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PARADIGM MEDICAL INDUSTRIES INC  
Form 10QSB  
May 19, 2003

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

FORM 10-QSB

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

For Quarter Ended March 31, 2003 Commission File Number: 0-28498

PARADIGM MEDICAL INDUSTRIES, INC.  
-----

Exact Name of Registrant.

|   |   |
|---|---|
| DELAWARE<br>-----<br>(State or other jurisdiction<br>of incorporation or organization)          | 87-0459536<br>-----<br>IRS Identification<br>Number |
| 2355 South 1070 West, Salt Lake City, Utah<br>-----<br>(Address of principal executive offices) | 84119<br>-----<br>(Zip Code)                        |
| Registrant's telephone number,<br>including Area Code   | (801) 977-8970<br>-----                             |

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the close of the period covered by this report.

|   |  |
|---|--|
| Common Stock, \$.001 par value<br>-----<br>Title of Class       | 21,986,874<br>-----<br>Number of Shares<br>Outstanding as of<br>March 31, 2003 |
| Series A Preferred, \$.001 par value<br>-----<br>Title of Class | 5,627<br>-----<br>Number of Shares<br>Outstanding as of<br>March 31, 2003      |
| Series B Preferred, \$.001 par value<br>-----<br>Title of Class | 8,986<br>-----<br>Number of Shares<br>Outstanding as of                        |

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March 31, 2003

|   |   |
|---|---|
| Series C Preferred, \$.001 par value<br>-----<br>Title of Class | 0<br>-----<br>Number of Shares<br>Outstanding as of<br>March 31, 2003     |
| Series D Preferred, \$.001 par value<br>-----                   | 5,000<br>-----<br>Number of Shares<br>Outstanding as of<br>March 31, 2003 |
| Series E Preferred, \$.001 par value<br>-----                   | 1,500<br>-----<br>Number of Shares<br>Outstanding as of<br>March 31, 2003 |
| Series F Preferred, \$.001 par value<br>-----                   | 5,774<br>-----<br>Number of Shares<br>Outstanding as of<br>March 31, 2003 |

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Transitional Small Business Disclosure Format  
YES NO X

PARADIGM MEDICAL INDUSTRIES, INC.  
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QUARTER ENDED MARCH 31, 2003

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

|   | March 31,<br>2003    |
|---|----------------------|
|   | -----<br>(Unaudited) |
| <b>ASSETS</b>   |                      |
| Current Assets  |                      |
| Cash & Cash Equivalents   | \$ 92,000            |
| Receivables, Net  | 890,000              |
| Prepaid Expenses  | 57,000               |
| Inventory   | 2,405,000            |
|   | -----                |
| Total Current Assets  | 3,444,000            |
| Intangibles, Net  | 789,000              |
| Property and Equipment, Net   | 415,000              |
| Deposits and Other Assets   | 96,000               |
|   | -----                |
| Total Assets  | 4,744,000            |
|   | =====                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                      |
| Current Liabilities:  |                      |
| Trade Accounts Payable  | 903,000              |
| Accrued Expenses  | 1,589,000            |
| Current Portion of Long-term Debt   | 29,000               |
|   | -----                |
| Total Current Liabilities   | 2,521,000            |
| Long-term Debt  | 80,000               |
|   | -----                |
| Total Liabilities   | 2,601,000            |
| Stockholders' Equity:   |                      |
| Preferred Stock, Authorized:  |                      |
| 5,000,000 Shares, \$.001 par value  |                      |
| Series A  |                      |
| Authorized: 500,000 shares; issued and<br>outstanding: 5,627 shares at March 31, 2003 | -                    |
| Series B  |                      |
| Authorized: 500,000 shares; issued and<br>outstanding: 8,986 shares at March 31, 2003 | -                    |
| Series C  |                      |
| Authorized: 30,000 shares; issued and<br>outstanding: zero shares at March 31, 2003   | -                    |

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|   |  |              |
|---|--|--------------|
| Series D  |  |              |
| Authorized: 1,140,000 shares; issued and        |  |              |
| outstanding: 5,000 shares at March 31, 2003     |  | -            |
| Series E  |  |              |
| Authorized: 50,000; issued and                  |  |              |
| outstanding: 1,500 at March 31, 2003            |  | -            |
| Series F  |  |              |
| Authorized: 50,000; issued and                  |  |              |
| outstanding: 5,774 at March 31, 2003            |  | -            |
| Common Stock, Authorized:                       |  |              |
| 40,000,000 Shares, \$.001 par value; issued and |  |              |
| outstanding: 21,986,874 at March 31, 2003       |  | 22,000       |
| Additional paid-in-capital                      |  | 56,776,000   |
| Stock subscription receivable                   |  | (294,000)    |
| Accumulated Deficit                             |  | (54,321,000) |
|   |  | -----        |
|   | Total Stockholders' Equity                 | 2,143,000    |
|   |  | -----        |
|   | Total Liabilities and Stockholders' Equity | \$ 4,744,000 |
|   |  | =====        |

See accompanying notes to financial statements

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

|                                   | Three Months Ended<br>March 31, |                     |
|-----------------------------------|---------------------------------|---------------------|
|                                   | 2003<br>(Unaudited)             | 2002<br>(Unaudited) |
| Sales                             | \$ 727,000                      | \$ 1,537,000        |
| Cost of Sales                     | 346,000                         | 841,000             |
|                                   | -----                           | -----               |
| Gross Profit                      | 381,000                         | 696,000             |
|                                   | -----                           | -----               |
| Operating Expenses:               |                                 |                     |
| Marketing and Selling             | 322,000                         | 1,015,000           |
| General and Administrative        | 477,000                         | 998,000             |
| Research, development and service | 281,000                         | 750,000             |
|                                   | -----                           | -----               |
| Total Operating Expenses          | 1,080,000                       | 2,763,000           |
|                                   | -----                           | -----               |
| Operating Income (Loss)           | (699,000)                       | (2,067,000)         |
| Other Income and (Expense):       |                                 |                     |
| Interest Income                   | 3,000                           | 4,000               |

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|  |              |                |
|--|--------------|----------------|
| Interest Expense   | (7,000)      | (10,000)       |
|  | -----        | -----          |
| Total Other Income and<br>(Expense)                        | (4,000)      | (6,000)        |
|  | -----        | -----          |
| Net loss before provision<br>for income taxes              | (703,000)    | (2,073,000)    |
| Income taxes   | -            | -              |
|  | -----        | -----          |
| Net Loss   | \$ (703,000) | \$ (2,073,000) |
|  | =====        | =====          |
| Net Loss Per Common Share - Basic<br>and Diluted           | \$ (.03)     | \$ (.13)       |
|  | =====        | =====          |
| Weighted Average Outstanding<br>Shares - Basic and Diluted | 21,976,000   | 15,775,000     |
|  | =====        | =====          |

See accompanying notes to financial statements

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

|   | Three Months Ended March 31, |                |
|---|------------------------------|----------------|
|   | 2003                         | 2002           |
|   | (Unaudited)                  | (Unaudited)    |
| Cash Flows from Operating Activities:   |                              |                |
| Net Loss  | \$ (703,000)                 | \$ (2,073,000) |
| Adjustment to Reconcile Net Loss to Net<br>Cash Used In Operating Activities: |                              |                |
| Depreciation and Amortization   | 119,000                      | 132,000        |
| Issuance of Common Stock for Services   | -                            | 18,000         |
| Provision for (recovery of) Losses on Receivables                             | (75,000)                     | (10,000)       |
| (Increase) Decrease from Changes in:  |                              |                |
| Trade Accounts Receivable   | 129,000                      | 824,000        |
| Inventories   | 244,000                      | 191,000        |
| Prepaid Expenses  | 24,000                       | (55,000)       |
| Increase (Decrease) from Changes in:  |                              |                |
| Trade Accounts Payable  | (1,000)                      | (430,000)      |
| Accrued Expenses and Deposits   | 176,000                      | 69,000         |
|   | -----                        | -----          |
| Net Cash Used in Operating Activities   | (87,000)                     | (1,334,000)    |
|   | -----                        | -----          |
| Cash Flow from Investing Activities:  |                              |                |
| Purchase of Property and Equipment  | -                            | (110,000)      |
| Net Cash Paid in Acquisition  | -                            | (100,000)      |
|   | -----                        | -----          |

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|   |           |              |
|---|-----------|--------------|
| Net Cash Used in Investing Activities             | -         | (210,000)    |
| <hr style="border-top: 1px dashed black;"/>       |           |              |
| Cash Flows from Financing Activities:             |           |              |
| Principal Payments on Notes Payable               | (15,000)  | (15,000)     |
| <hr style="border-top: 1px dashed black;"/>       |           |              |
| Net Cash (Used) Provided by Financing Activities  | (15,000)  | (15,000)     |
| <hr style="border-top: 1px dashed black;"/>       |           |              |
| Net Decrease in Cash and Cash Equivalents         | (102,000) | (1,559,000)  |
| Cash and Cash Equivalents at Beginning of Period  | 194,000   | 2,702,000    |
| <hr style="border-top: 1px dashed black;"/>       |           |              |
| Cash and Cash Equivalents at End of Period        | \$ 92,000 | \$ 1,143,000 |
| <hr style="border-top: 1px dashed black;"/>       |           |              |
| Supplemental Disclosure of Cash Flow Information: |           |              |
| Cash Paid for Interest                            | \$ 7,000  | \$ 10,000    |
| <hr style="border-top: 1px dashed black;"/>       |           |              |
| Cash Paid for Income Taxes                        | \$ -      | \$ -         |
| <hr style="border-top: 1px dashed black;"/>       |           |              |

See accompanying notes to financial statements

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

Significant Accounting Policies:

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In the opinion of management, the accompanying financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the financial position of Paradigm Medical Industries, Inc. (the Company) as of March 31, 2003 and the results of its operations for the three months ended March 31, 2003 and 2002, and its cash flows for the three months ended March 31, 2003 and 2002. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year period.

Liquidity and Going Concern

-----

Due to the declining sales, significant recurring losses and cash used to fund operating activities, the auditors' report for the year ended December 31, 2002 included an explanatory paragraph that expressed substantial doubt about our ability to continue as a going concern. The Company has taken significant steps to reduce costs and increase operating efficiencies. In addition, the Company is attempting to obtain additional funding through the sale of its common stock. Traditionally the Company has relied on financing from the sale of its common and preferred stock to fund operations. If the Company is unable to obtain such financing in the near future it may be required to reduce or cease its operations.

Reclassifications

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Certain amounts in the financial statements for the three months ended March 31, 2002 have been reclassified to conform with the presentation of the current period financial statements.

### Net Income (Loss) Per Share

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Net income (loss) per common share is computed on the weighted average number of common and common equivalent shares outstanding during each period. Common stock equivalents consist of convertible preferred stock, common stock options and warrants. Common equivalent shares are excluded from the computation when their effect is anti-dilutive. Other common stock equivalents have not been included in loss years because they are anti-dilutive.

### Preferred Stock Conversions:

-----

Under the Company's Articles of Incorporation, holders of the Company's Class A and Class B Preferred Stock have the right to convert such stock into shares of the Company's common stock at the rate of 1.2 shares of common stock for each share of preferred stock. During the three month period ended March 31, 2003, no shares of Series A Preferred Stock and no shares of Series B Preferred Stock were converted to the Company's Common Stock.

Holders of Series D Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 1 share of common stock for each share of preferred stock. During the three months ended March 31, 2003, no shares of Series D Preferred Stock were converted to the Company's Common stock.

Holders of Series E Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the three months ended March 31, 2003, no shares of Series E Preferred Stock were converted to the Company's Common stock.

Holders of Series F Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the three months ended March 31, 2003, 498 shares of Series F Preferred Stock were converted to shares of the Company's Common stock.

### Warrants:

-----

The fair value of warrants granted as described herein is estimated at the date of grant using the Black-Scholes pricing model. The exercise price per share is reflective of the then current market value of the stock. No grant exercise price was established at a discount to market. All warrants are fully vested, exercisable and nonforfeitable as of the grant date. No warrants were granted during the three months ended March 31, 2003.

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### Related Party Transactions:

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Payments for legal services to the firm of which the chairman of the board of directors is a partner were approximately \$15,000 and \$53,000 for the three months ended March 31, 2003 and 2002, respectively.

### Stock - Based Compensation

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

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

|   | Three Months Ended March 31,<br>2003 | 2002           |
|---|--------------------------------------|----------------|
|   | -----                                |                |
| Net loss - as reported  | \$ (703,000)                         | \$ (2,073,000) |
| Deduct: total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects | (274,000)                            | -              |
|   | -----                                |                |
| Net loss - pro forma  | \$ (977,000)                         | \$ (2,073,000) |
|   | -----                                |                |
| Earnings per share:   |                                      |                |
| Basic and diluted - as reported   | \$ (.03)                             | \$ (.13)       |
| Basic and diluted - pro forma   | \$ (.04)                             | \$ (.13)       |

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

|                                 | Three Months Ended March 31,<br>2003 | 2002 |
|---------------------------------|--------------------------------------|------|
|                                 | -----                                |      |
| Expected dividend yield         | \$ -                                 | \$ - |
| Expected stock price volatility | 102%-103%                            | -    |
| Risk-free interest rate         | 4%                                   | -    |
| Expected life of options        | 2-5 years                            | -    |

The weighted average fair value of options granted during the three months ended March 31, 2003 was \$.13.



MANAGEMENT'S DISCUSSION AND ANALYSIS  
OR PLAN OF OPERATION

The following Management's Discussion and Analysis or Plan of Operation contains forward-looking statements, which address matters that are subject to a number of risks and uncertainties. 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 runs from January 1 to and including December 31.

The Company is engaged in the design, development, manufacture and sale of high technology surgical and diagnostic eye care products. Its surgical equipment is designed to perform minimally invasive cataract surgery and is comprised of surgical devices and related instruments and accessories, including disposable products. Its diagnostic products include a pachymeter, an A-Scan, an A/B Scan, a biomicroscope, a perimeter, a corneal topographer, and a blood flow analyzer.

Its ultrasound diagnostic products technology were acquired from Humphrey Systems in 1998. In October 1999, the Company purchased the inventory and design and production rights of another line of surgical equipment, also designed to perform minimally invasive cataract surgery. The line includes the Mentor SiStem (TM), the Odyssey (TM), and the Surgitrol (TM). In November 1999, the Company entered into a Mutual Release and Settlement Agreement with the manufacturer of the Precisionist Thirty Thousand (TM) in which the Company purchased the raw material and finished goods inventory to bring manufacture of this product in-house. The Dicon (TM) perimeter and the Dicon (TM) topographer were added to product line when the Company acquired Vismed, Inc. d/b/a DICON in June 2000. The blood flow analyzer was acquired when Ocular Blood Flow, Ltd. ("OBF") was purchased in June 2000. The Company received approval for ISO 9000 and CE Mark certifications in June 2000, enabling the Company to market its diagnostic and surgical products in the European community. The Company has successfully maintained its ISO approval and CE Mark certifications to date.

Activities for the three months ended March 31, 2003, included sales of the Company's products and related accessories and disposable products. Other activities included continued expenses in connection with FDA approval of the Photon laser system and FDA approval for expanded use for the Blood Flow Analyzer (TM). In March 2003, the Company named a new President and chief executive officer, Dr. Jeffrey F. Poore. The Company named a new vice president of sales and marketing, Ray Cannefax, during the first quarter of 2003.

Results of Operations

Three Months Ended March 31, 2003, Compared to Three Months Ended March 31, 2002

Net sales for the three months ended March 31, 2003 were \$727,000 as compared to \$1,537,000 for the same period of 2002 due principally to the decrease in sales of the Blood Flow Analyzer(TM) and the ultrasonicbiomicroscope. Sales of the Blood Flow Analyzer(TM) decreased by \$107,000 to \$163,000, or 22% of total revenues for the three months ended March 31, 2003, compared to \$270,000, or 18% of total revenues for the same period in 2002. Sales of the ultrasonicbiomicroscope were \$43,000 during the first quarter 2003, or 6% of total quarterly revenues, compared to \$194,000, or 13% of total revenues for the same period last year. Sales from the other ultrasonic products were \$94,000, or 13% of total revenues for the quarter ended March 31, 2003, compared to \$200,000, or 13% of total quarterly revenues for the same period last year. Sales of the Dicon products, the perimeter and corneal topographer, were \$258,000, or 36% of the total revenues for the current quarter, compared to

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\$284,000, or 18% of the total revenues for the same quarter of 2002. Sales from the surgical line totaled \$31,000, or 4% of total revenues for the three months ended March 31, 2003, compared to \$75,000, or 5% of total revenues for the corresponding period of 2002.

Gross profit for the three months ended March 31, 2003 was 52% of total revenues, and 45% of total revenues for the comparable period of 2002. Cost of goods sold for the three months ended March 31, 2003 and 2002, respectively, did not include significant write downs of inventory. The increase in gross margin percentage was mainly due to efficiencies gained through the reduction of employees.

Marketing and selling expenses decreased by approximately \$693,000 to \$322,000, for the three months ended March 31, 2003, from \$1,015,000 for the comparable period in 2002 due mainly to less personnel related expenses and travel reimbursements. The Company had fewer salespersons during the first quarter of 2003, compared to the number of sales persons employed during the first quarter of 2002. Payroll related expenses and travel reimbursements were \$220,000 in 2003, compared to \$592,000 for the same period in 2002. The first quarter of 2002 also included additional marketing and advertising expenses including tradeshow expenses of \$327,000, compared to \$12,000 for the three months ended March 31, 2003.

General and administrative expenses decreased by \$521,000 to \$477,000 for the three months ended March 31, 2003, from \$998,000 for the comparable period in 2002 due principally to the cost reductions implemented by the Company during 2002, which included the closure of its San Diego facility. For the period ending March 31, 2003, personnel costs decreased by \$190,000, travel related costs decreased by \$50,000 and consulting and legal costs decreased by \$234,000.

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Research, development and service expenses were \$281,000 for the three months ended March 31, 2003, compared to \$750,000 recorded in the same period of 2002, a decrease of \$469,000. Service department expenses decreased in the first quarter of 2003 from the same period of 2002 by \$32,000 due principally to the reduction of personnel in this department. Production development and support expenses, which includes indirect manufacturing costs of purchasing, shipping and supervisory personnel, decreased by \$354,000 in the first quarter of 2003, compared to the same period a year ago due mainly to decreased personnel resulting from the San Diego facility closure in 2002.

Other expense decreased by \$2,000 for the three months ended March 31, 2003 to \$4,000, from \$6,000 for the same period in 2002 as a result of a decrease in interest expense from capital leases.

### Liquidity and Capital Resources

The Company used cash in operating activities of \$87,000 for the three months ended March 31, 2003, compared to \$1,334,000 for the three months ended March 31, 2002. The decrease in cash used by operating activities for the first three months of 2003 was primarily attributable to reduced operating costs, including the closure of the San Diego facility. The Company did not use any cash in investing activities for the three months ended March 31, 2003, compared to \$210,000 in the same period in 2002. Cash used in investing activities in the first three months of 2002 was primarily due to the cash paid in the acquisition of certain assets of Innovative Optics and capital equipment. Net cash used in financing activities was \$15,000 for the three months ended March 31, 2003 and 2002, resulting from principal payments on lease obligations.

As of March 31, 2003, the Company has raised approximately \$1,500,000 through a

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\$20,000,000 equity line of credit under an investment banking arrangement, which the Company will continue to use. As of March 31, 2003, approximately \$18,500,000 was available under the equity line of credit, subject to Nasdaq trading limitations. In the past, the Company has relied heavily upon sales of its common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to the Company in the future. The Company will continue to seek funding to meet its working capital requirements through collaborative arrangements and strategic alliances, additional public offerings and/or private placements of its securities or bank borrowings. The Company is uncertain whether or not the combination of existing working capital, benefits from sales of the Company's products and the private equity line of credit will be sufficient to assure the Company's operations through December 31, 2003.

At March 31, 2003, the Company had net operating loss carry-forwards (NOLs) of approximately \$41,000,000 and research and development tax credit carry-forwards of approximately \$34,000. These carry-forwards are available to offset future taxable income, if any, and have begun to expire in 2001 and extend for twenty years. The Company's ability to use Net Operating Loss Carryforwards (NOLs) to offset future income is dependant upon certain limitations as a result of the pooling transaction with Vismed and the tax laws in effect at the time of the NOLs can be 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.

### Effect of Inflation and Foreign Currency Exchange

The Company has not realized a reduction in the selling price of its products as a result of domestic inflation, nor has it experienced unfavorable profit reductions due to currency exchange fluctuations or inflation with its foreign customers.

### Impact of New Accounting Pronouncements

In April 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement requires the classification of gains or losses from the extinguishments of debt to meet the criteria of Accounting Principles Board Opinion No. 30 before they can be classified as extraordinary in the income statement. As a result, companies that use debt extinguishment as part of their risk management cannot classify the gain or loss from that extinguishment as extraordinary. The statement also requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The Company does not expect Adoption of SFAS No. 145 did have a material impact on financial position or future operations.

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

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of FASB Statement No.

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123," which is effective for all fiscal years ending after December 15, 2002. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation under SFAS No. 123 from the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25. SFAS 128 also changes the disclosure requirements of SFAS 123, requiring a more prominent disclosure of the pro-forma effect of the fair value based method of accounting for stock-based compensation. The adoption of SFAS No. 148 by the Company did not have a material impact on the Company's financial position or future operations.

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

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

### Item 3. Controls and Procedures

#### (a) Evaluation of disclosure controls and procedures

Based on their evaluations as of a date within 45 days of the filing date of this report, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

#### (b) Changes in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these internal controls subsequent to

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the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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### Part II: Other Information

#### Item 1. Legal Proceedings

An action was brought against the Company in March 2000 by George Wiseman, a former employee, in the Third District Court of Salt Lake County, State of Utah. The complaint alleges that the Company owes Mr. Wiseman 6,370 shares of its common stock plus costs, attorney's fees and a wage penalty (equal to 1,960 additional shares of Paradigm common stock) pursuant to Utah law. The action is based upon an extension of a written employment agreement. The Company believes the complaint is without merit and intends to vigorously defend against the action.

An action was brought against the Company in September 2000 by PhotoMed International, Inc. and Daniel M. Eichenbaum in the Third District Court of Salt Lake County, State of Utah. The action involves an amount of royalties that are allegedly due and owing to PhotoMed International, Inc. and Dr. Eichenbaum with respect to the sales of certain equipment plus attorney's fees. Discovery has taken place and the Company has paid royalties of \$14,736 to bring all payments up to date through June 30, 2001. The Company is in the process of working with Photomed International and Dr. Eichenbaum to ensure that the calculations have been correctly made on the royalties paid as well as the proper method of calculation for the future. It is anticipated that once the parties can agree on the correct calculations on the royalties, the legal action will be dismissed.

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

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

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

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it intends to vigorously defend against any legal action that Mr. Motter may bring.

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The Company received a demand letter dated January 6, 2003 from counsel for Westcore STIPG, LLC, the landlord with regard to the lease on our former facilities in San Diego, California. The letter demands payment of \$10,567 plus interest, attorney's fees and costs for the repairs and restoration work on the San Diego facilities, after a deduction of the Company's \$6,000 security deposit. The Company rejects these claims, contending that the security deposit was adequate to pay for any repairs or restoration expenses on the premises.

The Company received a demand letter dated December 9, 2002 from counsel for Dan Blacklock, dba Danlin Corp. The letter demands payment in the amount of \$65,160 for manufacturing and supplying parts for microkeratome blades. The Company's records show that it received approximately \$34,824 in parts from the Danlin Corp., but that the additional amounts that the Danlin Corp contends are owed were from parts that were received but rejected by the Company because they had never been ordered.

The Company received demand letters dated September 29, 2002 and December 10, 2002 from counsel for CitiCorp, Vendor Finance, Inc. and its successor-in-interest, The Copy Man, dba TCM Business. The letters demand payment of \$49,627 plus interest for the leasing of two copy machines that were delivered to the Salt Lake City facilities on or about April of 2000. The majority of the amounts alleged to be owed by the Company are from the remaining payments on the leases. The Company disputes the amounts allegedly owed, asserting that the copy machines, which it returned to the leasing company, did not work properly.

An action was brought by Dr. John Charles Casebeer against the Company in the Montana Second Judicial District Court, Silver Bow County, state of Montana. The complaint alleges that Dr. Casebeer entered into a personal services contract with the Company memorialized by a letter dated April 20, 2002, with it being alleged that Dr. Casebeer fully performed his obligations. Dr. Casebeer asserts that he is entitled to \$43,750 per quarter for consultant time and as an incentive to be granted each quarter \$5,000 in options issued at the fair market value. An additional purported incentive was \$50,000 in shares of stock being issued at the time a formalized contract was to be signed by the parties. In the letter it is provided that at its election, the Company may pay the consideration in the form of stock or cash and that stock would be issued within 30 days of the close of the quarter. Prior to the litigation, the Company issued 43,684 shares to Dr. Casebeer. The referenced letter provides that termination may be made by either party upon giving 90 days written notice. Notice was given by the Company in early November 2002. The Company recently filed its answer in defense of the action. Issues include whether or not Dr. Casebeer fully performed as asserted.

On May 14, 2003, a complaint was filed in the United States District Court, District of Utah captioned Richard Meyer, individually and on behalf of all others similarly suited v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle, and John Hemmer, case no. 2:03CV00448TC. The caption also indicates that it is a "Class Action Complaint for Violations of Federal Securities Laws and Plaintiffs Demand a Trial by Jury." The Company is in the process of reviewing the complaint, which appears to be focused on alleged false and misleading statements pertaining to the Blood Flow Analyzer(TM) and concerning a purchase order from Valdespino Associates Enterprises and Westland Corp. The Company intends to vigorously defend and protect its interests.

The Company is not a party to any other material legal proceedings outside the

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ordinary course of its business or to any other legal proceedings which, if adversely determined, would have a material adverse effect on the Company's financial condition or results of operations.

### Item 2. Changes in Securities

None

### Item 3. Defaults Upon Senior Securities

None

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

None

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### Item 5. Other Information

On April 15, 2003, the Company received notice of a determination by Nasdaq's Listing Qualifications staff that the Company fails to comply with the minimum bid price rules for continued listing set forth in Marketplace Rules 4310(c)(4) and does not meet Rule 4310(c)(2)(A) inclusion requirements. Specifically, the notice stated the Company had not regained compliance with the minimum \$1.00 closing bid price per share requirement and the Company did not qualify with the \$5,000,000 shareholders' equity, \$50,000,000 market value of listed securities or \$750,000 net income from continuing operations requirement. As of December 31, 2002, the notice stated the Company's reported shareholders' equity of \$2,874,000 and net losses from continuing operations of \$11,155,000, and as of April 14, 2003, the market value of the Company's securities was \$4,208,108. Separately, Nasdaq has informed the Company that listing fees of \$22,500 and \$18,000 under Rule 4310(c)(13) are owed to the Nasdaq SmallCap Market.

The Company has requested an oral hearing before a Nasdaq Listing Qualifications Panel to review the staff's determination. The request automatically stays the delisting of the Company's common stock. Until the panel's final decision, Paradigm stock will continue to be traded on the SmallCap Market. Hearings with the panel generally transpire within 30 days of a Company's request. The Company intends to present a plan to the Nasdaq Listing Qualifications Panel for achieving sustaining compliance with the Nasdaq SmallCap Marketplace Rules, though there can be no assurance that the panel will grant the Company's request for continued listing.

On April 23, 2003, the Company received formal notice from Nasdaq that a hearing to consider its appeal would be held on May 29, 2003. If the planned appeal is unsuccessful, the Company may apply for a transfer to the OTC Bulletin Board. The Company has recently hired Dr. Jeffrey F. Poore as its President and Chief Executive Officer to assist in the process of a major company restructuring. In conjunction with that restructuring, Dr. Poore will present to the panel a definitive plan both for increasing distribution and for expanding corporate opportunities.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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The following Exhibits are filed herewith pursuant to Rule 601 of

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Regulation S-B or are incorporated by reference to previous filings.

| Table No. | Document  |
|-----------|---|
| 2.1       | Amended Agreement and Plan of Merger between Paradigm Medical Industries, Inc., a California corporation and Paradigm Medical Industries, Inc., a Delaware corporation(1) |
| 3.1       | Certificate of Incorporation(1)   |
| 3.2       | Amended Certificate of Incorporation(12)  |
| 3.3       | Bylaws (1)  |
| 4.1       | Warrant Agency Agreement with Continental Stock Transfer & Trust Company(3)   |
| 4.2       | Specimen Common Stock Certificate (2)   |
| 4.3       | Specimen Class A Warrant Certificate(2)   |
| 4.4       | Form of Class A Warrant Agreement(2)  |
| 4.5       | Underwriter's Warrant with Kenneth Jerome & Co., Inc.(3)  |
| 4.6       | Warrant to Purchase Common Stock with Note Holders re bridge financing (1)  |
| 4.7       | Specimen Series C Convertible Preferred Stock Certificate(4)  |
| 4.8       | Certificate of the Designations, Powers, Preferences and Rights of the Series Convertible Preferred Stock(4)  |
| 4.10      | Specimen Series D Convertible Preferred Stock Certificate (6)   |
| 4.11      | Certificate of the Designations, Powers, Preferences and Rights of the Series D Convertible Preferred Stock (8)   |
| 4.12      | Warrant to Purchase Common Stock with Cyndel & Co. (6)  |
| 4.13      | Warrant Agreement with KSH Investment Group, Inc. (6)   |
| 4.14      | Warrant to Purchase Common Stock with R.F. Lafferty & Co., Inc. (6)   |
| 4.15      | Warrant to Purchase Common Stock with Dr. Michael B. Limberg (6)  |
| 4.16      | Warrant to Purchase Common Stock with John W. Hemmer (8)  |
| 4.17      | Stock Purchase Warrant with Triton West Group, Inc. (9)   |
| 4.18      | Warrant to Purchase Common Stock with KSH Investment Group, Inc. (9)  |
| 4.19      | Warrants to Purchase Common Stock with Consulting for Strategic Growth, Ltd. (9)  |
| 10.1      | Exclusive Patent License Agreement with Photomed(1)   |
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| 10.2      | Consulting Agreement with Dr. Daniel M. Eichenbaum(1)   |
| 10.3      | Lease with Eden Roc (4)   |
| 10.4      | 1995 Stock Option Plan and forms of Stock Option Grant Agreement (1)  |
| 10.5      | Employment Agreement with Thomas F. Motter (5)  |
| 10.6      | Consulting Agreement with Dr. Michael B. Limberg (7)  |
| 10.7      | Renewed Consulting Agreement with Dr. Michael B. Limberg (8)  |
| 10.8      | Employment Agreement with Mark R. Miehle (9)  |
| 10.9      | Employment Agreement with John W. Hemmer (9)  |
| 10.10     | Private Equity Line of Credit Agreement with Triton West Group, Inc. (9)  |
| 10.11     | Renewed Consulting Agreement with Dr. Michael B. Limberg (9)  |
| 10.12     | Agreement with KSH Investment Group, Inc. (9)   |
| 10.13     | Renewed Consulting Agreement with Dr. Michael B. Limberg (10)   |
| 10.14     | Asset Purchase Agreement with Innovative Optics, Inc. and Barton Dietrich Investments, L.P. (11)  |
| 10.15     | Escrow Agreement with Innovative Optics, Inc. and Barton Dietrich Investments, L.P. (11)  |
| 10.16     | Assignment and Assumption Agreement with Innovative Optics, Inc. (11)   |
| 10.17     | General Assignment and Bill of Sale with Innovative Optics, Inc. (11)   |
| 10.18     | Non-competition and Confidentiality Agreement with Mario F. Barton (11)   |
| 10.19     | Termination of employment with Mark R. Miehle (13)  |
| 10.20     | Consulting Agreement with Mark R. Miehle (13)   |
| 99.01     | Certification Pursuant to Section 906 of Sarbanes-Oxley Act 2002  |
| 99.02     | Certification Pursuant to Section 906 of Sarbanes-Oxley Act 2002  |



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- (1) Incorporated by reference from Registration Statement on Form SB-2, as filed on March 19, 1996.
  - (2) Incorporated by reference from Amendment No. 1 to Registration Statement on Form SB-2, as filed on May 14, 1996.
  - (3) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on June 13, 1996.
  - (4) Incorporated by reference from Annual Report on Form 10-KSB, as filed on April 16, 1998.
  - (5) Incorporated by reference from Quarter Report on Form 10-QSB, as filed on November 12, 1998.
  - (6) Incorporated by reference from Registration Statement on Form SB-2, as filed on April 29, 1999.
  - (7) Incorporated by reference from Annual Report on Form 10-KSB, as filed on March 30, 2000.
  - (8) Incorporated by reference from Report on Form 10-QSB, as filed on August 16, 2000.
  - (9) Incorporated by reference from Report on Form 10-KSB, as filed on March 15, 2001
  - (10) Incorporated by reference from Report on Form 10-QSB, as filed on August 14, 2001
  - (11) Incorporated by reference from Current Report on Form 8-K, as filed on March 5, 2002
  - (12) Incorporated by reference from Amendment No. 1 to Registration Statement on Form S-3, as filed on March 20, 2002
  - (13) Incorporated by reference from Report on Form 10-QSB, as filed on November 18, 2002.

(b) Reports on Form 8-K

None

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

PARADIGM MEDICAL INDUSTRIES, INC.  
Registrant

DATED: May 15, 2003

By: /s/ Jeffrey F. Poore

-----  
Jeffrey F. Poore  
President and Chief  
Executive Officer (Principal Executive  
Officer)

DATED: May 15, 2003

By: /s/ Heber C. Maughan

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Vice President of Finance, Treasurer and  
Chief Financial Officer (Principal Financial  
and Accounting Officer)

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CERTIFICATIONS

I, Jeffrey F. Poore, certify that:

1. I have reviewed this quarterly Report on Form 10-QSB 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 period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 45 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls

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subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Jeffrey F. Poore

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President and Chief Executive Officer  
(Principal Executive Officer) Vice  
President of Finance, Treasurer and  
Chief Financial Officer (Principal  
Financial and Accounting Officer)

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### CERTIFICATIONS

I, Heber C. Maughan, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 45 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal

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controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Heber C. Maughan

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Vice President of Finance, Treasurer  
and Chief Financial Officer (Principal  
Financial and Accounting Officer)