EYE DYNAMICS INC
Form 10KSB
March 22, 2004

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, 2003

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: $3,238,284

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: $7,492,304

The number of shares outstanding of the issuer's common stock as of February 29,2004 was 17,883,081.

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.

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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, "locks" on to 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.

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An employee looks into the 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, it can be utilized in a random testing or regular scheduled testing environment. Traditional drug tests can take days to complete, which is 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 that 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 ..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 46% of the total sales for the year 2003.

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.

The Company contemplates that new versions of the ENG product will be marketed through an arrangement with MedTrak Technologies, our private label distributor. It will market new "Eye Dynamics" branded products to an expanded array of medical specialty markets. The Company intends to appoint MedTrak as "Master Distributor" of these products.

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 five employees full time, including its President, a development engineer, a marketing manager and technical support person. 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 $1,629.

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

2003 fiscal year.

	LOW	HIGH
2003		
First Quarter	$.045	$.11
Second Quarter	.05	.35
Third Quarter	.14	.25
Fourth Quarter	.205	.75
2002		
First Quarter	.05	.05
Second Quarter	.05	.06
Third Quarter	.03	.03
Fourth Quarter	.08	.10

The Company's common stock is traded on the OTC Bulletin Board under the symbol "EYDY". As of December 31, 2003, the Company's Common Stock was held of record by approximately 110 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.

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 2003.

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, 2003 Compared to Year Ended December 31, 2002.

Revenues from sales of products increased by 79%, from $1,808,341 in 2002 to $3,238,282 in 2003. This increase is largely due to the success of our private label program for Video ENG Systems. The overall market for traditional ENG products is still 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 61% of our sales revenues in 2002, but in 2003 accounted for only 53% of revenues. This is an indicator that our Eye Dynamics brand of ENG products increased over 100% from the 2002 level of sales. This success is due not only to activities by our private label distributor in aggressive marketing and developing new market segments, but also to the expanded market activity for the Eye Dynamics branded products.

Gross profit percentage remained steady in 2003, at 52%, the same as in 2002. However, total revenues during 2003 were 79% greater than revenues during 2002, so gross profits are substantially higher, and contribute to net profits for the Company. Gross profit in 2003 was $1,668,726 compared to $932,263 in 2002.

Inventory turnover ratio in 2003 was approximately 6:1, compared to 5.5:1 in 2002. 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 2004.

Collection of accounts receivables 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 2003 was $1,769.

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, 2003, the Company had an accumulated deficit of approximately $2,634,886. As of that date, the Company had $700,344 in cash, approximately $131,420 in net accounts receivable, and $319,953 in inventory. Also, the Company had $201,847 of current liabilities, consisting of accounts payable, accrued interest, and the current portion of notes payable. Long term liabilities consist solely of a note balance of $325,137, which has a 60 month payment schedule for full amortization. Payments on this note commenced in February 2003 and continue monthly thereafter.

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.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. The Company's chief executive and financial officer, after evaluating the effectiveness of its disclosure controls and procedures as of the end of the year covered by this report (the "Evaluation Date"), as required by Exchange Act Rule 13a-15,concluded that the Company's disclosure controls and procedures were effective and designed to ensure that material information relating to the Company is accumulated and would be made known to him by others within the Company as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls. There were no significant changes in the Company's internal controls over financial reporting that occurred during the quarter and year ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls. The Company's management believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company will be detected.

PART III

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

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

NAME	AGE	POSITION	DIRECTOR SINCE
Charles E. Phillips	68	President, Treasurer & Director	1991
Ronald A. Waldorf	55	Vice President, Secretary & Director	1991
Arnold D. Kay	68	Director	1999
Barbara J. Mauch	58	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.

Mr. 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, 2003, 2002 and 2001.

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	2003	97,500	0	0	0	0	
	2002	76,000	0	0	0	0	
	2001	72,000	0	0	0	0	
Ronald A. Waldorf	2003	0	0	0	0	0	
	2002	0	0	0	0	0	
	2001	7,500	0	0	0	0	
Barbara J. Mauch	2003	67,500	0	0	0	0	
	2002	56,000	0	0	0	0	
	2001	54,000	0	0	0	0	

There were no options granted in 2003. There were no options exercised during 2003.

The following table sets forth certain information concerning options outstanding at December 31, 2003:

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at December 31, 2003*	Value of Unexercised In-the-money Options at December 31, 2003*
Charles E. Phillips	0	0	0	0
Ronald Waldorf	0	0	0	0
Arnold Kay	0	0	0	0
Barbara J. Mauch	0	0	0	0

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of the Common Stock of the Company as of December 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	1,633,100	9.0
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	63,128	0.4
TESA Corporation 961 North Rice Oxnard, CA 93030	2,500,000	14.0
All directors and executive officers as a group (5 persons)	7,684,261	43.0

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 December 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

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**	Agreement, dated March 19, 2001 between the Company and Medtrak, Inc.
10.4***	Standard Multi-Tenant Commercial Industrial Lease-Gross, dated January 9, 2003, between the Company and AMB Property, L.P.
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.

*** Incorporated by reference from Report on Form 10-KSB for the year ended December 31, 2002, filed on April 9, 2003.

(B) Reports on Form 8-K

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to the Company by Spector & Wong, LLP, its independent certified accountants, for professional services rendered for the fiscal years ended December 31, 2003 and 2002:

Fee Category	Fiscal 2003 Fees	Fiscal 2002 Fees
Audit Fees	$6,600	$6,000
Audit-Related Fees	7,200	6,600
Tax Fees	1,200	1,200
All Other Fees	-0-	-0-
Total Fees	$15,000	$13,800

Audit Fees. Consists of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Spector & Wong in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under

"Audit Fees." There were no Audit-Related services provided in fiscal 2003 or 2002.

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning.

All Other Fees. Consists of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal 2003 or 2002.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

The Company has no audit committee. The Board of Directors' policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval would generally be provided for up to one year and any pre-approval would be detailed as to the particular service or category of services, and would be subject to a specific budget. The independent auditors and management are required to periodically report to the Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

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: March 22, 2004

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	March 22, 2004
/s/ Ronald A. Waldorf Ronald A. Waldorf	Chairman and a Director	March 22, 2004
/s/ Arnold Kay	Director	March 22, 2004

Arnold Kay

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. and its subsidiary, as of December 31, 2003, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years ended December 31, 2003 and 2002. 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, 2003, and the consolidated results of its operations and its cash flows for the years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in the United States.

/s/ Spector & Wong, LLP
Pasadena, California
March 8, 2004

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2003

ASSETS	
Current Assets	
Cash	$ 700,344
Accounts receivable	131,420
Inventory	319,953
Prepaid expenses	37,232
Total Current Assets	1,188,949
Property and equipment, net of accumulated depreciation	

of $13,341	1,103
Other Assets	216,999
TOTAL ASSETS	$ 1,407,051

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable & accrued expenses	$ 103,962
Accrued interest	2,839
Notes payable, current portion	95,046
Total Current Liabilities	201,847
Long-term debt	325,137
Total Liabilities	526,984
Stockholders' Equity	
Common Stock, $0.001 par value; 50,000,000 shares authorized; 17,883,081 shares issued and outstanding	17,883
Paid-in Capital	3,497,070
Accumulated Deficit	(2,634,886)
Total stockholders' equity	880,067
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,407,051

See notes to consolidated financial statements

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

For years ended December 31,	2003	2002
Sales		
Products	$ 3,230,284	$ 1,765,091
Services	8,000	43,250
	3,238,284	1,808,341
Cost of Sales		
Products	1,567,414	857,663
Services	2,144	18,415
	1,569,558	876,078
Gross Profit	1,668,726	932,263
Operating Expenses		
Selling, General and Administrative Expenses	720,248	715,297
Provision for Loan Loss	--	58,218
	720,248	773,515

Operating income	948,478	158,748
Other Income(Expense)		
Interest and Other Income	819	8,148
Interest and Other Expense	(17,551)	(40,951)
	(16,732)	(32,803)
Net income before taxes and extraordinary item	931,746	125,945
Provision for Income Taxes (Benefits)	(111,281)	1,600
Net income before extraordinary item	1,043,027	124,345
Extraordinary item-gain on restructuring of debt, net of applicable income taxes of $0	--	26,479
Net income	$ 1,043,027	$ 150,824
Net income per share-basic:		
Net income before extraordinary item	$ 0.06	$ 0.01
Extraordinary gain, net	--	0.00
Net income	$ 0.06	$ 0.01
Net income per share-diluted:		
Net income before extraordinary item	$ 0.05	$ 0.01
Extraordinary gain, net	--	0.00
Net income	$ 0.05	$ 0.01
Shares used in per share calculation-basic	17,853,044	16,441,980
Shares used in per share calculation-Diluted	21,797,759	19,909,065

See notes to consolidated financial statements

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For years ended December 31, 2003 2002

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unamortized Expenses (Contra-Equity)	Accumulate Deficit
Balance at 12/31/01	14,350,313	$ 14,350	$ 3,345,936	$ (166,057)	$(3,828,73
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					150,82
Balance at 12/31/02	17,850,313	17,850	3,497,103	--	(3,677,91
Exercise of warrants under noncash provision	32,768	33	(33)		
Net Income					1,043,02
Balance at 12/31/03	17,883,081	$ 17,883	$ 3,497,070	$ --	$(2,634,88

See notes to consolidated financial statements

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EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For years ended December 31,	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 1,043,027	$ 150,824
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	408	1,477
Deferred tax benefit	(205,436)	--
Extraordinary Gain, net	--	(26,479
Provision for loan loss	--	58,218
Noncash expenses	--	194,057
Warrants for Services and Interest	--	16,667
(Increase) Decrease in:		
Accounts Receivable	55,557	(104,399
Inventory	(164,786)	(39,649
Prepaid and Others	(33,836)	(10,984
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	14,556	35,503
Other Liabilities	(13,271)	(61,729
Accrued Interest	(74,051)	(26,225
Net cash provided by operating activities	622,168	187,281
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,113)	--
Employee Advances and Receivable	--	3,929
Net cash provided by (used in) investing activities	(1,113)	3,929

CASH FLOW FROM FINANCING ACTIVITIES:		
Net advance from (repayments on) Line of Credit	--	(45,248
Net Proceeds from (repayments on) Notes Payable	(98,379)	23,083
Net Proceeds from (Payments to) Shareholders	--	(15,000
Net cash (used in) financing activities	(98,379)	(37,165
NET INCREASE IN CASH	522,676	154,045
CASH BALANCE AT BEGINNING OF YEAR	177,668	23,623
CASH BALANCE AT END OF YEAR	$ 700,344	$ 177,668
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 78,889	$ 49,036
Taxes Paid	$ 66,573	$ 1,600
Supplemental Schedules of Noncash Investing and Financing Activities		
Exercise warrant under noncash provision	$ 33	$ -
Issuing common stock for:		
Reduction of liability	$ --	$ 10,000
Restructuring of debt	--	100,000
	$ --	$ 110,000

See notes to consolidated financial statements

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES

NATURE OF BUSINESS: 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.

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

The subsidiary was wound down in 2003 (see Note 7). The subsidiary had no operations in both years of 2003 and 2002. 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 (U.S. GAAP) 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.

BAD DEBTS: Management has elected to record bad debts using the direct write-off method. U.S. GAAP requires that the allowance method be used to reflect bad debts. However, the effect of the direct write-off method is not materially difference from the results that would have been obtained had the allowance method been followed. Bad debt expense for years ended December 31, 2003 and 2002 was $1,769 and $971, 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: SFAS No. 148. "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123," amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company accounts for equity-based instruments issued or granted to employees using the intrinsic method of accounting in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under the intrinsic value method, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's Consolidated Statements of Operations.

The Company is required under SFAS 123 to disclose pro forma information regarding option grants to its employees based on specified valuation techniques that produce estimated compensation charges. The pro forma information is as follows:

Net income - as reported	$ 1,043,027	$ 150,824
Pro forma compensation expense	--	9,250
Pro forma net income	$ 1,043,027	$ 141,574
Basic earnings per share:		
As reported	$ 0.06	$ 0.01
Pro forma	$ 0.06	$ 0.01
Diluted earnings per share:		
As reported	$ 0.05	$ 0.01
Pro forma	$ 0.05	$ 0.01

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

The value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, the existing valuation models do not provide a reliable measure of the fair value of the Company's employee stock options. (For additional information regarding this pro forma information, see Note to the Consolidated Financial Statements.)

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the EITF Issue No. 00-18, "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 00-18, 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).

EARNINGS PER SHARE: Basic earnings per share includes no dilution and is computed by dividing net income 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 common shares outstanding during the period, plus the dilutive effect of outstanding stock warrants and shares issuable under convertible debt, using the treasury stock method.

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 $408 and $1,477 for 2003 and 2002, 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.

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

ADVERTISING COSTS: All advertising costs are expensed as incurred. Advertising expenses were $40 and $1,516 for 2003 and 2002, respectively.

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 the years ended December 31, 2003 and 2002, the outbound shipping charges included in operating expenses were $75,203 and $46,197, respectively.

DERIVATIVES: In June 1998, Financial Accounting Standards Board (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 2002 consolidated financial statements to conform with the 2003 consolidated financial statement presentation. Such reclassification had no effect on net loss as previously reported.

NEW ACCOUNTING STANDARDS: In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement requires that certain instruments that were previously classified as equity on the Company's statement of financial position now be classified as liabilities. The Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company currently has no instruments impacted by the adoption of this statement and therefore the adoption did not have an effect on the Company's consolidated financial position, results of operations or cash flows.

In April 2003, the FASB issued Statement of SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of an "underlying" to conform it to the language used in FASB Interpretation No. 45, "Guarantor Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" and amends certain other existing pronouncements. The Company does not have any derivative financial instruments. The Company does not anticipate that the adoption of SFAS No. 149 will have an impact on its consolidated balance sheets or statements of operations and cash flows.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. Interpretation 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. Interpretation 46 applies to any business enterprise, both public and private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. The Company currently has no contractual relationship or other business relationship with a variable interest entity and therefore the adoption did not have an effect on its consolidated financial position or results of operations. However, if the Company enters into any such arrangement with a variable interest entity in the future, its consolidated financial position or results of operations may be adversely impacted.

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

At December 31,	2003	2002
Property and equipment, net		
Furniture and Fixtures	$ 1,113	$ 1,432
Equipment	13,331	13,331
	14,444	14,763
Less: accumulated depreciation	(13,341)	(14,365)
Total	$ 1,103	$ 398
Other Assets		
Deferred tax assets	$ 205,436	$ --
Deposits	11,563	11,511
Total	$ 216,999	$ 11,511
Accounts payable and accrued expenses		
Accounts payable	$ 35,335	$ 33,086
Commission payable	--	47,638
Sales tax payable	20,065	9,456
Income tax payable	40,251	--
Other	8,311	(774)
Total	$ 103,962	$ 89,406

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% (8% at December 31, 2003). This line of credit is payable on demand and is personally guaranteed by the Company's President. The Company did not borrow against this line of credit during 2003 and 2002.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

At December 31,	2003	2002
a.) 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	$ 380,183	$ 475,229
b.) 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	26,666
c.) Note Payable to Others, interest at 7% due and payable on December 31, 2007. Convertible into		

1,197,267 shares of common stock	13,334	16,667
	420,183	518,562
Less: Current Maturities	(95,046)	(95,046)
Long-term debt	$ 325,137	$ 423,516

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (CONTINUED)

In May 2002, the Company issued two convertible notes payable of $40,000 and $20,000 to fund the cash payment of $60,000 as discussed in Note 6. 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. To date, the Company had paid $13,334 and $6,666, and issued 266,667 and 66,666 shares of warrants to the note holders, respectively.

NOTE 6 - 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 $0.01 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 7 - WIND DOWN OF SUBSIDIARY

On September 15, 2003, the Board of Directors approved to wind down the Company's sole subsidiary, Oculokinetics, Inc., which was inactive and has no asset or liability as of that date. 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.

NOTE 8 - WRITE-OFF EMPLOYEE LOAN

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.

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.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

An understatement of 2002 reported Income Tax Payable of $12,699 was discovered during the second quarter of 2003. The Company charged this error to the 2003 operations and did not restate the 2002 financial statements. Management believes that the restatement did not have material effect on the Company's financial position, results of operations and cash flows.

NOTE 10 - NONCASH FINANCING ACTIVITIES

In 2003, a warrant holder exercised 66,666 of its stock warrants in the Company at the price of $0.32 per share. The warrant holder elected the Net Issue Exercise (noncash) provision of the warrant agreement. As a result, the Company issued 32,768 shares of common stock to the warrant holder without any cash proceeds.

In 2002, the Company issued 2,500,000 shares of restricted common stock at a fair value of $0.04 per share to restructure a debt (see Note 6), and issued 200,000 shares of restricted common stock to reduce a contingent liability of $10,000 which was accrued in 2001.

NOTE 11 - INCOME TAXES

The provision for income taxes (benefits) consisted of the following:

Years ended	2003	2002
Federal:		
Current	$ 9,118	$ --
Deferred	(125,678)	--
	(116,560)	--
State:		
Current	85,037	1,600
Deferred	(79,758)	--
	5,279	1,600
Total	$ (111,281)	$ 1,600

EYE DYNAMICS, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - INCOME TAXES (CONTINUED)

The components of the deferred net tax assets are as follows:

At December 31,	2003	2002
Net Operating Loss Carryforwards	$ 204,963	$ 413,194
Property and equipment	473	--
Valuation Allowance	--	(413,194)
Net deferred tax assets	$ 205,436	$ --

At December 31, 2002, the Company provided a valuation allowance on the deferred tax assets because of uncertainty regarding its ability to utilize its net operating loss carryfowards. As of December 31, 2003, the Company had removed the valuation allowance because it believed it was more likely than not that all deferred tax assets would be realized in the foreseeable future and was reflected as a credit to operations.

As of December 31, 2003, the Company has net operating loss carryforwards, approximately, of $368,538 and $901,140 to reduce future federal and state taxable income. To the extent not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2021 and the state net operating loss carryfowards will begin to expire in fiscal 2005.

NOTE 12 - STOCKS OPTIONS AND WARRANTS

STOCK OPTIONS

The Company had no stock options outstanding as of December 31, 2003. The total outstanding options at December 31, 2002 were 150,000 shares, 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 that date was $0.05.

A summary of the status of the Company's stock option as of December 31, 2003 and 2002, and changes during the years then ended is presented below:

	2003		2002	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of Year	150,000	$ 0.15	150,000	$ 0.15
Expired and Cancelled	(150,000)	0.15	--	--
Outstanding at end of Year	--	$ --	150,000	$ 0.15
Exercisable at end of Year	--	$ --	150,000	$ 0.15

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 2003 or 2002, 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, 2003 and 2002 using the Black-Scholes option pricing model as prescribed by SFAS No. 123 and the weighted average assumptions as follows:

NOTE 12 - STOCKS OPTIONS AND WARRANTS (CONTINUED)

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

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.

A summary of the status of the Company's warrants as of December 31, 2003 and 2002, and changes during the years then ended is presented below:

	2003		2002	
	Number of Warrants	Weighted Average Exercise Price Per Share	Number of Warrants	Weighted Average Exercise Price Per Share
Outstanding at beginning of Year	533,333	$ 0.34	2,200,000	$ 0.55
Granted	--	--	333,333	0.05
Exercised	(66,666)	0.32		
Exercised. Expired and Cancelled	(133,334)	1.07	(2,000,000)	0.63
Outstanding at end of year	333,333	$ 0.05	533,333	$ 0.34
Exercisable at end of year	333,333	$ 0.05	533,333	$ 0.34

NOTE 13 - NET INCOME PER SHARE

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

Years ended December 31,	2003	2002
Numerator:		
Net income	$ 1,043,027	$ 150,824
Denominator:		
Weighted average of common shares - basic	17,853,044	16,441,980
Diluted effect of stock warrants	303,030	--
Diluted effect of convertible debt	3,641,685	3,467,085
Weighted average common shares - diluted	21,797,759	19,909,065
Basic net income per share	$ 0.06	$ 0.01
Diluted net income per share	$ 0.05	$ 0.01

NOTE 13 - NET INCOME PER SHARE (CONTINUED)

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.

Approximately, 683,333 shares outstanding stock options and warrants were excluded from the calculation of diluted earnings per share for 2002 because the exercise price of the stock warrants are greater than the average share price of the common stock and, therefore, the effect would have been antidilutive.

NOTE 14 - 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 2003 or 2002, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

NOTE 15 - MAJOR CUSTOMERS

During year ended December 31, 2003, two major customers accounted for $2,335,240 or 72.1% of total revenues.

Special Instrument Dealer 18.9%
Private label distributor 53.2%

During year ended December 31, 2002, the private label distributor accounted for $1,093,779 or 60.5% of total revenues.

NOTE 16 - 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 16 - CONTINGENCIES AND COMMITMENTS

LEASE COMMITMENTS

In February 2003, the Company relocated to a larger office facility for $1,571 per month. The new lease commences on February 1, 2003 and expires through January 31, 2006. Rent expense totaled $21,740 and $13,033 for 2003 and 2002, respectively.

The Company also leases office equipment at $205 per month expiring in October 2008.

As of December 31, 2003, the minimum lease payments under these leases are:

Year ended December 31,	Amount
2004	$ 21,851
2005	22,428
2006	4,123
2007	2,455
2008	2,046
	$ 52,903

NOTE 17 - GUARANTEES AND PRODUCT WARRANTIES

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of December 31, 2003.

In general, the Company offers a one-year warranty for most of the products it sold. To date, the Company has not incurred any material costs associated with these warranties. At December 31, 2003, the Company determined to provide reserves for the estimated costs of product warranties based on its historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. The estimated costs of its warranty obligations amounted to $8,044 at December 31, 2003.