PARADIGM MEDICAL INDUSTRIES INC
Form 10QSB/A
November 04, 2004

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

FORM 10-QSB/A

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

For Quarter Ended March 31, 2004

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

For the Transition Period From ___ to

Commission File Number: 0-28498

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES : NO 9

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

Common Stock, $.001 par value	25,509,868
Title of Class	Number of Shares Outstanding as of March 31, 2004
Class A Warrant to Purchase One Share of Common Stock	1,000,000
Title of Class	Number of Warrants Outstanding as of March 31, 2004

PARADIGM MEDICAL INDUSTRIES, INC.
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FOR THE QUARTER ENDED MARCH 31, 2004

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

	March 31, 2004 (Unaudited)
ASSETS	
Current Assets	
Cash & Cash Equivalents	$ 100,000
Receivables, Net	490,000
Inventory	868,000
Prepaid Expenses	243,000
Total Current Assets	1,701,000
Intangibles, Net	681,000
Property and Equipment, Net	216,000
Total Assets	$ 2,598,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Trade Accounts Payable	686,000
Accrued Expenses	1,492,000
Current Portion of Long-term Debt	56,000
Total Current Liabilities	2,234,000

Long-term Debt	48,000
Total Liabilities	2,282,000
Stockholders' Equity:	
Preferred Stock, Authorized:	
5,000,000 Shares, $.001 par value	
Series A	
Authorized: 500,000 shares; issued and	
outstanding: 5,627 shares at March 31, 2004	-
Series B	
Authorized: 500,000 shares; issued and	
outstanding: 8,986 shares at March 31, 2004	-
Series C	
Authorized: 30,000 shares; issued and	
outstanding: zero shares at March 31, 2004	-
Series D	
Authorized: 1,140,000 shares; issued and	
outstanding: 5,000 shares at March 31, 2004	-
Series E	
Authorized: 50,000; issued and	
outstanding: 1,000 at March 31, 2004	-
Series F	
Authorized: 50,000; issued and	
outstanding: 4,598.75 at March 31, 2004	-
Series G	
Authorized: 2,000,000; issued and	
outstanding: 1,981,560 at March 31, 2004	2,000
Common Stock, Authorized:	
80,000,000 Shares, $.001 par value; issued and	
outstanding: 25,372,764 at March 31, 2004	25,000
Additional paid-in-capital	57,470,000
Accumulated Deficit	(57,181,000)
Total Stockholders' Equity	316,000
Total Liabilities and Stockholders' Equity	$ 2,598,000

See accompanying notes to financial statements

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

	Three Months Ended March 31,	
	2004 (Unaudited)	2003 (Unaudited)
Sales	$ 583,000	$ 727,000

Cost of Sales	227,000	326,000
Gross Profit	356,000	401,000
Operating Expenses:		
Marketing and Selling	185,000	322,000
General and Administrative	304,000	477,000
Research, development and service	227,000	281,000
Total Operating Expenses	716,000	1,080,000
Operating Income (Loss)	(360,000)	(679,000)
Other Income and (Expense):		
Interest Income	2,000	3,000
Interest Expense	(6,000)	(7,000)
Total Other Income and (Expense)	(4,000)	(4,000)
Net loss before provision for income taxes	(364,000)	(683,000)
Income taxes	-	-
Net Loss	$ (364,000)	$ (683,000)
Net Loss Per Common Share - Basic and Diluted	$ (.01)	$ (.03)
Weighted Average Outstanding Shares - Basic and Diluted	25,373,000	21,976,000

See accompanying notes to financial statements

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

	Three Months Ended March 31,	
	2004 (Unaudited)	2003 (Unaudited)
Cash Flows from Operating Activities:		
Net Loss	$ (364,000)	$ (683,000)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities:		
Depreciation and Amortization	41,000	119,000

Issuance of Common Stock for Services	-	-
Issuance of Stock Option/Warrant for Services		-
Provision for Losses on Receivables	-	(75,000)
(Increase) Decrease from Changes in:		
Trade Accounts Receivable	218,000	129,000
Inventories	135,000	224,000
Prepaid Expenses	(102,000)	24,000
Increase (Decrease) from Changes in:		
Trade Accounts Payable	(20,000)	(1,000)
Accrued Expenses and Deposits	73,000	176,000
Net Cash Used in Operating Activities	(19,000)	(87,000)
Cash Flow from Investing Activities:		
Purchase of Property and Equipment	-	-
Increase in Patents and Intangibles	-	-
Other Assets		-
Net Cash Paid in Acquisition	-	-
Net Cash Used in Investing Activities	-	-
Cash Flows from Financing Activities:		
Additions to notes payable	-	-
Principal Payments on Notes Payable	(13,000)	(15,000)
Sale of stock and exercise of warrants	-	-
Net Cash (Used) Provided by Financing Activities	(13,000)	(15,000)
Net Decrease in Cash and Cash Equivalents	(32,000)	(102,000)
Cash and Cash Equivalents at Beginning of Period	132,000	194,000
Cash and Cash Equivalents at End of Period	$ 100,000	$ 92,000
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	$ 6,000	$ 7,000
Cash Paid for Income Taxes	$ -	$ -

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

Significant Accounting Policies

In the opinion of management, the accompanying financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the financial position of Paradigm Medical Industries, Inc. (the Company) as of March 31, 2004 and the results of its operations for the three months ended March 31, 2004 and 2003, and its cash flows for the three months ended March 31, 2004 and 2003. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year period.

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, and reduced the direct sales force to three representatives, which has resulted in less payroll, travel and other selling 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.

Reclassifications

Certain amounts in the financial statements for the three months ended March 31, 2003 have been reclassified to conform with the presentation of the current period financial statements.

Net loss Per Share

Net loss per common share is computed on the weighted average number of common and common equivalent shares outstanding during each period. Common stock equivalents consist of convertible preferred stock, common stock options and warrants. Common equivalent shares are excluded from the computation when their effect is anti-dilutive. Other common stock equivalents consisting of options and warrants to purchase 5,704,000 and 5,051,000 shares of common stock and preferred stock convertible into 2,302,000 and 437,000 shares of common stock at March 31, 2004 and 2003, respectively, have not been included in loss periods 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 months ended March 31, 2004, 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, 2004, 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, 2004, 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, 2004, no shares of Series F Preferred Stock were converted to shares of the Company's Common stock.

Holders of Series G Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 1 share of common stock for each share of preferred stock. During the three months ended March 31, 2004, no shares of Series G Preferred Stock were converted to shares of the Company's Common stock.

Warrants

The fair value of warrants granted as described herein is estimated at the date of grant using the Black-Scholes option pricing model. The exercise price per share is reflective of the then current market value of the stock. No grant exercise price was established at a discount to market. All warrants are fully vested, exercisable and nonforfeitable as of the grant date. The Company granted no warrants to purchase the Company's common stock during the period ended March 31, 2004.

Stock - Based Compensation

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

plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

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

	Three Months Ended March 31, 2004	2003
Net income (loss) - as reported	$ (364,000)	(683,000)
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	$ (364,000)	(957,000)
Earnings per share:		
Basic and diluted - as reported	$ (0.01)	(.03)
Basic and diluted - pro forma	$ (0.01)	(.04)

Related Party Transactions

Payments for legal services to the firm of which the chairman of the board of directors is a partner were approximately $5,000 and $15,000 for the three months ended March 31, 2004 and 2003, respectively.

Accrued Expenses

Accrued expenses consist of the following at March 31, 2004:

Accrued consulting and litigation reserve	$ 503,000
Warranty and return allowance	422,000
Accrued royalties	67,000
Deferred revenue	82,000
Customer deposits	124,000
Accrued payroll and employee benefits	146,000
Sales taxes payable	32,000
Other accrued expenses	118,000
Total	$ 1,492,000

Item 2: 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 requires 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 the customer upon shipment. This revenue recognition policy does not differ among the 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 do 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.

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.

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.

General

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

The Company is engaged in the design, development, manufacture and sale of high technology diagnostic and surgical eye care products. Given the "going concern" status of 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, 2004, diagnostic products have been the major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. The Company does not focus on a specific diagnostic product or products but, instead, on this entire diagnostic product group.

The Company's ultrasound diagnostic products include a P55 pachymetric analyzer, a P37 Ultrasound A/B Scan, a P40 Ultrasound BioMicroscope and a P45 Plus UBM Ultrasound BioMicroscope, the technology for which was acquired from Humphrey Systems in 1998. The Company introduced the P45 Plus in the fall of 2000, which combines the A/B Scan, and the biomicroscope into one instrument. In addition, the Company markets its Blood Flow Analyzer acquired in the purchase of Ocular Blood Flow Ltd. in June 2000. Other diagnostic products are the Dicon LD400 Auto Perimeter and the Dicon(TM) CT200e Corneal Topographer, which were acquired in the acquisition of Vismed d/b/a Dicon in June 2000. The Company purchased the inventory, design and production rights of the SIStem(TM) , the

Odyssey and the Surgetrol from Mentor Corporation in October 1999, which was designed to perform minimally invasive cataract surgery. In November 1999, the Company entered into a Mutual Release and Settlement Agreement with the manufacturer of the Precisionist ThirtyThousand(TM), in which the Company purchased the raw materials and finished goods inventory to bring the manufacturing of this product in-house. During the fourth quarter of 2003, the Company sold all inventory and rights associated with the SIStem(TM) and Odyssey(TM) for $125,000. This transaction resulted in sales of $125,000 with $0 cost of sales because a reserve for obsolete inventory had been recorded on all SIStem(TM) and Odyssey(TM) inventory.

Because of the "going concern" status of the Company, management has focused efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow to the company. As reflected in the results for the three months ended March 31, 2003, diagnostic products are currently its major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when the financial position of the company improves. Due to the lack of current evidence to support recoverability, the Company has recorded an inventory reserve to offset the inventory associated with the Precisionist Thirty Thousand(TM) and the Photon(TM) as well as certain other inventory items that are estimated to be non-recoverable due to the lack of significant turnover of such items in recent periods. The Company does not focus on a specific diagnostic product or products but, instead, on this entire product group.

Activities for the three months ended March 31, 2004 included sales of the Company's products and related accessories and disposable products. On March 18, 2004, the Board of Directors appointed John Y. Yoon as President and Chief Executive Officer of the Company to replace Jeffrey F. Poore, who served in those positions from March 19, 2003 to March 18, 2004. On March 23, 2004, the Board of Directors appointed Aziz A. Mohabbat as Vice President of Operations and Chief Operating Officer, replacing David I. Cullumber who resigned as Chief Operating Officer and Chief Technical Officer on March 22, 2004. Mr. Mohabbat previously served as Chief Operating Officer of the Company from August 2002 to March 2004, and as Vice President of Operations from 2001 to March 2003.

Results of Operations

Three Months Ended March 31, 2004, Compared to Three Months Ended March 31, 2003

Net sales decreased by $152,000, or 21%, to $583,000 for the three months ended March 31, 2004, from $727,000 from the preceding quarter. Sales of the Company's diagnostic products and related accessories were $554,000, or 95% of total revenues, during the first three months of 2004 compared with $558,000, or 77% of total revenues, for the comparable period of 2003. Sales of surgical products and related accessories fell to $0 revenues, for the three months of the current year in comparison with $31,000, or 4%, of total revenues in the comparable period of 2003. In 2003, sales of the P40 and P45 UBM Ultrasound Biomicroscope and related accessories increased to $142,000, or 24% of total revenues, compared to $43,000, or 6% of total revenues, in the same period of 2003. Sales from the Blood Flow Analyzer(TM) and related accessories decreased slightly by $39,531 to $123,000, or 21% of total revenues, during the year ended March 31, 2004 compared with $163,000, or 22% of total revenues, in the same period of last year. During the first three months of 2003, sales from other ultrasonic products and related accessories totaled $36,000, or 6% of total revenues, compared with $43,000, or 13% of total revenues, in the same period last year. Sales of the perimeter and corneal topographer and related

accessories generated $252,000, increasing to 43% of total revenues, in the first quarter 2004 compared with $258,000, or 36% of total revenues, during the same period of 2003.

There were a number of material reasons that contributed to the decrease in sales during the three months ended March 31, 2004, compared to the same period of 2003. Along with generally weak economic conditions in the United States, the Company initiated the restructuring of its management structure, its sales organization and the development of new sales channels during the twelve months ended December 31, 2003. During the first three months of 2003, the Company reduced its direct sales force from 10 representatives to five representatives, and during the remainder of 2003, there were only five direct sales representatives compared to 10 direct sales representatives during the comparable period of 2002. In the first quarter of 2004, the company further reduced the number of direct sales employees to two in the United States. International sales were impacted by weakness in the economies of the large industrial countries and by the residual impact of the Afghanistan situation, which had a negative impact on sales to the Middle East, Pakistan, India and other countries in that region.

The decrease in sales of the surgical line is the result of the sale of the SIStem product line and a de-emphasis on the remaining Precisionist line. The Precisionist is a fairly mature surgical workstation and the Photon has yet to receive FDA approval. Additional decline in sales is the direct result of the restructuring of the sales and marketing organization. This restructuring has significantly reduced the sales expenses and funds dedicated to marketing. In addition, the sales channels have been altered to include distributor and independent sale representatives instead of relying more on a direct sales force. Domestic and international sales have also decreased as a result of the global financial markets declines beginning in 2000 and the adverse impact of the events of September 11, 2001.

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

Gross profit for the quarter ended March 31, 2004 was 61% of total revenues, compared to 52% for the same period in 2003. Cost of goods sold for the first three months of 2003 was $227,000 as compared to $326,000 for the same period in 2003, a reduction of $99,000. Since its inception, the Company has purchased several complete lines of inventory. While its initial intention was to utilize the substantial majority of inventory acquired in the manufacture of its products, in some circumstances the Company has been unable to utilize certain items acquired.

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. Such analysis resulted in material increases in the reserve for obsolete or estimated non-recoverable

inventory in 2003 and 2002. There can be no assurance that the Company will not identify further obsolete inventory due to significant declines in sales of certain products or technological advances of products in the future. 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. The Company does not expect the sales of these items to be significant in the future. During 2003, the Company sold all inventory, rights, and technology related to the SIStem and Odyssey product lines for $125,000. The entire inventory sold in this transaction had previously been fully reserved. Therefore, upon the sale, the Company reduced inventory by $887,000 for the original book value of the inventory, reduced the reserve for $887,000, and recorded revenue for the cash received of $125,000.

Marketing and selling expenses decreased by $137,000, or 43%, to $185,000 in the first quarter 2004, from $322,000 in the first quarter of 2003 due primarily to the lower headcounts of sales persons and travel related and associated sales expenses.

General and administrative expenses decreased by $173,000, or 36%, to $304,000 in the first quarter 2004, from $477,000 in the first quarter of 2003, reflecting the results of the Company's efforts to reduce costs, specifically costs associated with a reduction of personnel and reduced travel expenses.

Research, development and service expenses decreased by $54,000, or 19%, to $227,000 in 2004 compared to $281,000 for the same period in 2003. This decrease was mainly due to reduced headcount and the redirection of development activities.

Other income and (expense) remained flat at $4000 versus for the same period in 2003. During the first quarter of 2004, interest income was $2,000 compared with $3,000 for the same period in 2003.

Liquidity and Capital Resources

The Company used $19,000 cash in operating activities for the three months ended March 31, 2004, compared to $87,000 for the three months ended March 31, 2003. The reduction in cash used by operating activities for the three months ended March 31, 2004 was primarily attributable to reduced operating costs, as well as other savings resulting from ongoing efforts to substantially reduce costs and management of current assets and current liabilities. Net cash used in financing activities was $13,000 for the three months ended March 31, 2004, versus $15,000 in the same period in 2003. During the three months ended March 31, 2004, the Company did not sell any shares of common or preferred stock. In the past, the Company has relied heavily upon sales of its common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to the Company in the future.

The Company will continue to seek funding to meet its working capital requirements through collaborative arrangements and strategic alliances, additional public offerings and private placements of its securities, and bank borrowings. The Company is uncertain whether or not the combination of existing working capital and benefits from sales of its products will be sufficient to assure continued operations through December 31, 2004. As of March 31, 2004, the Company had accounts payable of $686,000, a significant portion of which is over 90 days past due. The Company has contacted many of the vendors or companies

that have significant amounts of payables past due in an effort to delay payment, renegotiate a reduced settlement payment, or establish a longer-term payment plan. While some companies have been willing to renegotiate the outstanding amounts, others have demanded payment in full. Under certain conditions, including but not limited to judgments rendered against the Company in a court of law, a group of creditors could force it into bankruptcy due to its inability to pay the liabilities arising out of such judgments at that time. In addition to the accounts payable noted above, the Company also has non-cancelable capital lease obligations and operating lease obligations that require the payment of approximately $187,000 in 2004, $172,000 in 2005, and $14,000 in 2006.

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

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

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

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

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

At March 31, 2004, the Company had net operating loss carry forwards of approximately $44,000,000 and research and development tax credit carry forwards of approximately $34,000. These loss 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 carry forwards to offset future income is dependant upon certain limitations as a result of the pooling transaction with Vismed and the tax laws in effect at the time of the loss carry forwards can be utilized. The Tax Reform Act of 1986 significantly limits the annual amount that can be utilized for certain of these loss carry forwards as a result of change of ownership.

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 and benefits from sales of its products will be sufficient to assure its operations through December 31, 2004.

The Company has taken measures to reduce the amount of uncollectible accounts receivable such as more thorough and stringent credit approval, improved training and instruction by sales personnel, and frequent direct communication with the customer subsequent to delivery of the system. The allowance for doubtful accounts was 49% of total outstanding receivables as of March 31, 2004 and 40% as of December 31, 2003. Much of the increase in the allowance as a percentage of total accounts receivables relates to outstanding receivable balances pertaining to international dealers. The downturn in the economy worldwide has resulted in increased difficulty in collecting certain accounts. Certain international dealers have some aged unpaid invoices that have not been resolved. The Company has addressed its credit procedures and collection efforts and has instituted changes that require more payments at the time of sale via letters of credit and not on a credit term basis. The Company intends to continue its efforts to reduce the allowance as a percentage of

accounts receivable. While the allowance as a percentage of accounts receivable has grown, it is mainly a result of the significant decline in sales. The total amount of the allowance was $470,000 at March 31, 2004. The majority of the receivables included in the allowance for doubtful accounts are a result of sales before the Company implemented the various changes to improve the collectibility of its receivables. 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 $1,642,000 at March 31, 2004, or approximately 65% of total inventory. This inventory reserve was not increased during the three months ended March 31, 2004. The Company's means of expansion and development of product has been largely from acquisition of businesses, product lines, existing inventory, and the rights to specific products. Through such acquisitions, the Company has acquired substantial inventory, some of which the eventual use and recoverability was uncertain. In addition, the Company has a significant amount of inventory relating to the Photon(TM) laser system, which does not yet have FDA approval in order to sell the product domestically. Therefore, the allowance for inventory was established to reserve for these potential eventualities.

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

At this time, the Company's Photon(TM) Laser Ocular Surgery Workstation requires additional development and regulatory approvals. Any possible future efforts to complete development of the Photon(TM) and obtain the necessary regulatory approvals would depend on the Company obtaining adequate funding. The Company estimates that the liquidity needed to complete development of the Photon(TM) and obtain the necessary regulatory approvals to be approximately $225,000.

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. All sales transactions to date have been denominated in U.S. Dollars.

Item 3. Controls and Procedures

a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2004. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and adequately designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

(b) Changes in internal controls over financial reporting.

During the quarter ended March 31, 2004, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

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

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

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

It is anticipated that once the parties can agree on the correct calculations on the royalties, the legal action will be dismissed. The issue in dispute concerning the method of calculating royalties is whether royalties should be paid on returned equipment. Since July 1, 2001, only one Photon(TM) laser system has been sold and no systems returned. Thus, the amount of royalties due, according to its calculations, is $600. The Company intends to make payment of this amount to PhotoMed and Dr. Eichenbaum and, as a result, to

have the legal action dismissed. However, if the parties are unable to agree on a method for calculating royalties, there is a risk that PhotoMed and Dr. Eichenbaum might amend their complaint to request termination of the license agreement and, if successful, the Company would lose its right to manufacture and sell the Photon(TM) laser system.

The Company received a demand letter dated December 9, 2002 from counsel for Dan Blacklock, dba Danlin Corp. The letter demands payment in the amount of $65,160 for manufacturing and supplying parts for microkeratome blades. The Company'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. On August 14, 2003, the Company agreed to make a $13,650 payment to Danlin Corp. in settlement of the dispute. The Company has since made the $13,650 payment to Danlin Corp.

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

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 its officers or directors whose interests were in conflict with the interest of the shareholders. The Company believes that Mr. Motter's claims and assertions are without merit. The Company received a letter dated May 18, 2004 from Mr. Motter stating that he has no intention of pursuing any of the claims against the Company that were set forth in the demand letter, including filing a lawsuit against the Company with respect to the claims.

On January 24, 2003, an action was brought by Dr. John Charles Casebeer against the Company in the Montana Second Judicial District Court, Silver Bow County, State of Montana (Civil No. DU-0326). The complaint alleges that Dr. Casebeer entered into a personal services contract with the Company memorialized by a letter agreement 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 included whether or not Dr. Casebeer fully performed as asserted. The case has been settled through the issuance of 300,000 additional shares of its common stock to Dr. Casebeer.

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

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More specifically, the complaint alleges that the Company falsely stated in its Securities and Exchange Commission filings and press releases that it had received authorization to use an insurance reimbursement CPT code from the CPT Code Research and Development Division of the American Medical Association for reimbursement to doctors in connection with the Blood Flow Analyzer(TM), adding that the CPT code provides for a reimbursement to doctors of $57.00 per patient for use of the Blood Flow Analyzer(TM). According to the complaint, the CPT code was critical. Without a reimbursement code, physicians would not purchase the Blood Flow Analyzer(TM) because they could not receive compensation for performance of medical procedures using the medical device. The complaint further contends that the Company never received the CPT code from the American Medical Association at any time. Nevertheless, it is alleged that the Company continued to misrepresent in its SEC filings and press releases that it had received the CPT code. It is also alleged that the Company have never made a full, corrective disclosure with respect to this alleged misstatement.

The complaint also alleges that on July 11, 2002, the Company issued a press release falsely announcing that it had received a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation for 200 sets of its entire portfolio of products, with $70 million in systems to be delivered over a two-year period, then another $35 million of orders to be completed in the third year. The complaint further alleges that the Company had never received a true purchase order for its products. As a result of these alleged misstatements, the complaint contends that the price of the Company's shares of common stock was artificially inflated during the period from April 25, 2001 through May 14, 2003, and the persons who purchased or retained the Company's common shares during that period suffered substantial damages. The complaint requests judgment for unspecified damages, together with interest and attorney's fees.

The Company disputes having issued false and misleading statements concerning the Blood Flow Analyzer(TM) and a purchase order from Westland Financial Corporation and Valdespino Associates Enterprises. On April 25, 2001, the Company issued a press release that stated it had received authorization to use common procedure terminology or CPT code number 92120 for the Blood Flow Analyzer(TM). This press release was based on a letter the Company received from the CPT Editorial Research and Development Department of the American Medical Association stating that CPT code number 92120 was the appropriate common procedure terminology or CPT code number for doctors to use when reporting certain procedures performed with the Blood Flow Analyzer(TM).

Currently, there is reimbursement by insurance payors to doctors using the Blood Flow Analyzer(TM) in 22 states and partial reimbursement in four other states. The amount of reimbursement to doctors using the Blood Flow Analyzer(TM) generally ranges from $56.00 to $76.00 per patient, depending upon the insurance payor. Insurance payors providing reimbursement for the Blood Flow Analyzer(TM) have the discretion to increase or reduce the amount of reimbursement. The Company is endeavoring to obtain reimbursement by insurance payors in other

states where there is currently no reimbursement being made. The Company believes it has continued to correctly represent in its Securities and Exchange Commission filings that the Company has received authorization from the CPT Editorial Research and Development Department of the American Medical Association to use CPT code number 92120 for its Blood Flow Analyzer(TM), for reimbursement purposes for doctors using the device.

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

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

On June 2, 2003, a complaint was filed in the United States District Court, captioned Michael Marrone v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00513 PGC. On July 11, 2003, a complaint was filed in the same United States District Court, captioned Lidia Milian v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00617PGC. Both complaints seek class action status. These cases are substantially similar in nature to the Meyer case, including the contention that as a result of allegedly false statements regarding the Blood Flow Analyzer(TM) and the purchase order from Westland Financial Corporation and Valdespino Associates Enterprises, the price of the Company's common stock was artificially inflated and the persons who purchased the Company's common shares during the class period suffered substantial damages. In a press release dated July 11, 2003, captioned "Milberg Weiss announces the filing of a class action suit against Paradigm Medical Industries, Inc. on behalf of investors," the law firm of Milberg Weiss Bershad Hynen & Levach LLP, which represents purchasers of the Company's securities in the class action suit filed on July 11, 2003, stated that the Company alleged misrepresentations caused the market price of the stock to be artificially inflated during the class period. As a result, it is alleged that investors suffered millions of dollars in damages from the Company's alleged misstatements. The cases request judgment for unspecified damages, together with interest and attorney's fees. The Company believes the consolidated cases are without merit and intends to vigorously defend and protect its interests in the

said cases.

The Company was issued a Directors and Officers Liability and Company Reimbursement Policy by United States Fire Insurance Company for the period from July 10, 2002 to July 10, 2003 that contains a $5,000,000 limit of liability, which is excess of a $250,000 retention. The officers and directors named in the consolidated cases have requested coverage under the policy. U.S. Fire is currently investigating whether it may have a right to deny coverage for the consolidated cases based upon policy terms, conditions and exclusions or to rescind the policy based upon misrepresentations contained in its application for insurance.

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

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

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

On July 10, 2003, an action was filed in the United States District Court, District of Utah, by Innovative Optics, Inc. and Barton Dietrich Investments, L.P. Defendants include us, Thomas Motter, Mark Miehle and John Hemmer, former officers of the company. The complaint claims that Innovative and Barton entered into an asset purchase agreement with the Company on January 31, 2002, in which the Company agreed to purchase all the assets of Innovative in consideration for the issuance of 1,310,000 shares of the Company's common stock to Innovative. The complaint claims the Company breached the asset purchase agreement. The complaint also claims that the Company allegedly made false and misleading statements pertaining to the Blood Flow Analyzer(TM) and concerning a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation. The purpose of these statements, according to the complaint, was to induce Innovative to sell its assets and purchase the shares of the Company's common stock at artificially inflated prices while simultaneously deceiving

Innovative and Barton into believing that the Company's shares were worth more than they actually were. The complaint contends that had Innovative and Barton known the truth they would not have sold Innovative to us, would not have purchased the Company's stock for the assets of Innovative, or would not have purchased the stock at the inflated prices that were paid. The complaint further contends that as a result of the allegedly false statements, Innovative and Barton suffered substantial damages in an amount to be proven at trial.

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

On October 14, 2003, an action was filed in the Third Judicial District Court, Salt Lake County, State of Utah, captioned Albert Kinzinger, Jr., individually and on behalf of all others similarly situated vs. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle, Randall A. Mackey, and John Hemmer, Case No. 030922608. The complaint also indicates that it is a "Class Action Complaint for Violations of Utah Securities Laws and Plaintiffs Demand a Trial by Jury." The Company has retained legal counsel to review the complaint, which appears to be focused on alleged false or misleading statements pertaining to the Blood Flow Analyzer(TM). More specifically, the complaint alleges that the Company falsely stated in Securities and Exchange Commission filings and press releases that it had received authorization to use an insurance reimbursement CPT code from the CPT Code Research and Development Division of the American Medical Association in connection with the Blood Flow Analyzer(TM), adding that the CPT code provides for a reimbursement to doctors of $57.00 per patient for the Blood Flow Analyzer(TM).

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

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

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

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

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

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

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

outside the ordinary course of its business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its 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.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

Exhibit No.	Document Description
2.1	Amended Agreement and Plan of Merger between Paradigm Medical Industries, Inc., a California corporation and Paradigm Medical Industries, Inc., a Delaware corporation(1)
3.1	Certificate of Incorporation(1)
3.2	Amended Certificate of Incorporation(10)
3.3	Bylaws(1)
4.1	Warrant Agency Agreement with Continental Stock Transfer & Trust Company(3)
4.2	Specimen Common Stock Certificate (2)
4.3	Specimen Class A Warrant Certificate(2)
4.4	Form of Class A Warrant Agreement(2)
4.5	Underwriter's Warrant with Kenneth Jerome & Co., Inc.(3)
4.6	Warrant to Purchase Common Stock with Note Holders re bridge financing (1)
4.7	Specimen Series C Convertible Preferred Stock Certificate(4)
4.8	Certificate of the Designations, Powers, Preferences and Rights of the Series C Convertible Preferred Stock(4)
4.9	Specimen Series D Convertible Preferred Stock Certificate (6)
4.1	Certificate of the Designations, Powers, Preferences and Rights of the Series D Convertible Preferred Stock (7)
4.11	Warrant to Purchase Common Stock with Cyndel & Co. (6)
4.12	Warrant to Purchase Common Stock with R.F. Lafferty & Co., Inc. (6)
4.13	Warrant to Purchase Common Stock with Dr. Michael B. Limberg (7)
4.14	Warrant to Purchase Common Stock with John W. Hemmer (7)
4.15	Stock Purchase Warrant with Triton West Group, Inc.(9)

4.16	Warrant to Purchase Common Stock with KSH Investment Group, Inc.(9)
4.17	Warrant to Purchase Common Stock with Consulting for Strategic Growth, Ltd.(9)
4.18	Certificate of Designations, Powers, Preferences and Rights of the Series G Convertible Preferred Stock (14)
10.1	Exclusive Patent License Agreement with PhotoMed(1)
10.2	Consulting Agreement with Dr. Daniel M. Eichenbaum(1)
10.3	1995 Stock Option Plan (1)
10.4	Employment Agreement with Thomas F. Motter (5)
10.5	Stock Purchase Agreement with Ocular Blood Flow, Ltd. and Malcolm Redman (7)
10.6	Consulting Agreement with Malcolm Redman (7)

10.7	Royalty Agreement with Malcolm Redman (7)
10.8	Registration Rights with Malcolm Redman (7)
10.9	Employment Agreement with Mark R. Miehle (8)
10.10	Agreements with Steven J. Bayern and Patrick M. Kolenik (8)
10.11	Private Equity Line of Credit Agreement with Triton West Group, Inc. (9)
10.12	Asset Purchase Agreement with Innovative Optics, Inc. and Barton Dietrich Investments, L.P.(10)
10.13	Escrow Agreement with Innovative Optics, Inc., Barton Dietrich Investments, L.P. (10)
10.14	Assignment and Assumption Agreement with Innovative Optics, Inc.(10)
10.15	General Assignment and Bill of Sale with Innovative Optics, Inc.(10)
10.16	Non-Competition and Confidentiality Agreement with Mario F. Barton(10)
10.17	Termination of Employment Agreement with Mark R. Miehle(12)
10.18	Consulting Agreement with Mark R. Miehle(12)
10.19	Employment Agreement with Jeffrey F. Poore (13)
10.20	License Agreement with Sunnybrook Health Science Center(15)
10.21	Major Account Facilitator Contract(15)
10.22	Mutual Release with Douglas A. MacLeod, M.D. and Others(15)
10.23	Purchase Agreement with American Optisurgical, Inc.(15)
10.24	Purchase Order with Westland Financial Corporation(16)
10.25	Non-Waiver Agreement with United States Fire Insurance Company(16)
10.26	Employment Agreement with John Y. Yoon(17)
10.27	Consulting Agreement with Dr. John Charles Casebeer(18)
10.28	Consulting Agreement with Kinexsys Corporation(18)
31.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated by reference from Registration Statement on Form SB-2, as filed on March 19, 1996.

(2) incorporated by reference from Amendment No. 1 to Registration Statement on Form SB-2, as filed on May 14, 1996.

(3) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on June 13, 1996.

(4) Incorporated by reference from Annual Report on Form 10-KSB, as filed

on April 16, 1998.

(5) Incorporated by reference from 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 Report on Form 10-QSB, as filed on August 16, 2000.

(8) Incorporated by reference from Report on Form 10-QSB, as filed on November 1, 2000.

(9) Incorporated by reference from Report on Form 10-KSB, as filed on April 16, 2001.

(10) Incorporated by reference from Current Report on Form 8-K, as filed on March 5, 2002.

(11) Incorporated by reference from Amendment No. 1 to Registration Statement on Form S-3, as filed on March 20, 2002.

(12) Incorporated by reference from Report on Form 10-QSB, as filed on November 18, 2002.

(13) Incorporated by reference from Registration Statement on Form SB-2, as filed on July 7, 2003.

(14) Incorporated by reference from Report on Form 10-QSB, as filed on November 14, 2003.

(15) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on December 15, 2003.

(16) Incorporated by reference from Amendment No. 3 to Registration Statement on Form SB-2, as filed on February 27, 2004.

(17) Incorporated by reference from Current Report on Form 8-K, as filed on March 23, 2004.

(18) Incorporated by reference from Annual Report on Form 10-KSB, as filed on April 14, 2004.

(b) Reports on Form 8-K

No reports were filed by the Company during the quarter ended March 31, 2004.

SIGNATURES

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

PARADIGM MEDICAL INDUSTRIES, INC.

November 4, 2004

/s/ John Y. Yoon

John Y. Yoon
President and Chief Executive Officer

November 4, 2004

/s/ Luis A. Mostacero

Luis A. Mostacero, Controller