EYE DYNAMICS INC
Form SB-2/A
November 28, 2001

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 28, 2001
REGISTRATION NO. 333-54408

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
FORM S-3
ON FORM SB-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

EYE DYNAMICS, INC.
(Name of Small Business Issuer as Specified in Its Charter)

Nevada	3841	88-0249812
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2301 205th Street, Suite 106, Torrance, CA 90501
(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

Charles E. Phillips
2301 205th Street, Suite 106, Torrance, CA 90501
(310) 328-0477
(Name, Address And Telephone Number of Agent For Service)

Copy To:

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Amendment to Registration Statement is declared effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Securities to be Registered	Proposed Maximum Offering Price Per Unit (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock	3,000,000(1)	$ .36	$1,080,000	$270.00

(1) Pursuant to Rule 416 under the Securities Act of 1933, there are also being registered such indeterminate number of additional shares of common stock as may be issuable upon the exercise of the common stock purchase warrants described herein pursuant to the provisions thereof designed to prevent dilution resulting from stock splits, stock dividends or similar transactions. The proposed maximum offering price per share and maximum aggregate offering price for the shares being registered hereby is calculated in accordance with Rule 457(c) under the Securities Act.

(2) Based on the closing price of the Common Stock on the OTC Bulletin Board on January 23, 2001.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PROSPECTUS

3,000,000 SHARES

EYE DYNAMICS, INC.

COMMON STOCK

These shares of common stock are being offered by certain of our current shareholders. We issued the shares, or reserved the shares for issuance, to the shareholders in connection with a private placement made in the Company during the year 2000.

The selling shareholders may sell the shares in ordinary brokerage transactions, in negotiated transactions or otherwise, and may engage brokers or dealers to sell the shares. For additional information on the selling shareholders' possible methods of sale, you should refer to the section of this prospectus entitled "Plan of Distribution." The selling shareholders may be deemed to be "underwriters" within the meaning of the Securities Act in connection with the sale of their shares. We will not receive any proceeds from the sale of the shares, but will bear the costs relating to the registration of the shares.

Our common stock is traded on the OTC Bulletin Board under the symbol "EYDY."

THE SHARES OFFERED IN THIS PROSPECTUS INVOLVE A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE "RISK FACTORS" BEGINNING ON PAGE 2 IN DETERMINING WHETHER TO PURCHASE SHARES OF OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS _______, 2001.

1

PROSPECTUS SUMMARY

The following is a brief summary of the contents of this Prospectus, and should be read along with the other information presented.

THE COMPANY. We design, manufacture and sell equipment used to detect impaired performance in individuals, by evaluation of eye movements. The impairment may be due to drug or alcohol use or to fatigue or stress. We also market similar equipment used by health care professionals to diagnose balance problems in individuals. To date virtually all sales have been of equipment to diagnose balance problems in individuals, and sales of impairment detection devices have been negligible.

THE OFFERING. The shares are being offered by certain of our shareholders, who purchased the shares from us in a private transaction in the autumn of 2000. The shares will be offered principally through regular brokerage transactions.

RISK FACTORS. This offering entails a variety of risk factors, all of which should be carefully considered by prospective investors.

Our address is 2301 205th Street, Suite 106, Torrance, CA 90501, and our telephone number is (310) 328-0477. Our website is at www.eyedynamics.com.

RISK FACTORS

You should carefully consider the following factors and other information in this prospectus before deciding to invest in the shares. You should not purchase any of the shares unless you can afford a complete loss of your investment. Some of the terms used in this section, including the names of our products, are described in detail in the "Business" section.

OUR FINANCIAL STATEMENTS ARE SUBJECT TO A GOING CONCERN QUALIFICATION

There is substantial uncertainty about our ability to continue as a going concern. The report of our independent accountants with respect to our December 31, 2000 and December 31, 1999 financial statements contains an explanatory paragraph regarding this uncertainty and expresses substantial doubt about such ability resulting from our recurring losses, as well as cash flow and working capital problems. The low levels of sales, the declines in sales, and the lack of any significant financing commitments raise substantial doubt about our ability to continue as a going concern, to operate our business on a full-scale basis, or to satisfy the possible claims of our creditors. We can't be sure that we will ever receive the funds necessary for us to continue as a going concern or to operate our business. Also, the existence of the going concern language is a matter of public information, and makes it more difficult to raise capital, to attract high quality employees, and to receive credit from suppliers and vendors.

WE ARE IN DEFAULT UNDER CERTAIN OBLIGATIONS.

We are in default under a substantial obligation to a former distributor, totaling $686,202 as of June 30, 2001. The obligation consists of a promissory note that became due and payable on December 31, 1999, as well as obligations to share revenues from the resale of certain inventory returned by

the distributor. The promissory note is secured by all of our assets, so the distributor could commence foreclosure proceedings at any time and seize our assets. The note holder has not declared a default or demanded payment, but could do so at any time. We are engaged in negotiations with the former distributor concerning possible restructuring of the obligations, which could include conversion of the obligations into common stock or a revised payment schedule based on revenues from the SafetyScope commercialization project. However, we cannot be assured that we will be able to restructure the obligations, or that the note holder will not commence foreclosure proceedings. Also, any conversion of the obligations into stock would dilute the percentage interest of current shareholders.

WE HAVE OPERATED AT A LOSS EACH YEAR SINCE INCEPTION.

We have incurred operating losses in each of the last two fiscal years, and have a significant accumulated deficit. Our operating losses have resulted from a number of factors, including the fact that our principal product, SafetyScope, is relatively new to the market, and our existing medical product line, the Infrared/Video ENG System, an electronystagmograph, appeals to a niche market with limited growth potential. Thus, a purchase of the shares is highly speculative and we cannot assure you that you will realize any return on your investment or that you will not lose your entire investment.

IN ORDER TO ACHIEVE OUR GOALS, WE WILL NEED ADDITIONAL FINANCING.

All of the proceeds of this offering will be received by the selling shareholders. Achievement of our business goals will require significant additional capital, as internally generated funds are insufficient to fund expansion of our business. Since impairment detection is a relatively new business, and our products reflect a new approach to that business, we will need significant funds for marketing, advertising and education to create demand for our products. Also, since there are significant regulatory issues in the use of our products by government agencies or as specified by government agencies, we will need funds to finance lobbying of government officials and participation in conferences, seminars and other industry activities to facilitate acceptance of our products. If we are unable to attract additional capital, we may be unable to establish and maintain a market for our impairment detection devices.

OUR QUARTERLY REVENUES HAVE BEEN DECREASING, AND QUARTERLY FINANCIAL RESULTS MAY FLUCTUATE SIGNIFICANTLY.

Our quarterly revenues for the each of the past three quarters declined when compared to the corresponding periods in the preceding year, and we can't be sure that revenues will increase. In the past, our quarterly operating results have fluctuated significantly due to a variety of factors, including the introduction of new products, the timing of our marketing efforts, pricing pressures, the availability and cost of materials and components, health care reimbursement issues, and general economic conditions that affect customer demand.

MANY OF OUR CUSTOMERS RELY ON MEDICARE REIMBURSEMENT FOR THEIR REVENUES

Physicians and clinics utilizing vestibular testing typically rely on reimbursements from Medicare for a substantial portion of their patient revenues. Accordingly, the status of medical reimbursement for the procedures is often an important factor in their decision whether to acquire new or additional equipment. Ordinarily, the federal government reviews reimbursement levels on an annual basis and publishes new reimbursement schedules. In early 2001 there was a delay in the issuance of the schedules, due to the change in the administration, which caused some prospective purchasers to delay purchase decisions. Accordingly, our business can be adversely affected by developments in the Medicare reimbursement area.

OUR FUTURE GROWTH DEPENDS UPON AN INCREASE IN THE USE OF IMPAIRMENT DETECTION DEVICES.

The market for impairment detection devices is in its early stage. While we anticipate growth in the market, there can be no assurance that the market will develop in the near future, if ever. Since we view impairment detection devices as our source of future growth, the failure of this market to develop would severely harm our business and growth prospects.

3

THE BUSINESS OF PERFORMANCE IMPAIRMENT DETECTION IS HIGHLY COMPETITIVE

The business of performance impairment detection is extremely competitive. Our competitors include drug testing firms as well as companies that have developed tests and devices that evaluate motor and cognitive skills. These have taken 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 knows of only one other company, Pulse Medical Instruments of Rockville, Maryland, that is currently marketing a device that is directly competitive with the product manufactured by the Company.

THERE ARE RAPID TECHNOLOGICAL CHANGES IN THE IMPAIRMENT DETECTION INDUSTRY.

The field of performance impairment detection is relatively new and may be marked by rapid changes in technology, which can cause products to become obsolete over very short time frames. Thus, our financial performance will depend on our ability to develop and market new hardware products and services to meet changing technology, pricing considerations and other market factors. The business could be severely impacted if we were to experience delays in developing new hardware products and services or enhancements.

IT IS POSSIBLE THAT SIGNIFICANT PRICE COMPETITION WILL DEVELOP IN OUR BUSINESS, WHICH WOULD RESULT IN PRICING PRESSURE.

Because the impairment detection equipment market is a relatively new one, it has not yet been subject to significant price competition. As additional competitors enter the impairment detection market, however, it is likely that we will face pricing pressures on these products. However, we believe that our product differentiation and our relatively early entry into the market segments focused on employers affords us an opportunity to establish pricing levels for products and services with sufficient gross profit to meet competitive pricing pressure.

The market for electronystagmograph systems is relatively mature, without major product differentiation. As a result, price is one of the most important factors considered by customers in choosing a product. Accordingly, price competition has always been a major factor in this market. If competitors in this market were to reduce prices significantly, we would have no alternative but to reduce our prices, which could reduce or eliminate our gross margin on these products.

WE RELY HEAVILY ON A PRIVATE LABEL DISTRIBUTOR FOR A SUBSTANTIAL PORTION OF OUR SALES.

During 1999 sales through a single private label distributor constituted 47% of our revenues, and sales through the same distributor constituted 30% of sales in 2000. The arrangement with this distributor was terminated in March, 2001, due to a lack of sales in the fourth quarter of 2000, management changes within the distributor, and the fact that the distributor announced its plan to purchase products from one of our competitors. In March 2001 we entered into an agreement with a new private label distributor under which it is granted exclusive distribution rights for a private label version of our electronystagmograph systems within the United States, and it in turn commits to purchase at least six systems per quarter. It is likely that sales through this private label distributor will continue to represent a substantial portion of our revenues. Reliance on a single distributor for a substantial portion of our sales poses significant risks, as the loss of that distributor would seriously impact sales.

WE SELL PRODUCTS IN MARKETS WITH LAX INTELLECTUAL PROPERTY ENFORCEMENT, WHICH COULD ENDANGER THE VALUE OF OUR PROPRIETARY TECHNOLOGY.

Our success will depend in part on protecting our proprietary technology. While we have patents covering certain of our products, we rely principally on copyright law for protection of our hardware and software designs, as well as trade secret law, confidentiality agreements and our technical abilities and responsiveness to the demands of customers to protect our proprietary rights. If competitors or others were to copy or otherwise use our technology, we may be required to go to court to prevent it, and any such proceeding is likely to be time-consuming and costly. Also, because we market our products in many parts of the world, it may be more difficult for us to protect our technology against copying or infringement in countries with undeveloped or lax intellectual property protection, including Egypt, Thailand and Taiwan.

SINCE WE ARE A SMALL COMPANY, WE MAY HAVE DIFFICULTIES IN MANAGING GROWTH.

Potential growth could place a significant strain on our personnel and systems. To accommodate our current size and manage growth, we must improve our operational, financial and information systems, and expand, train and manage our employee base. This problem may be more serious if we acquire additional businesses, as each such business must then be integrated into our operations and systems.

If we expand our customer base, we will experience greater demands on our corporate infrastructure, technical staff and resources. If such demand results in difficulties satisfying the needs of our customers, it could negatively affect us by causing customers or potential customers to utilize competitive products or technologies.

SINCE OUR STOCK IS CLASSIFIED AS A "PENNY STOCK", SHAREHOLDERS MAY FACE SIGNIFICANT RESTRICTIONS ON THE RESALE OF THE SHARES.

The Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." Because of the price of our shares, our shares currently constitute "penny stock" within the meaning of the rules, and the rules would apply to us and our shares. Generally, penny stocks are securities with a price of less than $5.00. If shares continue to trade for less than $5.00 per share, the shares will be subject to the SEC's penny stock rules, unless (i) our net tangible assets exceed $2,000,000, or (ii) we have average revenue of at least $6,000,000 for three years.

The penny stock rules generally require a broker-dealer, prior to a Transaction in a penny stock, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. As long as our common stock is subject to the penny stock rules, the holders of the common stock may find it difficult to sell our common stock.

WE HAVE NOT HELD A SHAREHOLDERS' MEETING SINCE 1998.

Our last shareholders' meeting was held in 1998; we have not held shareholders' meeting since then, due to cost considerations. Under Nevada law, if we fail to elect directors within 18 months after the last election of directors, shareholders with at least fifteen percent of our shares can petition a Nevada court to compel us to hold a shareholders meeting for the election of directors. Since our last election of shareholders took place more than eighteen months ago, we might be subject to such a proceeding. Any such proceeding would likely be expensive and time-consuming, and there is no provision in the law for a petitioning shareholder to recover the legal fees and costs incurred.

THE BUSINESS

We design, develop, produce and market diagnostic equipment that measures, tracks and records human eye movements, utilizing our proprietary technology and computer software. The products perform separate, but related, functions and target two separate markets. First, we market 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, our 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. We were formed in 1989 in Nevada.

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, our 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 our products is similar, yet differs in its application and use. The 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. Our 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 provide a bright video image, even though the person being tested sees nothing but a small stimulus or tracking light amid complete darkness.

Virtually all revenues have been derived from sales of the medical diagnostic products. To date during 2001, only one impairment detection device has been sold.

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 segment, we offer 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. Our products have gained a share of this highly specialized market. The FDA granted us 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 corneoretinal 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 then are interpreted by the medical diagnostician.

We brought the use of infrared illumination of the eyes into clinical use in 1994 when the U.S. Food and Drug Administration approved marketing of our 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 follow 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 microminiature 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. We believe the accuracy and display of the Infrared/Video ENG System is much improved 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 provides a videotape record of the test for later playback and additional analysis. We believe 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 competitors have changed from electrodes and are 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 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.

We developed the product 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.

We believe sales of our electronystagmograph systems represent approximately 15% of the market for such products.

IMPAIRMENT DETECTION PRODUCTS. Our 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 takes into account only 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 we believe 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, dilation or constriction, 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, 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.

We believe that the SafetyScope will be especially useful for applications where fatigue in the workplace has an impairing effect on workers, and we have contracted with a major human alertness technology consulting and research organization to optimize the SafetyScope for fatigueness testing. The SafetyScope should 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.

Our second model, the EM/1, 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. The Standardized Field Sobriety Test includes three tests for balance and three tests involving eye performance. Thus, we believe 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. Ultimately, in order to be successful, this product must be in a handheld 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. We plan to develop a handheld unit, which is still in the concept stage, but which should sell for less than $5,000.

During the period between 1990 and 1994, we sold a total of 15 units,12 of which were EPS-100 units and three of which were combined EPS-100/EM-1 units. During 1995 and 1996 we received rental and service income from two units. During 2000 we sold one EPS-100 (now SafetyScope) unit.

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 Infrared/Video ENG System, but of a variety of allied and related products for the audiometric and otolaryngology markets. These distributors are across the United States and operate in territories that are assigned exclusively to them. In addition, there are several foreign distributors that are merchandising the product in countries such as Egypt, Hungary, Turkey, Thailand, Taiwan and Korea. We are 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; however, we are negotiating with potential distributors in the

European Community, who would add locally available computers, monitors and other peripheral devices to the our proprietary equipment, and then apply for the "CE" mark, to be awarded to the complete product.

We have also supplied a modified version of the Infrared/Video ENG System to a distributor on a private label basis. These private label sales represented approximately 30% of sales of the product during the year 2000. In March 2001 that distributor terminated its relationship with us; it had not Completed any purchases since November of 2000. However, shortly thereafter we entered into an agreement with a new private label distributor under which it is granted exclusive distribution rights for a private label version of our electronystagmograph systems within the United States, and it in turn commits to purchase at least six systems per quarter.

The market for the electronystagmograph products is relatively mature and represents only annual growth estimated at 5%, but because of the advancement of technology spurred by our introduction of video data acquisition methods in 1994, the market for replacement products has been strong and will continue to be so for the foreseeable future.

Based on American Medical Association data and Company estimates, there are approximately 3,000 otolaryngologists (specialists in hearing and balance disorders) in the U.S. Also, based on Company estimates and industry data, there are about 1500 ENG systems (of all manufacturers) in service (many otolaryngologists are in groups or clinics that share a single ENG system). Industry trends have seen gradual replacement of existing ENG systems with video-based ENG systems, like those marketed by us. We believe, based on customer information, that market growth is flat, and a high proportion of our sales over the past few years have been through replacement of older ENG systems. We gauge our success in this area by tracking the price quotations we issue in response to requests and our success in capturing potential sales. Based on this data, we believe that we control approximately 15% of the market. Replacement sales should be good in general due to the perception among medical professionals that the new video ENG systems represent a marked improvement over existing systems, and that the older systems will be replaced over time as funds become available to otolaryngologists and clinics.

IMPAIRMENT DETECTION PRODUCTS. We have been test marketing the SafetyScope and have 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.

The market for impairment detection devices is limited somewhat due to government regulation. In general, government drug testing regulations mandate urine-based chemical drug testing for pre-employment screening. These regulations (the Federal Government Mandatory Guidelines for Federal Workplace Drug Testing Programs, promulgated in 1989)apply to all Federal employees, federally regulated industries, such as railroads, truck drivers and other transportation related businesses, and certain businesses that do a minimum annual amount of business with the federal government. As a result, testing of employees by governmental agencies, quasi-governmental agencies and certain regulated industries 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. 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 regulations, by specifying urine based drug testing, effectively preclude the use of impairment detection methods and devices, unless the individual employer decides to use impairment detection devices in addition to urine based drug testing. This would place a financial burden on the employer. This situation effectively limits the overall size of the market for impairment detection devices to those businesses and industries that are not considered federally regulated as to drug testing methods.

The market for impairment detection devices can be expanded if the federal drug testing regulations can be modified, or changed to include, as an option, the use of impairment detection devices in lieu of urine based drug testing. We are actively involved 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 products, management believes that changing governmental testing regulations will be a lengthy process and success is not assured. The trend in this area has been to expand the available types of testing; for example, some state government agencies have recently embraced saliva testing as an alternative to urine testing.

COMPETITION

MEDICAL PRODUCTS. The principal competitors in the medical market making ENG testing equipment are Micromedical Technologies, Inc., ICS Medical Corporation and SensoMotorific Inc. Since the our 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, we have reduced prices, with an adverse effect on overall gross margins. To combat this competitive pressure we reduced manufacturing costs in an effort to offset the gross margin loss.

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. At least three competitors have marketed these products in the past, including Performance Factors, Inc., Essex Corporation, and Pulse Medical Instruments.

We believe only Pulse Medical Instruments is developing a product to be directly competitive with our 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. We believe that such product will be more expensive than the SafetyScope and is still being developed and validated 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 of which we are aware can be learned and over time the individual being tested can improve his skills. We believe 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 drug or alcohol abuse. The main advantage the product has over many others tests is the immediacy of results and non-invasiveness of the procedure. We believe that the potential for safety that it will provide for life-dependent professions such as airline pilots, bus drivers and train engineers will make the system a very important breakthrough.

MANUFACTURING

We have performed all our own design and engineering of products and have developed all software and validation of software algorithms that are used in the analysis portion of the proprietary software.

Manufacturing of both the electronystagmograph products and the SafetyScope is primarily done through subcontracting with various suppliers, and we do 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 inhouse 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 element of the three is the viewport, where 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 products are readily available, we do not anticipate undertaking internal manufacturing of any components. Manufacturing operations consist of only assembly, testing and packaging functions.

GOVERNMENT REGULATION

The electronystagmograph medical product is a Class 11 Medical Device, subject to regulation by the U.S. Food and Drug Administration (FDA). As such, preparation of a 510k submission and its acceptance is required to gain FDA approval to market the device. Preparation of a 5lOk submission includes a comprehensive description of the device and its comparison to other listed devices that perform the same or similar functions, in order to support a claim that the device is substantially equivalent to currently listed devices. In addition, other clinical evidence that the proposed product can perform to the standards of currently listed devices is necessary. Safety and effectiveness are the primary standards that must be met prior to gaining FDA approval to market the device. Our ENG products have been approved for marketing by the FDA. We are also licensed by the State of California as a Medical Device Manufacturer.

Most other countries accept the FDA approval to market as the approval to market in their country. Some countries, such as South Korea, require submission by the importer/distributor of technical information in addition to a copy of the FDA approval to market. We do not market our ENG systems in Japan since Japan requires a special submission to Japan's equivalent to the FDA, and we have concluded that it is not economically practicable to prepare and file such a submission.

The SafetyScope and EM/1 are not subject to regulation by the FDA, 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 our ability to market the SafetyScope in these areas.

PATENTS & PROPRIETARY PROTECTION

We license the technology used in the 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 license is exclusive to us, and can be terminated only for material breach of the terms.

Within our company we own 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. This patent expires in 2009.

The existence of patents may be important to our 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.

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

11

RESEARCH AND DEVELOPMENT

Our research and development activities consist principally of seeking new applications for our technology and developing new features and capabilities in response to customer input. Research and development expenditures were $49,000 in 1999 and $45,286 in 2000. These expenditures were primarily attributable to costs associated with development of the SafetyScope product line and upgrading the medical product software and hardware to a Windows configuration during 1999 and 2000.

EMPLOYEES

We employ three employees full time, including our President, a development engineer and a marketing manager. Other part time consulting and commissioned personnel are also utilized. The employees are not parties to any collective bargaining agreement, and our employee relations are satisfactory.

FACILITIES

Our offices are in leased space in an industrial complex Torrance, California. The offices are 960 square feet in size and the lease expires on April 30, 2002.

USE OF PROCEEDS

We will not receive any of the proceeds from this offering. The offering is made by the selling shareholders, who will retain any proceeds from such sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in this Prospectus. Except for items of a purely historical nature, this discussion contains certain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results may differ significantly from the results discussed in the forward-looking statements, as a result of factors including those discussed in "Risk Factors."

We have invested over $1.3 million over ten years developing and validating our products; most of these funds were spent at the outset of development and include the costs for clinical and field trials of the products. Later expenditures involved converting the medical products over to a Windows operating system, which involved both hardware and software development and redesign. We are 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 virtually all of our revenues.

The SafetyScope product or its predecessor, the EPS-100 Performance System, has been sold in a few locales and beta marketing has been successful. For large scale sale of this product we need to have federal drug testing regulations modified. This is a significant project requiring a coordinated effort with potential users, government officials and the help of legislative bodies. Therefore, additional investment capital is required to launch the marketing of the SafetyScope. A large scale marketing and lobbying effort will be necessary for this product to succeed.

12

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999. Revenues from sale of products decreased by 8% from $847,416 in 1999 to $779,996 in 2000. This decrease is due to reduced unit sales of the Infrared/Video ENG System, which resulted from increased competition, particularly from foreign manufacturers, and a generally flat market. Also, our private label customer discontinued purchases in November of 2000. Unit prices remained stable. Cost of sales decreased by 7%, due to a decrease in units sold. Operating expenses increased by 30%, due principally to a change in the marketing of the ENG products, as described below, as well as costs associated with the introduction of the "SafetyScope" product line. Net loss increased by $256,863, or 562%, due to the increase in operating expenses and $88,000 in consulting expense (which was paid in stock).

The increase in operating expense is due in part to a change in the method of distributing medical products, which started midway through 1998 and into 1999; before that time we had sold principally to a single distributor, which in turn sold through a dealer network and some direct salesmen. In July of 1999 we terminated the contract with the distributor and started selling products directly to the dealer network or to the end customer, and paying a commission to the dealer. One result of this change is an increase in the gross profit, because of the simplified selling structure, and an increase in selling and commission expense, since these items had previously been borne by the distributor. Under the previous system the discount from retail price was generally 50%, whereas in the current system discount is generally 25%, or when invoiced directly to the end user, a commission of 25% is paid. The change also requires us to assume the responsibilities and the expenses associated with performing marketing functions, such as attendance at trade shows, travel expenses for marketing activities, production and printing of collateral materials, seminars and workshops, and internal technical support services. We believe that the savings resulting from the changed structure exceed the costs, since the increased gross profit more than offsets the additional expenses.

Inventory turnover ratio in 1999 was approximately 7:1 and in 2000 was 5.7:1. This reduced turnover was caused by the reduction in purchasing during November and December by the private label customer. The reduction in purchasing lowered revenues and left us with about $8000 of inventory that was acquired to supply the customer in November and December, but was not sold.

The increase in accounts receivable at year end came from sales in October that were almost double the average month for the year, principally due to a medical convention and related promotions during the month. Average days outstanding is approximately 60 days throughout the year. October was unusual by its volume of revenues which caused the accounts receivable to spike at year end.

Also, inventories increased because of component purchases in anticipation of product purchases by the original private label customer; however, we believe these excess inventory items will be utilized in the assembly of products for the new private label customer.

Prepaid expense at December 31, 2000 included $68,833 of unamortized expenses relating to the six month strategic planning and marketing program commenced in September. The balance of prepaid expenses was $1,635 of prepaid liability insurance premiums.

NINE MONTHS ENDED SEPTEMBER 30,2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000. The first three quarters of the year saw the continuance of our project to publicize and increase awareness of the SafetyScope product. We are also starting pre-marketing discussions with potential customers and distributors of the product. The business plan for full commercialization of the SafetyScope has been circulated to several potential funding sources, but no funding arrangements have yet been concluded. However, discussions with several interested funding sources are ongoing.

Sales of $482,793 for the period of nine months were 7% lower than sales of $520,131 (restated) for the preceding nine months. However, sales during the third quarter of $207,977 were 25% higher than the sales of $165,711 during the corresponding quarter of the prior year.

Gross profit for the nine months ended September 30, 2001 of 58.4% is improved somewhat from gross profit of 55.2% for the corresponding period of the prior year.

Loss for the nine month period was $416,478, compared to a loss for the preceding period (restated) of $183,118. The principal reason for the losses in 2001 is the cost associated with the pre-commercialization program for the new product, SafetyScope, an impairment detection instrument. Expenses for the SafetyScope project were $57,526 for the third quarter.

Sales spiked in September because of a large trade show held each year for physicians that use our medical product. In 2000 the sales spike occurred in October, because the trade show was held at the very end of September.

Even though September sales were over $100,000, we are experiencing a softness in receipt of new orders. The events of September 11th occurred in the middle of the annual trade show, and since then potential customers have been hesitant to place new orders. Accordingly, the effect of a market slowdown will be evident in the fourth quarter of the year.

To partially offset the slowdown we have taken on the task of doing setup and training of operators for the equipment we sell to our private label customer . This provides some additional revenue beyond that of equipment sales.

Orders from the private label customer continue strong with a peak of five systems being shipped in September. It appears that the expected average of three systems each month will be achieved.

Also, we added a new product, an air caloric irrigator, for stimulating ears with external otitis or a perforated tympanic membrane, to our medical product line. This augments the water caloric irrigator that has been offered for the last two years. This product is sourced from Germany and enhances our product offerings.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, we had an accumulated deficit of approximately $3,698,810. As of the same date, we had only $20,546 in cash and approximately $109,759 in accounts receivable. Also, we had $872,359 of current liabilities, consisting principally of obligations to a former distributor under a single promissory note and accrued interest on that note, as well as obligations to the distributor in connection with the resale of certain inventory returned by the distributor. The note payable became due on December 31, 1999. We are engaged in negotiations with the former distributor concerning possible restructuring of the obligation, but the holder has not declared a default or demanded payment. Settlement discussions include a possible conversion of the obligations into common stock and a possible new payment schedule based on revenues from the SafetyScope commercialization project.

We have no plans for significant capital equipment expenditures for the foreseeable future.

Our available cash and other current assets may be insufficient to continue operations for more than a few months. Accordingly, it is likely that we will require an additional infusion of cash in the near future to continue operations, and we can't be sure that financing will be available . If the holder of the note described in "Risk Factors- We Are in Default Under Certain Obligations" were to demand payment of the note and related obligations, we would be unable to pay and might be subject to collection proceedings. Also, we can't be sure that future events will not cause us to require additional capital sooner, including, for example, if we are unable timely collect outstanding accounts receivable. If we are unable to secure such financing, we may be unable to continue as a going concern. If we raise additional funds by issuing equity or convertible debt securities, options or warrants, further dilution to the existing shareholders may result.

If adequate funds are not available, we may also be required to delay, scale back or eliminate our product development efforts or to obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain of our 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 our proprietary technology and other important assets and could also adversely affect our ability to continue product development efforts, which we believe contributes significantly to our competitive advantage. If any of such circumstances were to arise, our business, financial condition and results of operations could be materially and adversely affected.

The report of our independent accountants with respect to our past two fiscal years contains an explanatory paragraph regarding our ability to continue as a going concern, and expresses substantial doubt about such ability, As a result of our recurring losses, as well as cash flow and working capital problems. We can't be sure that we will ever receive the funds necessary for us to continue as a going concern or to operate our business. Also, the existence of the going concern language is a matter of public information, and makes it more difficult to raise capital, to attract high quality employees, and to receive credit from suppliers and vendors.

EFFECT OF INFLATION

We believe that inflation has not had a material effect on our net sales or profitability in recent years.

PRICE RANGE OF COMMON STOCK

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 1999 and 2000 fiscal years, as well as the first three quarters of 2001 and the fourth quarter of 2001 (through November 21, 2001). The prices represent inter-dealer quotations, which do not include retail markups, markdowns or commissions, and may not represent actual transactions.

	LOW	HIGH
2001		
First Quarter	.30	..52
Second Quarter	.22	..48
Third Quarter	.09	..28
Fourth Quarter (through November 21, 2001)	.08	..17
2000		
First Quarter	.41	..90
Second Quarter	.09	..53
Third Quarter	.09	..70
Fourth Quarter	.25	..53
1999		
First Quarter	.14	..46
Second Quarter	.13	1.30
Third Quarter	.37	..87
Fourth Quarter	.02	..37

Our common stock is traded on the OTC Bulletin Board under the symbol "EYDY". As of October 8, 2001, it was held of record by approximately 115 holders. Registered ownership includes nominees who may hold securities on behalf of multiple beneficial owners.

15

We have paid no cash dividends on our Common Stock and have no present intention of paying cash dividends in the foreseeable future.

MANAGEMENT

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

NAME	AGE	POSITION
Charles E. Phillips	66	President, Treasurer & Director
Ronald A. Waldorf	52	Vice President, Secretary & Director
Arnold D. Kay	66	Director
Barbara J. Mauch	55	Chief Product Development Engineer

The directors are elected annually at the Annual Shareholders Meeting and the term of office is one year.

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. In the past he has also consulted with 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 in 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.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth certain compensation we awarded or paid to our President and Chief Executive Officer during the fiscal years ended December 31, 2000 and December 31, 1999. No other executive officer's total annual salary and bonus for services exceeded $100,000.

SUMMARY COMPENSATION TABLE

					LONG-TERM COMPENSATION		
		ANNUAL COMPENSATION			AWARDS		PAYOU
NAME AND PRINCIPAL POSITION	YEAR	SALARY $	BONUS $	OTHER $	RESTRICTED STOCK AWARDS $	OPTIONS #	LTIP PAYOUTS $
Charles E. Phillips	2000	64,500	0	0	0	100,000	0
	1999	60,000	0	0	0	20,000	0
	1998	48,000	0	0	280 (1)	0	0

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(1) Consists of 280,000 shares issued during 1998. The shares were not subject to any vesting requirements. The value of the shares at December 31, 2000 was $86,800.

17

The following table sets forth information as to options granted during

2000:

OPTIONEE	NO. OF SHARES SUBJECT TO OPTIONS GRANTED TO OPTIONEE	% OF TOTAL OPTIONS	EXERCISE PRICE	EXPIRATION DATE
Charles E. Phillips	100,000	67%	.15	February 2003

No options were exercised during 2000. The following table sets forth certain information concerning options outstanding at December 31, 2000:

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at December 31, 2000*	Value of Unexercised In-the-money Options at December 31, 2000*
Charles E. Phillips	0	0	120,000	$15,000
Ronald Waldorf	0	0	120,000	$29,900
Arnold Kay	0	0	10,000	0

*All currently exercisable

Mr. Phillips is employed pursuant to an Employment Agreement entered into in 1989. The initial five-year term of the Employment Agreement has expired, but it is has been automatically renewed on an annual basis since that date. The Employment Agreement calls for an annual salary of $90,000, as well as discretionary bonuses. However, as noted in the foregoing table, the Company has not paid the full amounts due, as a result of cash flow considerations. Mr. Phillips has agreed to forgive the shortfall for these years. The Employment Agreement also provides for a termination benefit; if Mr. Phillips is terminated due to disability, we are to pay his full salary for six months thereafter and 50% of his salary for the following six months. Also, if we terminate his employment without cause, or refuse to extend the agreement for any reason, we must pay him al least one year's salary.

Barbara Mauch is employed as Chief Product Development Engineer pursuant to an Agreement entered into in 1990. The Agreement currently calls for annual compensation of $70,000 per year. However, as noted in the foregoing table, the Company has not paid the full amounts due, as a result of cash flow considerations. Ms. Mauch has agreed to forgive the shortfall for these years.

TRANSACTIONS WITH MANAGEMENT

Since our inception we have borrowed funds for working capital purposes from Charles E. Phillips, our President and Chief Executive Officer, and Ms. Barbara Mauch, an employee and shareholder, under various promissory notes. The notes are unsecured and bear interest at 10% per annum. As of December 31, 1999, the principal balance of loans from Charles E. Phillips was $14,491, all of which was repaid in January 2000, and the principal balance of loans from Barbara Mauch was $8,701, all of which was repaid in January 2000. No interest has been paid on either loan, and accrued interest as of March 31, 2001 was

$40,266 owed to Mr. Phillips and $22,069 to Ms. Mauch. The accrued but unpaid interest bears interest at the same rate as the underlying loan. During 2001 Mr. Phillips has loaned us an additional $25,000, on the same terms.

We maintain a line of credit with a commercial bank, which line of credit is guaranteed by Mr. Phillips. The maximum amount of the line of credit is $65,000; at June 30, 2001 the outstanding balance was $54,883. The line of credit bears interest at 2.75% over the bank's prime lending rate and is secured by all of our assets.

18

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our Common Stock as of October 15, 2001, by (i) each person known to us to beneficially own 5% or more of our outstanding Common Stock; (ii) each of our directors; (iii) the Named Executive Officers identified in the Summary Compensation Table; and (iv) all directors and Named Executive Officers as a group.

Name & Address	Number of Shares	Percentage Owned
Charles E. Phillips 2301 W. 205th St., #106 Torrance, CA 90501	2,242,489 (1)	18.8
Ronald A. Waldorf 2301 W. 205th St., #106 Torrance, CA 90501	1,815,315 (2)	15.3
Barbara J. Mauch 2301 W. 205th St., #106 Torrance, CA 90501	1,432,544 (3)	12.0
Arnold D. Kay 2301 W. 205th St., #106 Torrance, CA 90501	316,316 (4)	2.7
All directors, executive officers and key employees as a group (4 persons)	5,806,664	48.8

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(1) Includes 120,000 shares covered by options exercisable within 60 days

(2) Includes 120,000 shares covered by options exercisable within 60 days

(3) Includes 50,000 shares covered by options exercisable within 60 days

(4) Includes 10,000 shares covered by options exercisable within 60 days

19

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 15, 2001, 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.

THE SELLING SHAREHOLDERS

In the fall of 2000 we completed a private placement with a group of four investors. We sold a total of 1,000,000 units, with each Unit consisting of one share, one warrant to purchase a Common Share at an exercise price of $.35 per share, and one warrant to purchase a share of Common Stock at an exercise price of $.75 per share. The price per unit was $.20. Each warrant is exercisable for one year from issuance. No commissions were paid in connection with the transaction. The Company is required to register the resale of all of the shares issued in the private placement, including the shares issuable upon exercise of the Warrants.

The following table sets forth certain information as of March 31, 2001 regarding the ownership of the common stock by the selling shareholders and as adjusted to give effect to the sale of the shares offered in this prospectus.

Selling Shareholder	Shares Owned Prior To Offering(1)		Shares Offered	Shares Owned After Offering	
	Number	Percentage		Number	Percentage
William Stanimir	750,000	6.4%	750,000	0	0
Jim Pratt	750,000	6.4%	750,000	0	0
John D. Gunther	750,000	6.4%	750,000	0	0
Joseph Terek	750,000	6.4%	750,000	0	0

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(1) Includes shares issuable upon exercise of warrants.

Neither the selling shareholders nor any of their officers or directors have held any positions or office or had any other material relationship with the Company or any of its affiliates within the past three years.

PLAN OF DISTRIBUTION

The shares are being offered on behalf of the selling shareholders, and we will not receive any proceeds from the offering. The selling shareholders, or persons to whom they transfer their shares, may sell their shares directly to one or more purchasers or through brokers or dealers, who may act as agent or principal. Sales may be at market prices, at negotiated prices, or at fixed prices, which may be subject to change. Sales may be effected through ordinary brokers' transactions, through transactions involving cross or block trades, and through purchases by brokers or dealers as principal. Shares may also be sold to or through market makers, including direct sales to purchasers or sales through agents. The selling shareholders also may enter into option or other transactions with broker-dealers that require the delivery of the shares, which shares may then be resold pursuant to this prospectus. We cannot be certain that all or any of the shares of common stock will be sold by the selling shareholders.

Brokers or dealers participating in sales of the shares as agents may receive compensation in the form of commissions, discounts or concessions from the selling shareholders and/or purchasers of the shares. The selling shareholders and any broker-dealers or other persons involved in the sale may be treated as "underwriters" within the meaning of the Securities Act, and any commissions they receive and proceeds of any sale of the shares may constitute underwriting compensation. Neither the Company nor the selling shareholders can presently estimate the amount of such compensation. The Company knows of no existing arrangements between the selling shareholders and any other shareholders, brokers, or dealers relating to the sale of the shares.

The selling shareholders and any other persons involved in the sales will be subject to the Securities Exchange Act, which may limit the timing of purchases and sales of the shares by the selling shareholders or any other such persons. The foregoing may affect the marketability of the common stock.

We will pay substantially all of the expenses incidental to the registration, offering and sale of the shares to the public, other than any commissions or discounts of underwriters, broker- dealers or agents. We and the selling shareholders have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

DESCRIPTION OF COMMON STOCK

We are authorized to issue 50,000,000 shares of common stock, par value $.001 per share. The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. If dividends are declared, whether payable in cash, property or securities, holders of our common stock are entitled to share equally in such dividends. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, each holder of common stock will be entitled to share equally in the assets available for distribution. Holders of shares of common stock have no preemptive rights to acquire any additional shares of the common stock and have no cumulative voting rights.

21

EXPERTS

Harold Y. Spector, CPA, independent accountant, has audited our consolidated financial statements at December 31, 2000 and 1999, and for the years then ended, as set forth in his report (which report contains an explanatory paragraph describing conditions that raise substantial doubt about our ability to continue as a going concern as described in Note 16 to the consolidated financial statements). We have included our consolidated financial statements in this prospectus and registration statement in reliance on Harold Y. Spector's report given on his authority as an expert in accounting and auditing.

LEGAL MATTERS

Certain legal matters with respect to the legality of the shares of Common Stock offered hereby will be passed upon for the Company by Haddan & Zepfel LLP, Newport Beach, California.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form SB-2 with the Securities and Exchange Commission, or the SEC, for the stock offered by this prospectus.

This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement for additional information about us, our common stock and this offering, including the full texts of the exhibits, some of which have been summarized in this prospectus.

We are subject to the reporting requirements of the Securities Exchange Act of 1934 and, in accordance with that Act, we file reports, proxy statements and other information with the SEC. We intend to furnish our stockholders with annual reports containing financial statements audited by independent accountants, quarterly reports containing unaudited financial statement for the first three quarters of each fiscal year, and other periodic reports as we may deem appropriate or as we may be required by law. You may inspect and copy our registration statement, reports and other information at the SEC's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains our registration statement, reports and other information that was filed electronically, at www.sec.gov.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
AUDITED FINANCIAL STATEMENTS	
Independent Auditor's Report	F-2
Consolidated Balance Sheets as of December 31, 2000 and 1999	F-3
Consolidated Statements of Operations for the years ended December 31, 2000 and 1999	F-4
Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2000 and 1999	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2000 and 1999	F-6
Notes to Consolidated Financial Statements	F-7
INTERIM CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet as of September 30, 2001 (unaudited)	F-18
Consolidated Statements of Operations for the nine months Ended September 30, 2001 and 2000 (unaudited)	F-19
Consolidated Statements of Cash Flows for the nine months ended September 30, 2001 and 2000 (unaudited)	F-20
Notes to Consolidated Financial Statements	F-21

INDEPENDENT AUDITOR'S REPORT

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

I 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, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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. I believe that my audits provide a reasonable basis for my opinion.

In my 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, 2000, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2000 and 1999, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16 to the consolidated financial statements, the Company's deficit in stockholders' equity and working capital raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Harold Y Spector, CPA
Pasadena, California
February 16, 2001
(Except for Note 8, the date is
June 19, 2001 and for Note 2,
the date is November 1, 2001)

EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2000 and 1999

ASSETS

	2000	1999
Current Assets		
Cash and Cash Equivalents	$ 85,688	$ 50,580
Accounts Receivable	158,474	119,228
Employee Advances	2,524	0
Inventories	59,732	50,083
Prepaid and Unamortized Expenses	70,469	4,952

Total Current Assets	376,887	224,843
Property and Equipment		
Furniture and Fixtures	1,432	1,432
Equipment	13,331	13,331
	14,763	14,763
Less: Accumulated Depreciation	(10,279)	(7,612)
Total Property and Equipment	4,484	7,151
Other Assets		
Deposits	11,964	15,992
Total Other Assets	11,964	15,992
TOTAL ASSETS	$ 393,335	$ 247,986

The accompanying notes are an integral part of these consolidated financial statements

F-2

EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2000 and 1999

LIABILITIES AND STOCKHOLDERS' DEFICIT

	2000	1999
Current Liabilities		
Accounts Payable	$ 27,271	$ 46,491
Accrued Interest	270,729	235,100
Other Accrued Expenses	20,458	40,046
Deposit from Shareholders	0	7,758
Notes Payable, current Portion	417,249	430,191
Total Current Liabilities	735,707	759,586
Stockholders' Deficit		
Common Stock, $.001 par value, 50,000,000 shares authorized; 11,416,313 shares issued and outstanding at December 31, 2000; 9,139,460 shares at December 31, 1999	11,416	9,139
Paid-in Capital	2,928,544	2,459,063
Accumulated Deficit	(3,282,332)	(2,979,802)
Total Stockholders' Deficit	(342,372)	(511,600)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 393,335	$ 247,986

The accompanying notes are an integral part of these consolidated financial statements

EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2000 and 1999

	2000	1999
SALES	$ 779,996	$ 847,416
COST OF SALES	342,958	370,143
GROSS PROFIT	437,038	477,273
OPERATING EXPENSES	630,366	483,137
LOSS FROM OPERATIONS	(193,328)	(5,864)
NONOPERATING INCOME (EXPENSES)		
Other and Interest Income	16,121	190
Consulting Expense - Nonoperating	(88,000)	0
Interest Expenses	(35,723)	(38,393)
Total Other Income (Expenses)	(107,602)	(38,203)
LOSS BEFORE TAXES	(300,930)	(44,067)
PROVISION FOR INCOME TAXES	1,600	1,600
NET LOSS	$ (302,530)	$ (45,667)
Net Loss per share - Basic and Diluted	$ (0.03)	$ (0.01)
Weighted Average shares outstanding	10,180,433	8,948,383

The accompanying notes are an integral part of these consolidated financial statements

EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
Years ended December 31, 2000 and 1999

	Common Stock Shares	Amount	Paid-in Capital	Deficit
Balance at December 31, 1998	8,300,627	$ 8,300	$ 2,333,027	$(2,934,135)
Issuance of stock for consulting	88,833	89	33,036	
Exercise of stock options	750,000	750	93,000	
Net Loss				(45,667)
Balance at December 31, 1999	9,139,460	$ 9,139	$ 2,459,063	$(2,979,802)
Issuance of stock to financial advisor	400,000	400	87,600	
Issuance of stock for consulting fees payable	76,853	77	19,423	
Issuance stock for strategic planning and marketing	1,000,000	1,000	199,000	
Private placement sales	750,000	750	149,250	
Issuance of stock for public relations	50,000	50	6,450	
Shareholder's contribution			7,758	
Net Loss				(302,530)
Balance at December 31, 2000	11,416,313	$ 11,416	$ 2,928,544	$(3,282,332)

The accompanying notes are an integral part of these consolidated financial statements

F-5

EYE DYNAMICS, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(302,530)	$ (45,667)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation	2,667	2,597

Issuance of stock for Consulting Fees	88,000	33,125
Issuance of stock for Public Relations	6,500	0
Issuance of stock for Strategic Planning	200,000	0
(Increase) Decrease in:		
Accounts Receivable	(39,246)	(608)
Employee Advances	(2,524)	0
Inventories	(9,649)	10,180
Prepaid Expenses	3,316	(4,952)
Unamortized Expenses	(68,833)	0
Deposits	4,028	(9,851)
Increase (Decrease) in:		
Accounts Payable	(19,220)	(46,037)
Accrued Interest	35,629	36,834
Accrued Expenses	(88)	(17,289)
NET CASH (USED) BY OPERATING ACTIVITIES	(101,950)	(41,668)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	0	(699)
NET CASH (USED) BY INVESTING ACTIVITIES	0	(699)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposit from shareholders	0	7,758
Proceeds from exercise of options	0	93,750
Proceeds from sales of stock	150,000	0
Proceeds from notes payable	10,250	0
Payments to line of credit	0	(45,013)
Payments to officers' loans	(23,192)	0
NET CASH PROVIDED BY FINANCING ACTIVITIES	137,058	56,495
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,108	14,128
BEGINNING OF YEAR	50,580	36,452
END OF YEAR	$ 85,688	$ 50,580
SUPPLEMENTAL DISCLOSURES:		
Cash Paid During the Year for:		
Interest	$ 94	$ 1,559
Income Tax	$ 1,600	$ 1,600

The accompanying notes are an integral part of these consolidated financial statements

EYE DYNAMICS, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31, 2000 and 1999

NONCASH INVESTING AND FINANCING ACTIVITIES:	
Issuance of common stock for:	
Consulting Fee Payable	$ 19,500
Public Relation Expense	6,500
Consulting Expense	88,000
Strategic Planning and Marketing	200,000
	$314,000

Conversion of Deposit from Shareholder of $7,758 into Paid-in Capital.

The accompanying notes are an integral part of these consolidated financial statements

F-7

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 1 - NATURE OF BUSINESS

Eye Dynamics, Inc. ("the Company") was formed under the laws of Nevada on August 7, 1989 under the name Petro Plex, Inc. and adopted later as Drug Detection Systems, Inc. The Company changed its name to Eye Dynamics, Inc. and became qualified as a foreign corporation in California on November 2, 1992.

The Company markets and distributes diagnostic equipment that utilizes 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2000 and 1999. All revenue is derived from the Company.

Use of estimates

The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles 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.

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.

Fair Value of Financial Instruments

The carrying amounts of the financial instruments have been estimated by management to approximate fair value.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company is subcontracting the manufacturing of the medical diagnostic equipment and products. Manufacturing operations consist of assembly, test, and packaging functions. Sales of product and equipment are recognized at the time of delivery of the product to the customer or at the time of sale or installation. No provisions were established for estimated product returns and allowances based on the Company's historical experience.

Sales of repair and maintenance service is recognized when completion of the service which basically is the setup of the equipment with twelve months warranty.

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 computer software.

The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") in the 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, 2000 and 1999 was $708 and $1,487, respectively.

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.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 estimated useful lives of the assets. Depreciation expense was $2,667 and $2,597 for 2000 and 1999, respectively.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109 "Accounting For Income Taxes". SFAS No. 109 requires a company to recognize deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

Advertising Costs

All advertising costs are expensed as incurred. Advertising expenses were $3,998 and $1,004 for 2000 and 1999, respectively.

Reclassification

Certain reclassifications have been made to the 1999 consolidated financial statements to conform with the 2000 consolidated financial statement presentation. Such reclassification had no effect on net loss as previously reported.

Stock-Based Compensation

The Company accounts for stock issued to non-employees in accordance with the provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation" and the Emerging Issues Task Force (EITF) Consensus on 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."

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement

In June 1998, the 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 consolidated financial statements.

In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenue and should be classified as revenue. The Company historically has classified shipping charges to customers as revenue. With respect to the classification of costs related to the shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. It also determined that if shipping costs or handling costs are significant and are not included in cost of sales, a company should disclose both the amount(s) of such costs and the line item(s) on the income statement that include them. 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, 2000 and 1999, the outbound shipping charges included as operating expenses were $25,033 and $23,112, respectively.

NOTE 3 - 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. There were no outstanding loan balances at December 31, 2000 or 1999.

NOTE 4 - NOTES PAYABLE

	2000	1999
a) Notes to Officers, compound interest accrued at 10%; due 60 days after dates of notes; unsecured	$ 278	$ 23,470

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 4 - NOTES PAYABLE (Continued)

	2000	1999
b) Notes to Others, interest at 12% per annum; due on demand, unsecured	10,000	10,000
c) Note to TESA Corporation, interest at 7% payable on maturity date, December 31, 1999; maturing 11% of gross revenues, collateralized by accounts receivable, inventories, patents and a licensing agreement	406,971	396,721
	417,249	430,191
Less current maturities	(417,249)	(430,191)
Long-term debt, net	$ 0	$ 0

	==========	==========

NOTE 5 - SETTLEMENT AGREEMENT AND MUTUAL RELEASE

On December 29, 1993, the Company entered into a settlement agreement and mutual release with TESA Corporation, a former distributor. The agreement provided a payment of $400,000 with simple interest at 7% per annum, payable on or before December 31, 1999. The note principal is payable in monthly installments of 11% of gross revenue on the sales (See Note 4c). As of December 31, 2000 and 1999, interest of $195,987 and $167,987 was accrued and no principal payments were made, respectively. The Company is currently negotiating the note.

In addition, the Company will repurchase from TESA up to nine product units, which were previously sold by the Company to TESA for the sum of $10,250 each. As of December 31, 2000 and 1999, the balance owed to TESA related to these consigned inventories was $10,250 and $0, respectively. The amount was included in Note Payable - TESA (See Note 4c).

NOTE 6 - 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, 2000 and 1999 consist of $1,600 minimum state income taxes in each year, $800 for each corporation.

NOTE 6 - INCOME TAXES (Continued)

As of December 31, 2000, the Company has net operating loss carryforwards, approximately, of $840,105 to reduce future taxable income. The subsidiary has NOL carryforwards of $1,481,264. To the extent not utilized, both carryforwards will begin to expire through 2019. 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:

	2000	1999
Net Operating Loss Carryforwards	$ 285,636	$ 182,936
Valuation Allowance	(285,636)	(182,936)
Net deferred tax assets	$ 0	$ 0

NOTE 7 - PRIVATE PLACEMENT OFFERING

In August 2000, the Company conducted a self-underwritten offering of 1,000,000 units, consisting of one share of common stock and two stock warrants at $0.20 per unit. One warrant to be for purchase of one share of common stock at $.35

per share and the second warrant to be for purchase of one share of common stock at $.75 per share. The warrants expire in one year after purchase of the above described unit. As of December 31, 2000, the Company sold 750,000 units and received $150,000 in proceeds.

NOTE 8 - COMMON STOCK TRANSACTION

In September 2000, the Company issued 1,000,000 shares of common stock to a consultant for strategic planning and marketing services for the period from September 1, 2000 and extending for a minimum of six months and a maximum of 12 months. The fair value of the stock at the time of issue was $0.20 per share. The total cost of $200,000 was capitalized and amortized over a six-month period. For year ended December 31, 2000, $133,333 was charged to operations, and as of that date, the balance of unamortized marketing expense was $66,667.

The Company also issued 50,000 shares of common stock at a fair value of $0.13 per share to a consultant as an incentive for development and execution of a public relations program. The total cost of $6,500 was capitalized and amortized over a six-month period. For year ended December 31, 2000, $4,333 was charged to operations, and as of that date, the balance of unamortized public relation expense was $2,167.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 8 - COMMON STOCK TRANSACTION (Continued)

In April 2000, the Company issued 400,000 shares of common stock to a financial advisor at a fair value of $0.22 per share, or total of $88,000. The Company also converted a consulting fee payable of $19,500 into 76,853 shares of common stock.

In 1999, the Company agreed to pay a consultant $5,250 per month; $2,000 in cash and the balance of $3,250 will be converted into the Company's common stock at 85% of the average market price during the compensation period. Accordingly, the Company had issued 88,833 shares of common stock at an average market price of $0.44 per share, or an aggregate of $33,125, for his service rendered.

NOTE 9 - STOCK OPTIONS

In February 2000, the Company granted 150,000 non-qualified stock options to officers at an exercise price of fifteen cents ($.15) per share through February 2003. The fair value of the stock when granted was $0.20 per share.

In September 1999, the Company granted 60,000 non-qualified stock options to employees at an exercise price of fifty-four cents ($.54) per share through September 2001.

There were 750,000 shares of options exercised at $.125 per share in 1999. None were exercised in 2000.

A summary of the status of the Company's stock option as of December 31, 2000 and 1999, and changes during the years then ended is presented below:

	2000	1999

	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of Year	2,560,000	$ 0.27	3,550,000	$ 0.23
Granted	150,000	0.15	60,000	0.54
Exercised	0	--	(750,000)	0.125
Expired and Cancelled	(400,000)	0.10	(300,000)	0.20
Outstanding at end of Year	2,310,000	$ 0.29	2,560,000	$ 0.27
Exercisable at end of Year	2,310,000	$ 0.29	2,515,000	$ 0.26

The following table sets forth additional information about stock options outstanding at December 31, 2000:

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 9 - STOCK OPTIONS (Continued)

Range of Exercise Prices	Number Outstanding as of Dec. 31,2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of Dec. 31,2000
$ 0.54	60,000	0.75 years	$ 0.54	60,000
$ 0.25	1,000,000	0.92 years	$ 0.25	1,000,000
$ 0.375	1,000,000	0.92 years	$ 0.375	1,000,000
$ 0.001	100,000	0.92 years	$ 0.001	100,000
$ 0.15	150,000	2.17 years	$ 0.15	150,000
	2,310,000	0.99 years	$ 0.29	2,310,000

The Company accounts for equity-based instruments issued or granted to employees using the intrinsic method as prescribed under APB No. 25 Accounting for Stock Issued to Employees. During 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), which defines a fair value based method of accounting for stock options or similar equity instruments. The Company has elected to adopt the disclosure-only provisions of SFAS 123 in accounting for employee stock options. Accordingly, the Company has elected to account for its stock-based compensation plan under APB Opinion No. 25 an accounting standard under which no related compensation was recognized in 2000 or 1999, 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, 2000 and 1999 using the Black-Scholes option pricing model as prescribed by SFAS No. 123 and the weighted average assumptions as follows:

	December 31, 2000	December 31, 1999

Weighted average fair value per option granted	$0.185	$0.19
Risk-free interest rate	5.00%	6.00%
Expected dividend yield	0.00%	0.00%
Expected Lives	3.00	3.00
Expected volatility	0.30	0.30

For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	December 31, 2000	1999
Net Loss as reported	$(302,530)	$ (45,667)
Net Loss (pro forma)	$(315,580)	$ (49,467)
Basic net loss per share as reported	$ (0.03)	$ (0.01)
Basic net loss per share (pro forma)	$ (0.03)	$ (0.01)

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 10 - WARRANTS

As discussed in Note 7, the Company sold warrants in a private placement offering to purchase up to 1,500,000 shares of common stock at exercise prices of $.35 or $.75 per share. These warrants will expire in August 2001.

A summary of the status of the Company's warrants as of December 31, 2000, and changes during the year then ended is presented below:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of Year	0	$ -
Granted	1,500,000	0.55
Exercised	0	-
Expired and Cancelled	0	-
Outstanding at end of Year	1,500,000	$ 0.55
Exercisable at end of Year	1,500,000	

There were no outstanding warrants as of December 31, 1999.

NOTE 11 - NET LOSS PER SHARE

Net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period. Basic net loss per share for years ended December 31, 2000 and 1999 was $0.02 and $0.01, respectively. Net loss per share does not include options and warrants as they would be anti-dilutive in 2000 and 1999 due to the net loss in those years.

NOTE 12 - 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 2000 or 1999, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

NOTE 13 - RELATED PARTY TRANSACTION

As disclosed in Note 4a, the Company had notes payable to the officers in the amounts of $278 and $23,470 as of December 31, 2000 and 1999, respectively. As of these dates, balance of accrued interest was $63,542 and $57,113, respectively. Interest expense charged on these notes totaled $6,429 and $7,638 in those years, respectively.

The Company converted a deposit from shareholder in the amount of $7,758 into equity.

NOTE 14 - MAJOR CUSTOMERS

During 2000 and 1999, the Company had one major customer, sales to which exceeded 10% of the Company's total sales. Sales to this customer totaled $234,958 and $403,247 for the years ended December 31, 2000 and 1999, respectively.

NOTE 15 - CONTINGENCIES AND COMMITMENTS

Contingency

The Company agreed to pay a financial advisor in the sum of $15,000 on condition that the Company obtains outside capital financing or sells to a third party an equity interest in the Company.

Public Relation Agreement

In September 2000, the Company entered into an agreement providing that the Company will pay $6,000 per month for a public relation through February 2001.

Lease Commitments

The Company leases its office facilities for $787 per month. The lease expires April 2001. Rent expense totaled $9,368 and $9,216 for 2000 and 1999, respectively.

The Company also leases office equipment at $197 per month on a month-to-month basis.

As of December 31, 2000, the minimum commitment under these leases is $3,148.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2000 and 1999

NOTE 16 - GOING CONCERN

The accompanying consolidated financial statements are presented on the basis that the Companies are going concerns. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. As shown in the accompanying consolidated financial statements, as of December 31, 2000, the Company has accumulated deficit of $3,282,332, a stockholders' deficit of $342,372 and its current liabilities exceed current assets by $358,820.

As discussed in Note 7, the Company conducted a private placement offering in 2000, and had raised $150,000. The offering was completed in January 2001. With funds from the private placement and upon the completion of the research, the Company began to market and publicize its second product line, Impairment Detection device. Management is also actively increasing marketing efforts to increase revenues. The Company continued existence depends on its ability to meet its financing requirements and the success of its future operations. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 17 - SUBSEQUENT EVENT

The private placement offering was completed in January 2001. The Company sold 250,000 units and received $50,000.

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2001

ASSETS

Current Assets	
Cash	$ 20,546
Accounts Receivable	109,759
Employee Advances and Receivable	60,581
Inventory	91,534
Unamortized Expenses	48,946
Total Current Assets	331,366
Property and Equipment, net of Accumulated depreciation of $12,236	2,527
Other Assets	6,842
TOTAL ASSETS	$ 340,735

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts Payable & Accrued Expenses	$ 79,376
Accrued Interest	298,544
Line of Credit	52,190
Notes Payable, current portion	442,249
Total Current Liabilities	872,359
Stockholders' Deficit	
Common Stock, $0.001 par value; 50,000,000 shares authorized; 12,275,313 shares issued and outstanding	12,275
Paid-in Capital	3,154,911
Accumulated Deficit	(3,698,810)
Total Stockholders' Deficit	(531,624)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 340,735

The accompanying notes are an integral part of these consolidated financial statements

F-19

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

	For three Months ended September 30,		For Nine Months ended September 30,	
	2001	2000	2001	2000
		(Restated)		(Restate
Sales	$ 207,977	$ 165,711	$ 482,793	$ 520,1
Cost of Sales	84,768	65,460	201,609	232,8
Gross Profit	123,209	100,251	281,184	287,3
Operating Expenses	179,267	140,781	667,380	353,9
Loss from Operations	(56,058)	(40,530)	(386,196)	(66,6
Other Income(Expense)				
Interest and Other Income	1,485	--	3,299	
Consulting Fees - Nonoperating	--	--	--	(88,0
Interest Expense	(11,837)	(8,831)	(31,981)	(26,8

Total Other Income(Expenses)	(10,352)	(8,831)	(28,682)	(114,8
Net Loss before Taxes	(66,410)	(49,361)	(414,878)	(181,5
Provision for Income Taxes	--	--	1,600	1,6
Net Loss	$ (66,410)	$ (49,361)	$ (416,478)	$ (183,1
Net Loss per share-Basic and Diluted	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.
Weighted average number of shares	12,275,313	10,549,646	11,997,313	9,768,4

The accompanying notes are an integral part of these consolidated financial statements

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

	For Nine Months ended September 30, 2001	2000
CASH FLOW FROM OPERATING ACTIVITIES:		(Restated)
Net Loss	$(416,478)	$(183,118)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	1,957	2,001
Noncash Expenses	177,226	294,500
(Increase) Decrease in:		
Accounts Receivable	48,715	24,075
Inventory	(31,802)	5,360
Receivable from Employee	(2,969)	--
Prepaid and Unamortized Expenses	21,523	(167,772)
Other assets	5,122	(6,414)
Increase (Decrease) in:		
Accounts Payable and accrued expenses	31,647	(28,545)
Accrued Interest	27,815	26,760
Net cash used by operating activities	(137,244)	(33,153)
CASH FLOW FROM INVESTING ACTIVITIES:		
Employee Advances and Receivable	(55,088)	(1,175)
Net cash used by investing activities	(55,088)	(1,175)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuing of Common Stock	50,000	150,000
Net Advance from Line of Credit	52,190	--
Net Proceeds from Notes Payable	--	10,250
Net Proceeds from (Payments to) Shareholders	25,000	(23,192)

Net cash provided by financing activities	127,190	137,058
NET INCREASE (DECREASE) IN CASH	(65,142)	102,730
CASH BALANCE AT BEGINNING OF PERIOD	85,688	50,580
CASH BALANCE AT END OF PERIOD	$ 20,546	$ 153,310
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	$ 4,166	$ 95
Taxes Paid	$ 1,600	$ 1,600
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Issuing common stock for:		
Public and Investor Relations	$ 156,226	$ 6,500
Strategic Planning and Marketing	21,000	200,000
Consulting Expense - Nonoperating	--	88,000
Consulting Fee Payable	--	19,500
	$ 177,226	$ 314,000

The accompanying notes are an integral part of these consolidated financial statements

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Eye Dynamics, Inc. (the Company) markets and distributes diagnostic equipment that utilizes 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.

Presentation of Interim Information

In the Opinion of the management of the Company, the accompanying unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of September 30, 2001, and the results of operations for the three and nine months ended September 30, 2001 and 2000, and cash flows for the nine months ended September 30, 2001 and 2000. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company's audited consolidated financial statements and notes for the fiscal year ended December 31, 2000.

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.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 provides new guidance on the accounting for a business combination at the date a business combination is completed. Specifically, it requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating use of the pooling-of-interests method. SFAS 142 establishes new guidance on how to account for goodwill and intangible assets after a business combination is completed. Among other things, it requires that goodwill and certain other intangible assets will no longer be amortized and will be tested for impairment at least annually and written down only when impaired. This statement will apply to existing goodwill and intangible assets, beginning with fiscal years starting after December 15, 2001. Early adoption of the statement will be permitted for companies with a fiscal year beginning after March 15, 2001, for which first quarter financial statements have not been issued. The Company is currently evaluating these statements but does not expect that they will have a material impact on the Company's financial position, results of operations, or cash flows.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restatement and Reclassifications

The accompanying consolidated financial statements for nine months ended September 30, 2000 were restated to reflect the following changes:

Net Loss as previously reported	$(150,702)
Amortization of Strategic Planning and Marketing Costs (A)	(33,333)
Capitalized and Overstatement of expense for Public Relation (B)	8,917
Understatement of expense for Nonoperating Consulting fee (C)	(8,000)
Net Loss as restated	$(183,118)
Net Loss per share, restatedD	$ (0.02)

Subsequent to the original issuance of our September 30, 2000 consolidated financial statements, management determined that the following restatements were required.

(A) Initially, the Company charged the issuance of 1,000,000 shares to a consultant to paid-in capital. At the year-end, with auditor's recommendation, we capitalized the shares at fair value and amortized the expense over the period of service. The result of this change increased the net loss by $33,333. (See Note 5)

(B) Initially, the Company charged the issuance of 50,000 shares to a public relation to operations. At the year-end, with auditor's recommendation, we capitalized the shares at fair value and amortized the expense over the period of service. The result of this change decreased the net loss by $8,917. (See Note 5)

(C) Management determined that the fair value of shares issued to a consultant for his non-operating consulting service was $0.22 per share at the time of performance. The result of this change increased the net loss by $8,000. (See Note 5)

D The net effect of the restatement has no material change in net loss per share.

In addition, certain prior year amounts have been reclassified to conform to the current year presentation.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - 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. In August 2001, the Company returned all 2,660,000 shares of Ingen stock to Ingen's priority secured creditor. The note becomes unsecured and is due on demand.

As of September 30, 2001, the net receivable from the employee amounted to $60,581, including an interest receivable of $2,969.

NOTE 3 - LINE OF CREDIT

The Company maintained a $65,000 operating line of credit with a bank at the bank's prime rate plus 2.75%. This line of credit is payable on demand and is secured by all assets of the Company. As of September 30, 2001, the balance due was $52,190.

NOTE 4 - CONSIGNED INVENTORY

On December 29, 1993, the Company entered into a settlement agreement and mutual release with TESA Corporation ("TESA"), a former distributor. The Company agreed to repurchase up to nine product units, which were previously sold to TESA through its wholly owned subsidiary, Oculokinetics, Inc. For each unit resold to the customer, the Company is obliged to repurchase the unit for $10,250. There was no purchase commitment if the unit was not resold. During the nine months ended September 30, 2001 and 2000, the Company sold one unit in each period, and as of those dates, the Company had remitted $10,250 and $0, respectively, to TESA. The balance owed to TESA related to these consigned inventories was included in Note Payable - TESA.

NOTE 5 - COMMON STOCK TRANSACTIONS

On June 2001, the Company issued 150,000 shares of common stock based on an agreement dated on June 14, 1996 for investor relation service. The fair value at date of agreement was $0.10 per share. The total cost of $15,000 was charged to operations.

On May 5, 2001, the Company entered into an Investment Banking Agreement providing that the Company agreed to issue 150,000 shares of common stock at a fair market value $0.40 per share to a consultant in exchange for investment banking and advisory service. The total cost of $60,000 was capitalized and amortized over a one-year period. For nine months ended September 30, 2001, $25,000 was charged to operations.

NOTE 5 - COMMON STOCK TRANSACTIONS (Continued)

The Company also entered into a Finder's Agreement with the 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 September 30, 2001, no capital was raised through the consultant.

In May 2001, the Company agreed to issue 25,000 shares of common stock to a consultant for preparing a five-year financial projection, and issued 50,000 shares for their consulting service from May 2001 to October 2001. The fair market value at the date of agreement was $0.28 per share. The financial projection preparation of $7,000 was charged to operations as incurred, and the total consulting fee of $21,000 was capitalized and amortized over a six-month period. For nine months ended September 30, 2001, $18,667 was charged to operations.

On March 27, 2001, the Company entered into a Promotion Agreement to promote itself on a promoter's web site. The Company issued 131,580 shares of common stock at a fair market value $0.38 per share to the promoter for the first six months service. The total cost of $50,000 was charged to operations as incurred. Upon mutual agreement, the Company will pay the promoter 105,263 shares of restricted stock for the final six months of promotion.

On March 20, 2001, the Board of Directors approved to issue 77,420 shares of common stock at $0.30 per share (fair market value of $0.38 per share less 20% discount for restricted shares) to an individual for his investor relations service commencing March 23, 2001. The total cost of $23,226 was capitalized and amortized over one year. For nine months ended September 30, 2001, $11,613 was charged to operations.

In January 2001, the Company completed a self-underwritten offering of 1,000,000 units, consisting of one share of common stock and two stock warrants at exercise prices of $0.35 and $0.75 per share. The Company received $50,000 in 2001 and $150,000 in 2000 for an aggregate of $200,000 in proceeds.

The Company issued 25,000 shares of common stock to a consultant as an incentive for development and execution of an investors relation program for the period from January 2001 through June 2001. The fair value of the stock at the time of issue was $0.32 per share. The total cost of $8,000 was charged to operations.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - COMMON STOCK TRANSACTIONS (Continued)

The Company also granted warrants to the consultant to purchase up to 200,000 shares of the Company's common stock. 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.

In September 2000, the Company issued 1,000,000 shares of common stock to a consultant for strategic planning and marketing services for the period from September 1, 2000 and extending for a minimum of six months and a maximum of 12 months. The fair value of the stock at the time of issue was $0.20 per share. The total cost of $200,000 was capitalized and amortized over a six-month period. For nine months ended September 30, 2000, $33,333 was charged to operations.

The Company also issued 50,000 shares of common stock at a fair value of $0.13 per share to a consultant as an incentive for development and execution of a public relations program. The total cost of $6,500 was capitalized and amortized over a six-month period. For nine months ended September 30, 2000, $1,083 was charged to operations.

In April 2000, the Company issued 400,000 shares common stock to a financial advisor at a fair value of $0.22 per share. The total cost of $88,000 was charged to operations as incurred. The Company also converted a consulting fee payable into 76,853 shares of common stock.

NOTE 6 - NET LOSS PER SHARE

Net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period. Basic net loss per share for three months ended September 30, 2001 and 2000 was $0.01 and $0.00, respectively, and for nine months ended September 30, 2001 and 2000 was $0.03 and $0.02, respectively. Net loss per share does not include options and warrants as they would be anti-dilutive in 2001 and 2000 due to the net loss in those periods.

NOTE 7 - 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 2001 or 2000, and the Company has only one segment; accordingly, detailed information of the reportable segment is not presented.

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - RELATED PARTY TRANSACTION

The Company had notes payable to the officers in the amount of $25,278 and $278 as of September 30, 2001 and 2000, respectively. As of those dates, balance of accrued interest related to the notes was $69,457 and $61,973, respectively. Interest expense charged on these notes totaled $5,915 and $4,860 for nine months ended September 30, 2001 and 2000, respectively.

NOTE 9 - GOING CONCERN

The accompanying consolidated financial statements are presented on the basis that the Companies are going concerns. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. As shown in the accompanying consolidated financial statements, the Company incurred net losses of $416,478 and $183,118 for nine months ended September 30, 2001 and 2000, respectively, and as of September 30, 2001, the Company had a working capital deficiency of $540,993 and a deficit in net worth of $531,624.

A plan commenced in late 2000 to publicize the Company's SafetyScope product. Funds for this program were secured through equity financing as discussed in Note 5. Additional financing will be required to implement a business plan that address the final engineering, tooling and marketing costs to fully commercialize the SafetyScope product. Management is currently seeking such financing and is in discussion with several potential funding sources.

Management is also currently involved in active negotiations to convert a note payable of $396,721 into equity, and actively increasing marketing efforts to increase revenues. The Company continued existence depends on its ability to meet its financing requirements and the success of its future operations. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITY OTHER THAN THE SHARES OF THE COMMON STOCK OFFERED BY THIS PROSPECTUS, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY THE SHARES OF COMMON STOCK BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

	Page
Prospectus Summary	2
Risk Factors	2
The Business	5
Use of Proceeds	12
Management's Discussion and Analysis or Plan of Operation	12
Price Range of Common Stock	15
Management	16
Executive Compensation	17
Principal Shareholders	19
The Selling Shareholders	20
Plan of Distribution	21
Description of Common Stock	21
Experts	22
Legal Matters	22
Where You Can Find More Information	22
Index to Consolidated Financial Statements	23

DEALER PROSPECTUS DELIVERY OBLIGATION. Until _____, 2001, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

3,000,000 SHARES

COMMON STOCK

EYE DYNAMICS, INC.

PROSPECTUS

_____________, 2001

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Articles of Incorporation of the Company limit the personal liability of its directors and officers for damages for breach of fiduciary duty in a manner identical in scope to that permitted under Nevada Law. The Articles of Incorporation of the Company also provide that any repeal or modification of that provision shall apply prospectively only. The Company's Bylaws provide that the Company may indemnify its officers and directors, and may indemnify its employees and other agents, to the fullest extent permitted by Nevada law. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to officers, directors or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

Subsection 1 of Section 78.037 of the Nevada Revised Statutes (the "Nevada Law") empowers a corporation to eliminate or limit the personal liability of a director or officer to the corporation or its stockholders for damages for breach of fiduciary duty as a director or officer, but such a provision must not eliminate or limit the liability of a director or officer for (a) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law or (b) the payment of distributions in violation of Section 78.300 of the Nevada Law.

Subsection 1 of Section 78.7502 of the Nevada Law empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (an "Indemnified Party"), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnified Party in connection with such action, suit or proceeding if the Indemnified Party acted in good faith and in a manner the Indemnified Party reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceedings, had no reasonable cause to believe the Indemnified Party's conduct was unlawful.

Subsection 2 of Section 78.7502 of the Nevada Law empowers a corporation to indemnify any Indemnified Party who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in the capacity of an Indemnified Party against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by the Indemnified Party in connection with the defense or settlement of such action or suit if the Indemnified Party acted under standards similar to those set forth above, except that no indemnification may be made in respect of any claim, issue or matter as to which the Indemnified Party shall have been adjudged to be liable to the corporation or for amounts paid in settlement to the corporation unless and only to the extent that the court in which such action or suit was brought determines upon application that in view of all the circumstances the Indemnified Party is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Section 78.7502 of the Nevada Law further provides that to the extent an Indemnified Party has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in subsection (1) or (2) described above or in the defense of any claim, issue or matter therein, the corporation shall indemnify the Indemnified Party against expenses (including attorneys' fees) actually and reasonably incurred by the Indemnified Party in connection therewith.

Subsection 1 of Section 78.751 of the Nevada Law provides that any discretionary indemnification under Section 78.7502 of the Nevada Law, unless ordered by a court or advanced pursuant to Subsection 2 of Section 78.751, may be made by a corporation only as authorized in the specific case upon a determination that indemnification of the Indemnified Person is proper in the circumstances. Such determination must be made (a) by the stockholders, (b) by the board of directors of the corporation by majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, (c) if a majority vote of a quorum of such disinterested directors so orders, by independent legal counsel in a written opinion, or (d) by independent legal counsel in a written opinion if a quorum of such disinterested directors cannot be obtained.

Subsection 2 of Section 78.751 of the Nevada Law provides that a corporation's articles of incorporation or bylaws or an agreement made by the corporation may require the corporation to pay as incurred and in advance of the final disposition of a criminal or civil action, suit or proceeding, the expenses of officers and directors in defending such action, suit or proceeding upon receipt by the corporation of an undertaking by or on behalf of the officer or director to repay the amount if it is ultimately determined by a court that he is not entitled to be indemnified by the corporation. Subsection 2 further provides that the provisions of that Subsection 2 do not affect any rights to advancement of expenses to which corporate personnel other than officers and directors may be entitled under contract or otherwise by law. Subsection 3 of Section 78.751 of the Nevada Law provides that indemnification and advancement of expenses authorized in or ordered by a court pursuant to Section 78.751 does not exclude any other rights to which the Indemnified Party may be entitled under the articles of incorporation or any by-law, agreement, vote of stockholders or disinterested directors or otherwise, for either an action in his official capacity or in another capacity while holding his office. However, indemnification, unless ordered by a court pursuant to Section 78.7502 or for the advancement of expenses under Subsection 2 of Section 78.751 of the Nevada Law, may not be made to or on behalf of any director or officer of the corporation if a final adjudication establishes that his or her acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and was material to the cause of action. Additionally, the scope of such indemnification and advancement of expenses shall continue as to an Indemnified Party who has ceased to hold one of positions specified above, and shall inure to the benefit of his or her heirs, executors and administrators.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The expenses incurred or to be incurred by the Company in connection with the preparation and filing of this Registration Statement are estimated to be as follows:

Printing and duplication expenses..........................	$ 1,000
Registration fee...	222
Legal fees and expenses....................................	15,000
Accounting fees and expenses...............................	4,000
Transfer Agent fees..	300
Miscellaneous..	478
Total..	$ 21,000

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

In 1998 the Company issued 400,000 shares of Common Stock in payment of unpaid salaries to employees. Also in 1998 the Company issued 321,433 shares to a consultant in lieu of consulting fees. An additional 250,000 shares were issued in 1998 upon exercise of employee stock options.

In 1999 the Company issued 88,833 shares to a consultant in lieu of consulting Fees, and 750,000 shares were issued upon the exercise of employee stock options.

During 2000 the Company issued 76,583 shares to a consultant in lieu of consulting fees, and 50,000 shares to a public relations firm in lieu of fees.

In the fall of 2000 and January of 2001 the Company sold a total of 1,000,000 units to four private investors. Each Unit consisted of one share of Common Stock, one warrant to purchase a share of Common Stock at an exercise price of $.35 per share, and one warrant to purchase a share of Common Stock at an exercise price of $.75 per share. The price per unit was $.20. Each warrant is exercisable for one year from issuance. No commissions were paid in connection with the transaction. The Company is required to register the resale of all of the shares issued in the private placement, including the shares issuable upon exercise of the Warrants.

The Company believes all of the foregoing transactions were exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof.

ITEM 27. EXHIBITS

The following exhibits are filed with this Registration Statement:

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and Restated Articles of Incorporation of the Company (1)
3.2	Amended and Restated Bylaws of the Company (1)
5.1	Opinion of Haddan & Zepfel LLP =
10.1	Form of Warrant (previously filed)
10.2	Employment Agreement, dated April 1, 1989 with Charles E. Phillips (1)
10.3	Employment Agreement, dated December 1, 1989 with Barbara J. Mauch (1)
10.4	Exclusive Licensing Agreement, dated November 1, 1989 with Ronald A. Waldorf (1)
10.5	Standard Multi-Tenant Commercial Industrial Lease-Gross, dated January 25, 1996, between the Company and AmberJack, Ltd., and Amendments No. 1, No. 2 and No. 3.(2)

10.6 Agreement, dated March 19, 2001 between the Company and Medtrak, Inc. (2)

10.7 Proposal Submitted to the Company by Circadian Technologies, Inc., December 19, 2000

23.1 Consent of Harold Y. Spector, Certified Public Accountant

24.2 Consent of Haddan & Zepfel LLP (included in Exhibit 5.1)

----

(1) Incorporated by reference from Amendment No. 1 to the Company's Amended Report on Form 10-SB, filed with the Commission on December 13, 1999.

(2) Incorporated by reference from the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000.

Item 28. Undertakings.

The undersigned Registrant hereby undertakes that it will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this Registration Statement to

(i) include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the Registration Statement; and

(iii) Include any additional or changed material information on the plan of distribution.

(2) For the purpose of determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of such securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit, or proceeding), is asserted by such director, officer, or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this amendment to registration statement to be signed on its behalf by the undersigned, in the City of Torrance, State of California, on November 28, 2001.

Eye Dynamics, Inc.

By: /s/ Charles E. Phillips

Charles E. Phillips, President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated:

Signature	Title	Date
(1) Principal Executive, Financial and Accounting Officer		
/s/ Charles E. Phillips Charles E. Phillips	President, Chief Financial Officer and a Director	November 28, 2001
(2) Directors		
/s/ Ronald A. Waldorf * Ronald A. Waldorf	Chairman and a Director	November 28, 2001
/s/ Arnold Kay * Arnold Kay	Director	November 28, 2001

*By Charles E. Phillips, attorney-in-fact