EYE DYNAMICS INC
Form 10KSB
April 09, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(X) Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2002

EYE DYNAMICS, INC.
(Name of small business issuer in its charter)

Nevada	88-0249812
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
2301 W. 205th Street, #102	Torrance, CA 90501
(Address of principal executive offices)	(City, state and ZIP)

Issuer's telephone number 310-328-0477

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock Par Value $.001 per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such 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 (X) Yes ( ) No.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB (X)

State issuer's revenues for its most recent fiscal year: $1,808,341

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as a specified date within the past 60 days:
$717,929

The number of shares outstanding of the issuer's common stock as of March 31,2003 was 17,850,313.

Transitional Small Business Disclosure Format (check one). ( ) Yes (X) No

PART 1

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

Eye Dynamics, Inc. (the "Company") designs, develops, produces and markets diagnostic equipment that measures, tracks and records human eye movements, utilizing the Company's proprietary technology and computer software. The products perform separate, but related, functions and target two separate markets. First, the Company markets a neurological diagnostic product that tracks and measures eye movements during a series of standardized tests, as an aid in diagnosing problems of the vestibular (balance) system and other balance disorders. Second, the Company's impairment detection devices target the corporate and criminal justice markets and are designed to test individuals for impaired performance resulting from the influences of alcohol, drugs, illness, stress and other factors that affect eye and pupil performance. The Company is a Nevada corporation formed in 1989.

INTRODUCTION

The human eye is a very sensitive organ. Eye movements or pupil reactions are excellent indicators of the presence of disease, drugs or other conditions which may impair the human ocular motor system. In particular, the Company's technology deals with the central nervous system condition of nystagmus, a rapid, involuntary oscillation of the eyeball. Nystagmus occurs in different forms and has a number of causes, ranging from the serious (e.g., a tumor in the brain or ear) to the benign (such as positional dizziness). The consumption of certain drugs and alcohol also causes nystagmus, and there is a direct and quantifiable correlation between blood alcohol concentration in the body and the angle of onset of nystagmus. Medical research conducted over the past fifty years has furnished evidence demonstrating a relationship between irregular eye movement and abnormal central nervous system physiology. The causes of these conditions are numerous, and include the influences of alcohol, drugs, illness, stress, extreme fatigue and other neurological conditions

The basic technology used in all of the Company's products is similar, yet differs in its application and use. The Company's products utilize infrared sensitive video cameras to monitor, videotape and analyze eye performance and movement. All the products share in a modular concept for efficiency in manufacturing. The products are PC computer based with specialized and proprietary hardware and embedded firmware. A common element of the products is the Ocular Motor Module, where the subject being tested peers into a dark environment. The products include an infrared sensitive Charge Coupled Device video camera that provides a bright video image, even though the person being tested sees nothing but a small stimulus or tracking light amid complete darkness.

PRODUCTS

MEDICAL PRODUCTS. Eletronystagmographic (ENG) testing is a standard medical procedure used in assessing problems of the balance system of patients. This method provides enhanced diagnostic information for the medical practitioner to use for the final diagnosis of the patient's problem. Testing of patients for irregular eye movements has been a standard medical procedure for several decades. For this market, the Company markets the House InfraRed/Video ENG System. The ENG System is the first major technological improvement in this standard medical testing method in the past forty years. The Company's products have gained a share of this highly specialized market. The FDA granted approval to market this product in 1994.

Irregular eye movements and conditions are analyzed by medical specialists as an aid in diagnosing problems with the human balance system and other neurological conditions. In the past, diagnostic products have used "electrodes" that are taped to the skin around the periphery of the patient's eyes and a very small electrical signal from the corneo-retinal potential of the eyes drives a pen recorder. The pen recorder provides a graphical depiction of the eye movements under different test conditions. These graphs are then interpreted by the medical diagnostician.

The Company brought the use of infrared illumination of the eyes into clinical use in 1994 when the U.S. Food and Drug Administration ("FDA") approved marketing of its House InfraRed/Video ENG System. This device was the first to replace the electrodes with infrared sensitive video cameras and with computer digital processing that follows the movement of the eyes and graphically portrays the movements much like the pen recorder. The test subject wears a lightweight goggle assembly which uses micro-miniature video cameras. The goggle is an essential instrument because certain of the ENG tests require the patient to move his head and often to recline on an examining table. The Company believes the accuracy and display of the Infrared/Video ENG System represents a significant improvement over other existing testing methods. In addition, the use of video by the Infrared/Video ENG System allows the test administrator or medical practitioner to observe the eye movements directly and can provide a videotape record of the test for later playback and additional analysis. The Company believes that this is a significant improvement over prior technology. This product was first marketed in 1994, after gaining FDA approval to market. Since then most every competitor has changed from electrodes and is embracing video data acquisition as a superior technology. Results from the tests are used by physicians and clinicians.

The computer-based system, with proprietary Eye Position Interface Controller (EPIC) boards, "locks" onto the pupils and independently tracks the horizontal and vertical movements of each eye. The nystagmus is displayed in real time, saved, analyzed and printed. The four channel system comes with a 12" Quad/Video Monitor that displays both eyes on a single video screen.

The system was developed by the Company in conjunction with the House Ear Clinic and House Ear Institute, Los Angeles, California. The "House" name is used with the permission of the House Ear Institute.

IMPAIRMENT DETECTION PRODUCTS. The Company's impairment detection product, SafetyScope (previously known as the "EPS-100"), allows employers and others to screen individuals for physiological signs of impairment. The system evaluates involuntary changes in eye movements and/or pupil reactions, which may result from drug or alcohol abuse, reactions to medication, medical conditions, stress or fatigue. Occupations in the medical, aviation, emergency response, manufacturing and transportation businesses are key markets for this technology. Unlike most drug and alcohol test methods, the SafetyScope functions without the need for body fluids. Also, due to its less invasive nature, SafetyScope only reveals if a person is impaired at the time of the test and does not test for past use. Also, unlike blood and urine tests which only measure the presence of a substance in the body, the SafetyScope only takes into account the physiological effects of the substance.

While substance abuse receives the most attention, worker impairment caused by other factors, such as prescription and over-the-counter medications, stress, extreme fatigue and illness, is a significant expense to employers. Workers suffering from such impairments are characterized by low productivity, more accidents, higher workers' compensation and insurance costs, and equipment and merchandise damage. Different types of performance tests have evolved based on extensive scientific studies validating the relationship between test results and the impaired performance of an individual. They assess an individual's motor and cognitive skills at the time of the test.

The SafetyScope is based on methods developed by the federal government and used by law enforcement over the past 25 years. The SafetyScope is a simple computer system that evaluates the ability of an individual's eyes to follow a moving light and react to a dim and bright light stimulus. The SafetyScope is non-diagnostic and non-judgmental; it evaluates performance of the individual solely for safety and productivity purposes. The initial price for the product was $15,000, but with redesign and improved components and modest sales volume the product will be repriced to $8,000, which the Company believes is competitive with the price of professional desktop breath testing analyzers commonly used by law enforcement for assessment of blood alcohol content levels in individuals. However, the preferred pricing model is to place the units with the user at no initial cost, except for a modest deposit, and to charge the user a fee for each test administered. It is anticipated that the fees for such tests will range from $1 to $5 per test, depending on the monthly quantity of tests, with an average of approximately $3 per test.

An employee looks into SafetyScope and focuses on a moving beam of light. A video camera records the action, and software analyzes eye movement (smooth or jerky) and pupil reaction (small or large) and renders a determination on whether there is impairment. In just ninety seconds, the SafetyScope tests the human eye for the purpose of evaluating an individual for impairment, by measuring twenty parameters of eye movement and pupil change, relating to the position and reaction time of the eye and the size of pupil. The SafetyScope reports the result of the test instantly with a "Pass" or "Fail" result. The system does not require bodily fluids such as blood or urine. SafetyScope offers users major advantages over traditional drug tests, in that the system can detect on-the-spot impairment and results are immediate. Designed for workplace testing, whether in a random testing or regular scheduled testing environment. Traditional drug tests can take days to complete, too late for detecting a problem the day it occurs.

SafetyScope can be an important component for evaluating an employee for job safety, particularly those jobs in life-dependent occupations, such as airline pilots, bus drivers, train engineers, firefighters, medical personnel, construction workers and law enforcement personnel, among others. Companies and government agencies around the world are evaluating this cost- effective technology to replace traditional drug tests, which require body fluids and are much more expensive to conduct.

Even in healthy subjects the eyeball exhibits rapid, involuntary, oscillatory movements, a phenomenon called nystagmus. But as the subject's brain function becomes increasingly impaired these movements become more and more erratic. The SafetyScope uses an algorithm developed through thousands of trials with hundreds of people under the influence of alcohol, heroin, marijuana, and cocaine. The trials compared their current reading with a baseline reading taken prior to being dosed with the substance.

The Company believes that the SafetyScope will be especially useful for applications where fatigue in the workplace has an impairing effect on workers. The Company contracted with a major human alertness technology consulting and research organization to optimize the SafetyScope for fatigueness testing. The Company believes the SafetyScope will appeal to employers with round-the-clock workforces who desire to reduce industrial accidents caused by employee fatigue and to improve worker alertness and safety. It is estimated that in our society more than 20 million Americans, or over 10% of the workforce, work outside of normal daylight working hours, which tends to increase the effect of extreme fatigue.

The Company also offers a second model, the EM/1, which is designed for use by law enforcement agencies for forensic purposes and for the evaluation of individuals suspected of driving or being under the influence of intoxicants. The EM/1 functions in a manner similar to the SafetyScope, but without the "Pass/Fail" result. Instead, the EM/1 delivers the videotaped data for interpretation by the law enforcement agency.

In most states, law enforcement agencies use a six point evaluation of people thought to be intoxicated. This is referred to as the Standardized Field Sobriety Test ("SFST"). The SFST includes three tests for balance and three tests involving eye performance. Thus, the Company believes there is a need for a product that can be utilized, not only in the jail or precinct house, but in the field by traffic patrol cars. This product must ultimately be in a 'hand held' configuration.

Hardware for the EM/1 is similar to the SafetyScope, but different operating software requires that a person trained and certified in SFST and drug recognition and evaluation operate the equipment and evaluate eye performance. From the EM/1 test results and other test information, the evaluator draws an opinion as to whether the individual is impaired and under the influence of intoxicants or not, or whether medical treatment is indicated. The video tape made of the test is then available as evidence to support the conclusion of the law enforcement officer and, depending on the jurisdiction, may be admissible as evidence in court proceedings. The EM/1 is currently priced at $14,000 per unit; however, the Company plans to introduce a handheld unit within the next two years, which should sell for less than $5,000.

MARKETING

MEDICAL PRODUCTS. Marketing of the Infrared/Video ENG System is conducted through a network of independently owned special instrument dealers ("SID's").These independently owned businesses are distributors of not only the IR/Video ENG System, but of a variety of allied and related products for the audiometric and otolaryngology ("ENT") markets. These distributors are across the United States and operate in territories that are assigned both exclusively and non-exclusively to them by the Company. In addition, there are several foreign distributors that are merchandising the product in countries such as India, Egypt, Hungary, Turkey, Thailand, Taiwan and Korea. The Company is not yet selling in the European Community countries due to lack of the "CE" mark of approval that must be obtained prior to marketing in those countries.

The Company has also supplied a modified version of the Infrared/Video ENG System to a distributor on a private label basis. These private label sales have represented a significant portion of sales of the product. Sales to this private label distributor accounted for 60% of the total sales for the year 2002.

The market for the ENG products is relatively mature and represents only annual growth estimated at 5%, but because of the advancement of technology spurred by the Company's introduction of video data acquisition methods in 1994, the market for replacement products has been strong. Also, there has been considerable effort to open new markets for our product, including the neurology market, through our private label distributor and through mobile diagnostic providers of testing services.

IMPAIRMENT DETECTION PRODUCTS. The Company has been test marketing the SafetyScope and has sold a few units in various locales. Currently, independent sales representatives are being recruited to achieve geographic distribution coverage over the United States. However, implementation of a full marketing plan is contingent on receipt of additional working capital.

In general, government drug testing regulations are based on urine Testing, so testing of employees by governmental agencies, quasi-governmental agencies and certain regulated industries must comply with these regulations. Accordingly, some modification of these regulations must be achieved in order for the SafetyScope to gain broad acceptance in this sector. Companies that do substantial business with government agencies often must have a drug testing program that complies with government regulations. Also, industries that are regulated by the Department of Transportation must comply with these regulations, as well as certain other industries regulated by the federal government, such as the nuclear power industry.

These factors limit the overall size of the market currently available to the Company to private companies that are not regulated by the federal government with respect to testing employees for substance abuse. If a private employer falls within government regulated drug testing requirements, but desires to also use impairment testing methodologies, it must do so in addition to the government regulation requirements. This creates an additional cost to such testing and therefore greatly limits the Company's access to that market.

The Company has conducted discussions with various government agencies to modify applicable regulations and procedures so that they will encompass testing based on eye movement and performance. While certain governmental agencies have expressed an interest in the Company's products, management believes that changing governmental testing regulations will be a lengthy process and success is not assured.

COMPETITION

MEDICAL PRODUCTS. The principal competitors in the medical market making ENG testing equipment are Micromedical Technologies, Inc., ICS Medical Corporation and Intercoustics. Since the Company's ENG product was introduced in 1994, competitors have developed similar video-based ENG goggle products. As a result, the market has become very competitive and subject to pricing pressures. As a consequence, the Company has reduced prices, with an adverse effect on overall gross margins. To combat this competitive pressure the Company has reduced manufacturing costs in an effort to offset the gross margin loss. Also, the gross profit on sales to the private label distributor is less than sales of our own branded products. However. the increase in sales volume has more than offset the gross profit percent reduction.

IMPAIRMENT DETECTION PRODUCTS. Competition for the SafetyScope is from companies that have developed tests and devices that evaluate motor and cognitive skills. These take the form of hand-eye coordination tests, divided attention tests and other behavioral tests or series of tests administered either in series or selectively. The Company has identified three such competitors that have marketed these products in the past, including Performance Factors, Inc., Essex Corporation, and Pulse Medical Instruments.

The Company believes only Pulse Medical Instruments is developing a product to be directly competitive with the Company's products. The Pulse Medical product does not use video sensors and its results are displayed in graphic form on a computer monitor for the qualified expert to interpret. The Company believes that such product will be more expensive than the SafetyScope and is still under development and validation as a useful device.

The SafetyScope differs from its competitors' tests because the SafetyScope test evaluates changes in eye performance, which are involuntary responses and not under the control of the individual. For this reason, these responses cannot be changed, improved upon or learned. All the other competitive forms of performance tests known to the Company can be learned and over time the individual being tested can improve his skills. The Company believes that this difference is an important competitive advantage over other forms of performance tests.

The SafetyScope also competes with drug and alcohol abuse test kits and devices, which principally rely on collection and testing of urine samples. In addition, certain drug and alcohol abuse tests now being developed will test saliva and/or hair for evidence of the presence of certain drugs or alcohol.. The principal advantages of the SafetyScope over others tests are the immediacy of results and the non-invasive nature of the procedure. The Company believes that the potential for safety improvement that the SafetyScope will provide for life-dependent professions, such as airline pilots, bus drivers and train engineers, will make the system a very important breakthrough for public safety in these fields.

MANUFACTURING

The Company has performed all its own design and engineering of products and has developed all software and validation of software algorithms that are used in the analysis portion of the proprietary software.

Manufacturing of both the ENG products and the SafetyScope is primarily done through subcontracting with various suppliers. The Company does not rely on a single supplier for the major manufacturing of items. Various companies build and test product modules on an OEM contract basis. Final system integration and testing is completed by the Company prior to shipment of devices to customers. All the products share in a modular concept for efficiency in manufacturing. The products are PC Computer based with specialized and proprietary hardware and embedded firmware. The common elements of the products are the viewport and the goggles, through which the individual being tested peers into a dark environment.

Manufactured or fabricated modules include the molded eye piece, the goggle assembly, the viewport assembly and proprietary printed circuit boards. As a majority of the components in the Company's products are readily available, the Company does not anticipate undertaking internal manufacturing of any components. Manufacturing operations consist of only assembly, testing and packaging functions.

GOVERNMENT REGULATION

The Company's ENG products have been approved for marketing by the U.S. Food and Drug Administration. The Company is also licensed by the State of California as a Medical Device Manufacturer. The SafetyScope and EM/1 are not subject to regulation, as they are not considered medical devices. However, as discussed above under the caption "Marketing," governmental regulations on substance abuse testing for government employees and certain private companies impact the Company's ability to market the SafetyScope in these areas.

PATENTS & PROPRIETARY PROTECTION

The Company licenses the technology used in its performance evaluation products from Ronald A. Waldorf, Chairman of the Board of Directors, who holds a patent covering claims relating to tracking eye movements in the dark, utilizing infrared illumination and infrared sensitive video cameras, as well as the related analysis methodology. The patent was issued in 1989 and expires in 2006. The license is for the term of the underlying patent, and calls for nominal annual royalties of $100.

The Company is the owner of a patent issued in August 1992, covering certain technology underlying the SafetyScope, principally relating to the apparatus for testing for impairment by tracking eye movements and pupil reactions to presented stimuli.

The existence of patents may be important to the Company's future operations, but there is no assurance that additional patents will be issued. For both of the above named patents, eleven foreign patents have been issued and/or are pending in several foreign countries.

The Company also relies on unpatented technology, know-how and trade secrets covering a number of items, particularly the methods of obtaining data regarding eye performance. The Company relies on confidentiality agreements and internal procedures to protect such information.

EMPLOYEES

The Company employs three employees full time, including its President, a development engineer and a marketing manager. Other part time consulting and commissioned personnel are also utilized. The Company's employees are not parties to any collective bargaining agreement, and the Company believes that its employee relations are satisfactory.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's offices are in leased space in an industrial complex in Torrance, California. The offices occupy 1620 square feet and the lease expires on January 31, 2006. The current monthly lease payment is $1,458.

ITEM 3. LEGAL PROCEEDINGS

Inapplicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Inapplicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth the quarterly high and low closing prices for the Common Stock, as reported on the OTC Bulletin Board, during the 2001 and 2002 fiscal years.

	LOW	HIGH
2002		
First Quarter	$.05	$.05
Second Quarter	.05	.06

Third Quarter	.03	.03
Fourth Quarter	.08	.10
2001		
First Quarter	.42	.44
Second Quarter	.23	.29
Third Quarter	.08	.10
Fourth Quarter	.08	.10

The Company's common stock is traded on the OTC Bulletin Board under the symbol "EYDY". As of March 31, 2003, the Company's Common Stock was held of record by approximately 121 holders. Registered ownership includes nominees who may hold securities on behalf of multiple beneficial owners.

The Company has paid no cash dividends on its Common Stock and has no present intention of paying cash dividends in the foreseeable future.

During the last quarter of 2002 the Company issued 500,000 shares of Common Stock as final payment for development of an advanced eye tracking algorithm.

The Company believes that the issuance was exempt under Regulation D of the Securities Act of 1933, as amended, and under Section 4(2) thereof.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-KSB. Except for the historical information contained herein, the following discussion contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report on Form 10-KSB should be read as being applicable to all related forward-looking statements wherever they appear in this Annual Report on Form 10-KSB. The Company's actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors including, but not limited to, those discussed elsewhere in this Annual Report on Form 10-KSB.

The Company has invested substantial funds in the last several years developing and validating its products. The Company is successfully producing and marketing the Infrared/Video ENG System; however, since this is a niche product in a relatively mature market, potential revenue growth from this product line is limited. To date, sales of this product have constituted a substantial portion of the Company's revenues. The development of new markets for these products is the principal factor in the growth that the Company achieved during 2002.

The SafetyScope product and its predecessor, the EPS-100 Performance System, has been sold in a few locales and beta marketing has been successful. However, for large scale marketing and sales of this product, the Company will need a substantial infusion of capital, as well as modification of federal drug testing regulations. This is a significant project, requiring a coordinated effort with potential customers, government officials, and legislators. Therefore, additional investment capital will be is required to launch the marketing of the SafetyScope, and a large scale marketing and lobbying effort will be necessary for the product to succeed. A business plan has been prepared for commercialization of the SafetyScope and is being evaluated by interested parties.

RESULTS OF OPERATIONS

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001.

Revenues from sales of products increased by 259%, from $697,597 in 2001 to $1,808,341 in 2002. This increase is largely due to success of our private label program for Video ENG Systems. The overall market for traditional ENG products is still rather flat, with limited growth. The majority of sales represent replacements of older equipment, as opposed to sales to new medical practices. Our increased sales have principally come from the successful development of new markets for the ENG products, such as mobile diagnostic services. Also, our private label distributor has developed specialty applications for ENG equipment, such as its "Balance and Fall Prevention" program. Our private label distributor accounted for approximately 20% of our sales revenues in 2001, but in 2002 accounted for approximately 61% of revenues. This success is due to activities by our private label distributor in aggressive marketing, opening up new market segments, and developing a complete package, including training, for sale.

Gross profit as a percentage of sales declined in 2002, from 57% of sales in 2001 to 52% in 2002. This decline is due to the fact that sales to our private label distributor, which involve lower margins, became a greater percent of overall sales during 2002.However, marketing and other expenses associated with distributing the product are greatly reduced, because the private label distributor assumes these functions. This reduction in gross profit percentage is to be expected as the private label business becomes a greater percent of our overall business. However, total revenues during 2002 were more than 2.5 times revenues during 2001, so gross profits are substantially higher, as are net profits. Gross profit in 2002 was $932,263, compared to $395,540 in 2001.

Inventory turnover ratio in 2002 was approximately 5.5:1, compared to 3:1 in 2001. This is a reflection of the increase in business in the second half of the year. Inventory is currently in line to achieve a turnover ratio of 5:1 for 2003.

Collection of accounts receivable has been very good, with only minimal slow paying accounts. Our private label account ordinarily pays invoices within fifteen days of the invoice date. Bad debt write off for 2002 was $971.

Product development is limited due to resources available and is concentrated on software and current product improvements that will make the existing products more competitive and desirable.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2002, the Company had an accumulated deficit of approximately $3,677,913. As of that date, the Company had $177,668 in cash, approximately $186,977 in net accounts receivable, and $155,167 in inventory. Also, the Company had $274,613 of current liabilities, consisting of accounts payable, accrued interest, and the current portion of notes payable. Long term liabilities consist solely of the note for $423,516, which has a 60 month payment schedule for full amortization. The first monthly payment is due February 1, 2003.

The Company has no plans for significant capital equipment expenditures for the foreseeable future.

The Company believes that current and future available capital resources, cash flow from operations and other existing sources of liquidity will be adequate to fund its operations. However, there can be no assurance that sufficient funds will be available or that future events will not cause the Company to seek additional capital sooner. To the extent the Company is in need of any additional financing, there can be no assurance that any additional financing will be available to the Company on acceptable terms, or at all. The inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations. If additional funds are raised by issuing equity or convertible debt securities, options or warrants, further dilution to the existing shareholders may result.

If adequate funds are not available, the Company may also be required to delay, scale back or eliminate its product development efforts or to obtain funds through arrangements with strategic partners or others that may require the Company to relinquish rights to certain of its technologies or potential products or other assets. Accordingly, the inability to obtain such financing could result in a significant loss of ownership and/or control of its proprietary technology and other important Company assets and could also adversely affect the Company's ability to continue its product development efforts, which the Company believes contributes significantly to its competitive advantage. If any of such circumstances were to arise, the Company's business, financial condition and results of operations could be materially and adversely affected.

EFFECT OF INFLATION

The Company believes that inflation has not had a material effect on its net sales or profitability in recent years.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company are submitted as a separate section of this Annual Report on Form 10-KSB, commencing with page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The directors, executive officers and significant employees of the Company are as follows:

NAME	AGE	POSITION	DIRECTOR SINCE
Charles E. Phillips	67	President, Treasurer & Director	1991
Ronald A. Waldorf	54	Vice President, Secretary & Director	1991
Arnold D. Kay	67	Director	1999

Barbara J. Mauch	57	Chief Product Development Engineer	----

Directors serve for a term of one year or until the next annual meeting of shareholders.

CHARLES E. PHILLIPS has been President and a Director of the Company and its predecessor, OculoKinetics, Inc. since its inception in 1988. Prior to forming OculoKinetics, Inc., Mr. Phillips operated Charles E. Phillips, Inc., a management and marketing consulting firm. His work has included assignments in marketing, operations and the initiation of start-up ventures. From 1974 to 1985,Mr. Phillips was Executive Vice President and Director of Akai America, Ltd., a consumer electronics company. His management background has encompassed marketing, new product planning, sales, advertising, finance, accounting, manufacturing, quality assurance and distribution.

Mr. Phillips received a B.A. from Pepperdine College, Los Angeles, California with emphasis on Business and Speech Education, in 1956.

RONALD A. WALDORF has been Chairman of the Board of Directors of the Company since 1991 and is active in overall policy formation and strategic planning for the Company. He is the inventor of the IR/Video ENG System, SafetyScope and EM/1 products. He also owns a patent covering closely related technology that has been licensed exclusively to the Company. Since 1969 Waldorf has been active in the field of otolaryngology, primarily in an academic research environment at the University of Florida, College of Medicine and at the University of California (Irvine), Department of Surgery. He has published numerous articles on vestibular and optokinetic research in international scientific and medical journals and was the principal investigator in a research grant funded by the National Institute of Health/National Institute on Alcohol Abuse and Alcoholism(NIH/NIAAA). Since 1981 he has acted as a consultant to clinics and hospitals in the Los Angeles area, including the House Ear Clinic. He has also consulted to a Japanese company developing new technologies for eye movement detection.

Waldorf earned an M.S. in from the Department of Physiology of the College of Medicine, University of Florida, in 1972.

ARNOLD D. KAY was elected a Director in September 1999. He has more than thirty years experience in finance, sales and administration. Mr. Kay was an employee of the Company from 1991 to 1994. He currently is co-owner and General Manager of Lomita Blueprint/CADWEST of Lomita, California, a software and computer imaging business focusing on design, graphics and distribution of CAD software and systems.

Mr. Kay received a B.S. in Business Administration/Finance from California State University, Northridge, in 1961.

BARBARA J. MAUCH is the primary product development engineer for the Company. She has been with the Company since 1989 and is responsible for product engineering and software development. Her background encompasses computer systems design and software development for access control of buildings and other properties. She served as a Director of the Company from 1991 to 1996.

Ms. Mauch earned a B.S. in Mathematics from Northern Colorado University, in 1971 and completed the Master's program in computer science at UCLA.

DIRECTORS' COMPENSATION

The members of the Board of Directors do not receive any compensation for their service as directors, but are eligible for reimbursement of their expenses incurred in connection with attendance at Board meetings in accordance with Company policy.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (the "10% Stockholders"), to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Officers, directors and 10% Stockholders of the Company are required by Commission regulation to furnish the Company with copies of all Section 16(a) forms so filed.

Based upon a review of filings made and other information available to it, the Company believes that each of the Company's present Section 16 reporting persons filed all forms required of them by Section 16(a) during the year 2002.

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth certain compensation awarded or paid by the Company to its Named Executive Officers and others during the fiscal years ended December 31, 2002, 2001 and 2000.

SUMMARY COMPENSATION TABLE

					LONG-TERM COMPE		
		ANNUAL COMPENSATION			AWARDS		PAYOUTS
NAME AND PRINCIPAL POSITION	YEAR	SALARY $	BONUS $	OTHER $	RESTRICTED STOCK AWARDS $	OPTIONS #	L PA
Charles E. Phillips	2002	76,000	0	0	0	0	
	2001	72,000	0	0	0	0	
	2000	64,500	0	0	0	100,000	
Ronald A. Waldorf	2002	0	0	0	0	0	
	2001	7,500	0	0	0	0	
	2000	10,000	0	0	0	0	
Barbara J. Mauch	2002	56,000	0	0	0	0	
	2001	54,000	0	0	0	0	
	2000	49,500	0	0	0	50,000	

There were no options granted or exercised during 2002.

The following table sets forth certain information concerning options outstanding at December 31, 2002:

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at December 31, 2002*	Value of Unexercised In-the-money Options at December 31, 2002*
Charles E. Phillips	0	0	100,000	$15,000
Ronald Waldorf	0	0	0	0
Arnold Kay	0	0	0	0
Barbara J. Mauch	0	0	50,000	$ 7,500

*All currently exercisable

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS & MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Common Stock of the Company as of March 31, 2003, by (i) each person known by the Company to beneficially own 5% or more of the outstanding Common Stock of the Company; (ii) each of the Company's directors; (iii) the Named Executive Officers identified in the Summary Compensation Table; and (iv) all directors and Named Executive Officers of the Company as a group.

Name & Address	Number of Shares	Percentage Owned
Charles E. Phillips 2301 W. 205th St., #102 Torrance, CA 90501	2,105,489	11.8
Ronald A. Waldorf 2301 W. 205th St., #102 Torrance, CA 90501	1,681,152	9.4
Barbara J. Mauch 2301 W. 205th St., #102 Torrance, CA 90501	1,382,544	7.8
Arnold D. Kay 2301 W. 205th St., #102 Torrance, CA 90501	316,316	1.8
TESA Corporation 961 North Rice Oxnard, CA 93030	2,500,000	14.0
All directors and executive officers as a group (3 persons)	4,102,957	30.0

Beneficial ownership is determined in accordance with the rules of the

Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Shares of Common Stock subject to securities currently convertible, or convertible within 60 days after March 31, 2003, are deemed to be outstanding in calculating the percentage ownership of a person or group but are not deemed to be outstanding as to any other person or group.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since inception, the Company has borrowed funds from Mr. Charles E. Phillips, its president and CEO, and from employee Barbara Mauch, under various promissory notes. These notes bear interest at 10% per annum and are unsecured. As of December 31, 2002, the balance of the notes was $0, and the unpaid accrued interest totaled $58,890. The principal balance of $15,000 was paid to Mr. Phillips in January 2002, but the accrued interest remains outstanding.

The Company has employment agreements with its President and an employee that provide for aggregate annual compensation of $150,000. The agreements are automatically renewed year to year. The agreements may be terminated by the Company or the officers with notice 60 days prior to any expiration date.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(A) The following exhibits are included herein or incorporated by reference:

3(i)* Articles of Incorporation, as amended.

3(ii)* Bylaws

10.1* Employment Agreement, dated April 1, 1989 with Charles E. Phillips

10.2* Employment Agreement, dated December 1, 1989 with Barbara J. Mauch

10.3* Exclusive Licensing Agreement, dated November 1, 1989 with Ronald A. Waldorf

10.4 Standard Multi-Tenant Commercial Industrial Lease-Gross, dated January 9, 2003, between the Company and AMB Property, L.P.

10.5** Agreement, dated March 19, 2001 between the Company and Medtrak, Inc.

10.6 Technology Development Agreement, dated November 18, 2002, between the Company and HRL Laboratories, LLC

10.7 Registration Rights Agreement, dated November 18, 2002, between the Company and HRL Laboratories, LLC

* Incorporated by reference from Amendment No. 1 to the Registration Statement on Form 10-SB, filed on December 13, 1999.

** Incorporated by reference from Report on Form 10-K for the year ended December 31, 2000, filed on April 16, 2001.

(B) Reports on Form 8-K

None.

ITEM 14. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive and Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on this evaluation, our Chief Executive and Financial Officer concluded that the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports under the Exchange Act are processed and reported within the time periods specified by law. The design of any such system of controls is based in part on assumptions about the likelihood of future events, and there can be no assurance that any such system of controls will succeed in all circumstances.

Since the date of the evaluation described above, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eye Dynamics, Inc.

By: /s/ Charles E. Phillips

Date: April 7, 2003

Charles E. Phillips, President
and Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons On behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Charles E. Phillips Charles E. Phillips	President, Chief Financial Officer and a Director	April 7, 2003
/s/ Ronald A. Waldorf Ronald A. Waldorf	Chairman and a Director	April 7, 2003
/s/ Arnold Kay Arnold Kay	Director	April 7, 2003

CERTIFICATION

I, Charles E. Phillips, principal executive officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Eye Dynamics,

Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the date of the Evaluation Date;

5. The registrant's other certifying officer 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 officer and I have indicated in this annual 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: April 7, 2003

By: /s/ Charles E. Phillips

Charles E. Phillips, President

CERTIFICATION

I, Charles E. Phillips, principal financial officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Eye Dynamics, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

d) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the date of the Evaluation Date;

5. The registrant's other certifying officer 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):

c) 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

d) 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 officer and I have indicated in this annual 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.

April 7, 2003

By: /s/ Charles E. Phillips

Charles E. Phillips, Treasurer

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and stockholders of Eye Dynamics, Inc.

We have audited the accompanying consolidated balance sheet of Eye Dynamics, Inc. (a Nevada corporation) and its subsidiary, Oculokinetics, Inc. (a California corporation), as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years ended December 31, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eye Dynamics, Inc. and its subsidiary as of December 31, 2002, and the consolidated results of its operations and its cash flows for the years ended December 31, 2002 and 2001, in conformity with accounting principles generally accepted in the United States.

/s/Spector & Wong, LLP
Pasadena, California
March 13, 2003

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2002

ASSETS	
Current Assets	
Cash	$ 177,668
Accounts receivable	186,977
Employee advances and receivable, net of allowance for loan losses of $58,218	--
Inventory	155,167
Prepaid expenses	3,448
Total Current Assets	523,260
Property and equipment, net of accumulated depreciation of $14,365	398
Other Assets	11,511
TOTAL ASSETS	$ 535,169

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable & accrued expenses	$ 89,406
Accrued interest	76,890
Customers' deposits	13,271
Notes payable, current portion	95,046
Total Current Liabilities	274,613
Long-term debt	423,516
Total Liabilities	698,129
Stockholders' Deficit	
Common Stock, $0.001 par value; 50,000,000 shares authorized; 17,850,313 shares issued and outstanding	17,850
Paid-in Capital	3,497,103
Accumulated Deficit	(3,677,913)
	(162,960)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 535,169

See notes to consolidated financial statements

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EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR YEARS ENDED DECEMBER 31, 2002 AND 2001

Years ended December 31,	2002	2001
Sales		
Products	$ 1,765,091	$ 697,597
Services	43,250	--
	1,808,341	697,597
Cost of Sales		
Products	857,663	302,057
Services	18,415	--
	876,078	302,057
Gross Profit	932,263	395,540
Operating Expenses		
Selling, General and Administrative Expenses	715,297	881,631
Provision for Loan Loss	58,218	--
	773,515	881,631

Operating income (loss)	158,748	(486,091)
Other Income (Expense)		
Interest and Other Income	8,148	4,784
Interest Expense	(40,951)	(43,498)
Settlement	--	(20,000)
	(32,803)	(58,714)
Net income (loss) before taxes and extraordinary item	125,945	(544,805)
Provision for Income Taxes	1,600	1,600
Net income (loss) before extraordinary item	124,345	(546,405)
Extraordinary item-gain on restructuring of debt, net of applicable income taxes of $0	26,479	--
Net income (loss)	$ 150,824	$ (546,405)
Net income (loss) per share-basic:		
Net income (loss) before extraordinary item	$ 0.01	$ (0.04)
Extraordinary gain, net	0.00	--
Net income (loss)	$ 0.01	$ (0.04)
Net income (loss) per share-diluted:		
Net income (loss) before extraordinary item	$ 0.01	$ (0.04)
Extraordinary gain, net	0.00	--
Net income (loss)	$ 0.01	$ (0.04)
Shares used in per share calculation-basic	16,441,980	12,268,896
Shares used in per share calculation-Diluted	19,909,065	12,268,896

See notes to consolidated financial statements

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EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2002 AND 2001

	Common Stock		Paid-in	Unamortized Expenses	Accumula
	Shares	Amount	Capital	(Contra-Equity)	Defici
Balance at 12/31/00	11,416,313	$ 11,416	$ 2,928,544	$ (68,833)	$(3,282,

Issuance of Stocks for Consulting, Financial Advising, and Public Relation expenses	2,334,000	2,334	333,892	(97,224)	
Issuance of Stocks for Cash	500,000	500	69,500		
Exercising of Options	100,000	100			
Warrants issued for service			14,000		
Net (Loss)					(546,
Balance at 12/31/01	14,350,313	14,350	3,345,936	(166,057)	(3,828,
Issuance of Stocks for					
R&D expenses	800,000	800	27,200		
Settlement	200,000	200	9,800		
Debt restructuring	2,500,000	2,500	97,500		
Warrants issued for note payment			16,667		
Amortization of expenses				166,057	
Net Income					150,
Balance at 12/31/02	17,850,313	$ 17,850	$ 3,497,103	$ --	$(3,677,

See notes to consolidated financial statements

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2002 AND 2001

Years ended December 31,	2002	2001
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 150,824	$(546,405)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	1,477	2,609
Extraordinary Gain, net	(26,479)	--
Provision for loan loss	58,218	--
Noncash expenses	194,057	239,002
Warrants for Services and Interest	16,667	14,000
(Increase) Decrease in:		
Accounts Receivable	(104,399)	75,896
Inventory	(39,649)	(55,786)

Interest Receivable on Employee Loan	--	(4,454)
Prepaid and Others	(10,984)	9,625
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	35,503	6,174
Other Liabilities	(61,729)	85,000
Accrued Interest	(26,225)	37,730
Net cash provided by (used in) operating activities	187,281	(136,609)
CASH FLOW FROM INVESTING ACTIVITIES:		
Employee Advances and Receivable	3,929	(55,169)
Net cash provided by (used in) investing activities	3,929	(55,169)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuing of Common Stock	--	70,100
Net advance from (repayments on) Line of Credit	(45,248)	44,891
Net Proceeds from Notes Payable	23,083	--
Net Proceeds from (Payments to) Shareholders	(15,000)	14,722
Net cash provided by (used in) financing activities	(37,165)	129,713
NET INCREASE (DECREASE) IN CASH	154,045	(62,065)
CASH BALANCE AT BEGINNING OF YEAR	23,623	85,688
CASH BALANCE AT END OF YEAR	$ 177,668	$ 23,623
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 49,036	$ 3,741
Taxes Paid	$ 1,600	$ 1,600
Supplemental Schedules of Noncash Investing and Financing Activities		
Issuing common stock for:		
Reduction of liability	$ 10,000	$ --
Restructuring of debt	100,000	--
	$ 110,000	$ --

See notes to consolidated financial statements

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EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES

NATURE OF BUSINESS. Eye Dynamics, Inc. and subsidiary (the "Company') markets and distributes diagnostic equipment that utilize the Company's proprietary technology and computer software to test individuals for impaired eye and pupil performance. The Company also markets a medical diagnostic product that tracks and measures eye movements during a series of standardized tests.

PRINCIPLES OF CONSOLIDATION. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Oculokinetics, Inc. (a California corporation), after elimination of all material intercompany accounts and transactions.

The subsidiary had no operations in both years of 2002 and 2001. All revenue is derived from the Company.

USE OF ESTIMATES. The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

REVENUE RECOGNITION. The Company is subcontracting the manufacturing of the medical diagnostic equipments and products. Manufacturing operations consist of assembly, test, and packaging functions. Sales of product and equipment are recognized when both title and risk of loss transfers to the customer (usually it is the date of shipment), provided that no significant obligations remain and collectibility is reasonably assured. No provisions were established for estimated product returns and allowances based on the Company's historical experience.

The Company provides repair and maintenance, and consulting and education services to its customers. Revenue from such services is generally recognized over the period during which the applicable service is to be performed or on a services-performed basis.

The Company evaluated Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), but does not expect that SOP 97-2 will have a material impact on the Company's financial position, results of operations, or cash flows since the Company did not sell, license, lease or market any individual computer software. The Company's computer software is included with the equipment and is not sold separately.

The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") in fourth quarter of 2000. The adoption of SAB 101 did not have a material impact on the Company's operating results or financial positions.

ACCOUNTS RECEIVABLE. Management of the Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made. Bad debt expense for years ended December 31, 2002 and 2001 was $971 and $81, respectively.

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

DEBT RESTRUCTURINGS: The Company accounts for debt restructurings that occurred in April 2002 in accordance with Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting for Debtors and Creditors for Troubled Debt Restructurings." The statement requires that a debtor should (a) recognize a gain or loss by reducing the carrying amount of the debt by the fair value of the assets or equity interest transferred, and (b) account for the remainder of the restructuring as a modification of debt terms. When the terms of a debt are adjusted in a trouble-debt restructuring, the total amount of the future cash payments should be determined. If the carrying amount of debt is less than the aggregate future cash payments required by the new debt term, the debtor should amortize the difference over the life of the new debt as interest expense using the effective interest method. No gain or loss is recognized in the period of extinguishments. If the carrying amount of debt is greater than the aggregate future cash payments required by the new debt term, the debtor should reduce the carrying value of debt to an amount equal to the total future cash payments and recognize the reduction an extraordinary gain. No interest expense should be recorded.

STOCK-BASED COMPENSATION The Company accounts for equity-based instruments issued or granted to employees using the intrinsic method as prescribed under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," defines a fair value method of accounting for issuance of stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are encouraged, but not required, to adopt the fair value method of accounting for employee stock-based transactions. Companies are also permitted to continue to account for such transactions under APB No. 25, but are required to disclose in a note to the financial statements pro forma results of operations as if the Company had applied the fair value of accounting.

The Company accounts for employee stock-based compensation under the intrinsic value method of APB No. 25. SFAS No. 123, as amended by SFAS No. 148, establishes disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. The Company's pro forma results of operations and earnings (loss) per share information using a fair value based method of accounting for years ended December 31, 2002 and 2001 is as follows:

	2002	2001
Net income(loss) - as reported	$ 150,824	$ (546,405)
Pro forma compensation expense	9,250	13,050
Pro forma net income (loss)	$ 141,574	$ (559,455)
Basic earnings (loss) per share:		
As reported	$ 0.01	$ (0.04)
Pro forma	$ 0.01	$ (0.05)
Diluted earnings (loss) per share:		
As reported	$ 0.01	$ (0.04)
Pro forma	$ 0.01	$ (0.05)

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." SFAS No. 123 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Under the guidance in Issue 96-18, the measurement date occurs as of the earlier of (a) the date at which a performance commitment is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

INCOME (LOSS) PER COMMON SHARE. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares plus the dilutive effect of convertible debt, shares issuable under convertible debt to sell 3,467,085 shares of the Company common stock for year ended December 31, 2002, using the treasury stock method. Approximately, 683,333 shares outstanding stock options and warrants were excluded from the calculation of diluted earnings per share for 2002 because they were anti-dilutive. However, these options and warrants could be dilutive in the future. Diluted net loss per common share does not differ from basic net loss per common share since potential shares of common stock are anti-dilutive for all periods presented. Shares excluded from diluted loss per share totaled 2,350,000.

Other Significant Accounting Policies

CASH EQUIVALENTS. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

The Company maintains its cash in one financial institution. The bank account, at times, exceeded federally insured limits of $100,000. The Company has not experienced any losses on such account.

FAIR VALUE OF FINANCIAL INSTRUMENTS. The carrying amounts of the financial instruments have been estimated by management to approximate fair value.

INVENTORIES. Costs incurred for materials, technology and shipping are capitalized as inventories and charged to cost of sales when revenue is recognized. Inventories consist of finished goods and are stated at the lower of cost or market, using the first-in, first-out method.

PROPERTY AND EQUIPMENT. Property and Equipment are valued at cost. Maintenance and repair costs are charged to expenses as incurred. Depreciation is computed on the straight-line method based on the following estimated useful lives of the assets: 5 to 7 years for computer and office equipment, and 7 years for furniture and fixtures. Depreciation expense was $1,477 and $2,609 for 2002 and 2001, respectively.

INCOME TAXES. Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

ADVERTISING COSTS. All advertising costs are expensed as incurred. Advertising expenses were $1,516 and $3,133 for 2002 and 2001, respectively.

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

SHIPPING AND HANDLING COSTS. The Company historically has included inbound shipping charges in cost of sales and classified outbound shipping charges as operating expenses. For years ended December 31, 2002 and 2001, the outbound shipping charges included as operating expenses were $46,197 and $27,000, respectively.

DERIVATIVES. In June 1998, FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which was issued in June 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments. The Company currently does not use derivative financial products for hedging or speculative purposes and as a result, does not anticipate any impact on the Company's financial statements.

RECLASSIFICATION. Certain reclassifications have been made to the 2001 consolidated financial statements to conform with the 2002 consolidated financial statement presentation. Such reclassification had no effect on net loss as previously reported.

NEW ACCOUNTING STANDARDS: On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion 25.

In June 2002, FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) is replaced by this Statement. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not anticipate that the adoption of this Statement will have a significant effect on the Company's financial statements.

In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement updates, clarifies and simplifies existing accounting pronouncements. The provisions of this Statement related to the rescission of Statement No. 4 are to be applied for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion No. 30 for classification as an extraordinary item should be reclassified. Provisions of the Statement related to the amendment of Statement No. 13 should be applied for transactions occurring after May 15, 2002, and all other provisions should be applied for financial statements issued on or after May 15, 2002. Management does not anticipate that the adoption of this Statement will have a significant effect on the Company's financial statements.

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

In October 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, however it retains the fundamental provisions of that statement related to the recognition and measurement of the impairment of long-lived assets to be "held and used." In addition, SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset (group) to be disposed of other than by sale (e.g., abandoned) be classified as "held and used" until it is disposed of, and establishes more restrictive criteria to classify an asset (group) as "held for sale." The adoption of SFAS No. 144 did not have an impact on the Company.

NOTE 2 - DEBT RESTRUCTURING

In April 2002, the Company restructured a debt of $396,721 plus accrued interest of $223,987 with a prior distributor in regards to the Settlement Agreement and Mutual Release that was signed in 1993. The new settlement includes that a new note of $400,000 was issued to replace the old debt. The new note is compounded at 7% per annum and is amortized over 5 years commencing January 1, 2003. The Company also paid a sum of $60,000 in cash and issued 2,500,000 shares of restricted common stock to the prior distributor upon the execution of the new amendment. The fair market value of the stock at the date of settlement was $0.04 per share. All accrued and unpaid interest on the old debt, and all amounts due related to the consigned inventory were forgiven. The Company recognized an extraordinary gain of $26,479 on the restructuring in accordance with SFAS No. 15.

Debt carrying value:		
Original carrying amount of debt	$ 396,721	
Accrued and unpaid interest balance	223,987	
Consigned inventory	41,000	
Total debt		$ 661,708
Less: fair value of consideration given:		

Cash paid	(60,000)	
Common stock issued (2,500,000 shares at a fair value of $0.04 per share)	(100,000)	
		(160,000)
Carrying value of debt		501,708
Future cash flows:		
New debt principal	400,000	
Interest to be paid on new principal amount	75,229	
Total future cash payments required		475,229
Extraordinary gain recognized		$ 26,479

NOTE 3 - EMPLOYEE LOAN AND ADVANCES

The Company has made advances to and on behalf of an employee and the employee has made repayments to the Company. On April 2, 2001, the Company converted $49,489 into a note receivable bearing interest at 12% per annum. The note is collateralized by 2,660,000 shares of capital stock of Ingen Technologies, Inc., a privately held California corporation (Ingen). In August 2001, the Company turned over all 2,660,000 shares of Ingen stock to the employee's priority secured creditor. The note becomes unsecured and is due on demand.

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - EMPLOYEE LOAN AND ADVANCES (CONTINUED)

The loan and advances went to default as of December 31, 2002 and an allowance of loan loss for the full amount of $58,218 was established as of that date. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income will be recognized only to the extent cash payments are received.

As of December 31, 2001, the net receivable from the employee amounted to $62,147, including an interest receivable of $4,454.

NOTE 4 - LINE OF CREDIT

The Company has an operating line of credit with Wells Fargo Bank of $65,000, with interest payable at the bank's prime rate plus 2.75%. This line of credit is payable on demand and is personally guaranteed by the Company's President. As of December 31, 2002 and 2001 the amount drawn against the line was $0 and $45,248, respectively.

NOTE 5 - NOTES PAYABLE

In May 2002, the Company issued two notes payable of $40,000 and $20,000 to fund the cash payment of $60,000 as discussed in Note 2. Both notes carry an interest rate of 7% per annum commencing January 1, 2003. Principal and interest payable are due on December 31, 2007. The notes are convertible into

3,591,800 and 1,795,900 shares of the Company's restricted common stock, respectively. The notes are also callable on or before December 31, 2002 by the Company in the sum of $13,333 and $6,666, respectively. Upon the occurrence of such payments, the balance of the notes shall be convertible into 2,394,533 and 1,197,267 shares, respectively. The Company will also issue 266,667 and 133,333 shares of warrants, respectively, to the holders if such payments are made. The warrants are exercisable at five cents ($0.05) per share and expire on December 31, 2007. As of December 31, 2002, the Company had paid $13,334 and $3,333, and issued 266,667 and 66,666 shares of warrants to the note holders, respectively.

In October 2002, the Company agreed with the holder to settle the accrued interest balance to $24,000 related to a note dated back on August 13, 1991. The Company accrued interest at a simple interest method, instead of compounding quarterly which was stated on the note. As a result, an additional interest expense of $10,920 was charged to operations in 2002. The principal was paid in full in October.

NOTE 5 - NOTES PAYABLE (CONTINUED)

Notes payable at December 31 consist of the following:

	2002	2001
a.) Notes Payable to Officers, compound interest accrued at 10%, due 60 days after dates of notes, unsecured	$ --	$ 15,000
b.) Notes Payable to Others, interest at 12% per annum; due on demand. Unsecured	--	10,000
c.) Notes Payable to TESA Corp., interest at 7% payable on December 31, 1999, maturing 11% of gross revenues, collateralized by accounts receivable, inventory, patents and a licensing agreement	--	406,971
d.) Note Payable to TESA Corp., interest at 7% commencing January 1, 2003, due on December 31, 2007. Collateralized by accounts receivable, inventory, patents and a licensing agreement for impairment testing products	475,229	--
e.) Note Payable to Others, interest at 7% due and payable on December 31, 2007. Convertible into 2,394,533 shares of common stock	26,666	--
f.) Note Payable to Others, interest at 7% due and payable on December 31, 2007. Convertible into 1,496,583 shares of common stock	16,667	--
	518,562	431,971
Less: Current Maturities	(95,046)	(431,971)

Notes Payable, Long-Term	$ 423,516	$ --

NOTE 6 - LITIGATION SETTLEMENT

In 2001, the Company was involved in a lawsuit filed by 6800 Owensmouth, Inc. ("OWEN") alleging that the Company had aided and abetted an employee in avoiding payment of a lawsuit judgment in favor of OWEN. On February 21, 2002, the Board of Directors, in the interest of capital conservation and avoiding the time and expense of a court trial, approved to reach a settlement through a mediation conference. The settlement reached included payment of $10,000 and issuance of 200,000 shares of 144 restricted common stock of the Company at a fair market value of $0.05 per share. The settlement loss, aggregate of $20,000, was accrued and charged to operations in 2001. The liability was paid in full and the shares were issued in February 2002.

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - NONCASH FINANCING ACTIVITIES

During 2002 and 2001, the Company issued substantial common stocks to various consultants for public and investor relations, financial consulting, and strategic planning and consulting services. The stocks are fully vested and nonforfeitable. The Company recorded the stock transactions at their fair market value, capitalized the costs of transactions, and amortized them over the length of the services. For years ended December 31, 2002 and 2001, there were 800,000 and 2,334,000 shares of common stock were issued to nonemployees for their services, respectively. The total costs of transactions were $28,000 and $336,226, respectively. As of December 31, 2002 and 2001, the balance of unamortized costs was $0 and $166,057, respectively. The unamortized costs were included in equity section as a contra-equity.

As discussed in Note 2, the Company issued 2,500,000 shares of restricted common stock at a fair value of $0.04 per share to restructure a debt.

As discussed in Note 6, the Company issued 200,000 shares of restricted common stock to reduce a contingent liability of $10,000 which was accrued in 2001.

NOTE 8 - INCOME TAXES

The Company files separate federal and state income tax returns with its subsidiary.

Provision for income taxes in the consolidated statements of operations for years ended December 31, 2002 and 2001 consist of $1,600 minimum state income taxes in each year, $800 for each corporation.

As of December 31, 2002, the Company has net operating loss carryforwards, approximately, of $1,215,276 to reduce future taxable income. The subsidiary has NOL carryforwards of $1,483,674. To the extent not utilized, both carryforwards will begin to expire through 2022. The Company's ability to utilize its net operating loss carryforwards is uncertain and thus a valuation reserve has been provided against the Company's net deferred tax assets.

The deferred net tax assets consist of the following at December 31:

	Parent Company		Subsidiary	
	2002	2001	2002	2001
Net Operating Loss Carryforwards	$ 413,194	$ 471,880	$ 504,449	$ 504,177
Valuation Allowance	(413,194)	(471,880)	(504,449)	(504,177)
Net deferred tax assets	$ --	$ --	$ --	$ --

NOTE 9 - STOCKS OPTIONS AND WARRANTS

Stock Options

As of December 31, 2002 and 2001, the total outstanding non-qualified options were 150,000 with an exercise price of $0.15 per share. The options may be exercised no later than three years from the date of issuance. The weighted average fair value of options granted by the Company as of those dates was $0.05 and $0.18, respectively. There were 100,000 shares of options exercised at $0.001 per share in 2001. None were exercised in 2002.

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - STOCKS OPTIONS AND WARRANTS (CONTINUED)

A summary of the status of the Company's stock option as of December 31, 2002 and 2001, and changes during the years then ended is presented below:

	2002		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of Year	150,000	$ 0.15	2,310,000	$ 0.29
Granted	--	--	--	--
Exercised	--	--	(100,000)	0.001
Expired and Cancelled	--	--	(2,060,000)	0.32
Outstanding at end of Year	150,000	$ 0.15	150,000	$ 0.15
Exercisable at end of Year	150,000	$ 0.15	150,000	$ 0.15

The outstanding options at December 31, 2002 were exercisable at $0.15 per share with remaining lives of 0.08 years.

The Company has elected to account for its stock-based compensation under APB Opinion No. 25 an accounting standard under which no related compensation was recognized in 2002 or 2001, the year of the grant; however, the Company has computed for pro forma disclosure purposes, the value of all options granted during the year ended December 31, 2002 and 2001 using the Black-Scholes option pricing model as prescribed by SFAS No. 123 and the weighted average assumptions as follows:

	December 31, 2002	2001
Weighted average fair value per option granted	$ 0.05	$ 0.18
Risk-free interest rate	1.75%	1.75%
Expected dividend yield	0.00%	0.00%
Expected lives	0.08	1.08
Expected volatility	3.76	0.70

Stock Warrants

As discussed in Note 5, the Company issued a total of 333,333 shares of warrants for early partial repayment of two notes payable. The warrants are exercisable at $0.05 per share and expire through December 31, 2007. At date of issuance, the warrants had a fair value of $0.05 per share and the total cost of $16,666 was charged to interest expense in year 2002.

Between years of 2000 and 2001, the Company sold warrants in a private placement offering to purchase up to 2,000,000 shares of common stock at exercise prices of $0.35 or $0.75 per share. These warrants will expire through January 2002. In August 2001, the Board of Directors approved to grant a six-month extension on these warrants.

NOTE 9 - STOCKS OPTIONS AND WARRANTS (CONTINUED)

During 2001, the Company granted warrants to purchase up to 200,000 shares of common stock in exchange for investor relation services. These services were valued at $14,000 and the amount was charged to operations in 2001. Exercised prices determined for the warrants are 66,666 shares at $0.32 per share; 66,666 shares at $0.82 per share; and 66,668 shares at $1.32 per share. The warrants will expire on January 3, 2004.

A summary of the status of the Company's warrants as of December 31, 2002 and 2001, and changes during the years then ended is presented below:

	2002		2001	
		Weighted Average Exercise		Weighted Average Exercise

	Number of Warrants	Price Per Share	Number of Warrants	Price Per Share
Outstanding at beginning of year	2,200,000	$ 0.55	1,500,000	$ 0.55
Granted	333,333	0.05	700,000	0.63
Exercised, Expired and Cancelled	(2,000,000)	0.63	--	--
Outstanding at end of year	533,333	$ 0.34	2,200,000	$ 0.57
Exercisable at end of year	533,333	$ 0.34	2,200,000	$ 0.57

NOTE 10 - NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share:

	2002	2001
Numerator:		
Net income (loss)	$ 150,824	$ (546,405)
Denominator:		
Weighted average of common shares	16,441,980	12,268,896
Diluted effect of convertible debt	3,467,085	--
Diluted weighted average common shares outstanding	19,909,065	12,268,896
Basic net income (loss) per share	$ 0.01	$ (0.04)
Diluted net income (loss) per share	$ 0.01	$ (0.04)

The net income amount for year ended December 31, 2002 included an after-tax amount of $26,479, which relates primarily to an extraordinary gain from restructuring of debt. Excluding the effects of these transactions, the basic and diluted loss per share would have been the same.

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EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - SEGMENT INFORMATION

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" requires that a publicly traded company must disclose information about its operating segments when it presents a complete set of financial statements. Since the subsidiary did not have any operations in 2002 or 2001, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

NOTE 12 - RELATED PARTY TRANSACTION

As disclosed in Note 5a, the Company had notes payable to the officers in the amounts of $0 and $15,000 as of December 31, 2002 and 2001, respectively. As of those dates, balance of accrued interest was $58,890 and $71,715, respectively. Interest expense charged on these notes totaled $8,173 and $6,429 in those years, respectively.

NOTE 13 - MAJOR CUSTOMERS

During year ended December 31, 2002 and 2001, the Company's private label distributor accounted for $1,093,779 and $293,324 or 60.5% and 42.0% of total revenues, respectively.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

Letter Agreement

On July 11, 2002, the Company entered into a letter agreement with HRL Laboratories, LLC (HRL) to develop a robust iris eye tracking algorithm and image capture plus DSP architecture. As consideration for HRL's research and development, the Company will issue to HRL (1) 300,000 shares of the Company's restricted common stock as initial compensation for execution of the first phase of the research and development project at date of agreement; (2) 300,000 additional shares upon the demonstration of the iris tracking algorithm; and (3) up to 200,000 additional shares prorated by solution cost at a maximum of 1,000 shares per unit cost. The maximum number of shares to be issued to HRL is 800,000 shares.

The Company will own all intellectual property developed under the project and HRL will have a royalty-free license throughout the universe to use such intellectual property.

HRL will also be given a non-voting seat on the Company's Board of Directors, to be filled by an individual selected in HRL's sole discretion.

All 800,000 shares have been issued in 2002, and the total cost of $28,000 was charged to operations.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

Finder Agreement

In 2001, the Company entered into a Finder's Agreement with a consultant who acts as a finder to locate prospective investors for the Company. The Company agreed to pay the consultant finder's fees based on the following schedule:

5% on first $5,000,000 capital raised
4% on next $1,000,000
3% on next $1,000,000
2% on next $1,000,000
1% on balance

As of December 31, 2002 and 2001, no capital was raised through the consultant.

The Company also agreed to pay another consultant a fee of $50,000 under a Financial Consulting Services Agreement. The Company agreed that 25% of any funding will be payable to the consultant until the full amount owed to the consultant is fully paid. If no funding occurs, no payment will be paid to the consultant.

Lease Commitments

The Company leases its office facilities for $974 per month. The lease expires April 2003. In February 2003, the Company relocated to larger office facilities for $1,571 per month. The new lease commences on February 1, 2003 and expires through January 31, 2006. Rent expense totaled $13,033 and $10,702 for 2002 and 2001, respectively.

The Company also leases office equipment at $204 per month expiring in February 2004.

As of December 31, 2002, the minimum lease payments under these leases are:

Year ended December 31,	Amount
2003	$ 20,712
2004	20,009
2005	19,973
2006	1,668
	$ 62,362

NOTE 15 - SUBSEQUENT EVENT

In March 2003, the Board of Directors intended to wind down the inactive subsidiary, which has no asset or liability as of December 31, 2002. Management believes that the wind down of the subsidiary has no material effect on the Company's financial position, results of operations and cash flows.