QUARTERLY REPORT

For the Quarter Ended June 30, 2012

PARADIGM MEDICAL INDUSTRIES, INC.

(a Delaware corporation)

All information contained in this Quarterly Report has been compiled to fulfill the disclosure requirements of the Pink OTC Markets, Inc. The captions contained herein correspond to the sequential format set forth in the disclosure guidelines.

Item 1. Exact Name of the Issuer and the Address of Its Principal Executive Offices.

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

Item 2. Shares Outstanding.

Common Stock, $.0001 par value, at June 30, 2012
Number of Shares Authorized: 20,000,000,000
Number of Shares Outstanding: 3,248,785,287

Preferred Stock, $.001 par value, at June 30, 2012
Number of Shares Authorized: 5,000,000
Series A
Authorized: 500,000 shares
Outstanding: 56 shares
Series B
Authorized: 500,000 shares
Outstanding: 90 shares
Series C
Authorized: 30,000 shares
Outstanding: 0 shares
Series D
Authorized: 1,140,000 shares
Outstanding: 50 shares
Series E
Authorized: 50,000 shares
Outstanding: 3 shares
Series F
Authorized: 50,000 shares
Outstanding: 44 shares
Series G
Authorized: 2,000,000 shares
Outstanding: 5,882 shares

Item 3. Interim Financial Statements.

PARADIGM MEDICAL INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets		
Cash	$ 9,000	$ 27,000
Receivables, net	63,000	64,000
Inventories, net	396,000	441,000
Prepaid and other assets	8,000	22,000
Total current assets	476,000	555,000
Property and equipment, net	1,000	1,000
Goodwill	339,000	339,000
Total assets	$ 816,000	$ 895,000
Liabilities and Stockholders' (Deficit)		
Current liabilities:		
Accounts payable	$ 386,000	$ 396,000
Related party payable	-	-
Accrued liabilities	901,000	813,000
Convertible notes payable net of debt discount of $80,000 and $80,000, respectively	1,574,000	1,574,000
Total current liabilities	2,861,000	2,783,000
Convertible notes payable	615,000	615,000
Derivative liabilities	2,000	2,000
Total long-term liabilities	617,000	617,000
Total liabilities	3,478,000	3,400,000
Commitments and contingencies	-	-
Stockholders' (Deficit):		
Preferred stock, authorized:		
5,000,000 shares, $001 par value,		
Series A		
Authorized: 500,000 shares; issued and outstanding: 56 shares at June 30, 2012	-	-
Series B		
Authorized: 500,000 shares; issued and outstanding: 90 shares at June 30, 2012	-	-
Series C		
Authorized: 30,000 shares; issued and outstanding: 0 shares at June 30, 2012	-	-
Series D		
Authorized: 1,140,000 shares; issued and outstanding: 50 shares at June 30, 2012	-	-
Series E		
Authorized: 50,000 shares; issued and outstanding: 3 shares at June 30, 2012	-	-
Series F		
Authorized: 50,000 shares; issued and outstanding: 44 shares at June 30, 2012	-	-
Series G		
Authorized: 2,000,000 shares; issued and outstanding: 5,882 shares at June 30, 2012	1,000	1,000
Common Stock, Authorized:		
20,000,000,000 shares, $.0001 par value; issued and outstanding: 3,248,785,287 and 2,726,563,065 respectively	2,772,000	2,772,000
Additional paid-in capital	59,251,000	59,251,000
Accumulated deficit	(64,686,000)	(63,530,000)
Total stockholders' (Deficit)	(2,662,000)	(2,505,000)
Total liabilities and stockholders' (Deficit)	$ 816,000	$ 895,000

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

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Sales	$ 108,000	$ 147,000	$ 289,000	$ 343,000
Cost of Sales	49,000	58,000	101,000	130,000
Gross Profit	59,000	89,000	188,000	213,000
Operating Expenses:				
Sales and Marketing	9,000	60,000	$ 14,000	107,000
General and administrative	63,000	97,000	157,000	225,000
Legal	5,000	31,000	7,000	61,000
Research and development	35,000	78,000	102,000	156,000
Total Operating Expenses	112,000	266,000	279,000	549,000
Operating Income (Loss)	(53,000)	(177,000)	(92,000)	(336,000)
Other Income and (Expenses):				
Interest expense - accretion of debt discount	–	–	–	–
Gain and loss of derivative valuation	–	–	–	–
Interest expense	(37,000)	(39,000)	(65,000)	(73,000)
Interest income	–	–	–	–
Settlement of liabilities	–	–	–	–
Total Other Expenses	(37,000)	(39,000)	(65,000)	(73,000)
Income (loss) before provision for income	(90,000)	(215,000)	(157,000)	(409,000)
taxes Provision for income taxes	–	–	–	–
Net income (loss)	$ (90,000)	$ (215,000)	$ (157,000)	$ (409,000)
Earnings (loss) Per Common Share - Basic	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Earnings (loss) Per Common Share - Diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted Average Common Share - Basic	3,248,785,287	236,571,283	3,248,785,287	1,525,633,173
Weighted Average Common Share - Diluted	3,248,785,287	236,571,283	3,248,785,287	1,525,633,173

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

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

	Six Months Ended June 30, 2012	2011
Cash Flows from Operating Activities:		
Net (loss)	$ (157,000)	$ (410,000)
Adjustment to Reconcile Net Loss to Net		
Cash Used In Operating Activities:		
Depreciation and Amortization	–	1,000
Change in Fair Value of Derivative Liabilities	–	–
Beneficial Conversion Interest	–	–
Provision for Losses on Receivables	(12,000)	1,000
Increase/Decrease in Inventory Reserve	(9,000)	–
(Increase) Decrease from Changes in:		
Accounts Receivable	13,000	60,000
Inventories	54,000	(4,000)
Prepaid and other assets	15,000	4,000
Increase (Decrease) in:		
Accounts Payable	(10,000)	15,000
Accrued Liabilities	88,000	243,000
Net Cash Used in Operating Activities	(18,000)	(91,000)
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	–	348,000
Increase(Decrease) in Long Term Debt	–	(300,000)
Net Cash (Used) Provided by Financing Activities	–	48,000
Net Change in Cash	(18,000)	(42,000)
Cash, Beginning of Period	27,000	51,000
Cash, End of Period	9,000	9,000
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	$ –	$ –
Cash Paid for Income Taxes	$ –	$ –
Non-Cash Transaction:		
Notes Converted into Common Stock	$ –	$ 153,000

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

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

Basis of Financial Statement Presentation

The accompanying condensed 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 condensed or omitted pursuant to such rules and regulations. These condensed 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 condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report for the year ended December 31, 2011. The results of operations for the six months ended June 30, 2012 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. 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.

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 3,528 and 6,416 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 45,940,800,000 and 46,255,000,000 shares of common stock at June 30, 2012 and 2011, 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 six month periods ended June 30, 2012 and June 30, 2011:

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Basic weighted average shares outstanding	3,248,785,287	1,525,633,173
Diluted weighted average shares outstanding	3,248,785,287	1,525,633,173
Net loss	$ (157,000)	$ (409,000)
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 Private Equity 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. *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:

a. $500,000 in convertible notes were issued on February 28, 2006;

b. $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.

c. $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 June 30, 2012, 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.

2. *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 June 30, 2012, 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.

3. 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 June 30, 2012, 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.

4. *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 June 30, 2012, 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.

5. *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 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.

As of June 30, 2012, 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.

6. *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 June 30, 2012, 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.

7. *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 June 30, 2012, 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.

8. *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 90^{th} 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 June 30, 2012, 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.

9. *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 June 30, 2012, 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.

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.

At June 30, 2012, 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 $35,016 for the six months ended June 30, 2012.

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 March 31, 2012, the Company had outstanding 3,248,785,287 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 March 31, 2012 (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 June 30, 2012) 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 June 30, 2012 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 June 30, 2012, 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. *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 June 30, 2012, 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.

2. *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 June 30, 2012, 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.

3. *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 June 30, 2012, 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 June 30, 2012, the carrying amount on all the debentures issued to Redwood Management was $121,765. Interest on the debentures totaled $2,110 for the six months ended June 30, 2012. 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, 2012, $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 June 30, 2012.

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 six months ended June 30, 2012, 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 six months ended June 30, 2012, 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 six months ended June 30, 2012, 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 six months ended June 30, 2012, 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 six months ended June 30, 2012, no shares of Series G preferred stock were converted to shares of the Company's common stock.

Item 4: 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 2010: dividend yield of 0%; annual volatility of 200%; and risk free interest rates ranging from .37% to 1.8%. No warrants were issued during 2011 or the six months ended June 30, 2012.

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 three months ended March 31, 2011, 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

Three Months Ended June 30, 2012, Compared to Three Months Ended June 30, 2011

Net sales for the three months ended June 30, 2012 decreased by $39,000, or 27%, to $108,000 as compared to $147,000 for the same period of 2011. This decrease in sales was primarily due to decreased sales of the P60 UBM Ultrasound Biomicroscope, the P2700 A/B Scan Ocular Ultrasound Diagnostic, and the P2200 and P2500 Pachymetric Analyzers.

For the three months ended June 30, 2012, sales from the Company's diagnostic products totaled $105,000, or 97% of total revenues, compared to $140,000, or 95% of total revenues for the same period of 2011. The remaining 3% of sales, or $3,000 during the three months ended June 30, 2012, was from parts, disposables, and service revenue.

Sales of the P60 UBM Ultrasound Biomicroscope decreased by $72,000 to $14,000, or 13% of total revenues, for the three months ended June 30, 2012, compared to $86,000, or 59% of total revenues, for the same period in 2011. Sales of the Blood Flow Analyzer™ increased by $41,000 to $63,000, or 58% of total revenues for the three months ended June 30, 2012, compared to $22,000, or 15% of total revenues, for the same period in 2011. Sales from the P2700, P37, and P37-II A/B Scan Ocular Ultrasound Diagnostic devices decreased by $8,000 to $13,000, or 12% of total revenues for the three months ended June 30, 2012, compared to $21,000, or 14% of total revenues, for the same period in 2011.

Sales of the P55, P2200, P2500 Pachymetric Analyzers, and the P2000 A-Scan Biometric Ultrasound Analyzer decreased by $2,300 to $0, or 0% of total revenues, for the three month period ended June 30, 2011, compared to $2,300 or 1% of total revenues for the same period in 2011. Combined sales of the LD 400, TKS 5000, and CT200 Autoperimetry Systems increased by $2,000 to $14,000, or 13% of the total revenues, for the three months ended June 30, 2012, compared to $12,000, or 8% of total revenues, for the same period in 2011. There were no sales of the PERG for the three months ended June 30, 2012, as compared to no sales for the three months ended June 30, 2011.

Gross profit for the three months ended June 30, 2012 decreased by $30,000 to 55% of total revenues, compared to 61% of total revenues for the same period in 2011. This decrease in gross profit was mainly due to an increase in corporate expenditures during the three months ended June 30, 2012. Cost of sales increased by $9,000 for the three months ended June 30, 2012, but this was 45% of gross profits for the period compared to 39% of gross profits for the three months ending June 30, 2011.

Marketing and selling expenses decreased by $51,000, or 85%, to $9,000, for the three months ended June 30, 2012, from $60,000 for the comparable period in 2011. This decrease was due primarily to the reduction of overall marketing expenses and related travel expenses.

General and administrative expenses decreased by $34,000, or 35%, to $63,000 for the three months ended June 30, 2012, from $97,000 for the comparable period in 2011. 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 three months ended June 30, 2012, the Company was not able to collect receivables that were previously allowed in the allowance for doubtful accounts. During the three months ended June 30, 2012, the Company did not increase the allowance for doubtful accounts.

Research, development and service expenses decreased by $43,000, or 55%, to $35,000 for the three months ended June 30, 2012, compared to $78,000 in the same period in 2011. This decrease was mainly due to lack of resources.

Legal expenses for the three months ended June 30, 2012 decreased by $26,000, or 84%, to $5,000 as compared to $31,000 for the same period in 2011.

Six Months Ended June 30, 2012, Compared to Six Months Ended March 31, 2011

Net sales for the six months ended June 30, 2012 decreased by $25,000, or 12%, to $188,000 as compared to $213,000 for the same period of 2011. This decrease in sales was primarily due to reduced sales of the P60 UBM Ultrasound Biomicroscope, the P2700 A/B Scan Ocular Ultrasound Diagnostic, and the P2200 and P2500 Pachymetric Analyzers.

For the six months ended June 30, 2012, sales from the Company's diagnostic products totaled $171,000, or 91% of total revenues, compared to $326,000, or 95% of total revenues for the same period of 2011. The remaining 9% of sales, or $17,000 during the six months ended June 30, 2012, was from parts, disposables, and service revenue.

Sales of the P60 UBM Ultrasound Biomicroscope decreased by $132,000 to $55,000, or 29% of total revenues, for the six months ended June 30, 2012, compared to $187,000, or 55% of total revenues, for the same period in 2011. Sales of the Blood Flow Analyzer™ increased by $76,000 to $138,000, or 73% of total revenues for the six months ended June 30, 2012, compared to $62,000, or 18% of total revenues, for the same period in 2011. Sales from the P2700, P37, and P37-II A/B Scan Ocular Ultrasound Diagnostic devices decreased by $5,000 to $37,000, or 20% of total revenues for the six months ended June 30, 2012, compared to $42,000, or 12% of total revenues, for the same period in 2011.

Sales of the P55, P2200, P2500 Pachymetric Analyzers, and the P2000 A-Scan Biometric Ultrasound Analyzer increased by $12,800 to $15,000, or 8% of total revenues, for the six month period ended June 30, 2011, compared to $2,200 or 1% of total revenues for the same period in 2011. Combined sales of the LD 400, TKS 5000, and CT200 Autoperimetry Systems decreased by $3,000 to $30,000, or 16% of the total revenues, for the six months ended June 30, 2012, compared to $33,000, or 10% of total revenues, for the same period in 2011. There were no sales of the PERG for the six months ended June 30, 2012, as compared to no sales for the six months ended June 30, 2011.

Gross profit for the six months ended June 30, 2012 decreased by $25,000 to 65% of total revenues, compared to 62% of total revenues for the same period in 2011. This decrease in gross profit was mainly due to an increase in corporate expenditures during the six months ended June 30, 2012. Cost of sales decreased by $29,000 for the six months ended June 30, 2012, but this was 35% of gross profits for the period compared to 38% of gross profits for the six months ending June 30, 2011.

Marketing and selling expenses decreased by $93,000, or 87%, to $14,000, for the six months ended June 30, 2012, from $107,000 for the comparable period in 2011. This decrease was due primarily to the reduction of overall marketing expenses and related travel expenses.

General and administrative expenses decreased by $68,000, or 30%, to $157,000 for the six months ended June 30, 2012, from $225,000 for the comparable period in 2011. 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 six months ended June 30, 2012, the Company was not able to collect receivables that were previously allowed in the allowance for doubtful accounts. During the six months ended June 30, 2012, the Company did not increase the allowance for doubtful accounts.

Research, development and service expenses decreased by $54,000, or 35%, to $102,000 for the six months ended June 30, 2012, compared to $156,000 in the same period in 2011. This decrease was mainly due to lack of resources.

Legal expenses for the six months ended June 30, 2012 decreased by $54,000, or 89%, to $7,000 as compared to $61,000 for the same period in 2011.

Liquidity and Capital Resources

The Company used $18,000 in cash in operating activities for the six months ended June 30, 2012, compared to $91,000 for the six months ended June 30, 2011. The decrease in cash used for operating activities for the three months ended June 30, 2012 was primarily attributable to the Company's decrease in net loss. No cash was used for investment activities for the six months ended June 30, 2012, compared to $1,000 used for investment activities for the same period in 2011. No cash was used in financing activities for the six months ended June 30, 2012, compared to $48,000 was used for the same period in 2011. The Company had a working capital deficit of $2,385,000 as of June 30, 2012. 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 June 30, 2012, the Company had net operating loss carryforwards (NOLs) of approximately $42 million. These loss carryforwards 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 carryforwards (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 carryforwards as a result of change of ownership.

As of June 30, 2012, the Company had accounts payable of 386,000, a significant portion of which was over 90 days past due, compared to accounts payable of $381,000 as of June 30, 2011. 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 leases office and warehouse space under a month-to-month operating lease agreement.

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 25% of total outstanding receivables as of June 30, 2012, compared to 80% of total outstanding receivables as of June 30, 2011.

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 $241,000 at June 30, 2012 and $214,000 at June 30, 2011, or 38% and 29% 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 December 31, 2011, the Company disposed of $0 in obsolete inventory that had been previously reserved.

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.

Item 5. 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 5A. Risk Factors

The continuously adjustable conversion price feature of the convertible notes could require the Company to issue a substantially greater number of shares, which will cause dilution to the existing shareholders.

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 (including accrued interest), based on market prices 25%, 50%, and 75% below the market price, as of June 30, 2012 of $.0001 with a 45% 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 convertible notes will increase if the market price of the Company's stock declines, which will cause dilution to the Company's existing shareholders.

The continuously adjustable conversion price feature of the convertible notes may encourage investors to make short sales in the Company's common stock, which could have a depressive effect on the price of the Company's common stock.

The convertible notes are convertible into shares of the Company's common stock at a 45% 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 the further downward pressure on the stock price. In addition, not only could the sales of shares issuable upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

The issuance of shares upon conversion of the convertible notes may cause immediate and substantial dilution to existing shareholders.

The issuance of shares upon conversion of convertible notes may result in substantial dilution to the interests of other shareholders since the noteholders may ultimately convert and sell the full amount issuable on conversion. Although the noteholders may not convert their convertible notes if such conversion 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 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 principal amount of convertible notes. On February 28, 2006, the Company entered into another securities purchase agreement for the sale of an aggregate of $1,500,000 principal amount of 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 principal amount of 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 principal amount of 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 and seventh securities purchase agreement for the sale of an aggregate of $175,000 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. Except for $75,000 in convertible notes issued on October 19, 2009 at 10% interest, these convertible notes are all due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of the Company's common stock. These convertible notes are all due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of the Company's common stock. As of June 30, 2012, the principle carrying amount on the notes for The NIR Group was $2,067,336. 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.

Because the Company failed to hold Annual Shareholders Meetings in fiscal 2008, fiscal 2009, fiscal 2010 and fiscal 2011, the Delaware Court of Chancery may order an Annual Meeting to be held upon request by a shareholder.

The Company did not hold an Annual Meeting of the Shareholders (the "Annual Meeting") for fiscal 2008, fiscal 2009, fiscal 2010 or fiscal 2011 in order to avoid the costs of such a meeting, including the cost of preparing and mailing a Proxy Statement and Annual Report to each of its shareholders. Under Delaware law, the Company is required to hold an Annual Meeting each year. A failure to hold an Annual Meeting does not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Company. Moreover, under Delaware law, directors continue to serve as directors despite lack of an Annual Meeting until the next Annual Meeting and until their successors have been elected and qualified. However, if the Company fails to hold an Annual Meeting for a period of 30 days after the date designated in its bylaws for the Annual Meeting, the Delaware Court of Chancery may order an Annual Meeting to be held upon the application of any of the Company's shareholders, if an Annual Meeting is ordered to be held by the court, the Company would have to incur the costs of holding the meeting, including the cost of preparing and mailing the Proxy Statement and Annual Report to each of its shareholders.

Item 6. Defaults Upon Senior Securities

None

Item 7. Other Information

In May 2010, CSO filed a 510(k) application with the FDA for the Paramax™. The Paramax™ is 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).

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.

Item 8. Exhibits.

(a) Exhibits

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

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 February 28, 2006, with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLP(7)
10.4	Form of Callable Secured Convertible Note with each Purchaser(7)
10.5	Security Agreement with Purchasers(7)
10.6	Intellectual Property Security Agreement with Purchasers(7)
10.7	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 (9)
10.8	Form of Convertible Note with each Purchaser (8)
10.9	Form of Stock Purchase Warrant with each Purchaser (8)
10.10	Security Agreement with Purchasers (8)
10.11	Intellectual Property Agreement with Purchasers (8)
10.12	December 2007 Securities Purchase Agreement, December 24, 2007, with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLP (9)
10.13	Form of Convertible Note with each Purchaser (9)
10.14	Form of Stock Purchase Warrant with each Purchaser (9)
10.15	Security Agreement with Purchasers (9)
10.16	Intellectual Property Agreement with Purchasers (9)
10.17	Letter of Understanding with Costrugione Srumenti Oftalmici (10)

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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 March 1, 2006.

(8) Incorporated by reference from Report on Form 10-QSB, as filed on August 17, 2007.

(9) Incorporated by reference from Current Report on Form 8-K, as filed on January 7, 2008.

(10) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2008.

Item 9. Certificates.

ISSUER'S CERTIFICATIONS

I, Stephens L. Davis, certify that:

1. I have reviewed this Quarterly Report of Paradigm Medical Industries, Inc.

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the quarter 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 Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the quarters presented in this Quarterly Report.

PARADIGM MEDICAL INDUSTRIES, INC.

September 26, 2012

/s/ Stephen L. Davis
Stephen L. Davis
President, Treasurer and Chief Executive Officer
(Principal Executive Officer, Principal Financial Officer, and Principal Accounting Officer)

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