBM Ultrasound Biomicroscope, a new generation of UBM devices. The P40 and P45 devices were discontinued in 2005 when the Company developed and offered for sale the P60 UBM Ultrasound Biomicroscope, which has better visual clarity and image flexibility than earlier versions. On March 1, 2005, the Company was awarded the CE Mark for the P60, which enables it to market the device in 19 Western European countries, most of the Middle East and India, and parts of Asia and the Pacific Rim. On May 26, 2005, the Company received FDA 510(k) pre-market approval for the P60, which allows it to be sold in the United States. On February 9, 2006,the Company received a Canadian device license for the P60, which allows it to be sold in Canada.

In 2000, the Company purchased Ocular Blood Flow, Ltd., the manufacturer of the Blood Flow Analyzer™. This product is designed for the measurement of intraocular pressure and pulsatile ocular blood flow volume for detection and monitoring of glaucoma. In 1997, the Company received FDA clearance to market the Blood Flow Analyzer™ for measurement of intra-ocular pressure and pulsatile ocular blood flow for the detection of glaucoma and other retina related diseases. Ocular blood flow is critical, the reduction of which may cause nerve fiber bundle death through oxygen deprivation, thus resulting in visual field loss associated with glaucoma. The Company's Blood Flow Analyzer™ is a portable automated in-office system that presents an affordable method for ocular blood flow testing for the ophthalmic and optometric practitioner. In 2001, the Company received authorization to use a common procedure terminology or CPT code from the American Medical Association for procedures performed with the Blood Flow Analyzer™, for reimbursement purposes for doctors using the device. However, in January 2012, the CPT code was eliminated by Medicare and replaced by an investigational code, which does not allow for any reimbursement by Medicare.

Also in 2000, the Company purchased Vismed Inc., which was doing business as Dicon™. The purchase included the Dicon™ perimeter product line consisting of the LD 400 and the TKS 5000, and software consisting of FieldLink™, FieldView™ and Advanced FieldView, and an ongoing service and software business. Perimeters are used to determine retinal sensitivity testing the visual pathway. In March 2011, the Company completed its new LD 500 and TKS 6000 autoperimeters. Both these new products have enhanced features, including a new software package, to enable a fast threshold test. These new products have been released as new systems, replacing the LD 400 and TKS 6000, and as upgrades for customers with existing LD 400s or TKS 6000s.

On April 15, 2009, the Company entered into a Letter of Understanding with Costruzione Strumenti Oftalmici srl, an Italian company, to distribute and sell certain products manufactured by CSO. Among the CSO products to be distributed and sold by the Company is the Paramax™, the next generation of standard ocular electrophysiology for early glaucoma diagnosis. The Paramax™ is to be sold in North America on an exclusive basis, contingent upon the Company meeting certain sales requirements, and in countries outside North America on a non-exclusive basis. The Paramax™ performs innovative tests for the early screening and follow up of pathologies such as glaucoma, age related macular degeneration, vascular retinal degeneration, and other optic nerve diseases. The Company is unable to market and sell the Paramax™ in the United States, however, until it obtains 510(k) approval by the Food and Drug Administration (FDA).

In May 2010, CSO filed a 510(k) application with the FDA for the Paramax™. By letters dated June 10, 2010 and December 20, 2010, the FDA requested additional information concerning the application. In June 28, 2011, the

FDA issued a Non Significance Equivalence (NSE) letter stating that CSO failed to adequately respond to requests to provide descriptive and validation information regarding the ability of the Paramax™ to deliver light stimuli, measure electrophysiological signals, and provide reference value information to the user. The letter contained a detailed list of remaining issues that FDA deemed still open. The FDA then added in the letter that should CSO resubmit a new 510(k) application, all those issues need to be properly addressed. CSO is currently in the process of submitting a new 510(k) application for the Paramax™ that will address the issues in the NSE letter.

Other CSO products to be sold by the Company are the Paravue 300, a corneal topographer with the unique ability to display live images on a computer monitor; the Surveyor 500, a corneal topographer with a rotating Scheimpflug camera with placido disk; and the Paracam 1000, a specular microscope for endothelial cell evaluations. The Company has the right to sell the Paravue 300 worldwide on a non-exclusive basis. The Surveyor 500 and the Paracam 1000 will only be sold outside the United States on a non-exclusive basis. The Company is also considering the possibility of collaborating with CSO on future product development opportunities.

Although not currently manufactured and sold, the Company has in the past developed, manufactured, marketed and sold ophthalmic surgical instrumentation and related accessories. The Company's surgical equipment, consisting of the Precisionist Thirty Thousand™ and the Photon™ laser system, is designed for minimally invasive cataract treatment. The Company's cataract removal system, the Photon™ laser system, is a laser cataract surgery system designed to be marketed as the next generation of cataract removal. However, because of the financial concerns of the Company, management has focused its efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow to the Company. As a result, diagnostic products are currently the Company's major focus and the sales of the Precisionist Thirty Thousand™ has been discontinued and development of the Photon™ and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. The Photon™ can be sold in markets outside of the United States. Both the Photon™ and the Precisionist Thirty Thousand™, although not currently manufactured, have been manufactured in the past as an Ocular Surgery Workstation™.

Corporate History

The Company's business originated with Paradigm Medical, Inc., a California corporation formed in 1989. Paradigm Medical, Inc. developed its present ophthalmic business. In 1993, Paradigm Medical, Inc. merged with Paradigm Medical Industries, Inc. At the time of the merger, the Company was a dormant public shell existing under the name French Bar Industries, Inc. French Bar had operated a mining and tourist business in Montana. Prior to its merger with Paradigm Medical, Inc. in 1993, French Bar had disposed of its mineral and mining assets in a settlement of outstanding debt and had returned to the status of a dormant entity. Pursuant to the merger, the Company caused a 1-for-7.96 reverse stock split of its shares of common stock. The Company then acquired all of the issued and outstanding shares of common stock of Paradigm Medical, Inc. using shares of its own common stock as consideration. As part of the merger, the Company changed its name from French Bar Industries, Inc. to Paradigm Medical Industries, Inc. and the management of Paradigm Medical, Inc. assumed control of the Company. In 1994, the Company caused a 1-for-5 reverse stock split of its shares of common stock. In 1996, the Company re-domesticated to Delaware pursuant to a reorganization.

On December 5, 2008, the Company's shareholders approved a 1-for-100 reverse stock split, which became effective on December 5, 2008. All references to share and per-share data for all periods presented in this report have been adjusted to give effect to this reverse split.

On December 18, 2009, the Company's shareholders approved amendments to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 1,400,000,000 shares to 20,000,000,000 shares and to reduce the par value of common stock from $.001 per share to $.0001 per share.

On September 17, 2010, the Company was notified by the Depository Trust and Clearing Corporation ("DTCC") that it had imposed a "chill" on the Company's common stock because of the significant number of shares

that were issued through the DTCC during the period from March 1, 2010 to September 9, 2010. This has adversely affected the ability of the Company to issue new shares of its common stock by means of electronic transfers, or DWACs. On January 11, 2011, counsel for the Company submitted an opinion letter to the DTCC responding to certain issues raised by the DTCC. The Company has had discussions with the DTCC staff in an effort to have the chill removed. There can be no assurance, however, that the DTCC will remove the chill.

On November 24, 2010, the Company's Board of Directors approved a 1-for-100 reverse stock split, subject to approval of the reverse split by the Financial Industry Regulatory Authority (FINRA). FINRA approved the reverse split, effective on February 3, 2011. References to share and per-share data in this report have not been adjusted to give effect to this reverse split.

Employees

As of December 31, 2011, the Company had five full-time employees and one part-time employee. This number does not include its manufacturer's representatives who are independent contractors rather than its employees. The Company also utilizes several consultants and advisors. There can be no assurance that the Company will be successful in recruiting or retaining key personnel. None of its employees are a member of a labor union and the Company has never experienced any business interruption as a result of any labor disputes.

Legal Proceedings

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 IX. *THE NATURE OF PRODUCTS OR SERVICES OFFERED*

Overview

Disorders of the Eye: The human eye is a complex organ that functions much like a camera, with a lens in front and a light-sensitive screen, the retina, in the rear. The intervening space contains a transparent jelly-like substance, the vitreous, which together with the outer layer, the sclera and cornea, helps the eyeball to maintain its shape. Light enters through the cornea, a transparent domed window at the front of the eye. The size of the pupil, an aperture in the center of the iris, controls the amount of light that is then focused by the lens onto the retina as an upside-down image. The lens is the internal optical component of the eye and is responsible for adjusting focus. The lens is enclosed in a capsule. The retina is believed to contain more than 130 million light-receptor cells. These cells convert light into nerve impulses that are transmitted right-side up by the optic nerve to the brain, where they are interpreted. Muscles attached to the eye control its movements.

Birth defects, trauma from accidents, disease and age related deterioration of the components of the eye could all contribute to eye disorders. The most common eye disorders are either pathological or refractive. Many pathological disorders of the eye can be corrected by surgery. These include cataracts (clouded lenses), glaucoma (elevated or low pressure in the eye), loss of nerve fibers resulting in loss of vision, corneal disorders such as scars, defects and irregular surfaces and vitro-retinal disorders such as the attachment of membrane growths to the retina causing blood leakage within the eye. All of these disorders can impair vision. Many refractive disorders can be corrected by using eyeglasses and contact lenses. Myopia (nearsightedness), hyperopia (farsightedness) and presbyopia (inability to focus) are three of the most common refractive disorders.

Ultrasound Technology: Ultrasound devices have been used in ophthalmology since the late 1960's for diagnostic and surgical applications when treating or correcting eye disorders. In diagnostics, ultrasound instruments are used to measure distances and shapes of various parts of the eye for prescription of eyeglasses and contact lenses and for calculation of lens implant prescriptions for cataract surgery treatment. These devices emit sound waves through a hand held probe that is placed onto or near the eye with the sound waves emitted being reflected by the targeted tissue.

The reflection "echo" is computed into a distance value that is presented as a visual image, or cross section of the eye, with precise measurements displayed and printed for diagnostic use by the surgeon.

Products

Diagnostic Eye Care Products: Glaucoma is a second leading cause of adult blindness in the world. Glaucoma is described as a partial or total loss of visual field resulting from certain progressive disease or degeneration of the retina, macula or nerve fiber bundle. The cause and mechanism of the glaucoma pathology is not completely understood. Present detection methods focus on the measurement of intra-ocular pressure in the eye, visual field and observation of the optic nerve head to determine the possibility of pressure being exerted upon the retina and optic nerve fiber bundle, which can diminish the visual field. Recently, retinal blood circulation has been indicated as a key component in the presence of glaucoma. Some companies produce color Doppler equipment in the $80,000 price range intended to provide measurement of ocular blood flow activity in order to diagnose and treat glaucoma at an earlier stage.

Blood Flow Analyzer™: In June 1997, the Company received FDA clearance to market the Blood Flow Analyzer™ for early detection and treatment management of glaucoma and other retinal related diseases. The device measures not only intraocular pressure but also pulsatile ocular blood flow, the reduction of which may cause nerve fiber bundle death through oxygen deprivation thus resulting in visual field loss associated with glaucoma. The Company's Blood Flow Analyzer™ is a portable automated in-office system that presents an affordable method for ocular blood flow testing for the ophthalmic and optometric practitioner. This was the first diagnostic eye care device. The device is a portable desktop system that utilizes a proprietary and patented pneumatic Air Membrane Applanation Probe™ or AMAP™, which can be attached to any model of standard examination slit lamp, which is then placed on the cornea of the patient's eye to measure the intraocular pressure within the eye. The device is unique in that it reads a series of intraocular pressure pulses over a short period of time (approximately five to ten seconds) and generates a waveform profile, which can be correlated to blood flow volume within the eye. A proprietary software algorithm developed by David M. Silver, Ph.D., at Johns Hopkins University Applied Physics Laboratory, calculates the blood flow volume. The device presents a numerical intra-ocular pressure reading and blood flow analysis rating in a concise printout, which is affixed to the patient history file. In addition, the data generated by the device can be downloaded to a personal computer system for advanced database development and management.

The Company markets the Blood Flow Analyzer™ as a stand-alone model packaged with a custom built computer system. The Blood Flow Analyzer™ utilizes a single use disposable cover for the Air Membrane Applanation Probe™, a corneal probe which is shipped in sterile packages. The probe tip cover provides accurate readings and acts as a prophylactic barrier for the patient. The device has been issued a patent in the European Economic Community and the United States and has a patent pending in Japan. The FDA cleared the Blood Flow Analyzer™ for marketing in June 1997 and the Company commenced selling the system in September 1997. In addition to the Humphrey products, this diagnostic product allowed the Company to expand its market to approximately 35,000 optometry practitioners in the United States in addition to the approximately 18,000 ophthalmic practitioners who currently perform eye surgeries and are candidates for the Company's surgical systems.

In April 2001, the Company received written authorization from the CPT Editorial Research and Development Department of the American Medical Association to use common procedure terminology or CPT code number 92120 for its Blood Flow Analyzer™, for reimbursement purposes for doctors using the device. However, certain payors have elected not to reimburse doctors using the Blood Flow Analyzer™. The Company is continuing its aggressive campaign to educate the payors about the Blood Flow Analyzer™, its purposes and the significance of its performance in patient care in order to achieve reimbursements to the doctors. As of January 2012, there is no reimbursement by insurance payors to doctors using the Blood Flow Analyzer™ in the United States. The previous Code 92120 was eliminated by Medicare in 2012. It was replaced by an investigational Code 0189T, which usually does not allow for any reimbursement from Medicare. The Company plans to apply for a new CPT code for the Blood Flow Analyzer™ in the near future in order for doctors using the device to obtain reimbursement.

The manufacturing activities for the Blood Flow Analyzer™ have been moved to the Salt Lake City facility from the outsourced plant located in England. On October 21, 2002, the Company received FDA approval on its 510(k) application for additional indications of use for the Blood Flow Analyzer™. The additional indications include pulsatile ocular blood flow and pulsatile ocular blood volume. These are diagnostic measurements that assess the hemodynamic and vascular health of the eye. Also, the Company is continuing its aggressive campaign to educate the insurance payors about the Blood Flow Analyzer™, its purposes and the significance of its performance in patient care in order to achieve reimbursements to the doctors using its Blood Flow Analyzer™. Sales of the Blood Flow Analyzer™ and related accessories accounted for 27% and 5% of total sales for the fiscal years ended December 31, 2011 and 2010, respectively.

Dicon™ Perimeters: Dicon™ perimeters consist of the LD 400 and the TKS 5000, and software consisting of Field Link™ FieldView™ and Advanced Field View. Perimeters are used to determine retinal sensitivity testing the visual pathway. Perimeters have become a standard of care in the detection and monitoring of glaucoma worldwide. Perimetry is reimbursable worldwide. The Dicon™ perimeters feature patented kinetic fixation and voice synthesis now in 27 different languages. Software programs are sold to assist in the analysis of the test results. Sales of the perimeters and related accessories generated 13% and 22% of the total revenues for 2011 and 2010, respectively.

In March 2011, the Company completed its new LD 500 and TKS 6000, which replace the LD 400 and the TKS 5000, respectively. The LD 500 and TKS 6000 are autoperimeters used to measure patient visual fields. Both the LD 500 and TKS 6000 have improved features over the earlier models, including new software to enable a fast threshold test. This test reduces the time required by ophthalmologists and optometrists conducting autoperimetry tests by more than 40% by running an abbreviated test at light levels determined to be sufficient to be seen in normal patients. The procedure currently takes more than 15 minutes. The fast threshold test by these two models is similar to tests utilized by other devices on the market. Healthy patients will pass the test. Patients with reduced visual fields will be flagged by the test enabling the device to automatically run a more comprehensive examination to determine the extent of the visual field loss. All existing LD 400s and TKS 5000s can be upgraded to the new LD 500 or TKS 6000 at a reasonable cost.

P60 UBM Ultrasound Biomicroscopes: Humphrey Systems developed the P40 UBM Ultrasound Biomicroscope, an earlier version of the P60 UBM Ultrasound Biomicroscope, in conjunction with the New York Eye and Ear Infirmary in Manhattan and the University of Toronto. The P40 biomicroscope and its intellectual property were included in the purchase from Humphrey Systems and gives the Company the proprietary rights to this device. The P40 biomicroscope created a high resolution computer image of the unseen parts of the eye that was a "map" for the glaucoma surgeon. The P40 biomicroscope was an "enabling technology" for the ophthalmologist, one that the Company had repositioned for broader market sales penetration. Formerly sold only to glaucoma subspecialty practitioners, the Company reintroduced the P40 biomicroscope at a price point targeted for the average practitioners seeking to add glaucoma filtering surgical procedures and income to their cataract surgical practice.

The P40 biomicroscope related surgical filtering procedures were fully reimbursable by Medicare and insurance providers. This untapped new market positions the Company with its proprietary P40 biomicroscope and, to its knowledge, the only commercially viable product of this type on the market, as a leader in the rapidly expanding glaucoma imaging and treatment segment. In 2000, the Company introduced the P45 UBM Ultrasonic Biomicroscope, which combined the P40 biomicroscope and the P37 A/B Scan Ocular Ultrasound Diagnostic, that the Company previously manufactured, into one instrument. The Company believed that by combining functions, the P45 would appeal to a broader market.

In March 2005, the Company introduced the P60 UBM Ultrasound Biomicroscope. The P60 biomicroscope represents the third generation of UBM devices and has better visual clarity and image flexibility than earlier versions. On March 1, 2005, the Company was awarded the CE Mark for the P60, which enables it to market the device in 19 Western European countries, the Middle East and India, and some parts of Asia and the Pacific Rim. On May 26, 2005, the Company received FDA 510(k) pre-market approval for the P60, which allows it to be sold in the United States. On February 9, 2006, the Company received a Canadian device license for the P60, which allows it to be sold in Canada. The P60 biomicroscope and related accessories sales were 41% and 12% of total revenues for 2011 and 2010, respectively.

On June 5, 2007, the Company introduced a new software package for the P60 biomicroscope. This V2.1 software incorporates greater image resolution, a user-friendly and robust database management system, and networking capabilities that allow the patient image data to be transferred within a user's network for efficient patient record management. The Company developed the new V2.1 software in partnership with the optic and engineering group at Reliacon Global, Inc.

Paramax™ and Other Products Manufactured by Costruzione Strumenti Oftalmici srl: On April 15, 2009, the Company entered into a Letter of Understanding with Costruzione Strumenti Oftalmici srl, an Italian company, to distribute and sell certain products manufactured by CSO. Among the products to be distributed and sold by the Company is the Paramax™, the next generation of standard ocular electrophysiology for early glaucoma diagnosis. The Paramax™ is to be sold in North America on an exclusive basis, contingent upon the Company meeting certain sales requirements, and in countries outside North America on a non-exclusive basis. The Paramax™ performs innovative, patented tests for the early screening and follow up of pathologies, such as glaucoma, age related macular degeneration, vascular retinal degeneration, and other optic nerve diseases.

Under the terms of the Letter of Understanding, CSO will manufacture and supply products to be sold by the Company. The products will have the Company's logo and markings. The Company is granted the right to sell Paramax™ on an exclusive basis in North America for a period of twelve months. The twelve month period will begin 60 days after the Paramax™ receives a 510(k) approval by the FDA. The exclusive right to sell the Paramax™ in North America is conditioned upon the Company selling an average of five Paramax™ units per month. The exclusive right to sell the Paramax™ will be reviewed every six months for the first two years and annually thereafter. The Company and CSO may end their relationship at any time upon six months' prior written notice to the other party. The Company is unable to market and sell the Paramax™ in the United States, however, until it obtains 510(k) approval by the FDA.

In May 2010, CSO filed a 510(k) application with the FDA for the Paramax™. By letters dated June 10, 2010 and December 20, 2010, the FDA requested additional information concerning the application. In June 28, 2011, the FDA issued a Non Significance Equivalence (NSE) letter stating that CSO failed to adequately respond to requests to provide descriptive and validation information regarding the ability of the Paramax™ to deliver light stimuli, measure electrophysiological signals, and provide reference value information to the user. The letter contained a detailed list of remaining issues that FDA deemed still open. The FDA then added in the letter that should CSO resubmit a new 510(k) application, all those issues need to be properly addressed. CSO is currently in the process of submitting a new 510(k) application for the Paramax™ that will address the issues in the NSE letter.

Other CSO products to be sold by the Company are the Paravue 300, a corneal topographer with the unique ability to display live images on a computer monitor; the Surveyor 500, a corneal topographer with a rotating Scheimpflug camera with placido disk; and the Paracam 1000, a specular microscope for endothelial cell counts and examination. The Company has the right to sell the Paravue 300 worldwide on a non-exclusive basis. The Surveyor 500 and the Paracam 1000 will only be sold outside the United States on a non-exclusive basis.

Parts and Services: The parts and service revenue from the repair and service of equipment sold accounted for 9% and 8% of total revenues in 2011 and 2010, respectively.

Surgical Products: The Company's principal proprietary surgical products are systems for use by ophthalmologists to perform surgical treatment procedures to remove cataracts. The Company has complete ownership of each product with no technological licensing limitations. Because diagnostic products are currently the Company's primary focus, the Company has discontinued sales of the Precisionist Thirty Thousand™ and development of the Photon™, pending future evaluation when the Company's financial condition improves.

Precisionist Thirty Thousand™. The Precisionist Thirty Thousand™ is the Company's core phaco surgical technology. The Precisionist™ was placed into production and offered for sale in 1997. Although manufactured in the past by the Company, the Precisionist™ is not currently being manufactured. As a phaco cataract surgery system, the Company believes the Precisionist™ with its fluidics panel was, at one time, equal or superior to the then existing competitive systems in the United States. The system features a graphic color display and unique proprietary on board

computer and graphic user interface linked to a soft key membrane panel for flexible programmable operation. The system provides real-time "on-the-fly" adjustment capabilities for each surgical parameter during the surgical procedure for high volume applications. In addition, the Precisionist™ provides one hundred pre-programmable surgery setups, with a second level of subprogrammed custom modes within each major surgical screen (i.e., ultrasound phaco and irrigation/aspiration modes).

The Precisionist™ also features the Company's proprietary fluidics panel which is completely noninvasive for improved sterility and to provide a surgical environment in the eye that virtually eliminates fluidic surge and solves chamber maintenance problems normally associated with phaco cataract surgery. This fluidics system provides greater control for the surgeon and allows the safe operation at much higher vacuum settings by sampling changes in aspiration 100 times per second. Greater vacuum in phaco surgery means less use of ultrasound or laser energy to fragment the cataract and less chance for surrounding tissue damage. In addition to the full complement of surgical modalities (e.g., irrigation, aspiration, bipolar coagulation and anterior vitrectomy), system automation includes "dimensional" audio feedback of vacuum levels and voice confirmation for major system functions, providing an intuitive environment in which the advanced phaco surgeon can concentrate on the surgical technique rather than the equipment. Sales of the Precisionist™ and related accessories were 0% of total revenues in both the fiscal years 2011 and 2010, respectively.

Ocular Surgery Workstation™. The Ocular Surgery Workstation™ comprises the base system of the Precisionist Thirty Thousand™ and is the first system, to the Company's knowledge, which uses the expansive capabilities of today's advanced computer technology to offer seamless open architecture expandability of the system hardware and software modules. The Workstation™ utilizes an embedded open architecture computer developed for the Company and controlled by a proprietary software system developed by the Company that interfaces with all components of the system. Ultrasound, fluidics (irrigation), aspiration, venting, coagulation and anterior vitrectomy (pneumatic) are all included in the base model. Each component is controlled as a peripheral module within this fully integrated system. This approach allows for seamless expansion and refinement of the Workstation™ with the ability to add other hardware and software features. Expansion such as the Company's Photon™ laser system and hardware for additional surgical applications are easily implemented by means of a preexisting expansion rack, which resides in the base of the Workstation™. These expanded capabilities could include, but would not be limited to laser systems, video surgical fiber optic imaging, cutting and electrosurgery equipment. However, there has been no guarantee that the Workstation™ will be accepted in the marketplace. To date, the Company has not commercially developed or offered for sale any other added hardware or software features to its Workstation™

Photon™ Laser System: The Photon™ laser cataract system, which is still subject to FDA approval, is designed to be installed as a seamless plug-in upgrade or add-on to the Company's Precisionist' Ocular Surgery Workstation™. The plug-in platform concept is unique in the ophthalmic surgical market for systems of this magnitude and presents a unique market opportunity for the Company. The main elements of the laser system are the Nd:YAG laser module, Photon™ laser software package and interchangeable disposable hand held fiber optic laser cataract probe. The Photon™ laser utilizes the on board microprocessor computer of the Workstation™ to generate short pulse laser energy developed through the patented LCP™ to targeted cataract tissue inside the eye, while simultaneously irrigating the eye and aspirating the diseased cataract tissue from the eye. The probe is smaller in diameter than conventional ultrasound phaco needles and presents no damaging vibration or heat build up in the eye. The Company's Phase I clinical trials, which were completed in 1997, demonstrated that this probe could easily reduce the size of the cataract incision from 3.0 mm to under 2.0 mm, thereby reducing surgical trauma and complementing current foldable intra-ocular implant technology.

The laser probe may also eliminate any possibility for burns around the incision or at the cornea and may therefore be used with cataract surgery techniques that utilize a more delicate clear cornea incision which can eliminate sutures and be conducted with topical anesthesia. However, this system may not effectively remove harder grade cataracts. Harder grade cataracts can be removed using the already existing ultrasound capability of the Precisionist™. Because of the financial concerns of the Company, management has focused its 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 fiscal year ended December 31, 2010, diagnostic products are currently the Company's major focus and the Photon™ and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. Due to the uncertainty surrounding the timetable for obtaining FDA

approval and the lack of significant revenue from the other surgical products, the Company has recorded an inventory reserve against the majority of the inventory associated with the Photon™ and Precisionist Thirty Thousand™. The Company's focus is not on any specific diagnostic product or products, but rather on its entire group of diagnostic products.

At some point in the future, the Company may, subject to economic feasibility and the availability of adequate funds, refine the laser delivery system and laser cataract surgical technique used on soft cataracts through expanded research and clinical studies. Subject to the aforementioned constraints, the Company may also refine the fluidics management system by improving chamber maintenance during surgical procedures and to develop techniques to optimize time and improve invasive techniques through expanded research and clinical studies. As far as the Company can determine, no integrated single laser photofragmenting probe is presently available on the market that uses laser energy directly, contained in an enclosed probe, to denature cataract tissue at a precise location inside the eye while simultaneously irrigating and aspirating the site.

The Company's laser system is based upon the concept that pulsed laser energy produced with the microprocessor controlled Nd:YAG laser system provides ophthalmic surgeons with a more precise and less traumatic alternative in cataract surgery. Although conventional ultrasonic surgical systems have proven effective and reliable in clinical use for many years, their use of high frequency shock waves and vibration to fragment the cataract can make the procedure difficult and can present risk of complication both during and after surgery. In contrast, the Company's laser system, which utilizes short centralized energy bursts, should permit the delivery of the laser beam with less trauma to adjacent tissue. Therefore, unlike ultrasonic systems, whose vibrations and shock waves affect (and can damage) non-cataract tissues within the eye, the Company's Photon™ laser cataract system should only affect tissues with which it comes into direct contact.

In 2000, the Company received FDA approval for the Photon™ Workstation™ to be used with a 532mm green laser, which is effective for medical procedures other than cataract removal, such as photocoagulation of retinal and venous anomalies within or outside the eye, pigmented lesions around the orbital socket, posterior or anterior procedures associated with glaucoma or diabetes and general photocoagulation for various dermatological venous anomalies including telangiectasia (surface veins), or commonly referred to as "spider veins". The goal is to be able to integrate multiple laser wavelengths into one system or workstation that can be used for multiple medical specialties. This approval represents only one of the potential applications that could represent substantial growth opportunities including additional sales of equipment, instruments, accessories and disposables.

The Photon™ Ocular Surgery Workstation™ has not been commercially developed with any other added hardware or software features. There is no guarantee that the ophthalmic surgery market will accept the laser in this capacity or that the FDA will grant approval. Regulatory approval would require completion of pending Photon™ clinical trials and resubmission of a 510(k) predicate device application to the FDA. Because of the financial concerns 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.

Surgical Instruments and Disposables: In addition to the cataract surgery equipment, the Company's surgical systems are designed to utilize accessory instruments and disposables, some of which are proprietary to the Company. These include replacement ultrasound tips, sleeves, tubing sets and fluidics packs, instrument drapes and laser cataract probes. The Company intends to expand its disposable accessories as it penetrates the cataract surgery market and expands the treatment applications for its Workstation™. These products contributed 0% of total revenues for both 2011 and 2010.

The following table identifies each product class, status of commercial development, the percentage of sales contributed by that class, reimbursement status, and status of applicable United States and foreign regulatory approvals:

Product (1)	Product Class	Commercial Development	Reimbursement Status	% 2010 (2)	% 2011 (2)	Regulatory Approvals
P60 UBM Ultrasound Biomicroscope, Workstation Plus	System, Imaging, Pulsed Echo Ultrasound Diagnostic	Complete	Yes	12%	41%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
BFA Ocular Blood Flow Analyzer™ and Disposables	Tonometer, Manual Diagnostic	Complete	Yes****	25%	27%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
LD 400 Autoperimetry System	Perimeter, Automatic AC-Powered Diagnostic	Complete	Yes	19%	9%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
TKS 5000 Autoperimetry System	Perimeter, Automatic AC-Powered, Diagnostic	Complete	Yes	3%	4%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
Corneal Topographer Paravue 300	Topographer Corneal AC-Powered Diagnostic	Complete	Yes	0%	0%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
Corneal Topographer Surveyor 500	Topographer Corneal AC-Powered Diagnostic	Complete	Yes	0%	0%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
Paracam 1000 Endothelial Cell Count Microscope	Spectral Microscopy Diagnostic	Complete	Yes	0%	0%	ISO 9001: 1994, EN ISO 9001**
Paramax™	Electrophysiology Diagnostic	Complete	Yes	0%	0%	ISO 9001: 1994, EN ISO 9001**
Precisionist Thirty Thousand™, Ocular Surgery Workstation with Surgical Equipment and Disposables	Phacofragmentation	Complete	Yes	0%	0%	FDA 510(K) K844299* ISO 9001: 1994, EN ISO 9001**
Photon™ Laser, Ocular Surgery Workstation with Surgical Equipment and Disposables (3)	Phacoemulsification	In-Process (3)	No	0%	0%	IBD G940151 ISO 9001: 1994, EN ISO 9001**
Parts and Service	Perimeter, BFA, Tonometer, Topographer, Ultrasound Workstations, Systems	Complete	Yes	8%	9%	ISO 9001: 1994 FDA 510(K) K844299* EN ISO 9001**

(1) Except for the Photon™ Ocular Surgery Workstation, which can only be sold in countries outside the United States, these products can be sold in the United States and in foreign countries including but not limited to Argentina, Australia, Bangladesh, Borneo, Brazil, Canada, China, Czechoslovakia, Egypt, France, Germany, Greece, Hong Kong, India, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, New Zealand, Pakistan, Peru, Poland, Puerto Rico, Russia, Saudi Arabia, Spain, Sri Lanka, Taiwan, Thailand, Turkey, United Kingdom, and United Arab Emirates.

(2) There were additional sales in 2011 and 2010 from the P2700 and P3700II A/B Scan Ocular Ultrasound Diagnostic devices, the P2200 A Scan and P2500 A Scan Pachymeter, the CT200 Topographer, and the PERG, which totaled 11% and 33% of total revenues for 2011 and 2010, respectively, but the Company has since discontinued selling these products.

(3) The Photon™ is in-process and not complete because the Company has not completed the clinical trials in order to obtain FDA regulatory approval.

* FDA 510(K) K844299 and FDA 510(K) K043367 represents domestic approval by U.S. Food and Drug Administration.

** ISO 9001: 1994, EN ISO 9001 represents international approval.

*** IDE G940151 represents approval for international distribution only.

**** Represents full reimbursement in 20 states and partial reimbursement in six other states.

As detailed in the table above, except for the Photon™ Laser Ocular Surgery Workstation, which requires additional development and regulatory approvals, the Company's current products are developed and available for sale in footnote (1) of the table. The Company's possible future efforts to complete development of the Photon™ laser system and obtain the necessary regulatory approvals would depend on 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 which the Company would not receive as expected. The Company estimates that the funds needed to complete the clinical trials on the Photon™ in order to obtain the necessary FDA regulatory approval to be approximately $2,500,000. This does not include the necessary funds for product development and to bring the Photon™ to market.

The Company currently purchases components and parts used in its products from a limited number of key suppliers. The Company's reliance on its principal suppliers could result in delays associated with redesigning a product due to an inability to obtain an adequate supply of required components and parts, and reduced control over pricing, quality and timely delivery. The loss of any of these principal suppliers or the inability of a supplier to meet performance and quality specifications, requested quantities or delivery schedules could cause the Company's revenues to decline. In addition, any interruption or discontinuance in the supply of components or parts could have an adverse effect on the Company's business, results of operation and financial condition. The Company's principal suppliers include Capistrano Labs, US Ultrasound and Anthrop.

Marketing and Sales

Ophthalmologists are mainly office based and perform their surgeries in local hospitals or surgical centers that provide the necessary surgical equipment and supplies. Ophthalmologists are generally involved in decisions relating to the purchase of equipment and accessories for their independent ambulatory surgical centers and for the hospitals with which they are affiliated. This provides the opportunity for direct, targeted, personal selling, responsive high quality customer service and short buying cycles to achieve a product sale in the office or hospital. Hospitals also comprise a significant market, as recent demand for ultrasonic surgery technology has put pressure on the ophthalmologist, who in turn persuades the hospital to install the latest technology system so that he can offer this procedure to his patients and the community. Ophthalmologist and hospital administrators are understanding the necessity of Ultrasound diagnostic equipment such as the UBM and providing the opportunity for increased product demonstrations. The capability to detect and manage glaucoma is greatly enhanced with the UBM.

Industry analysts report that the United States ophthalmic device market has been characterized by slower growth in recent years. This has apparently been caused by the potential reforms associated with the health care industry. Further, hospitals have been inclined to keep their older phaco machines longer than expected as they have been forced to mind budgets more carefully and have become less willing to invest in capital equipment until more information on healthcare reform becomes available. However, analysts predict that the ophthalmic and diagnostic equipment device market will see renewed growth in the coming years as the health care environment stabilizes and as the growing elderly population produces an increased number of cataract surgeries. As a consequence of these factors, the market should see a greater rate of replacement of older machines that hospitals and surgeons have been postponing for longer than usual. The acceptance of the UBM as a necessary diagnostic and disease management tool is enhancing the opportunities for increased sales of these to hospitals as well as larger private clinics.

Current Market Acceptance and Potential: The principal purchasers of the Company's products have been ophthalmologists, optometrists, universities and clinics in many countries throughout the world. The Company believes that the market for its products is being driven by: (i) the aging of the population, which is evidenced by the domestic and international cataract surgery volume growth trend over the past ten years, (ii) the entry by emerging countries (including China, Russia, and other countries in Asia, Eastern Europe and Africa) into advanced technology medical care for their populations, and (iii) the growing awareness of the need for early detection and treatment of glaucoma.

Marketing Organization: The Company markets its products internationally through a network of distributors and domestically through direct sales representatives, independent sales organizations, and ophthalmic product distributors. As of December 31, 2010, the Company had two corporate sales managers, one corporate international sales representative, six independent sales representatives in the United States, and 23 ophthalmic and medical product distributors outside the United States. These sales representatives are assigned exclusive territories and have entered into contracts with the Company that contain performance quotas. Domestic sales channels have been expanded to include independent sales representatives and distributors. The Company also plans to continue to market its products by identifying customers through internal market research, trade shows and direct marketing programs.

Product advertising is intended to be focused in the major industry trade journals. Most of the ophthalmologists or optometrists in the United States receive one or more of these magazines through professional subscription programs. The media has shown strong interest in the Company's technology and products, as evidenced by several recent articles in these publications.

Manufacturing and Raw Materials: Currently, the Company maintains a 12,434 square foot facility in Salt Lake City. The facility accommodates its manufacturing, marketing and engineering capabilities. The Company manufactures under systems of quality control and testing, which complies with the Quality System Requirements established by the FDA, as well as similar guidelines established by foreign governments, including the CE Mark and ISO-9001.

The Company subcontracts the manufacturing of some of its ancillary instruments, accessories and disposables through specified vendors in the United States. These products are contracted in quantities and at costs consistent with its financial purchasing capabilities and pricing needs. The Company manufactures certain accessories at its facility in Salt Lake City.

Product Service and Support: Service for the Company's products is overseen from its Salt Lake City location and is augmented by its international dealer network, which provides technical service and repair. Installation, on-site training and a limited product warranty are included as the standard terms of sale. The Company provides distributors with replacement parts at no charge during the warranty period. International distributors are responsible for installation, repair and other customer service to installed systems in their territory. All systems parts are modular sub-components that are easily removed and replaced. The Company maintains adequate parts inventory and provides overnight replacement parts shipments to its dealers.

Research and Development

The Company believes its research and development capabilities provide it with the ability to respond to regulatory developments, including new products, new product features devised from its users and new applications for its products on a timely and proprietary basis. The Company intends to continue investing in research and development and to strengthen its ability to enhance existing products and develop new products. In addition to its in-house research and development capabilities, the Company has enlisted several recognized and respected consultants and other technical personnel to act in technical and medical advisory capacities.

Research, development and service expenses (which includes production and manufacturing support and the service department expenses) decreased by $95,000, or 27%, to $260,000 for the twelve months ended December 31, 2011, from $335,000 for the same period in 2010. None of the costs of research and development activities during 2011 and 2010 was borne directly by customers.

Competition

General. The Company is subject to competition in the glaucoma diagnostic markets from developers of technologies for ophthalmic diagnostic instruments used for treatment. A few large companies that are well established in the marketplace have experienced management, are well financed and have well recognized trade names and product lines that dominate the diagnostic equipment industry. The Company believes that the combined sales of the three largest entities account for over 50% of the glaucoma diagnostic market. The remaining market is fragmented among emerging smaller companies, some of which are foreign.

Most major competitors either entered or expanded into the glaucoma market through the acquisition of smaller, entrepreneurial high technology manufacturing companies. Therefore, because existing competitors or other entities desiring to enter the market could conceivably acquire current entrepreneurial enterprises with small market activity, any and all competitors must be considered to be formidable.

Ultrasound Equipment Manufacturers. The Company currently recognizes Sonomed, Tomey, Nidek, OTI and Quantel as its primary competitors in the ultrasound equipment market. In respect to ultrasound diagnostic equipment such as the P60 UBM Ultrasound Biomicroscope, the Company is well positioned to compete against companies that currently hold a significant share of the market.

The Retinal Diagnostic Market. The Glaucoma Research Foundation suggests that with the aging of the so-called baby boom generation, there will be an increase of refractive surgeries, macular degeneration and glaucoma in the United States, the leading causes of adult blindness worldwide. The damage caused by these diseases is irreversible. The preconditions for the onset of macular degeneration or glaucoma are low ocular blood flow and/or high intraocular pressure. Diagnostic screening is important for individuals susceptible to these diseases. People in high risk categories include: African Americans over 40 years of age, all persons over 60 years of age, persons with a family history of glaucoma or diabetes, and the very nearsighted. The Glaucoma Research Foundation recommends that these high risk individuals be tested regularly for glaucoma. The Glaucoma Research Foundation reports that glaucoma currently accounts for more than seven million visits to physicians annually.

The Company is subject to intense competition in the ophthalmic diagnostic market from well financed, established companies with recognizable trade names and product lines and new and developing technologies. The industry is dominated by several large entities which the Company believes accounts for the majority of diagnostic equipment sales. The Company continues to derive revenues from the sale of its ultrasound diagnostic equipment and Blood Flow Analyzer™. The Blood Flow Analyzer™ is designed to detect glaucoma in an earlier stage than is presently possible. In addition, the device performs tonometry and blood flow analysis. Other ophthalmic diagnostic devices that do not detect glaucoma in the early stages of the disease as does the Company's Blood Flow Analyzer™ retail at comparable prices. Thus, the Company believes that it can compete in the diagnostic market place based upon the lower price and improved diagnostic functions of the analyzer. The Company also believes that its ability to compete successfully will depend on its capability to create and maintain advanced technology, develop proprietary products, attract and retain scientific personnel, obtain patent or other proprietary protection for its products and technologies, obtain required regulatory approvals and manufacture, assemble and successfully market products either alone or through third parties.

Intellectual Property Protection

The Company's cataract surgical products are proprietary in design, engineering and performance. Its surgical ultrasonic products have not been patented to date because the primary technology for ultrasonic tissue fragmentation, as available to all competitors in the market, is mainly in the public domain.

The Company acquired proprietary intellectual property in the transaction with Humphrey Systems when the Company purchased the diagnostic ultrasonic product line in 1999. This technology uses ultrasound to create a high resolution computer image of the unseen parts of the eye that is a "map" for the practitioner.

The Photon™ laser cataract probe was protected under a United States patent issued to Daniel M. Eichenbaum, M.D. in 1987 and subsequently assigned to PhotoMed International, Inc. and a Japanese patent issued to the Company in 1997 for the utility and methods of laser ablation, aspiration and irrigation of tissue through a hand held probe of a unique design. The United States patent expired in September 2004.

The Photon™ laser cataract probe is also protected under a United States patent issued to the Company in 2002 for a laser surgical device for the removal of intraocular tissue including a handpiece and a trap. The patent is due to expire in August 2019. There are also two pending United States patents relating to the Photon™ laser cataract probe.

The Blood Flow Analyzer™ was granted a patent in the United Kingdom in 1998 and in the United States in 1999, and has a patent pending in Japan. These patents relate to pneumatic pressure probes for use in measuring change in intraocular pressure and in measuring pulsatile ocular blood flow. The United States patent rights expire in January 2019 and the United Kingdom patent rights expire in November 2015.

The Company's trademarks are important to its business. It is its policy to pursue trademark registrations for its trademarks associated with its products as appropriate. Also, the Company relies on common law trademark rights to protect its unregistered trademarks, although common law trademark rights do not provide the Company with the same level of protection as would U.S. federal registered trademarks. Common law trademark rights only extend to the geographical area in which the

trademark is actually used while U.S. federal registration prohibits the use of the trademark by any party anywhere in the United States.

The Company also relies on trade secret law to protect some aspects of its intellectual property. All of its key employees, consultants and advisors are required to enter into a confidentiality agreement with the Company. Most of its third-party manufacturers and formulators are also bound by confidentiality agreements with the Company.

Regulation

The FDA under the Food, Drug and Cosmetics Act regulates the Company's surgical and diagnostic systems as medical devices. As such, these devices require pre-market clearance or approval by the FDA prior to their marketing and sale. Such clearance or approval is premised on the production of evidence sufficient for the Company to show reasonable assurance of safety and effectiveness regarding its products. Pursuant to the Food, Drug and Cosmetics Act, the FDA regulates the manufacture, distribution and production of medical devices in the United States and the export of medical devices from the United States. Noncompliance with applicable requirements can result in fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, denial of pre-market clearance or approval for devices. Recommendations by the FDA that the Company not be allowed to enter into government contracts in order to avoid criminal prosecution may also be made.

Following the enactment of the Medical Device Amendments to the Food, Drug and Cosmetics Act in May 1976, the FDA began classifying medical devices in commercial distribution into one of three classes: Class I, II or III. This classification is based on the controls that are perceived to be necessary to reasonably ensure the safety and effectiveness of medical devices. Class I devices are those devices, the safety and effectiveness of which can reasonably be ensured through general controls, such as adequate labeling, advertising, pre-marketing notification and adherence to the FDA's Quality System Requirements regulations. Some Class I devices *are* exempt from some of the general controls. Class II devices are those devices the safety and effectiveness of which can reasonably be assured through the use of special controls, such as performance standards, post-market surveillance, patient registries and FDA guidelines. Class III devices are devices that must receive pre-marketing approval by the FDA to ensure their safety and effectiveness. Generally, Class III devices are limited to life sustaining, life supporting or implantable devices, or to new devices that have been found not to be substantially equivalent to legally marketed devices.

There are two principal methods by which FDA approval may be obtained. One method is to seek FDA approval through a pre-marketing notification filing under Section 510(k) of the Food, Drug and Cosmetics Act. If a manufacturer or distributor of a medical device can establish that a proposed device is "substantially equivalent" to a legally marketed Class I or Class II medical device or to a pre-1976 Class III medical device for which the FDA has not called for a pre-marketing approval, the manufacturer or distributor may seek FDA Section 510(k) pre-marketing clearance for the device by filing a Section 510(k) pre-marketing notification. The Section 510(k) notification and the claim of substantial equivalence will likely have to be supported by various types of data and materials, possibly including clinical testing results, obtained under an Investigational Device Exemption granted by the FDA. The manufacturer or distributor may not place the device into interstate commerce until an order is issued by the FDA granting pre-marketing clearance for the device. There can be no assurance that the Company will obtain Section 510(k) pre-marketing clearance for any of the future devices for which the Company seeks such clearance, including the Photon^{TM} laser system.

The FDA may determine that the device is "substantially equivalent" to another legally marketed Class I, Class II or pre-1976 Class III device for which the FDA has not called for a pre-marketing approval, and allow the proposed device to be marketed in the United States. The FDA may determine, however, that the proposed device is not substantially equivalent, or may require further information, such as additional test data, before the FDA is able to make a determination regarding substantial equivalence. A "not substantially equivalent" determination or a request for additional information could delay the Company's market introduction of its products and could have a material adverse effect on its business, operating results and financial condition.

The alternate method to seek approval is to obtain pre-marketing approval from the FDA. If a manufacturer or distributor of a medical device cannot establish that a proposed device is substantially equivalent to another legally marketed device, whether or not the FDA has made a determination in response to a Section 510(k) notification, the manufacturer or distributor will have to seek pre-marketing approval for the proposed device. A pre-marketing approval application would have to be submitted and be supported by extensive data, including preclinical and clinical trial data to prove the safety and efficacy of the device. If human clinical trials of a proposed device are required and the device presents a significant risk, the manufacturer or the distributor of

the device will have to file an Investigational Device Exemption application with the FDA prior to commencing human clinical trials. The Investigational Device Exemption application must be supported by data, typically including the results of animal and mechanical testing. If the Investigational Device Exemption application is approved, human clinical trials may begin at a specific number of investigational sites, and the approval letter could include the number of patients approved by the FDA.

An Investigational Device Exemption clinical trial can be divided into several parts or phases. Sometimes a company will conduct a feasibility study (Phase I) to confirm that a device functions according to its design and operating parameters. This is a usual clinical trial site. If the Phase I results are promising, the applicant may, with the FDA's permission, expand the number of clinical trial sites and the number of patients to be treated to assure reasonable stability of clinical results. Phase II studies are performed to confirm predictability of results and the absence of adverse reactions. The applicant may, upon receipt of the FDA's authorization, subsequently expand the study to a third phase with a larger number of clinical trial sites and a greater number of patients. This involves longer patient follow-up times and the collection of more patient data. Product claims, labeling and core data for the pre-marketing approval are derived primarily from this portion of the clinical trial. The applicant may also, upon receipt of the FDA's permission, consolidate one or more of such portions of the study. Sponsors of clinical trials are permitted to sell those devices distributed in the course of the study, provided such compensation does not exceed recovery of the costs of manufacture, research, development and handling. Although both approval methods may require clinical testing of the device in question under an approved Investigational Device Exemption, the pre-marketing approval procedure is more complex and time consuming.

Upon receipt of the pre-marketing approval application, the FDA makes a threshold determination whether the application is sufficiently complete to permit a substantive review. If the FDA determines that the pre-marketing approval is sufficiently complete to permit a substantive review, the FDA will "file" the application. Once the submission is filed, the FDA has by regulation 90 days to review it; however, the review time is often extended significantly by the FDA asking for more information or clarification of information already provided in the submission. During the review period, an advisory committee may also evaluate the application and provide recommendations to the FDA as to whether the device should be approved. In addition, the FDA will inspect the manufacturing facility to ensure compliance with the FDA's Quality System Requirements prior to approval of a pre-marketing application. While the FDA has responded to pre-marketing approval applications within the allotted time period, pre-marketing approval reviews generally take approximately 12 to 18 months or more from the date of filing to approval. The pre-marketing approval process is lengthy and expensive, and there can be no assurance that such approval will be obtained for any of the Company's products determined to be subject to such requirements. A number of devices for which other companies have sought pre-marketing approval have never been approved for marketing.

Any products manufactured or distributed by the Company pursuant to a pre-market clearance notification or pre-marketing approval are or will be subject to pervasive and continuing regulation by the FDA. The Food, Drug and Cosmetics Act also requires that the Company's products be manufactured in registered establishments and in accordance with Quality System Requirements regulations. Labeling, advertising and promotional activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. The export of medical devices is also subject to regulation in certain instances. In addition, the use of the Company's products may be regulated by various state agencies. All lasers manufactured for the Company are subject to the Radiation Control for Health and Safety Act administered by the Center for Devices and Radiological Health of the FDA. The law requires laser manufacturers to file new product and annual reports and to maintain quality control, product testing and sales records, to incorporate certain design and operating features in lasers sold to end users pursuant to specific performance standards, and to comply with labeling and certification requirements. Various warning labels must be affixed to the laser, depending on the class of the product, as established by the performance standards.

Although the Company believes that it currently complies and will continue to comply with all applicable regulations regarding the manufacture and sale of medical devices, such regulations are always subject to change and depend heavily on administrative interpretations. There can be no assurance that future changes in review guidelines, regulations or administrative interpretations by the FDA or other regulatory bodies, with possible retroactive effect, will not materially adversely affect the Company. In addition to the foregoing, the Company is subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of potentially hazardous substances. There can be no assurance that the Company will not be required to incur significant costs to comply with such laws and regulations and that such compliance will not have a material adverse effect upon the Company's ability to conduct business.

The Company and the manufacturers of its products may be inspected on a routine basis by both the FDA and individual states for compliance with current Quality System Requirements regulations and other requirements.

Congress has considered several comprehensive federal health care programs designed to broaden coverage and reduce the costs of existing government and private insurance programs. These programs have been the subject of criticism within Congress and the health care industry, and many alternative programs and features of programs have been proposed and discussed. Therefore, the Company cannot predict the content of any federal health care program, if any is passed by Congress, or its effect on the Company and its business. Some measures that have been suggested as possible elements of a new program, such as government price ceilings on non-reimbursable procedures and spending limitations on hospitals and other healthcare providers for new equipment, could have an adverse effect on its business, operating results or financial condition. Uncertainty concerning the features of any health care program considered by the Congress, its adoption by the Congress and the effect of the program on the Company's business could result in volatility of the market price of its common stock.

Furthermore, the introduction of the Company's products in foreign countries may require it to obtain foreign regulatory clearances. The Company believes that only a limited number of foreign countries have extensive regulatory requirements, including France, Germany, Korea, China and Japan. The time involved for regulatory approval in foreign countries varies and can take a number of years. A number of European and other economically advanced countries, including Italy, Norway, Spain and Sweden, have not developed regulatory agencies for intensive supervision of such devices. Instead, they generally have been willing to accept the approval of the FDA. Therefore, a pre-marketing approval, Section 510(k) or approved Investigational Device Exemption from the FDA is tantamount to approval in those countries. These countries and most developing countries have simply deferred direct discretion to licensed practicing surgeons to determine the nature of devices that they will use in medical procedures. The Company's two ultrasound surgical and diagnostic systems, the Photon™ laser cataract system it is developing and the ocular blood flow analyzer and the UBM biomicroscope are all devices which require FDA approval. Therefore, a significant aspect of the acceptance of the devices in the market is the Company's effectiveness in obtaining the necessary approvals. Having an approved Investigational Device Exemption allows the Company to export a product to qualified investigational sites.

Regulatory Status of Products

All of the Company's products, with the exception of the Photon™, are approved for sale in the U.S. by the FDA under a 510(k). All of the Company's products have been accepted for import into CE countries and various non-CE countries.

The Company acquired permission from the FDA to export the Photon™ laser cataract system outside the United States under an open Investigational Device Exemption granted by the FDA in September 1994. Although the Photon™ laser cataract system is uniquely configured in an original and proprietary manner, the laser system, a Nd:YAG laser, is not proprietary to the device or the Company and is widely used in the medical industry and other industries as well. Of particular significance is the fact that this particular component has received previous market clearance from the FDA for other ophthalmic and medical applications. Also of significance is the Company's belief that the surgical treatment method used with the Photon™ laser is similar to the current ultrasound cataract treatment employed by ophthalmologists.

The Company submitted a Pre-market Notification 510(k) application to the FDA for the Photon™ laser cataract system in September 1993. The FDA requested clinical support data for claims made in the 510(k), and in October 1994 the Company submitted an Investigational Device Exemption application to provide for a "modest clinical study" in order to collect the data required by the FDA for clearance of the Photon™ laser cataract system. The FDA granted this Investigational Device Exemption in May 1995 for a Phase I Feasibility Study. The Company began human clinical trials in April 1996 and completed the Phase I study in November 1997. The Company started Phase II trials in September 1998 and completed numerous cases of treatment group and control group patients, which were included in its submission to the FDA.

The Company received a warning letter dated August 30, 2000 from the Office of Compliance, Center for Devices and Radiological Health of the Food and Drug Administration relating to certain deficiencies in the human clinical trials for its Photon™ Laser Cataract System. The warning letter concerned the conditions found by the FDA during several audits at its clinical sites. The FDA's comments were isolated to the administrative procedures of compiling data from the clinical sites. The Company responded to the warning letter in a submission dated September 27, 2000. In the submission the Company took corrective action that included submitting a revised clinical protocol and case report forms and procedures for the collection and control of data. In a subsequent letter dated November 2, 2000 to the Company, the FDA granted conditional approval provided that the Company correct certain deficiencies. After providing several additional submissions to the FDA, the Company received a letter dated February 13, 2001 from the FDA stating that the deficiencies had been corrected and the clinical trials could continue.

Subsequent to the warning letter, the Company received approval to continue its clinical trials, the results of which were included in its supplemental submission to the FDA in October 2001 for the existing (510)(k) predicate device application for the Photon™ laser system. In December 2001, the Company received a preliminary review from the FDA regarding the supplemental submission. As a result of that preliminary review, the Company submitted additional clinical information to the FDA on February 6, 2002. The application is receiving ongoing review by the FDA. On May 7, 2002, the Company received a letter from the FDA requesting further clinical information. The Company has generated additional clinical information in response to the letter and is uncertain if the Company will make a submission to the FDA with the additional clinical information. 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. Its diagnostic products are currently its major focus and the Photon™ and other extensive research and development prospects have been put on hold pending future evaluation until the Company's financial position improves. Its focus is not on any specific diagnostic product or products, but rather on its entire group of diagnostic products.

ITEM X. *THE NATURE AND EXTENT OF THE ISSUER'S FACILITIES*

Description of Property

The Company's corporate offices are currently located at 4273 South 590 West, Salt Lake City, Utah. This facility consists of 12,434 square feet of leased office and warehouse space. These facilities are leased from Phoenix 2006 Partners, LLC, an Arizona limited liability company at a base monthly rate of rate of $7,034. Pursuant to the lease, the Company pays all real estate and personal property taxes, and the insurance costs on the premises. The term of the lease is four years and four months, beginning on September 1, 2009 and ending on December 31, 2013, with rental abatement for the months of September through December of 2009. The Company believes that these facilities are adequate and satisfy its needs for the foreseeable future.

ITEM XI. *THE NAME OF THE CHIEF EXECUTIVE OFFICER, MEMBERS OF THE BOARD OF DIRECTORS, AS WELL AS CONTROL PERSONS*

As of December 31, 2011, the Company's executive officers and directors, their ages and their positions are set forth below:

Name	Age	Position
Stephen L. Davis	65	President, Treasurer, Chief Executive Officer and Director
Randall A. Mackey	66	Chairman of the Board and Director
Keith D. Ignotz	65	Director

The directors are elected for one year terms that expire at the next annual meeting of shareholders. Executive officers are elected annually by the Board of Directors to hold office until the first meeting of the Board following the next annual meeting of shareholders and until their successors have been elected and qualified.

Stephen L. Davis has served as the Company's President, Treasurer, and Chief Executive Officer since November 18, 2008 and as a director since September 3, 2010. Mr. Davis previously served as the Company's Vice President of Sales and Marketing from May 2007 to February 2008. Since 2001, except during the period he served as the Company's Vice President of Sales and Marketing, Mr. Davis was President of S.L. Davis Group, Inc., which provides business development, distribution management and sales training services. From 1991 to 1999, Mr. Davis was President, Chief Executive Officer, and Vice President of Sales and Marketing for Zinetics Medical, Inc., which manufactured and distributed medical devices for the gastroenterology and critical care markets. Zinetics Medical, Inc. was purchased by Medtronic, Inc. and became Medtronic Functional Diagnostics/Zinetics Medical, Inc. in 1999, and Mr. Davis remained at the company from 1999 to 2001, serving as Site Director. From 1988 to 1990, Mr. Davis was co-founder and Vice President of Sales and Marketing of Co-Care Medical Services, Inc., which owned and operated ophthalmic ambulatory surgery centers. From 1986 to 1988, Mr. Davis was Western Regional Sales Manager for Ioptex Intraocular Lenses, Inc. Mr. Davis received a B.S. degree in Sociology, with a minor in Business, from Brigham Young University.

Randall A. Mackey has been the Company's Chairman of the Board since August 20, 2002, and a director since January 2000. He had served as a director of the Company from 1995 to 1998. Mr. Mackey has been President of the Salt Lake City law firm of Mackey Price & Mecham since 1992, and a shareholder and director of the firm and its predecessor firms since 1989. Mr. Mackey received a B.S. degree in Economics from the University of Utah in 1968, an M.B.A. degree from the Harvard

Business School in 1970, a J.D. degree from Columbia Law School in 1975, and a B.C.L. degree from Oxford University in 1977. Mr. Mackey has also served as Chairman of the Board from 2001 to 2003, and as a director from 1998 to 2003 of Cimetrix, Incorporated, a software development company. Mr. Mackey has additionally served as Chairman of the Board from2000 to 2003 and as a trustee from 1993 to 2003 of Salt Lake Community College, and as a member of the Utah State Board of Education from 2005 to 2008.

Keith D. Ignotz has been a director since November 2000. Since March 2005, Mr. Ignotz has been President and Chief Executive Officer of Diakine Therapeutics, Inc., a pharmaceutical therapeutics company. From 1992 to 2004, Mr. Ignotz was with SpectRx, Inc., a medical technology company that he founded, which develops, manufactures and markets alternatives to traditional blood based medical tests, serving from 2002 to 2004 as the Chief Executive Officer of Guided Therapeutics, Inc., a wholly-owned subsidiary of SpectRx, Inc., and from 1992 to 2002 as President and Chief Operating Officer of SpectRx, Inc. From 1986 to 1992, Mr. Ignotz was Senior Vice President of Allergan Humphrey, Inc., a medical electronics company. From 1985 to 1986, he was President of Humphrey Instruments Limited-SKB, a medical electronics company, and from 1980 to 1985, Mr. Ignotz was President of Humphrey Instruments GmbH, also a medical electronics company. Mr. Ignotz also served on the Board of Directors of Vismed, Inc., d/b/a Dicon from 1992 to 2000. Mr. Ignotz received a B.A. degree in Sociology and Political Science from San Jose University and an M.B.A. degree from Pepperdine University. Mr. Ignotz has served as a trustee of Pennsylvania College of Optometry and Audiology since 1990, a director of AeroVectrix, Inc., a drug delivery company, since August 2005, and as a member of the American Diabetes Association and the American Marketing Association of the American Association of Diabetes Education.

Appointment of New President

On November 18, 2008, Stephen L. Davis was appointed as the Company's President, replacing Raymond P.L. Cannefax who was terminated by the Board of Directors. Mr. Cannefax had served as the Company's President and Chief Executive Officer from January 5, 2006 to November 18, 2008.

Resignation of Vice President, Treasurer and Chief Financial Officer

On January 16, 2009, Luis A. Mostacero resigned as the Company's Vice President of Finance, Treasurer and Chief Financial Officer to pursue other opportunities. Mr. Mostacero served as Chief Financial Officer since January 8, 2008 and as Vice President of Finance since March 20, 2006. Stephen L. Davis, the Company's President, has been appointed as the Treasurer until a new Treasurer is appointed.

Board Meetings and Committees

The Board of Directors held a total of three meetings during the fiscal year ended December 31, 2011. No director attended fewer than 75% of all meetings of the Board of Directors during the 2011 fiscal year. The Audit Committee of the Board of Directors consists of directors Randall A. Mackey and Keith D. Ignotz. The Audit Committee did not meet during the fiscal year. The Audit Committee is primarily responsible for reviewing the services performed by its independent public accountants and internal audit department and evaluating its accounting principles and its system of internal accounting controls. The Compensation Committee of the Board of Directors consists of directors Randall A. Mackey and Keith D. Ignotz. The Compensation Committee did not meet during the fiscal year. The Compensation Committee is primarily responsible for reviewing compensation of executive officers and overseeing the granting of stock options.

Summary Compensation Table

Name and Principal Position	Year	Salary$	Bonus($)	Stock Awards	Option Awards($)	Non-Equity Incentive Plan Compen-sation	Change in Pension Value and Non-qualified Deferred Compen-sation Earnings	All Other Compen-sation	Total
Stephen L. Davis	2011	$125,000	-	-	-	-	-	-	$125,000*
President and	2010	125,000	-	-	-	-	-	-	125,000
Treasurer	2009	125,000**	-	-	-	-	-	-	125,000

* Of this amount, $83,118 was paid in 2011 and $41,882 has been deferred.
** Of this amount, $25,000 was deferred and later paid in 2011.

Supplemental All Other Compensation Table

Name	Year	Perks and Other Personal Benefits	Tax Reimburse-ments	Discounted Securities Purchases	Payments/ Accruals on Termin-ation Plans	Registrant Contribu-tions to Defined Contribu-tion Plans	Insurance Premiums	Dividends or Earnings on Stock or Option Awards	Other
Stephen L. Davis	2011	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-
	2009	-	-	-	-	-	-	-	-

Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards: Threshold (#)	Target (#)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Under-lying Options (#)	Exercise or Base Price of Option Awards ($/Sh)
Stephen L. Davis	-	-	-	-	-	-	-	-	-	-

Outstanding Equity Awards At Fiscal Year End

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options: (#) Unexer-cisable	Equity Incentive Plan Awards Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock Held That Have Not Vested(#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Stephen L. Davis	0	0	-	-	-	-	-	-	-

Director Compensation

Outside directors are currently not paid a director's fee for their services but are reimbursed for their expenses in attending board and committee meetings. Directors are not precluded from serving the Company in any other capacity and receiving compensation therefore. The directors were not granted any options to purchase shares of the Company's common stock during 2009, 2010 or 2011.

Employment Agreement

The Company entered into an employment agreement with Stephen L. Davis, which commenced effective April 1, 2009 and will expire on April 1, 2011. Under the terms of the employment agreement, Mr. Davis is to serve as the Company's President and Chief Executive Officer. The employment agreement provides for the payment of an annual salary of $125,000. The employment agreement also provides for salary increases, bonuses and stock options as determined at the discretion of the Board of Directors, with a performance review to be made as of May 18, 2009 and a salary review to be made as of November 18, 2010. The employment agreement further provides for participation by Mr. Davis in the Company's 401(k) Plan and the Company's health, dental and vision plans, reimbursement for gasoline and related expenses in connection with the business use of an

automobile by Mr. Davis, and reimbursement for one half of the repair costs of the automobile. Mr. Davis will also be entitled to be paid a car allowance of $600 per month as soon as the Board of Directors determine that the Company has sufficient financial resources to make such payments.

ITEM XII. *FINANCIAL INFORMATION FOR THE ISSUER'S MOST RECENT FISCAL PERIOD*

PARADIGM MEDICAL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

Assets	December 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)
Current assets:		
Cash	$ 27,000	$ 51,000
Receivables, net	64,000	71,000
Inventories, net	441,000	509,000
Prepaid and other assets	22,000	15,000
Total current assets	555,000	646,000
Property and equipment, net	1,000	3,000
Goodwill	339,000	339,000
Total assets	$ 895,000	$ 988,000
Liabilities and Stockholders' (Deficit)		
Current liabilities:		
Accounts payable	$ 396,000	$ 366,000
Related party payable	–	–
Accrued liabilities	813,000	512,000
Convertible notes payable net of debt discount of $ and $ respectively	1,574,000	774,000
Total current liabilities	2,783,000	1,652,000
Convertible notes payable, net of debt discount of $0 and $239,000	615,000	1,738,000
Derivative liabilities	2,000	2,000
Warranty liabilities	–	–
Total long-term liabilities	617,000	1,740,000
Total liabilities	3,400,000	3,392,000
Commitments and contingencies	–	–
Stockholders' (Deficit):		
Preferred stock, $.001 par value 5,000,000 shares, authorized, 612,497 shares issued and outstanding (aggregate liquidation preference of $456,000)	1,000	1,000
Common Stock: $.0001 par value, 20,000,000 shares, authorized, 3,248,785,287 and 11,358,962,494 shares, respectively, issued and outstanding	2,772,000	2,459,000
Additional paid-in capital	59,251,000	59,192,000
Accumulated deficit	(64,530,000)	(64,056,000)
Total stockholders' (Deficit)	(2,505,000)	(2,404,000)

Total liabilities and stockholders' (Deficit)	$ 895,000	$ 988,000

The accompanying notes are an integral part to these financial statements

PARADIGM MEDICAL INDUSTRIES, INC.
STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2011	2010
	(Unaudited)	(Unaudited)
Sales	$ 772,000	$ 726,000
Cost of sales	247,000	311,000
Gross profit	525,000	415,000
Operating expenses:		
General and administrative	479,000	619,000
Marketing and selling	116,000	275,000
Research and development	260,000	355,000
Total operating expenses	855,000	1,249,000
Operating loss	(330,000)	(834,000)
Other income (expenses):		
Other income	–	–
Interest expense - Accretion of debt discount	–	–
Interest income	(5,000)	(21,000)
Interest expense	148,000	155,000
Gain on derivative valuation	–	–
Gain on settlement of liabilities	–	–
Total other income (expense)	(143,000)	(134,000)
Income (loss) before provision for income taxes	–	–
Provision for income taxes	–	–
Net income (loss)	$ (474,000)	$(968,000)
Basic and fully diluted loss per share		
Earnings (loss) per common share - basic	$ (0.00)	$ (0.00)
Earnings (loss) per common share - diluted	$ (0.00)	$ (0.00)
Weighted average common share - basic	4,639,724,582	4,642,940,052
Weighted average common share - diluted	4,639,724,582	4,642,940,052

The accompanying notes are an integral part to these financial statements

PARADIGM MEDICAL INDUSTRIES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2011 (Unaudited)	2010 (Unaudited)
Cash Flows from Operating Activities:		
Net income (loss)	$ (474,000)	(969,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,000	4,000
Stock option valuation	–	–
Change in fair value of derivative liabilities	–	–
Accretion of debt discount	–	(40,000)
Provision for losses on receivables	–	40,000
(Gain) loss of settlement of claims	(11,000)	(1,000)
(Increase) decrease in:	–	
Inventory reserve	36,000	–
Accounts receivable	18,000	15,000
Inventories	32,000	(5,000)
Prepaid and other assets	7,000	1,000
Increase (decrease) in:		
Accounts payable	(30,000)	(380,000
Accrued liabilities	301,000	126,000
Net cash used in operating activities	(74,0000)	(1,209,000)
Cash flow from investing activities:		
Net cash provided by (used in) investing activities	1,000	–
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	372,000	1,846,000
Increase (Decrease) long term debt	(323,000)	(641,000)
Net cash (used) provided by financing activities	49,000	1,205,000
Net change in cash	(24,000)	(4,000)
Cash, beginning of year	51,000	55,000
Cash, end of year	27,000	51,000

The accompanying notes are an integral part to these financial statements.

Basis of Financial Statement Presentation

The accompanying financial statements of the Company have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been or omitted pursuant to such rules and regulations. These financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the results of operations of the Company for the periods presented. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2010. The results of operations for the twelve months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012.

On December 5, 2008, the Company's shareholders approved a 1-for-100 reverse stock split, which became effective on December 5, 2008. All references to share and per-share data for all periods presented in this report have been adjusted to give effect to this reverse split.

On December 18, 2009, the Company's shareholders approved amendments to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 1,400,000,000 shares to 20,000,000,000 shares and to reduce the par value of common stock from $.001 per share to $.0001 per share.

On September 17, 2010, the Company was notified by the Depository Trust and Clearing Corporation ("DTCC") that it had imposed a "chill" on the Company's common stock because of the significant number of shares that were issued through the DTCC during the period from March 1, 2010 to September 9, 2010. This has adversely affected the ability of the Company to issue new shares of its common stock by means of electronic transfers, or DWACs. On January 11, 2011, counsel for the Company submitted an opinion letter to the DTCC responding to certain issues raised by the DTCC. The Company has had discussions with the DTCC staff in an effort to have the chill removed. There can be no assurance, however, that the DTCC will remove the chill.

On November 24, 2010, the Company's Board of Directors approved a 1-for-100 reverse stock split, subject to approval of the reverse split by the Financial Industry Regulatory Authority (FINRA). FINRA approved the reverse split, effective on February 3, 2011. References to share and per-share data for all periods presented in this report have not been adjusted to give effect to this reverse split.

Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Historically, the Company has not demonstrated the ability to generate sufficient cash flows from operations to satisfy its liabilities and sustain operations, and the Company has incurred significant losses. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent on its ability to generate sufficient income and cash flow to meet its obligations on a timely basis and/or obtain additional financing as may be required. The Company is actively seeking options to obtain additional capital and financing.

In addition, the Company has taken significant steps to reduce costs and increase operating efficiencies. Specifically, the Company has significantly reduced the use of consultants, which has resulted in a large decrease in expenses. In addition, the Company has reduced the number of its direct sales representatives, which has resulted in less payroll, travel and other expenses. Although these cost savings have significantly reduced the Company's losses and ongoing cash flow needs, if the Company is unable to obtain equity or debt financing, it may be unable to continue development of its products and may be required to substantially curtail or cease operations.

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 Stock equivalent shares are excluded from the computation when their effect is anti-dilutive. Other common stock

equivalents consisting of options and warrants to purchase 475,000 and 475,000 shares of common stock and preferred stock convertible into 6,125 and 6,125 shares of common stock, and outstanding commitments to issue shares underlying the convertible notes into 50,143,888,889 and 50,143,888,889 shares of common stock at December 31, 2011 and 2010, respectively, have been considered but have not been included in loss periods because their inclusion would have been anti-dilutive.

The following table is a reconciliation of the basic and fully diluted earnings per share for the twelve month periods ended December 31, 2011 and December 31, 2010:

	Twelve Months Ended December 31,	
	2011	2010
Basic weighted average shares outstanding	4,639,724,582	4,642,940,052
Diluted weighted average shares outstanding	4,639,724,582	4,642,940,052
Net loss	$ (474,000)	$ (968,000)
Per share amount basic	$ (0.00)	$ (0.00)
Per share amount diluted	$ (0.00)	$ (0.00)

Convertible Notes Issued to Investment Funds of The N.I.R. Group, LLC, a Hedge-Fund Firm, Consisting of AJW Partners, LLC, AJW Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., AJW Master Fund, Ltd., AJW Master Fund II, LLC, New Millennium Capital Partners II, LLC, and New Millennium Capital Partners III, LLC

1. April 27, 2005 Sale of $2,500,000 in Convertible Notes. To obtain funding for the Company's ongoing operations, the Company entered into a securities purchase agreement on April 27, 2005 with four accredited investors consisting of AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd., and New Millennium Capital Partners II, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm located in Long Island, New York, for the sale of (i) $2,500,000 in convertible notes, and (ii) warrants to purchase shares of the Company's common stock, which have since expired. The sale of the convertible notes to the investors occurred in three traunches as follows:

- $850,000 in convertible notes were issued on April 27, 2005;
- $800,000 in convertible notes were issued on June 23, 2005 after the Company filed a registration statement on June 22, 2005 to register the shares of common stock issuable upon conversion of the convertible notes and exercise of warrants; and
- $850,000 in convertible notes were issued on June 30, 2005, the effective date of the registration statement.

Under the terms of the securities purchase agreement, the Company agreed it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning April 27, 2005 and ending on the later of (a) 270 days from April 27, 2005, or (b) 180 days from the date the registration statement is declared effective.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning April 27, 2005 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $2,500,000 in convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0945, for each trading day during that month. Any amount of principal or interest on the convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $9.00 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days

before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. On June 16, 2008, the Company agreed to reduce the applicable percentage for calculating the conversion price from 60% to 45% of the average of the three lowest intraday trading prices of the Company's common stock. The Company agreed to this change as a condition to receiving further funding for its ongoing operations on June 16, 2008.

The $2,500,000 in convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and the Company's stock is trading at or below $.09 per share. An event of default includes the failure by the Company to pay the principal or interest on the notes when due or to timely file a registration statement as required by the Company or obtain effectiveness with the Securities and Exchange Commission of the registration statement. Prepayment of the notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there was no outstanding principal balance on the convertible notes. During the twelve months ended December 31, 2011, there were no conversions of these convertible notes. During the twelve months ended December 31, 2010 and 2009, the Company issued 1,657,960 and 7,701,280 shares of common stock for the conversion of $165,796 and $770,128 of convertible notes, respectively.

2. *February 28, 2006 Sale of $1,500,000 in Convertible Notes.* To obtain additional funding for the Company's ongoing operations, the Company entered into a second securities purchase agreement on February 28, 2006 with four accredited investors consisting of AJW Partners, LLC, AJW Qualified Partners, LLC, AJW Offshore Ltd., and New Millennium Capital Partners, II, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm, for the sale of (i) $1,500,000 in convertible notes and (ii) warrants to purchase shares of the Company’s common stock, which have since expired. The sale of the convertible notes to the investors occurred in three traunches as follows:

- $500,000 in convertible notes were issued on February 28, 2006;
- $500,000 in convertible notes were issued on June 28, 2006 after the Company filed a registration statement on June 15, 2006 to register the shares of common stock underlying the convertible notes. The registration statement was subsequently withdrawn on July 25, 2006 and a new registration statement was filed on September 15, 2006 to register 60,000,000 shares of common stock issuable upon conversion of the notes.
- $500,000 in convertible notes were issued on April 30, 2007, the day prior to the effective date of the registration statement on May 1, 2007.

Under the terms of the securities purchase agreement, the Company also agreed it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning February 28, 2006 and ending on the later of (a) 270 days from February 28, 2006, or (b) 180 days from the date the registration statement is declared effective.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning February 28, 2006 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice

describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $1,500,000 in convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0275, for each trading day during that month. Any amount of principal or interest on the convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. On June 16, 2008, the Company agreed to reduce the applicable percentage for calculating the conversion price from 60% to 45% of the average of the three lowest intraday trading prices of the Company's common stock. The Company agreed to this change as a condition to receiving further funding for its ongoing operations on June 16, 2008.

The $1,500,000 in convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and the Company's stock is trading at or below $.02 per share. An event of default includes the failure by the Company to pay the principal or interest on the notes when due. Prepayment of the notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

The Company received notice from the accredited investors holding convertible notes dated June 28, 2006 and convertible notes dated April 30, 2007, that on January 22, 2009, E-Lionheart, LLC and other third parties purchased $500,000 of the convertible notes dated June 28, 2006 and the $500,000 of convertible notes dated April 30, 2007. The total purchase price of these convertible notes was $1,514,444. Between February 18, 2009 and June 30, 2009, the third parties converted a total $452,406 of the June 28, 2006 convertible notes at conversion prices ranging from $.0009 to .00105 per share and received a total of 500,511,410 shares of the Company's common stock pursuant to said conversions.

As of December 31, 2011, there was an outstanding principal balance of $24,545 remaining on the convertible notes. During the twelve months ended December 31, 2011, there were no conversions of these convertible notes. During the twelve months ended December 31, 2010 and 2009, the Company issued 4,358,220 and 8,739,080 shares of common stock for the conversion of $435,822 and $873,908 of the convertible notes, respectively.

3. June 11, 2007 Sale of $500,000 in Callable Secured Convertible Notes: To obtain further funding for the Company's ongoing operations, the Company entered into a third securities purchase agreement on June 11, 2007 with three accredited investors consisting of AJW Partners, LLC, AJW Master Fund, Ltd., and New Millennium Capital Partners II, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm, for the sale of (i) $500,000 in callable secured convertible notes and (ii) warrants to purchase 1,000 shares of its common stock. The convertible notes were issued to the investors on June 11, 2007. The convertible notes were issued to the investors on June 11, 2007.

Under the terms of the June 11, 2007 securities purchase agreement, the Company agreed that it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares

of common stock, or (iii) the issuance of warrants during the lock-up period beginning June 11, 2007 and ending on the later of (a) 270 days from June 11, 2007, or (b) 180 days from the date the registration statement is declared effective.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning June 11, 2007 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $500,000 in convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0275, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. On June 16, 2008, the Company agreed to reduce the applicable percentage for calculating the conversion price from 60% to 45% of the average of the three lowest intraday trading prices of the Company's common stock. The Company agreed to this change as a condition to receiving further funding for its ongoing operations on June 16, 2008.

The convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.10 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The warrants are exercisable until seven years from the date of issuance at a purchase price of $50.00 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, the Company will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the convertible notes issued pursuant to the securities purchase agreement.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there was an outstanding principal balance of $456,000 on the convertible notes. On April 22, 2010, the investment funds of The N.I.R. Group, LLC sold $44,000 of the convertible notes to Redwood Management, LLC, an investment company. On April 26, 2010, the Company issued 733,333 shares of common stock to Redwood Management for the conversion of $44,000 of the convertible notes.

4. December 19, 2007 Issuance of $389,010 in Convertible Notes: On December 19, 2007, the Company was notified by the holders of the convertible notes consisting of (AJW Partners, LLC, AJW Master Fund, Ltd., and New Millennium Capital Partners II, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm, that there was a past due interest owing on the outstanding convertible notes. The total amount of interest owed was $389,010. In payment of this interest,

the noteholders were willing to accept $389,010 in additional convertible notes due on December 31, 2010. Accordingly, on December 19, 2007, the Company issued $389,010 in convertible notes to the noteholders as payment of the past due interest.

The $389,010 in convertible notes bear interest at 2% per annum from December 31, 2007. Interest is computed on the basis of a 365-day year and is payable quarterly in cash. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature on December 31, 2010, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. On June 16, 2008, the Company agreed to reduce the applicable percentage for calculating the conversion price from 60% to 45% of the average of the three lowest intraday trading prices of the Company's common stock. The Company agreed to this change as a condition to receiving further funding for its ongoing operations on June 16, 2008.

The $389,010 in convertible notes have a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.04 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 135% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 145% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 150% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion does not exceed 4.9% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there had been no conversions of these convertible notes. Upon conversion of the convertible notes, the Company extinguishes the convertible debt and related embedded derivatives and no gain or loss is recorded on the Company's statements of operations as a result of said conversion.

5. December 24, 2007 Sale of $250,000 in Convertible Notes: To obtain further funding for the Company's ongoing operations, the Company entered into a fourth securities purchase agreement on December 24, 2007 with three accredited investors consisting of AJW Partners, LLC, AJW Master Fund, Ltd., and New Millennium Capital Partners II, LLC, which are investment funds of The N.I.R. Group, LLC, for the sale of (i) $250,000 in callable secured convertible notes and (ii) warrants to purchase 1,500 shares of its common stock. The convertible notes were issued to the investors on December 24, 2007.

Under the terms of the December 24, 2007 securities purchase agreement, the Company agreed that it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning December 24, 2007 and ending on the later of (a) 270 days from December 24, 2007, or (b) 180 days from the date the registration statement was declared effective.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning December 24, 2007 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $250,000 in convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0275, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. On June 16, 2008, the Company agreed to reduce the applicable percentage for calculating the conversion price from 60% to 45% of the average of the three lowest intraday trading prices of the Company's common stock. The Company agreed to this change as a condition to receiving further funding for its ongoing operations on June 16, 2008.

The $250,000 in convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.10 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The warrants are exercisable until seven years from the date of issuance at a purchase price of $10.00 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, the Company will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the convertible notes issued pursuant to the securities purchase agreement.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

The Company is required to register the shares of its common stock issuable upon the conversion of the convertible notes and the exercise of the warrants that were issued to the noteholders pursuant to the securities purchase agreement the Company entered in to on December 24, 2007. The registration statement must be filed with the Securities and Exchange Commission within 60 days of the December 24, 2007 closing date and the effectiveness of the registration is to be within 135 days of such closing date. Penalties of 2% of the outstanding principal balance of the convertible notes plus accrued interest are to be applied for each month the registration is not effective within the required time. The penalty may be paid in cash or stock at the Company's option.

As of December 31, 2011, there was an outstanding principal balance of $229,085 remaining on the convertible notes. During the three months ended June 30, 2011, the Company issued 5,656,701 shares of common stock for the conversion of $14,139 of the convertible notes. On March 1, 2011, the investment funds of The N.I.R. Group sold $6,775 in their convertible notes to Redwood Management, LLC, an investment company. Between March 18, 2011 and April 4, 2011 the Company issued 31,751,194 shares of common stock to Redwood Management for the conversion of $6,775 of the convertible notes.

6. *June 16, 2008 Sale of $310,000 in Convertible Notes:* To obtain additional funding for the Company's ongoing operations, the Company entered into a fifth securities purchase agreement on June 16, 2008 with three accredited investors consisting of AJW Partners, LLC, AJW Master Fund, Ltd., and New Millennium Capital Partners II, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm, for the sale of (i) $310,000 in convertible notes and (ii) warrants to purchase 1,000 shares of its common stock. The sale of the convertible notes and warrants to the investors occurred in three traunches as follows:

- $110,000 in convertible notes were issued on June 16, 2008;

- $100,000 in convertible notes were issued on July 14, 2008 after the Company filed a Schedule 14A preliminary proxy statement for a reverse stock split with the Securities and Exchange Commission; and
- $100,000 in convertible notes were issued on January 20, 2009.

Under the terms of the June 16, 2008 securities purchase agreement, the Company agreed that it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning June 16, 2008 and ending 270 days from June 16, 2008.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning June 16, 2008 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $310,000 in convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0275, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.20 or (ii) 45% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The $310,000 in convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.20 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60^{th} day following the issue date of the notes.

The warrants are exercisable until seven years from the date of issuance at a purchase price of $10.00 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, the Company will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the convertible notes issued pursuant to the securities purchase agreement.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there was no outstanding principal balance on the $310,000 in convertible notes. On April 22, 2010, the investment funds sold $110,000 of the convertible notes to Redwood Management. On April 27, 2010 and

April 30, 2010, the Company issued 231,583,707 shares of common stock to Redwood Management for the conversion of $110,000 of the convertible notes. On May 13, 2010, the investment funds sold $160,000 of the convertible notes to Redwood Management. Between May 17, 2010 and July 1, 2010, the Company issued 1,401,774,192 shares of common stock to Redwood Management for the conversion of $160,000 of the convertible notes. On February 10, 2011, the investment funds of The N.I.R. Group sold $40,000 of the convertible notes to Redwood Management, LLC, an investment company. Between February 28, 2010 and March 2, 2011, the Company issued 31,982,830 shares of common stock to Redwood Management for the conversion of $40,000 of the convertible notes.

7. *August 29, 2008 Issuance of $191,913 in Convertible Notes:* On August 29, 2008, the Company was notified by the holders of the convertible notes consisting of AJW Partners, LLC, AJW Master Fund, Ltd., New Millennium Capital Partners II, LLC, and New Millennium Capital Partners III, LLC, which are investment funds of The N.I.R. Group, LLC, a hedge-fund firm, that there was a past due interest owing on the outstanding convertible notes. The total amount of interest owed was $191,913. In payment of this interest, the noteholders were willing to accept $191,913 in additional convertible notes due on August 29, 2011. Accordingly, on August 29, 2011, the Company issued $191,913 in convertible notes to the noteholders as payment of the past due interest.

The $191,913 in convertible notes bear interest at 2% per annum from August 29, 2008. Interest is computed on the basis of a 365-day year and is payable quarterly in cash. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature on August 29, 2011, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 45% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The $191,913 in convertible notes have a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.00431 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 135% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 145% of the outstanding principal and accrued interest for prepayments occurring between 31 and 90 days following the issue date of the notes; or (c) 150% of the outstanding principal and accrued interest for prepayments occurring after the 90th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion does not exceed 4.9% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there was an outstanding principal balance of $25,525 remaining on the convertible notes. On August 16, 2010, the investment funds sold $166,388 of the convertible notes to Redwood Management. Between August 25, 2010 and February 22, 2011, the Company issued 25,002,205 shares of common stock to Redwood Management for the conversion of $166,388 of the convertible notes.

8. *October 19, 2009 Sale of $125,000 in Convertible Notes:* To obtain additional funding for the Company's ongoing operations, the Company entered into a sixth securities purchase agreement on October 19, 2009 with five accredited investors consisting of AJW Partners, LLC, AJW Partners II, LLC, AJW Master Fund, Ltd., AJW Master Fund II, Ltd., and New Millennium Capital Partners II, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm. The securities purchase agreement provided for the sale of $475,000 in convertible notes to the investors but the Company sold only $125,000 in convertible notes to the investors under the agreement. The sale of the $125,000 in convertible notes to the investors occurred in two traunches as follows:

- $75,000 in convertible notes were issued on October 19, 2009; and
- $50,000 in convertible notes were issued on January 11, 2010.

Under the terms of the October 19, 2009 securities purchase agreement, the Company agreed that it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning October 19, 2009 and ending 270 days from October 19, 2009.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning October 19, 2008 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $125,000 in convertible notes bear interest at 10% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than $.00055, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 45% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The $125,000 in convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.02 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there was an outstanding principal balance of $61,970 remaining on the convertible notes. On February 10, 2011, the investment funds of The N.I.R. Group sold $10,455 of the convertible notes to Redwood Management, LLC, an investment company. On April 2, 2011, the Company issued 12,962,962 shares of common stock to Redwood Management for the conversion of $10,455 of the convertible notes. On March 15, 2011, the investment funds sold $50,000 of the convertible notes to Redwood Management. Between April 4, 2011 and May 2, 2011, the Company issued 583,924,226 shares of common stock to Redwood Management for the conversion of $50,000 in principal and $2,575 in accrued interest of the convertible notes.

9. November 13, 2009 Issuance of $371,007 in Convertible Notes: On November 13, 2009, the Company was notified by the holders of the convertible notes consisting of AJW Partners, LLC, AJW Partners II, LLC, AJW Master Fund, Ltd., AJW Master Fund II, Ltd., and New Millennium Capital Partners III, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm, that there was a past due interest owing on the outstanding convertible notes. The total amount of interest owed was $371,007. In payment of this interest, the noteholders were willing to accept $371,007 in

additional convertible notes due on November 13, 2012. Accordingly, on November 13, 2009, the Company issued $371,007 in convertible notes to the noteholders as payment of the past due interest.

The $371,007 in convertible notes bear interest at 2% per annum from November 13, 2008. Interest is computed on the basis of a 365-day year and is payable quarterly in cash. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature on November 13, 2012, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 45% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The $371,007 in convertible notes have a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.00431 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 135% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 145% of the outstanding principal and accrued interest for prepayments occurring between 31 and 90 days following the issue date of the notes; or (c) 150% of the outstanding principal and accrued interest for prepayments occurring after the 90th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion does not exceed 4.9% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there was an outstanding principal balance of $327,692 remaining on the convertible notes. On March 1, 2011, the investment funds of The N.I.R. Group sold $43,315 of the convertible notes to Redwood Management, LLC, an investment company. Between March 18, 2011 and April 4, 2011, the Company issued 202,971,534 shares of common stock to Redwood Management for the conversion of $43,315 of the convertible notes.

10. *April 19, 2010 Sale of $633,509 in Convertible Notes*: To obtain additional funding for the Company's ongoing operations, the Company entered into a seventh securities purchase agreement on April 19, 2010 with five accredited investors consisting of AJW Partners, LLC, AJW Partners II, LLC, AJW Master Fund, Ltd., New Millennium Capital Partners II, LLC, and New Millennium Capital Partners III, LLC, which are investment funds of The N.I.R. Group, LLC, a private equity fund firm. The securities purchase agreement provided for the sale of $900,000 in convertible notes to the investors but the Company sold only $633,509 in convertible notes to the investors under the agreement. The sale of the $633,509 in convertible notes to the investors occurred in six traunches as follows:

- $154,000 in convertible notes were issued on April 19, 2010;
- $160,000 in convertible notes were issued on May 13, 2010;
- $166,388 in convertible notes were issued on August 17, 2010;
- $50,455 in convertible notes was issued on February 10, 2011;
- $50,091 in convertible notes was issued on March 1, 2011; and
- $52,575 in convertible notes was issued on March 15, 2011.

Under the terms of the April 19, 2010 securities purchase agreement, the Company agreed that it would not, without the prior written consent of a majority-in-interest of the investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning April 19, 2010 and ending 270 days from April 19, 2010.

In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning April 19, 2010 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $633,509 in convertible notes bear interest at 10% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than $.00881 for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The convertible notes mature in three years from the date of issuance, and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $.02 or (ii) 45% of the average of the three lowest intraday trading prices for the common stock for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The $633,509 in convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding convertible notes at any time, provided there is no event of default by the Company and its stock is trading at or below $.02 per share. An event of default includes the failure by the Company to pay the principal or interest on the convertible notes when due. Prepayment of the convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The noteholders have agreed to restrict their ability to convert their convertible notes or exercise their warrants and receive shares of the Company's common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional convertible notes.

As of December 31, 2011, there had been no conversions of these convertible notes. Upon conversion of the convertible notes, the Company extinguishes the convertible debt and related embedded derivatives and no gain or loss is recorded on the Company's statements of operations as a result of said conversion.

The convertible notes include certain features that are considered embedded derivative financial instruments. These features are described as follows:

- The fixed conversion feature that allows the investor to convert the notes at a fixed price per share;
- The variable conversion feature that allows the investor to convert the notes at a specified percentage of the market price at the time of conversion;
- The variable interest rate provision that calls for no interest to be paid if the stock price exceeds a predetermined amount for a given number of months; and
- The contingent put feature, which upon the occurrence of certain events of default, including (i) the Company's failure to pay the principle and interest thereon when due on the notes; (ii) bankruptcy, insolvency, reorganization, liquidation proceedings instituted by or against the Company; (iii) any money judgment is entered against the Company for more than $50,000, which remains unvacated, unbonded, or unstayed for more than twenty days; and (iv) the delisting of the Company's common stock, allows the investor to require the Company to redeem the convertible notes at 130% of the principal amount. Although the put feature was determined to be an embedded derivative which requires bifurcation, the Company believes the likelihood of this feature being exercised is remote and accordingly no value was ascribed to this particular put feature. The Company is required to continue to evaluate our accounting and valuation for this put feature. The Company will continue to monitor the probability

of this particular put feature being exercised and its impact to the Company's valuation of embedded derivatives in future periods.

- The value of the warrants issued in conjunction with each funding.

The initial fair value assigned to the embedded derivatives and warrants was $4,169,000, which consisted of the fair value of the embedded derivatives of $2,588,000 and the fair value of the warrants of $1,582,000. The Company recorded the first $2,500,000 of fair value of the derivatives and warrants to debt discount (equal to the total proceeds received as of June 30, 2005), which will be amortized to interest expense over the term of the notes. The remaining balance of $1,669,000 was recorded as loss of derivative valuation for the period ended June 30, 2005.

As of December 31, 2005, the carrying amount on the notes was $340,000, net of the unamortized debt discount of $1,698,000. Interest expense on the notes totaled $739,000 for the period ended December 31, 2005, which consisted of $369,000 of normal accretion of the note discount and $370,000 of accrued interest on the outstanding note balance for the period. The fair value of the embedded derivatives and warrants decreased to $195,000 during the year ended December 31, 2005, which consisted of a fair value of the embedded derivatives of $137,000 and the fair value of the warrants of $58,000. The corresponding decrease in derivative value was reflected as a gain on derivative valuation on the statements of operations in the amount of $3,975,000.

During 2006, the Company entered into another securities purchase agreement in the amount $1,000,000. The initial fair value assigned to the embedded derivatives and warrants was $541,000 for this note, which consisted of the fair value of the embedded derivatives of $464,000 and the fair value of the warrants of $77,000. The Company recorded the $541,000 of fair value of the derivatives and warrants to debt discount, which will be amortized to interest expense over the term of the notes.

As of December 31, 2006, the carrying amount on the notes was $1,421,000, net of the unamortized debt discount of $1,235,000. Interest expense on the notes totaled $935,000 for the year ended December 31, 2006, which consisted of $721,000 of normal accretion of the note discount and $214,000 of accrued interest on the outstanding note balance for the period. The fair value of the embedded derivatives and warrants decreased by a total of $536,000 during the year ended December 31, 2006, which consisted of a decrease in the fair value of the embedded derivatives of $451,000 and the fair value of the warrants of $85,000. Accordingly, the Company recorded a gain on derivative valuation to the statement of operations of $536,000 for the year ended December 31, 2006.

During 2007, the Company entered into four securities purchase agreements in the aggregate amount of $1,639,000. The initial fair value assigned to the embedded derivatives and warrants was $466,000 for these notes, which consisted of the fair value of the embedded derivatives of $344,000 and the fair value of the warrants of $122,000. The Company recorded $466,000 of fair value of the derivatives and warrants to debt discount, which will be amortized to interest expense over the term of the notes.

At December 31, 2007, the carrying amount on the notes was $3,100,000, net of the unamortized debt discount of $828,000. Interest expense on the notes totaled $992,000 for the year ended December 31, 2007, which consisted of $771,000 of normal accretion of the note discount and $221,000 of accrued interest on the outstanding note balance for the period. The fair value of the embedded derivatives and warrants decreased by a total of $413,000 during the year ended December 31, 2007, which consisted of a decrease in the fair value of the embedded derivatives of $391,000 and the fair value of the warrants of $22,000. Accordingly, the Company recorded a gain on derivative valuation to the statement of operations of $413,000 for the year ended December 31, 2007.

At December 31, 2008, the carrying amount on the notes was $3,854,000, net of the unamortized debt discount of $278,000. Interest expense on the notes totaled $827,000 for the year ended December 31, 2008, which consisted of $515,000 of normal accretion of the note discount and $312,000 of accrued interest on the outstanding note balance for the period. The fair value of the embedded derivatives and warrants decreased by a total of $207,000 during the year ended December 31, 2008, which consisted of a decrease in the fair value of the embedded derivatives of $139,000 and the fair value of the warrants of $68,000. Accordingly, the Company recorded a gain on derivative valuation to the statement of operations of $207,000 for the twelve months ended December 31, 2008.

At December 31, 2009, the carrying amount on the notes was $3,033,417, net of the unamortized debt discount of $296,000. Interest expense on the notes totaled $110,000 for the year ended December 31, 2009, which consisted of $43,000 of normal accretion of the note discount and $67,000 of accrued interest on the outstanding note balance for the period. The fair value of the embedded derivatives and warrants decreased by a total of $10,000,during the year ended December 31, 2009, which consisted of a decrease in the fair value of the embedded derivatives of $5,000 and the fair value of the warrants of $5,000. Accordingly, the Company recorded a gain on derivative valuation to the statement of operations of $207,000 for the year ended December 31, 2009.

The Company received notice from the accredited investors or investment funds holding convertible notes dated June 28, 2006 and convertible notes dated April 30, 2007, that on January 22, 2009, E-Lionheart, LLC and other third parties purchased $500,000 of the convertible notes dated June 28, 2006 and the $500,000 of convertible notes dated April 30, 2007. The total purchase price of these convertible notes was $1,514,444. Between February 18, 2009 and December 31, 2009, the third parties converted a total of $752,406 of the June 28, 2006 and April 30, 2007 convertible notes and received a total of 800,511,410 shares of the Company's common stock pursuant to said conversions. As of December 31, 2010, the Company had outstanding 11,358,962,494 shares of common stock.

At December 31, 2010, the carrying amount on the notes was $2,115,854, net of the unamortized debt discount of $80,000. Interest expense on the notes totaled $155,346 for the year ended December 31, 2010, which consisted of $0 of normal accretion of the note discount and $155,346 of accrued interest on the outstanding note balance for the period.

At December 31, 2011, the carrying amount on the notes was $2,067,336, net of the unamortized debt discount of $80,000. Interest expense on the notes totaled $138,152 for the year ended December 31, 2011, which consisted of $0 of normal accretion of the note discount and $138,152 of accrued interest on the outstanding note balance for the period.

The market price of the Company’s common stock significantly impacts the extent to which the Company may be required or may be permitted to convert the unrestricted and restricted portion of the notes into shares of the Company's common stock. The lower the market price of the Company's common stock at the respective times of conversion, the more shares the Company will need to issue to convert the principal and interest payments then due on the notes. If the market price of the Company's common stock falls below certain thresholds, the Company will be unable to convert any such repayments of principal and interest into equity, and the Company will be forced to make such repayments in cash. The Company's operations could be materially impacted, in an adverse way, if the Company is forced to make repeated cash payments on the notes. As of December 31, 2010, the Company had outstanding 113,589,625 shares of common stock.

Simple Conversion Calculation

The number of shares of common stock issuable upon conversion of the convertible notes issued on April 27, 2005, February 28, 2006, June 11, 2007, December 19, 2007, December 23, 2007, June 16, 2008, August 29, 2008, and October 19, 2009, November 13, 2009, and April19, 2010 is determined by dividing that portion of the principal of the notes to be converted and interest by the conversion price. For example, assuming conversion of $2,067,336 principal amount of the convertible notes on June 30, 2011 (consisting of $5,818,509 in convertible notes that were sold to the investment funds of The N.I.R. Group, LLC pursuant to securities purchase agreements dated April 27, 2005, February 28, 2006, June 11, 2007, December 24, 2007, June 16, 2008, October 19, 2009, November 13, 2009 and April 19, 2010, plus $389,010 in convertible notes issued on December 19, 2007, $191,913 in convertible notes issued on August 29, 2008, and $371,007 in convertible notes issued on November 13, 2009 in payment of past due interest on the notes, less $3,751,173 in principal of the notes converted during the period from June 12, 2005 to December 31, 2011) and a conversion price of $.0001 per share with a 55% discount, the number of shares issuable upon conversion would be:

$2,067,336/$(.0001 x 45%) = 45,940,800,000 shares.

The Company's obligation to issue shares upon conversion of the convertible notes issued on April 27, 2005, February 28, 2006, June 11, 2007, December 19, 2007, December 24, 2007, June 16, 2008, August 29, 2008, October 19, 2009, November 13, 2009, and April 19, 2010 is essentially limitless. The following is an example of the amount of shares of common stock that are issuable upon conversion of $2,067,336 principal amount of the convertible notes (not including accrued interest), based on market prices 25%, 50%, and 75% below the market price, as of December 31, 2011 of $.0001 with a 55% discount:

% Below Market	Price Per Share	With 55% Discount	Number of Shares Issuable	% of Outstanding Shares*
25%	$ .000075	.00003375	61,254,400,000	18,900%
50%	.00005	.0000225	91,881,600,000	28,300%
75%	.000025	.00001125	183,763,200,000	56,600%

*Based on 3,248,785,287 shares outstanding.

As illustrated, the number of shares of common stock issuable upon conversion of the Company's callable secured convertible notes will increase if the market price of the Company's common stock declines, which will cause dilution to existing stockholders.

Adjustable Conversion Price of Convertible Notes

The convertible notes are convertible into shares of the Company's common stock at a 55% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the noteholders convert and sell material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The noteholders could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may have a depressive effect on the market price of the common stock.

Possible Dilution to Stockholders

The issuance of shares upon conversion of convertible notes and exercise of warrants may result in substantial dissolution to the interests of other stockholders since the holders of the convertible notes may ultimately convert and sell the full amount issuable upon conversion. Although the noteholders may not convert their convertible notes and/or exercise their warrants if such conversion or exercise price would cause them to own more than 4.99% of the Company's outstanding common stock, this restriction does not prevent the noteholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the noteholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued, which will have the effect of further diluting the proportionate equity interest and voting power of holders of the Company's common stock.

Failure to Repay Convertible Notes May Require Company Operations to Cease

On April 27, 2005, the Company entered into a securities purchase agreement for the sale of an aggregate of $2,500,000 in convertible notes. On February 28, 2006, the Company entered into a second securities purchase agreement for the sale of an aggregate of $1,500,000 in convertible notes. On June 11, 2007, and December 24, 2007, the Company entered into third and fourth securities purchase agreements for the sale of an aggregate of $750,000 in convertible notes. On December 19, 2007, the Company issued an additional $389,010 in convertible notes as payment of past due interest owing on the outstanding convertible notes. On June 16, 2008, the Company entered into a fifth securities purchase agreement for the sale of an aggregate of $310,000 in convertible notes. On August 29, 2008, the Company issued an additional $191,913 in convertible notes as payment of past due interest owing on the outstanding convertible notes. On January 20, 2009 and October 19, 2009, the Company entered into a sixth securities purchase agreement for the sale of an aggregate of $125,000 in convertible notes. On November 13, 2009, the Company issued an additional $371,000 in convertible notes as payment of past due interest owing on the interest owing on the outstanding convertible notes. On April 19, 2010, the Company entered into a seventh securities purchase agreement for the sale of an aggregate of $480,388 in convertible notes. These convertible notes are all due and payable, with interest, three years from the date of issuance, unless sooner converted into shares of the Company's common stock. On December 31, 2011, the Company had $2,067,336 outstanding in principle convertible notes with NIR. Any event of default such as the Company's failure to repay the principal or interest when due on the notes, the Company's failure to issue shares of common stock upon conversion by the noteholders, the Company's breach of any covenant, representation or warranty in the securities purchase agreement or related convertible notes, the assignment or appointment of a receiver to control a substantial part of the Company's property or business, the filing of a

money judgment, writ or similar process against the Company in excess of $50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against the Company, and the delisting of the Company's common stock could require the early repayment of the convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured within the specified grace period.

The Company anticipates that the full amount of convertible notes will be converted into shares of its common stock, in accordance with the terms of the convertible notes. If the Company is required to repay the convertible notes, it would be required to use its limited working capital and raise additional funds. If the Company were unable to repay the notes when required, the noteholders could commence legal action against the Company and foreclose on all of its assets to recover the amounts due. Any such action would require the Company to curtail or cease operations.

Convertible Debentures Issued to Redwood Management, LLC, an Investment Company

1. *February 5, 2010 Issuance of $50,000 Convertible Debenture*. To obtain funding for the Company's ongoing operations, the Company issued a convertible debenture on February 5, 2010 to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $50,000. The convertible debenture is payable one year from the date of issuance. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

As of December 31, 2011, there was no outstanding balance on the $50,000 convertible debenture. During the twelve months ended December 31, 2011, the Company issued 114,212,439 shares of common stock for the conversion of $50,000 in principal and $4,333 in accrual interest of the convertible debenture.

2. *February 16, 2010 Issuance of $271,197 Convertible Debenture*. On February 16, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $271,197, in exchange for $271,197 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated February 16, 2010, between the Company and the investor. The debt instruments consisted of debt as of December 31, 2008 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there was no outstanding balance on the $271,197 convertible debenture. During the twelve months ended December 31, 2010, the Company issued a total of 5,764,378 shares of common stock for the conversion of the $271,197 convertible debenture.

3. *March 5, 2010 Issuance of $50,000 Convertible Debenture*. To obtain funding for the Company's ongoing operations, the Company issued a convertible debenture on March 5, 2010 to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $50,000. The convertible debenture is payable one year from the date of issuance. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

As of December 31, 2011, there was no outstanding balance on the $50,000 convertible debenture. During the twelve months ended December 31, 2011, the Company issued a total of 1,219,177,776 shares of common stock to Redwood Management for the conversion of $50,000 in principal and $1,863 in accrued interest of the convertible debenture.

4. *March 19, 2010 Issuance of $50,000 Convertible Debenture*. To obtain funding for the Company's ongoing operations, the Company issued a convertible debenture on March 19, 2010 to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $50,000. The convertible debenture is payable one year from the date of issuance. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

As of December 31, 2011, there is an outstanding balance of $9,500. During the twelve months ended December 31, 2011, the Company issued 899,999,999 shares of common stock to Redwood Management for the conversion of $40,500 of the convertible notes. Upon conversion of the convertible debenture, the Company extinguishes the convertible debt and related embedded derivatives and no gain or loss is recorded on the Company's statements of operations as a result of said conversion.

5. *March 19, 2010 Issuance of $95,967 Convertible Debenture*. On March 19, 2010, the Company issued a convertible debenture to an accredited investor, consisting of Redwood Management, LLC, an investment company and an accredited investment, in the amount of $95,967 in exchange for $95,967 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated March 19, 2010, between the Company and the investor. The debt instruments consisted of debt as of January 31, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture

holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there was no outstanding balance on the $95,967 convertible debenture. During the twelve months ended December 31, 2010, the Company issued a total of 2,399,175 shares of common stock for the conversion of the $95,967 convertible debenture.

6. *April 16, 2010 Issuance of $25,000 Convertible Debenture*. To obtain funding for the Company's ongoing operations, the Company issued a convertible debenture on April 16, 2010 to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $25,000. The convertible debenture is payable one year from the date of issuance. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

As of December 31, 2011, there had been no conversions of the $25,000 convertible debenture. Upon conversion of the convertible debenture, the Company extinguishes the convertible debt and related embedded derivatives and no gain or loss is recorded on the Company's statements of operations as a result of said conversion.

7. *April 20, 2010 Issuance of $21,617 Convertible Debenture*. On April 20, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $21,617 in exchange for $21,617 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated April 20, 2010, between the Company and the investor. The debt instruments consisted of debt as of February 28, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there was no outstanding balance on the $21,617 convertible debenture. During the twelve months ended December 31, 2010, the Company issued a total of 491,272 shares of common stock for the conversion of the $21,617 convertible debenture.

8. *April 26, 2010 Issuance of $45,390 Convertible Debenture*. On April 26, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $45,390 in exchange for $45,390 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated April 26, 2010, between the Company and the investor. The debt instruments consisted of debt as of March 31, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there was no outstanding balance on the $45,390 convertible debenture. During the twelve months ended December 31, 2010, the Company issued a total of 1,621,071 shares of common stock for the conversion of the $45,390 convertible debenture.

9. *June 18, 2010 Issuance of $17,582 Convertible Debenture*. On June 18, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $17,582 in exchange for $17,582 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated June 18, 2010, between the Company and the investor. The debt instruments consisted of debt as of April 30, 2009 that the investor purchased and assumed from certain creditors of the Company in the form of assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there was no outstanding balance on the $17,582 convertible debenture. During the twelve months ended December 31, 2010, the Company issued a total of 4,395,500 shares of common stock for the conversion of the $17,582 convertible debenture.

10. *July 16, 2010 Issuance of $40,265 Convertible Debenture*. On July 16, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $40,265 in exchange for $40,265 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated July 16, 2010, between the Company and the investor. The debt instruments consisted of debt as of May 31, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture

holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there was no outstanding balance on the $40,265 convertible debenture. During the twelve months ended December 31, 2010, the Company issued a 10,066,250 shares of common stock for the conversion of the $40,265 convertible debenture.

11. *October 22, 2010 Issuance of $17,409 Convertible Debenture*. On October 22, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $17,409 in exchange for $17,409 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated October 22, 2010, between the Company and the investor. The debt instruments consisted of debt as of June 30, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there had been no conversions of the $17,409 convertible debenture. Upon conversion of the convertible debenture, the Company extinguishes the convertible debt and related embedded derivatives and no gain or loss is recorded on the Company's statements of operations as a result of said conversion.

12. *March 4, 2011 Issuance of $32,298 Convertible Debenture*. On March 4, 2011, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $32,298 in exchange for $32,298 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated March 4, 2011, between the Company and the investor. The debt instruments consisted of debt as of November 30, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor.

The convertible debenture is payable one year from the date of issuance. The convertible debenture does not require payment of any interest and is convertible into the Company's common stock at the debenture holder's option at 40% of the lowest closing bid price determined on the then current trading market for the Company's common stock for 20 days before but not including the conversion date. The Company may prepay at any time, upon seven days written notice, any portion of the principal amount of the convertible debenture at 150% of such amount.

The debenture holder has agreed to restrict its ability to convert its convertible debenture and receive shares of the Company's common stock such that the number of shares of common stock held by it in the aggregate and its affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the debenture holder may repeatedly sell shares of common stock in order to reduce its ownership percentage, and subsequently convert additional convertible debentures.

As of December 31, 2011, there had been no conversions of the $32,298 convertible debenture. Upon conversion of the convertible debenture, the Company extinguishes the convertible debt and related embedded derivatives and no gain or loss is recorded on the Company's statements of operations as a result of said conversion.

At December 31, 2011, the carrying amount on all the debentures issued to Redwood Management was $121,765. Interest on the debentures totaled $2,110 for the nine months ended September 30, 2011. In addition, the carrying amount

on all the convertible notes held by Redwood Management that had been purchased from the investment funds of The N.I.R. Group, a private equity fund firm, which the Company originally issued to the investment funds was $3,475. Since February 5, 2010, the Company obtained funding from Redwood Management through the sale of $175,000 in convertible debentures, of which $131,200 of these convertible debentures had been converted as of September 30, 2011. Moreover, since February 16, 2010, the Company issued a total of $566,327 in convertible debentures in exchange for $566,327 in debt instruments held by Redwood Management that it had purchased and assumed from certain creditors of the Company. As of June 30, 2011, $491,837 of these convertible debentures had been converted. Finally, since April 19, 2010, the Redwood Management purchased $633,509 in convertible notes from the investment funds of The N.I.R. Group, of which $630,034 of these notes had been converted by Redwood Management as of September 30, 2011.

Preferred Stock Conversions

Under the Company's Certificate 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 twelve months ended December 31, 2011, 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 one share of common stock for each share of preferred stock. During the twelve months ended December 31, 2011, 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 twelve months ended December 31, 2011, 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 twelve months ended December 31, 2011, no shares of Series F preferred stock were converted to 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 one share of common stock for each share of preferred stock. During the twelve months ended December 31, 2011, no shares of Series G preferred stock were converted to shares of the Company's common stock.

ITEM XIII. SIMILAR FINANCIAL INFORMATION FOR SUCH PART OF THE TWO PRECEDING FISCAL YEARS AS THE ISSUER OR ITS PREDECESSOR HAS BEEN IN EXISTENCE

PARADIGM MEDICAL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
Assets	(Unaudited)	(Audited)
Current assets:		
Cash	$ 51,000	$ 55,000
Receivables, net	71,000	85,000
Inventories, net	509,000	504,000
Prepaid and other assets	15,000	16,000
Total current assets	640,000	660,000
Property and equipment, net	3,000	7,000
Goodwill	339,000	339,000
Total assets	$ 998,000	$ 1,006,000
Liabilities and Stockholders' (Deficit)		
Current liabilities:		
Accounts payable	$ 366,000	$ 746,000
Related party payable	--	–
Accrued liabilities	512,000	386,000
Convertible notes payable net of debt discount of $ and $ respectively	774,000	596,000
Total current liabilities	1,652,000	1,728,000
Convertible notes payable, net of debt discount of $0 and $239,000	1,738,000	2,517,000
Derivative liabilities	2,000	41,000
Warranty liabilities	–	1,000
Total long-term liabilities	1,740,000	2,559,000
Total liabilities	3,392,000	4,287,000
Commitments and contingencies	--	--
Stockholders' (Deficit):		
Preferred stock, $.000l par value 5,000,000 shares, authorized, 612,497 shares issued and outstanding (aggregate liquidation preference of $456,000)	1,000	1,000
Common Stock:		
$.001 par value, 20,000,000 shares, authorized, 1,469,365,808 and 15,159,807 shares, respectively, issued and outstanding	2,459,000	1,470,000
Additional paid-in capital	59,192,000	58,335,000
Accumulated deficit	(64,056,000)	(63,087,000)
Total stockholders' (Deficit)	(2,401,000)	(3,281,000)
Total liabilities and stockholders' (Deficit)	$ 988,000	$ 1,006,000

PARADIGM MEDICAL INDUSTRIES, INC.
STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2010 (Unaudited)	2009 (Audited)
Sales	$ 726,000	858,000
Cost of sales	311,000	408,000
Gross profit	415,000	450,000
Operating expenses:		
General and administrative	619,000	524,000
Marketing and selling	275,000	205,000
Research and development	355,000	243,000
Total operating expenses	1,249,000	972,000
Operating loss	(834,000)	(522,000)
Other income (expenses):		
Other income	–	–
Interest expense - Accretion of debt discount	–	(185,000)
Interest income	21,000	3,000
Interest expense	155,000	(255,000)
Gain on derivative valuation	–	9,000
Gain on settlement of liabilities	–	–
Total other income (expense)	(626,000)	(428,000)
Income (loss) before provision for income taxes	–	–
Provision for income taxes	–	–
Net income (loss)	$ (968,000)	$ (950,000)
Basic and fully diluted loss per share		
Earnings (loss) per common share - basic	$ (0.00)	$ (0.00)
Earnings (loss) per common share - diluted	$ (0.00)	$ (0.00)
Weighted average common share - basic	4,642,940,052	1,120,798,714
Weighted average common share - diluted	4,642,940,052	1,120,798,714

PARADIGM MEDICAL INDUSTRIES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2010	2009
	(Unaudited)	(Audited)
Cash Flows from Operating Activities:		
Net income (loss)	$ (969,000)	(996,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,000	4,000
Stock option valuation	–	–
Change in fair value of derivative liabilities	–	32,000
Accretion of debt discount	(40,000)	176,000
Provision for losses on receivables	40,000	(30,000)
(Gain) loss of settlement of claims	–	–
(Increase) decrease in:		
Inventory reserve	–	17,000
Accounts receivable	15,000	152,000
Inventories	(5,000)	172,000
Prepaid and other assets	–	–
Increase (decrease) in:		
Accounts payable	(380,000)	152,000
Accrued liabilities	(126,000)	143,000
Net cash used in operating activities	(1,209,000)	(498,000)
Cash flow from investing activities:		
Net cash provided by (used in) investing activities	–	–
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	1,846,000	1,846,000
Net cash (used) provided by financing activities	(641,000)	(885,000)
	1,205,000	526,000
Net change in cash	(4,000)	(28,000)
Cash, beginning of year	55,000	27,000
Cash, end of year	51,000	55,000

ITEM XIV. *BENEFICIAL OWNERS*

The following is a list of the beneficial owners of more than five percent of any of the Company's security classes: None

ITEM XV. *THE NAME, ADDRESS, TELEPHONE NUMBER AND E-MAIL ADDRESS OF EACH OF THE FOLLOWING OUTSIDE PROVIDERS THAT ADVISE THE ISSUER ON MATTERS RELATING TO THE OPERATIONS, BUSINESS DEVELOPMENT AND DISCLOSURE*

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Facsimile (801) 292-8809
troyn@cbnmcpa.com

ITEM XVI. *MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION*

Management's Discussion and Analysis or Plan of Operation

This report contains forward-looking statements and information relating to the Company that is based on beliefs of management as well as assumptions made by, and information currently available to management. These statements reflect its 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), as revised by Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). SAB 101 and SAB 104 detail four criteria that must exist before revenue is recognized:

1. Persuasive evidence of an arrangement exits. Prior to shipment of product, the Company required a signed purchase order and, depending upon the customer, a down payment toward the final invoiced price or full payment in advance with certain international product distributors.

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 its customer upon shipment. This revenue recognition policy does not differ among its various different product lines. The Company guarantees the functionality of its product. If its 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 its 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 requires 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.

5. Revenues for sales of products that require specific installation and acceptance by the customer are recognized upon such installation and acceptance by the customer. Revenues for sales of other surgical systems, ultrasound diagnostic devices, and disposable products are recognized when the product is shipped. A signed purchase agreement and a depositor payment in full from customers are required before a product leaves the premises. Title passes at time of shipment (F.O.B. shipping point). The products of the Company contain both hardware and software components. The Company does not recognize revenue for the software components of the products separate from the product as a whole because the software is incidental to the product, as defined in paragraph 2 of SOP 97-2.

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 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.

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. Intangible assets other than goodwill have been fully amortized.

Allowance for Doubtful Accounts. The Company records an allowance for doubtful accounts to offset estimated uncollectible accounts receivable. Bad debt expense associated with the increases in the allowance for doubtful accounts is recorded as part of general and administrative expense. The Company's accounting policy generally is to record an allowance for receivables over 90 days past due unless there is significant evidence to support that the receivable is collectible.

Derivative Financial Instruments

The Company's derivative financial instruments consist of embedded derivatives related to the convertible notes entered into agreements on April 27, 2005, June 23, 2005, June 30, 2005, February 28, 2006, June 28, 2006, April 30, 2007, June 11, 2007, December 24, 2007, December 31, 2007, June 16, 2008, July 14, 2008, August 29, 2008, October 19, 2009, November 13, 2009 and April 19, 2010. These convertible notes contain interrelated embedded derivatives, which include the fixed conversion feature, the variable conversion feature, the variable interest feature, and the contingent put feature. Although the put feature was determined to be an embedded derivative which requires bifurcation, The Company believes the likelihood of this feature being exercised is remote and accordingly no value was ascribed to this particular put feature. The Company is required to continue to evaluate its accounting and valuation for this put feature. The Company will continue to monitor the probability of this particular put feature being exercised and its impact to the Company's valuation of embedded derivatives in future periods. In the event the value of the put feature becomes material in the future, the Company will use a different model to value this feature along with the other embedded derivatives.

Based on the complex nature of these terms, including the put feature, the Company chose to employ a binomial lattice model to value these features. The Company used the lattice model because it allows for the consideration of the dynamic and interrelated nature of the unique terms of these securities. It takes into consideration that in each discrete period of time a stock can either go up or down (described as its "volatility") and produces a range of potential future stock prices (and thus multiple values at those future points in time). A binomial lattice model assumes the price of the stock underlying the derivative follows one of the two price paths (stock price can either go up or down). There are three general steps in constructing a binomial lattice model: (1) calculation of the stock price lattice, (2) calculation of the potentially applicable option values at each node based on the terms and conditions of the specific security, and (3) progressively calculating the security value at each node starting at the maturity of the security and working back to the present testing for the greater of the current period value or the probability weighted holding value of the security. The following key inputs and assumptions were used to calculate the fair values of the embedded derivatives and the warrants:

- *Stock Price*: This is the stock price as of the respective valuation date.
- *Fixed Conversion Price*: The fixed conversion price used in the valuation analysis was set equal to fixed conversion price (ranging from $20.00 to $9.00) per share for each of the convertible notes. This is the fixed price at which the Investor can convert the convertible note into common stock.
- *Volatility*: Volatility is a measure of the standard deviation of the stocks continuously compounded return over the life of the security. The ideal volatility for an accurate calculation of fair value is the future volatility of the security. This cannot be known with certainty, so an approximation is derived using historical return volatility for a period of time equal to the remaining life of the instrument as a proxy, and professional judgment. As part of our valuation, we performed extensive analysis of the historical volatility of returns for the Company's stock. Based on our analysis, we chose a standard deviation of 200% as our best estimate of future volatility.
- *Risk-Free Rate*: The appropriate risk free rate is the interest rate of a U.S. treasury note with a maturity equal to the maturity of the respective security. As of December 31, 2009, the risk free interest rates ranged from 1.6% to 2.28%. As of December 31, 2008, the risk free interest rates ranged from .11% to .88%. As of December 31, 2007, the risk free interest rates ranged from 3.06% to 3.49%.
- *Time to Maturity*: The time to maturity is measured based on the remaining term of the security as of the valuation date.
- *20-day Minimum Price vs. Closing Stock Price*: The variable conversion feature allows the Investor to convert the Notes at a price equal to 45% of the average of the lowest three trading prices during the twenty trading days preceding a conversion notice. We analyzed the historical relationship between the common stock closing price and the lowest trading price. Based on this analysis, we determined that on average the lowest trading price in any 20-day period during the time period analyzed was approximately 69.5% of the closing price. We used this as a conservative proxy for the average of the three lowest closing prices during the 20-day period. This result was used in the test of the stock price relative to the fixed conversion price.
- *Monthly Intraday Trading Price*: The variable interest rate provision waives interest for a given month if the intraday trading price of the common stock exceeds $9.45 or $2.75 or $1.20 or $.70 (depending on Note) per share for every day within a given month. We made a simplifying assumption that our various node prices were equivalent to this intraday trading price.
- *Trading Liquidity*: We assumed that adequate stock trading liquidity is available for the Investors to sell converted / exercised shares.
- *Probability of Contingent Put Feature*: We assumed that the likelihood of this feature being exercised is remote and accordingly no value was ascribed to this particular put feature. We will continue to monitor the probability of this particular put feature being exercised and its impact to our valuation of embedded derivatives in future periods.

The warrants were valued using the Black-Scholes Option Pricing Model with the following assumptions for 2011: dividend yield of 0%; annual volatility of 200%; and risk free interest rates ranging from .37% to 1.8%. No warrants were issued during 2009 or 2010 or the twelve months ended December 31, 2011.

In the event that the Company is required to convert notes into common stock, the Company is required to eliminate the pro rata portion of the derivative liability associated with the conversion, with a corresponding entry recorded to additional paid in capital.

The accounting treatment of derivative instruments requires that the Company record the derivatives and related warrants at their fair values as of the inception date of the agreement and at a fair value of each subsequent balance sheet date. In addition, under the provisions of SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*, as a result of entering

into the Notes, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. Any change in the fair value will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record a non-operating, non-cash income.

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 eye care products. Given 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. As seen in the results for the twelve months ended December 31, 2010, diagnostic products have been the major focus and the Photon™ and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. The Company does not focus on a specific diagnostic product or products but, instead, on the entire diagnostic group.

Results of Operations

Twelve Months Ended December 31, 2011, Compared to Twelve Months Ended December 31, 2010

Net sales for the twelve months ended December 31, 2011 increased by $46,000, or 6%, to $772,000 as compared to $726,000 for the same period of 2010. This increase in sales was primarily due to increased sales of the P2700 Ocular Ultrasound Diagnostic A/B Scan, P2200 and P2500 Pachymetric Analyzers.

For the twelve months ended December 31, 2011, sales from the Company's diagnostic products totaled $706,000, or 91% of total revenues, compared to $665,000, or 92% of total revenues for the same period of 2009. The remaining 9% of sales, or $66,000 during the twelve months ended December 31, 2011, was from parts, disposables, and service revenue.

Sales of the P60 UBM Ultrasound Biomicroscope increased by $227,000 to $316,000 or 41% of total revenues, for the twelve months ended December 31, 2011, compared to $89,000, or 12% of total revenues, for the same period in 2010. Sales of the Blood Flow Analyzer™ increased by $28,000 to $206,000 or 27% for the twelve months ended December 31, 2011, compared to net sales of $178,000, or 25% of total revenues, during the same period in 2010. Sales from the P2700, P37, and P37-II A/B Scan Ocular Ultrasound Diagnostic devices decreased by $155,000 to $59,000, or 8% of total revenues for the twelve months ended December 31, 2011, compared to $214,000, or 30% of total revenues for the same period in 2010. Sales of the P55, P2200, P2500 Pachymetric Analyzers, and the P2000 A-Scan Biometric Ultrasound Analyzer decreased by $3,000 to $21,000, or 3% of total revenues, for the twelve month period ended December 31, 2011, compared to $24,000, or 3% of total revenues, for the same period in 2010. Combined sales of the LD 400, TKS 5000, and CT200 Autoperimetry Systems decreased by $59,000 to $100,000, or 13% of the total revenues, for the twelve months ended December 31, 2011, compared to $159,000, or 22% of total revenues, for the same period in 2010. Sales of the PERG were $0, or 0% of total revenue for the twelve months ended December 31, 2011, as compared to $0, or 0% of the revenues, for the twelve months ended December 31, 2010.

Analyzer™ decreased due to the inability to place any raw materials orders for necessary parts due to cash shortages, which severely compromised the ability of the Company to build or sell any new BFA Systems. Also, new independent sales representatives became disinterested when they were unable to receive products in a reasonable time period. With adequate financial support, the Company anticipates continuing the upward trend in Blood Flow Analyzer™ sales through additional efforts by the Company to gain widespread support for the Blood Flow Analyzer™ through increased clinical awareness, produce development and improved marketing plans.

The Company anticipates reversing the downward trend in sales through additional efforts by the Company to gain more widespread support for the P60 UBM Ultrasound Biomicroscope, the Blood Flow Analyzer™, the LD400 Autoperimetry System, the P37-II Ocular Ultrasound Diagnostic A/B Scan, the 2200 and 2500 Pachymetric Analyzers, the P2000 A-Scan Biometric Ultrasound Analyzer, the new agreement with the Costrugione Srumenti Oftalmici ("CSO") and its ophthalmic products, and through increased clinical awareness, ongoing product development, improved marketing plans and strategic product replacement, and ongoing development of the LD400 perimeter.

Gross profit for the twelve months ended December 31, 2011 increased by $110,000 to 68% of total revenues, compared to 57% of total revenues for the same period in 2010. This increase in gross profit was mainly due to reductions in corporate expenditures as a result of improved operating efficiencies during the twelve months ended December 31, 2011.

Marketing and selling expenses increased by $159,000, or 58% to $116,000, for the twelve months ended December 31, 2011, from $275,000 for the comparable period in 2010. This increase was due primarily to an increase in overall marketing expenses and related travel expenses.

General and administrative expenses decreased by $140,000, or 23%, to $479,000 for the twelve months ended December 31, 2011, from $619,000 for the comparable period in 2010. This decrease was due primarily to a reduction in overall general and administrative expenses, including a reduction in salaries and hours worked by employees and travel expenses.

Also, during the twelve months ended December 31, 2011, the Company was not able to collect receivables that were previously allowed in the allowance for doubtful accounts. During the twelve months ended December 31, 2011, the Company did not increase the allowance for doubtful accounts.

Research, development and service expenses increased by $95,000, or 27%, to $260,000 for the twelve months ended December 31, 2011, compared to $355,000 in the same period in 2010. This increase was mainly due to the re-hiring of staff.

Gain and loss of derivative valuation for the twelve months ended December 31, 2011 were $0 as compared to $0 for the same period in 2010.

Interest expense–accretion of debt discount for the twelve months ended December 31, 2011 were $0 as compared to $0 for the same period in 2010.

Interest expense for the twelve months ended December 31, 2011 decreased by $7,000, or 5%, to $148,000 as compared to $155,000 for the same period in 2010.

Liquidity and Capital Resources

The Company used $74,000 in cash in operating activities for the twelve months ended December 31, 2011, compared to $1,209,000 for the twelve months ended December 31, 2010. The increase in cash used for operating activities for the twelve months ended December 31, 2011 was primarily attributable to the Company's net loss and decreases in inventory, and a significant decrease of the change of the fair value of derivative liabilities. There was no cash used for investment activities for the twelve months ended December 31, 2011, compared to no cash used for investment activities for the same period in 2010. Net cash used in financing activities was $49,000 for the twelve months ended December 31, 2011, compared to $1,205,000 in the same period in 2010. The Company had a working capital deficit of $2,228,000 as of December 31, 2011. In the past, the Company has relied heavily upon sales of the Company's 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.

As of December 31, 2011, the Company had net operating loss carry forwards (NOLs) of approximately $56 million. These loss carry forwards are available to offset future taxable income, if any, and have begun to expire in 2006 and extend through 2028. The Company's ability to use net operating loss carry forwards (NOLs) to offset future income is dependent upon certain limitations as a result of the pooling transaction with Vismed and the tax laws in effect at the time of the NOLs being utilized. The Tax Reform Act of 1986 significantly limits the annual amount that can be utilized for certain of these carry forwards as a result of change of ownership.

As of December 31, 2011, the Company had accounts payable of $396,000, a significant portion of which was over 90 days past due, compared to accounts payable of $366,000 as of December 31, 2010. The Company has contacted many of the vendors or companies of payables past due in an effort to delay payment, negotiate 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.

The Company has taken measures to reduce the amount of uncollectible accounts receivable such as a more thorough and stringent credit approval, improved product, 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 34% of total outstanding receivables as of December 31, 2011, compared to 38% of total outstanding receivables as of December 31, 2010.

The Company intends to continue its efforts to reduce the allowance for doubtful accounts as a percentage of accounts receivable. The Company has ongoing efforts to collect a significant portion of the sales price in advance of the sale or in a timely manner after delivery. 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 $250,000 at December 31, 2011 and $214,000 at December 31, 2010, or 36% and 28% of total inventory, respectively. 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.

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.

At this time, the Company's Photon™ Laser Ocular Surgery Workstation requires regulatory FDA approval in order to be sold in the United States. Any possible future efforts to complete the clinical trials on the Photon™ in order to file for FDA approval would depend on the Company obtaining adequate funding. The Company estimates that the funds needed to complete the clinical trials in order to obtain the necessary regulatory approval on the Photon™ to be approximately $2,500,000. The Company is currently attempting to find a prospective purchaser to acquire the Photon™ laser system and its components, including the inventory and intellectual property rights.

PART E

ISSUANCE HISTORY

ITEM XVII. *LIST OF SECURITIES OFFERINGS AND SHARES ISSUED FOR SERVICES IN THE PAST TWO YEARS*

During the period from January 1, 2010 to December 31, 2010, the Company received conversion requests from investment funds of The N.I.R. Group, LLC, a private equity fund firm, holding convertible notes dated June 23, 2005, June 16, 2007, and July 14, 2008. Between January 1, 2010 and December 31, 2010, the investment funds converted a total of $1,102,016 of the convertible notes dated June 23, 2005, June 16, 2007, and July 14, 2008 at conversion prices ranging from $.00007 to $.005 per share, and the Company issued a total of 6,116,033,198 shares of its common stock pursuant to said conversions.

During the period from January 1, 2010 to December 31, 2010, the Company also received conversion requests from consisting of Redwood Management, LLC, an investment company, holding convertible debentures dated February 16, 2010, March 19, 2010, April 20, 2010, April 26, 2010, June 18, 2010, and July 16, 2010. Between January 1, 2010 and December 31, 2010, the investment company converted a total of $492,018 of such convertible debentures at conversion prices ranging from $.00005 to $.00054 per share, and the Company issued a total of 2,473,764,676 shares of its common stock pursuant to said conversions.

On February 5, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $50,000. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On February 16, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $271,197 in exchange for $271,197 in debt instruments held by the investor

pursuant to the terms of an exchange agreement dated February 16, 2010, between the Company and the investor. The debt instruments consisted of debt as of December 31, 2008 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture, does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On March 5, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $50,000. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On March 19, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $50,000. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On March 19, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $95,967 in exchange for $95,967 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated March 19, 2010, between the Company and the investor. The debt instruments consisted of debt as of January 31, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On April 16, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $25,000. The convertible debenture bears interest at 8% per annum from the date of issuance and is convertible into the Company's common stock at the debenture holder's option at 45% of the lowest closing bid price determined on the then current trading market for the Company's common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On April 19, 2010, the Company entered into a securities purchase agreement with five accredited investors consisting of AJW Partners, LLC, AJW Partners II, LLC, AJW Master Fund, Ltd., New Millennium Capital Partners II, LLC, and New Millennium Capital Partners III, LLC, which are investment funds of The N.I.R. Group, LLC, a hedge-fund firm. The securities purchase agreement provided for the sale of $900,000 in convertible notes to the investors but the Company sold only $480,388 in convertible notes to the investors under the agreement. The sale of the $480,388 in convertible notes occurred in three traunches as follows: (i) $154,000 in convertible notes were issued on April 19, 2010, (ii) $160,000 in convertible notes were issued on May 13, 2010, (iii) $166,388 in convertible notes were issued on August 17, 2010, (iv) $50,455 in convertible notes were issued on February 10, 2011; (v) $50,091 in convertible notes were issued on March 1, 2011; and (vi) $52,575 in convertible notes were issued on March 15, 2011. The convertible notes bear interest at 8% per annum and are convertible into the Company's common stock at the noteholders' option, at the lower of (i) $2.00 or (ii) 45% of the average of the three lowest intraday trading prices for the common stock for the 20 days before but not including the trading date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On April 20, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $21,617 in exchange for $21,617 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated April 20, 2010, between the Company and the investor. The debt instruments consisted of debt as of February 28, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On April 26, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $45,390 in exchange for $45,390 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated April 26, 2010, between the Company and the investor. The debt instruments consisted of debt as of March 31, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On June 18, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $17,582 in exchange for $17,582 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated June 18, 2010, between the Company and the investor. The debt instruments consisted of debt as of April 30, 2009 that the investor purchased and assumed from certain creditors of the Company in the form of assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On July 16, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $40,265 in exchange for $40,265 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated July 16, 2010, between the Company and the investor. The debt instruments consisted of debt as of May 31, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On October 22, 2010, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $17,409 in exchange for $17,409 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated October 22, 2010, between the Company and the investor. The debt instruments consisted of debt as of June 30, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

On March 4, 2011, the Company issued a convertible debenture to Redwood Management, LLC, an investment company and an accredited investor, in the amount of $32,298 in exchange for $32,298 in debt instruments held by the investor pursuant to the terms of an exchange agreement dated March 4, 2011, between the Company and the investor. The debt instrument consisted of debt as of November 30, 2009 that the investor purchased and assumed from certain creditors of the Company through assignment and assumption agreements between such creditors and the investor. The convertible debenture does not require the payment of any interest and is convertible into the Company's common stock at the holder's option at 40% of the lowest closing bid price for the common stock for the 20 days before but not including the conversion date. See Item XII. Financial Information for the Issuer's Most Recent Fiscal Period, Notes to Financial Statements.

PART F

EXHIBITS

ITEM XVIII. *MATERIAL CONTRACTS*

Exhibit No.	Document Description
3.1	Certificate of Incorporation(l)
3.2	Amended Certificate of Incorporation
3.3	Bylaws(1)

4.1 Specimen Common Stock Certificate (2)
4.2 Specimen Series C Convertible Preferred Stock Certificate(3)
4.3 Certificate of the Designations, Powers, Preferences and Rights of the Series C Convertible Preferred Stock(3)
4.4 Specimen Series D Convertible Preferred Stock Certificate (4)
4.5 Certificate of the Designations, Powers, Preferences and Rights of the Series D Convertible Preferred Stock(5)
4.6 Certificate of Designations, Powers, Preferences and Rights of the Series G Convertible Preferred Stock (6)
10.1 Exclusive Patent License Agreement with PhotoMed(1)
10.2 1995 Stock Option Plan (1)
10.3 Securities Purchase Agreement, dated April 27, 2005, with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLP (the "Purchasers")(7)
10.4 Form of Convertible Note with each Purchaser(7)
10.5 Security Agreement with Purchasers(7)
10.6 Intellectual Property Security Agreement with Purchasers(7)
10.7 Registration Rights Agreement with Purchasers(7)
10.8 Securities Purchase Agreement, dated February 28, 2006, with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLP(8)
10.9 Form of Callable Secured Convertible Note with each Purchaser(8)
10.10 Security Agreement with Purchasers(8)
10.11 Intellectual Property Security Agreement with Purchasers(8)
10.12 Registration Rights Agreement with Purchasers(8)
10.13 Second Amendment to the Registration Rights Agreement dated April 27, 2005 (9)
10.14 Second Amendment to the Registration Rights Agreement dated February 28, 2006 (9)
10.15 Securities Purchase Agreement, dated June 11, 2007, with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC, and New Millennium Capital Partners L1, LLP (10)
10.16 Form of Convertible Note with each Purchaser (10)
10.17 Form of Stock Purchase Warrant with each Purchaser (10)
10.18 Security Agreement with Purchasers (10)
10.19 Intellectual Property Agreement with Purchasers (10)
10.20 Registration Rights Agreement with Purchasers (10)
10.21 Securities Purchase Agreement, dated December 24, 2007, with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLP (11)
10.22 Form of Convertible Note with each Purchaser (11)
10.23 Form of Stock Purchase Warrant with each Purchaser (11)
10.24 Security Agreement with Purchasers (11
10.25 Intellectual Property Agreement with Purchasers (11)
10.26 Registration Rights Agreement with Purchasers (11)
10.27 Letter of Understanding with Costrugione Srumenti Oftalmici (12)

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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 Annual Report on Form 10-KSB, as filed on April 16, 1998.
(4) Incorporated by reference from Registration Statement on Form SB-2, as filed on April 29, 1999.
(5) Incorporated by reference from Report on Form 10-QSB, as filed on August 16, 2000.
(6) Incorporated by reference from Report on Form 10-QSB, as filed on November 14, 2003.
(7) Incorporated by reference from Current Report on Form 8-K, as filed on May 18, 2005.
(8) Incorporated by reference from Current Report on Form 8-K, as filed on March 1, 2006.
(9) Incorporated by reference from Registration Statement on Form SB-2, as filed on April 16, 2007.
(10) Incorporated by reference from Report on Form 10-QSB, as filed on August 17, 2007.
(11) Incorporated by reference from Current Report on Form 8-K, as filed on January 7, 2008.
(12) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2008.

ITEM XIX. *ARTICLES OF INCORPORATION AND BYLAWS*

See Item IX of Annual Report dated December 31, 2009.

ITEM XX. *PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS*

None.

ITEM XXI. *ISSUER'S CERTIFICATIONS*

I, Stephen L. Davis, certify that;

I have reviewed this annual disclosure for the fiscal year ended December 31, 2011 of Paradigm Medical Industries, Inc.;

2. Based on my knowledge, statement of material fact necessary to make the statements made, in light of, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement fairly present in all material respects the financial condition results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Dated: May 22, 2012

/s/ Stephen L. Davis
Stephen L. Davis, President, Treasurer and
Chief Executive Officer

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