EYE DYNAMICS INC
Form 10KSB
April 12, 2002

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

FORM 10-KSB

(X) Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2001

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

Nevada	88-0249812
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
2301 W. 205th Street, #106,	Torrance, CA 90501
(Address of principal executive offices)	(City, state and ZIP)

Issuer's telephone number 310-328-0477

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

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

Common Stock Par Value $.001 per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days (X) Yes ( ) No.

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

State issuer's revenues for its most recent fiscal year: $ 697,597

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

Non-affiliate Equity: 7,175,061 shares @ $.07 per share = $502,254

The number of shares outstanding of the issuer's common stock as of March 30, 2002 was 14,550,313.

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

PART 1

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

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

INTRODUCTION

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

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

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PRODUCTS

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

Irregular eye movements and conditions are analyzed by medical specialists as an aid in diagnosing problems with the human balance system and other neurological conditions. In the past, diagnostic products have used "electrodes" that are taped to the skin around the periphery of the patient's eyes and a very small electrical signal from the 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 are then interpreted by the medical diagnostician.

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

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

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

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

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

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

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

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

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

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

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

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

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

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MARKETING

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

The Company has also supplied a modified version of the Infrared/Video ENG System to a distributor on a private label basis. These private label sales have represented a significant portion of sales of the product. Since May of

2001 the private label distributor has purchased an average of three units per month.

The market for the ENG products is relatively mature and represents only annual growth estimated at 5%, but because of the advancement of technology spurred by the Company's introduction of video data acquisition methods in 1994, the market for replacement products has been strong.

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

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

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

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

COMPETITION

MEDICAL PRODUCTS. The principal competitors in the medical market making ENG testing equipment are Micromedical Technologies, Inc., ICS Medical Corporation and SensoMotorific Inc. Since the Company's ENG product was introduced in 1994, competitors have developed similar video-based ENG goggle products. As a result, the market has become very competitive and subject to pricing pressures. As a consequence, the Company has reduced prices, with an adverse effect on overall gross margins. To combat this competitive pressure the Company has reduced manufacturing costs in an effort to offset the gross margin loss.

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

Factors, Inc., Essex Corporation, and Pulse Medical Instruments.

The Company believes only Pulse Medical Instruments is developing a product to be directly competitive with the Company's products. The Pulse Medical product does not use video sensors and its results are displayed in graphic form on a computer monitor for the qualified expert to interpret. The Company believes that such product will be more expensive than the SafetyScope and is still under development and being 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 to the Company can be learned and over time the individual being tested can improve his skills. The Company feels 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. The Company believes 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

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

Manufacturing of both the ENG products and the SafetyScope is primarily done through subcontracting with various suppliers. The Company does not rely on a single supplier for the major manufacturing of items. Various companies build and test product modules on an OEM contract basis. Final system integration and testing is completed by the Company prior to shipment of devices to customers. All the products share in a modular concept for efficiency in manufacturing. The products are PC Computer based with specialized and proprietary hardware and embedded firmware. The common 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 Company's products are readily available, the Company does not anticipate undertaking internal manufacturing of any components. Manufacturing operations consist of only assembly, testing and packaging functions.

GOVERNMENT REGULATION

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

PATENTS & PROPRIETARY PROTECTION

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

The Company is the owner of a patent issued in August 1992, covering certain technology underlying the SafetyScope, principally relating to the apparatus for testing for impairment by tracking eye movements and pupil reactions to presented stimuli. This patent expired due to lack of payment of patent maintenance fees by the Company's patent counsel. The Company has filed a petition with the U.S. Patent and Trademark Office to have the patent reinstated.

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

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

EMPLOYEES

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

ITEM 2. DESCRIPTION OF PROPERTY

The Company's offices are in leased space in an industrial complex Torrance, California. The offices are 960 square feet in size and the lease expires on April 30, 2003.

ITEM 3. LEGAL PROCEEDINGS

Inapplicable

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

Inapplicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth the quarterly high and low closing prices for the Common Stock, as reported on the OTC Bulletin Board, during the 2000 and 2001 fiscal years.

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	LOW	HIGH
2001		
First Quarter	$.42	$.44
Second Quarter	.23	.29
Third Quarter	.08	.10
Fourth Quarter	.08	.10
2000		
First Quarter	.41	.90
Second Quarter	.09	.53
Third Quarter	.09	.70
Fourth Quarter	.25	.53

The Company's common stock is traded on the OTC Bulletin Board under the symbol "EYDY". As of March 22, 2002, the Company's Common Stock was held of record by approximately 125 holders. Registered ownership includes nominees who may hold securities on behalf of multiple beneficial owners.

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

During January 2001, the Company sold 250,000 units in a private offering to one individual, at a price of $.20 per Unit. Each Unit consisted of one share of Common Stock and two Warrants. Each Warrant is exercisable for one year and entitles the holder to purchase one share of Common Stock; the first warrant carries an exercise price of $.35 per share and the second carries an exercise price of $.75 per share. Also, in November 2001 the Company sold 250,000 shares of common stock to two investors at a price of .08 per share.

During the year the Company also issued 809,000 unregistered shares for consulting, investor relations, public relations, and similar services.

During 2001 an employee exercised an option and acquired 100,000 shares upon exercise at an exercise price of $.01 per share.

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

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

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

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

The SafetyScope product or its predecessor, the EPS-100 Performance System, has been sold in a few locales and beta marketing has been successful. However, for large scale sale of this product the Company needs to have a substantial infusion of capital and 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. A business plan has been prepared for commercialization of the SafetyScope and is being evaluated by interested parties.

RESULTS OF OPERATIONS

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000.

Revenues from sale of products decreased by 11% from $779,996 in 2000 to $697,597 in 2001. This decrease is due to reduced sales of the Infrared/Video ENG System. For the first four months of the year there were no purchases by our private label distributor. Since May of 2001, purchases by that distributor have averaged over three systems each month, which is consistent with our expectations. However, since September, and for the fourth quarter, sales of the medical product dropped drastically to only one or two each month. The Company attributes this situation to the September 11th disaster, which occurred in the middle of our most important trade show of the year. Physicians and others who purchase our products have pulled back in their purchase commitments, and we have not yet regained the momentum that was lost in the fourth quarter. Cost of sales decreased by 12%, due to a decrease in units sold, and gross profit increased by 1%, from 56% in 2000 to 57% in 2001. Operating expenses increased by 40%, due principally to costs associated with the introduction of the "SafetyScope" product line and the effort to attract equity financing. Net loss increased by $243,875, or 81%, due to the increase in operating expenses and other expenses relating to commercialization efforts for the SafetyScope product.

Inventory turnover ratio in 2001 was approximately 3:1, compared to 5.7:1 in 2000. This is a reflection of the business slowdown experienced in the fourth quarter. Inventory has been reduced, and is currently in line with a turnover ratio Of 5:1 for the 2002 year.

Collection of accounts receivables has been very good, with only minimal slow paying accounts. Year end accounts receivable were fully paid in January 2002 except for one invoice for $550. In particular, our private label account pays all invoices within fifteen days of the invoice date.

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

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, the Company had an accumulated deficit of approximately $3,828,737. As of that date, the Company had $23,623 in cash, and approximately $82,578 in net accounts receivable and $115,518 in inventory. Also, the Company had $863,224 of current liabilities, consisting principally of a single promissory note and accrued interest on that note. The note payable became due on December 31, 1999. The Company has held discussions with the payee of the note, but has been unable to achieve a settlement or extension of the note. On March 21, 2002 the payee of the note made formal demand for payment of the note or turnover of the assets securing the note. The note is secured by substantially all the assets of the Company.

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

The Company believes that current and future available capital resources, cash flow from operations and other existing sources of liquidity will be adequate to fund its operations for the remainder of the current fiscal year. However, there can be no assurance that sufficient funds will be available or that future events will not cause the Company to seek additional capital sooner, including, but not limited to, the failure by the Company to timely collect outstanding accounts receivable. To the extent the Company is in need of any additional financing, there can be no assurance that any additional financing will be available to the Company on acceptable terms, or at all. The inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations. If additional funds are raised by issuing equity or convertible debt securities, options or warrants, further dilution to the existing shareholders may result. The Company's liquidity and ability to raise additional capital are also dependent on the resolution of a dispute with a former distributor over a note issued to the distributor, which note is currently in default. Notwithstanding the default, the Company is still in active negotiation with the former distributor for extension of the note or conversion to equity.

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

EFFECT OF INFLATION

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

ITEM 7. FINANCIAL STATEMENTS

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

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

None.

PART III

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

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

NAME	AGE	POSITION	DIRECTOR SINCE
Charles E. Phillips	66	President, Treasurer & Director	1991
Ronald A. Waldorf	53	Vice President, Secretary & Director	1991
Arnold D. Kay	66	Director	1999
Barbara J. Mauch	56	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. He has also consulted to a Japanese company developing new technologies for eye movement detection.

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

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

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Based upon a review of filings made and other information available to it, the Company believes that each of the Company's present Section 16 reporting persons filed all forms required of them during the year 2001 by Section 16(a).

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth certain compensation awarded or paid by the Company to its President and Chief Executive Officer during the fiscal years ended December 31, 2001 and December 31, 2000. No other executive officers' total annual salary and bonus for services to the Company exceeded $100,000.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPE AWARDS		PAYOUTS
NAME AND PRINCIPAL POSITION	YEAR	SALARY $	BONUS $	OTHER $	RESTRICTED STOCK AWARDS $	OPTIONS #	L PA
Charles E. Phillips	2001	72,000	0	0	0	0	
	2000	64,500	0	0	0	100,000	
	1999	60,000	0	0	0	20,000	

There were no options granted in 2001.

The following table sets forth certain information concerning options exercised and outstanding at December 31, 2001:

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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	100,000	$15,000
Ronald Waldorf	100,000	$8,900	0	0
Arnold Kay	0	0	0	0

*All currently exercisable

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS & MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Common Stock of the Company as of March 22, 2002, by (i) each person known by the Company to beneficially own 5% or more of the outstanding Common Stock of the Company; (ii) each of the Company's directors; (iii) the Named Executive Officers identified in the Summary Compensation Table; and (iv) all directors and Named Executive Officers of the Company as a group.

Name & Address	Number of Shares	Percentage Owned
Charles E. Phillips 2301 W. 205th St., #106 Torrance, CA 90501	2,205,489 (1)	15.4 (1)
Ronald A. Waldorf 2301 W. 205th St., #106 Torrance, CA 90501	1,681,152	11.7
Barbara J. Mauch 2301 W. 205th St., #106 Torrance, CA 90501	1,432,544 (2)	10.0 (2)
Arnold D. Kay 2301 W. 205th St., #106 Torrance, CA 90501	316,316	2.2
All directors and executive officers as a group (4 persons)	4,202,957	29.3

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(1) Includes 100,000 shares covered by options exercisable within 60 days

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

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 22, 2002, are deemed to be outstanding in calculating the percentage ownership of a person or group but are not deemed to be outstanding as to any other person or group.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since inception, the Company has borrowed funds from Mr. Charles E. Phillips, its President and Chief Executive Officer, and from employee Barbara Mauch, under various promissory notes. These notes bear interest at 10% per annum and are unsecured. As of December 31, 2001, the balance of the notes was $15,000, and the unpaid accrued interest totaled $71,715. The principal balance of $15,000 was paid to Mr. Phillips in January 2002, but the accrued interest remains outstanding.

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

ITEM 13 EXHIBITS AND REPORTS ON FORM 8-K

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

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

3(ii)* Bylaws

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

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

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

10.4** Standard Multi-Tenant Commercial Industrial Lease-Gross, dated January 25, 1996, between the Company and AmberJack, Ltd. , and Amendments No. 1, No. 2 and No. 3.

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

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

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

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SIGNATURES

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

Eye Dynamics, Inc.

By: /s/ Charles E. Phillips

Date: April 10, 2002 | Charles E. Phillips, President and Chief Financial Officer

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

Signature	Title	Date

/s/ Charles E. Phillips Charles E. Phillips	President, Chief Financial Officer and a Director	April 10, 2002
/s/ Ronald A. Waldorf Ronald A. Waldorf	Chairman and a Director	April 10, 2002
/s/ Arnold Kay Arnold Kay	Director	April 10, 2002

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, 2001, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years ended December 31, 2001 and 2000. 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 auditing standards generally accepted in the United States. 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, 2001, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States.

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 operating losses, 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

Harold Y Spector, CPA
Pasadena, California
March 8, 2002

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EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2001

ASSETS	
Current Assets	
Cash	$ 23,623
Accounts Receivable	82,578
Employee Advances and Receivable	62,147
Inventory	115,518
Prepaid Expense	3,093
Total Current Assets	286,959
Property and Equipment, net of Accumulated depreciation of $12,888	1,875
Other Assets	882
TOTAL ASSETS	$ 289,716
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts Payable & Accrued Expenses	$ 53,903
Accrued Interest	308,102
Customers' Deposits	24,000
Line of Credit	45,248
Notes Payable, current portion	431,971
Total Current Liabilities	863,224
Contingent Liabilities	61,000
Stockholders' Deficit	
Common Stock, $0.001 par value; 50,000,000 shares authorized; 14,350,313 shares issued and outstanding	14,350
Paid-in Capital	3,345,936
Unamortized Expenses(Contra-Equity)	(166,057)
Accumulated Deficit	(3,828,737)
Total Stockholders' Deficit	(634,508)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 289,716

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

EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For years ended December 31, 2001 and 2000

	2001	2000
Sales	$ 697,597	$ 779,996
Cost of Sales	302,057	342,958
Gross Profit	395,540	437,038
Operating Expenses	881,631	630,366
Loss from Operations	(486,091)	(193,328)
Other Income(Expense)		
Interest and Other Income	4,784	16,121
Consulting Fees - Nonoperating	--	(88,000)
Interest Expense	(43,498)	(35,723)
Settlement	(20,000)	--
Total Other Income(Expenses)	(58,714)	(107,602)
Net Loss before Taxes	(544,805)	(300,930)
Provision for Income Taxes	1,600	1,600
Net Loss	$ (546,405)	$ (302,530)
Net Loss per share-Basic and Diluted	$ (0.04)	$ (0.03)
Weighted average number of shares	12,268,896	10,180,433

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

EYE DYNAMICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For years ended December 31, 2001 and 2000

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unamortied Expenses (Contra-Equity)	Accumula Defici
Balance at 12/31/99	9,139,460	$ 9,139	$ 2,459,063	$ 0	$(2,979,
Issuance of Stock for Consulting, Financial Advising, and Public Relation expenses	1,450,000	1,450	293,050	(68,833)	
Issuance of Stock for converting a payable	76,853	77	19,423		
Private Placement Sales	750,000	750	149,250		
Shareholder's Contribution			7,758		
Net Loss					(302,
Balance at 12/31/00	11,416,313	11,416	2,928,544	(68,833)	(3,282,
Issuance of Stock for Consulting, Financial Advising, and Public Relation expenses	2,334,000	2,334	333,892	(97,224)	
Issuance of Stock for Cash	500,000	500	69,500		
Exercise of Options	100,000	100			
Warrants issued for services			14,000		
Net Loss					(546,
Balance at 12/31/01	14,350,313	$ 14,350	$ 3,345,936	$ (166,057)	$(3,828,

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

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EYE DYNAMICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For years ended December 31, 2001 and 2000

	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Loss	$(546,405)	$(302,530)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	2,609	2,667
Stock for Services	239,002	225,667
Warrants for Services	14,000	0
(Increase) Decrease in:		
Accounts Receivable	75,896	(39,246)
Inventory	(55,786)	(9,649)
Interest Receivable on Employee Loan	(4,454)	--
Prepaid and Others	9,625	7,344
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	6,174	(19,308)
Other Liabilities	85,000	--
Accrued Interest	37,730	35,629
Net cash used by operating activities	(136,609)	(99,426)
CASH FLOW FROM INVESTING ACTIVITIES:		
Employee Advances and Receivable	(55,169)	(2,524)
Net cash used by investing activities	(55,169)	(2,524)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuing of Common Stock	70,100	150,000
Net Advance from Line of Credit	44,891	--
Net Proceeds from Notes Payable	--	10,250
Net Proceeds from (Payments to) Shareholders	14,722	(23,192)
Net cash provided by financing activities	129,713	137,058
NET INCREASE (DECREASE) IN CASH	(62,065)	35,108
CASH BALANCE AT BEGINNING OF YEAR	85,688	50,580
CASH BALANCE AT END OF YEAR	$ 23,623	$ 85,688
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	$ 3,741	$ 94
Taxes Paid	$ 1,600	$ 1,600

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

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Years ended December 31, 2001 and 2000

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 registered in California as a foreign corporation on November 2, 1992.

The Company markets and distributes diagnostic equipment that utilize the Company's proprietary technology and computer software to test individuals for impaired eye and pupil performance. The Company also markets a medical diagnostic product that tracks and measures eye movements during a series of standardized tests.

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 2001 and 2000. All revenue is derived from the Company.

Use of estimates

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

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.

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 when both title and risk of loss transfers to the customer (usually it is the date of shipment), provided that no significant obligations remain. No provisions were established for estimated product returns and allowances based on the Company's historical experience.

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

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

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

Accounts Receivable

Management of the Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made. Bad debt expense for years ended December 31, 2001 and 2000 was $81 and $708, 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.

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 $2,609 and $2,667 for 2001 and 2000, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based Compensation

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

Income Taxes

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

Advertising Costs

All advertising costs are expensed as incurred. Advertising expenses were $3,133 and $3,998 for 2001 and 2000, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shipping and Handling Costs

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 years ended December 31, 2001 and 2000, the outbound shipping charges included as operating expenses were $27,000 and $25,033, respectively.

Reclassification

Certain reclassifications have been made to the 2000 consolidated financial statements to conform with the 2001 consolidated financial statement presentation. Such reclassification had no effect on net loss as previously reported.

Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards ("SFAS") No.141, "Business Combinations" was issued establishing accounting and reporting standards requiring all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. SFAS No. 141 is effective for the Company for the fiscal quarter beginning July 1, 2001. The impact of this statement is dependent on future acquisition activity.

Also in June 2001, SFAS No. 142 "Goodwill and Other Intangible Assets" was issued effective for the first period of all fiscal years beginning after December 15, 2001, with early adoption permitted for entities with Fiscal years beginning after March 15, 2001. SFAS No. 142 requires goodwill to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as previous standards required. The Company currently does not own any intangible assets and as a result, does not anticipate any impact on the Company's consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In September 2000, SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued effective for all related transactions occurring after March 31, 2001. The statement replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The new statement, while largely including the provisions of SFAS No. 125, revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain additional disclosure. The statement was effective for the Company for the fiscal quarter beginning April 1, 2001 and the Company believes the adoption will not have a significant impact on its financial position.

In July 2000, the EITF began discussing Issue 00-18, "Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees". The issues are (a) the grantor's accounting for a contingent obligation to issue equity instruments (subject to vesting requirements) when a grantee performance commitment exists but the equity instrument has not yet been issued, (b) the grantee's accounting for the contingent right to receive an equity instrument when a grantee performance commitment exists prior to the receipt (vesting) of the equity instrument, and (c) for equity instruments that are fully vested and nonforfeitable on the date the parties enter into an agreement, the manner in which the issuer should recognize the fair value of equity instruments. However, the EITF did not reach a consensus on any of these issues, and further discussion of Issue 00-18 is expected at a future meeting. The Company is currently evaluating the impact of Issue 00-18.

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.

NOTE 3 - EMPLOYEE LOAN AND ADVANCES

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

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

NOTE 4 - LINE OF CREDIT

The Company has an operating line of credit with Wells Fargo Bank of $65,000, with interest payable at the bank's prime rate plus 2.75%. This line of credit is payable on demand and is personally guaranteed by the Company's President. As of December 31, 2001 and 2000 the amount drawn against the line was $45,248 and $0, respectively.

NOTE 5 - NOTES PAYABLE

	As of December 31, 2001	2000
a.) Notes Payable to Officer, compound interest accrued at 10%; due 60 days after dates of notes, unsecured	$ 15,000	$ 278
b.) Notes Payable to Others, interest at 12% per annum; due on demand, unsecured	10,000	10,000
c.) Notes Payable to TESA Corp., interest at 7% payable on		

December 31, 1999; maturing 11% of gross revenues, collateralized by accounts receivable, inventory, patents and a licensing agreement	406,971	406,971
	431,971	417,249
Less: Current Maturities	(431,971)	(417,249)
Notes Payable, Long-Term	$ --	$ --

NOTE 6 - 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, 2001 and 2000, interest of $223,987 and $195,987 was accrued, respectively. No principal payments were made in either year. The Company is currently negotiating the note.

NOTE 6 - SETTLEMENT AGREEMENT AND MUTUAL RELEASE (Continued)

In addition, the Company agreed to repurchase from TESA up to nine product units, which were previously sold by the Company 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 years ended December 31, 2001 and 2000, the Company sold one unit in each year, 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 (See Note 5c).

NOTE 7 - 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, 2001 and 2000 consist of $1,600 minimum state income taxes in each year, $800 for each corporation.

As of December 31, 2001, the Company has net operating loss carryforwards, approximately, of $1,387,882 to reduce future taxable income. The subsidiary has NOL carryforwards of $1,482,874. To the extent not utilized, both carryforwards will begin to expire through 2021. The Company's ability to utilize its net operating loss carryforwards is uncertain and thus a valuation reserve has been provided against the Company's net deferred tax assets.

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

	Parent Company		Subsidiary	
	2001	2000	2001	2000
Net Operating Loss Carryforwards	$ 471,880	$ 285,636	$ 504,177	$ 503,905
Valuation Allowance	(471,880)	(285,636)	(504,177)	(503,905)
Net deferred tax assets	$ -	$ -	$ -	$ -

NOTE 8 - 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. The private placement offering was completed in January 2001. The Company sold all 1,000,000 units and received $200,000 in proceeds. On August 24, 2001, the Board of Directors approved to extend the expiration date of warrants for six months.

NOTE 9 - COMMON STOCK TRANSACTIONS

During 2001 and 2000, the Company issued substantial amounts of common stock to various consultants for public and investor relations, financial consulting, and strategic planning and consulting services. The shares are fully vested and nonforfeitable. The Company recorded the stock transactions at their fair market value, capitalized the costs of transactions, and amortized them over the length of the services. For years ended December 31, 2001 and 2000, there were 2,334,000 and 1,450,000 shares of common stock issued to nonemployees for their services, respectively. The total costs of transactions were $336,226 and $294,500, respectively. As of December 31, 2001 and 2000, the balance of unamortized costs was $166,057 and $68,833, respectively. The unamortized costs were included in equity section as a contra-equity.

The Company also sold 250,000 shares of common stock to two private investors at $0.125 per share and received $20,000 in cash.

In 2000, the Company converted a consulting fee payable of $19,500 into 76,853 shares of common stock.

NOTE 10 - STOCK OPTIONS AND WARRANTS

Stock Options

In the past years, the Company issued non-qualified stock options to officers, directors, employees and other service providers of the Company. During the years ended December 31, 2001 and 2000, the Company granted 0 and 150,000 options, respectively. As of those dates, there were 150,000 and 2,310,000 outstanding options, respectively. The range of exercise price is from $0.001 to $0.54. The options may be exercised no later than three years from the date of issuance. The weighted average fair value of options granted by the Company as of December 31, 2001 and 2000 was $0.18 and $0.19, respectively. There were 100,000 shares of options exercised at $0.001 per share in 2001. None were exercised in 2000.

A summary of the status of the Company's stock option as of December 31, 2001 and 2000, and changes during the years then ended is presented below:

	2001		2000	
	Number of Shares	Weghted Average Exercise Price	Number of Shares	Weghted Average Exercise Price
Outstanding at beginning of Year	2,310,000	$ 0.29	2,560,000	$ 0.27
Granted	--	--	150,000	0.15
Exercised	(100,000)	0.001	--	--
Expired and Cancelled	(2,060,000)	0.32	(400,000)	0.10
Outstanding at end of Year	150,000	$ 0.15	2,310,000	$ 0.29
Exercisable at end of Year	150,000	$ 0.15	2,310,000	$ 0.29

NOTE 10 - STOCK OPTIONS AND WARRANTS (Continued)

The outstanding options at December 31, 2001 were excercisable at $0.15 per share with remaining lives of 1.08 years.

The Company has elected to account for its stock-based compensation under APB Opinion No. 25 an accounting standard under which no related compensation was recognized in 2001 or 2000, 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, 2001 and 2000 using the Black-Scholes option pricing model as prescribed by SFAS No. 123 and the weighted average assumptions as follows:

	December 31, 2001	December 31, 2000
Weighted average fair value per option granted	$ 0.18	$ 0.19

Risk-free interest rate	1.75%	5.00%
Expected dividend yield	0.00%	0.00%
Expected lives	1.08	3.00
Expected volatility	0.70	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, 2001	2000
Net Loss as reported	$(546,405)	$(302,530)
Net Loss (pro forma)	$(559,455)	$(315,580)
Basic and Diluted net loss per share as reported	$ (0.04)	$ (0.03)
Basic and Diluted net loss per share (pro forma)	$ (0.05)	$ (0.03)

Stock Warrants

As discussed in Note 8, the Company sold warrants in a private placement offering to purchase up to 2,000,000 shares of common stock at exercise prices of $0.35 or $0.75 per share. These warrants will expire through January 2002. In August 2001, the Board of Directors approved to grant a six-month extension on these warrants.

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

EYE DYNAMICS, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Years ended December 31, 2001 and 2000

NOTE 10 - STOCK OPTIONS AND WARRANTS (Continued)

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

	2001		2000	
	Number of Warrants	Weighted Average Exercise Price Per Share	Number of Warrants	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	1,500,000	$ 0.55	--	$ --
Granted	700,000	0.63	1,500,000	0.55

Exercised, Expired and Cancelled	--	--	--	--
Outstanding at end of year	2,200,000	$ 0.57	1,500,000	$ 0.55
Exercisable at end of year	2,200,000	$ 0.57	1,500,000	$ 0.55

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, 2001 and 2000 was $0.04 and $0.03, 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 years.

	Year ended December 31,	
	2001	2000
Numerator:		
Net Loss	$ (546,405)	$ (302,530)
Denominator:		
Weighted Average of Common Shares	12,268,896	10,180,433
Basic and diluted net loss per share	$ (0.04)	$ (0.03)

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 2001 or 2000, 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 5a, the Company had notes payable to the officers in the amounts of $15,000 and $278 as of December 31, 2001 and 2000, respectively. As of these dates, balance of accrued interest was $71,715 and $63,542, respectively. Interest expense charged on these notes totaled $8,173 and $6,429 in those years, respectively.

NOTE 14 - MAJOR CUSTOMERS

During 2001 and 2000, the Company had two major customers, sales to which exceeded 10% of the Company's total sales. Sales to this customer totaled $286,955 and $234,958 for the years ended December 31, 2001 and 2000, respectively.

NOTE 15 - CONTINGENCIES AND COMMITMENTS

Litigation

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

Agreements

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

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

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

The Company also agreed to pay another consultant an engagement fee of $50,000 under a Financial Consulting Services Agreement. The Company agreed that 25% of any funding will be payable to the consultant until the full amount owed to the consultant is fully paid. If no funding occurs, the payment will not be paid to the consultant.

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

NOTE 15 - CONTINGENCIES AND COMMITMENTS

Lease Commitments

The Company leases its office facilities for $941 per month. The lease expires April 2002. Rent expense totaled $10,702 and $9,368 for 2001 and 2000, respectively.

The Company also leases office equipment at $204 per month expiring in February 2005.

As of December 31, 2001, the minimum lease payments under these leases are:

Year ended December 31,	Amount
2002	$ 6,212
2003	2,448

2004	2,448
2005	408

	$11,516
	=======

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, the Company incurred a net loss of $546,405 and $302,530 for years ended December 31, 2001 and 2000, respectively, and as of December 31, 2001, the Company's current liabilities exceeded its current assets by $576,265 and its total liabilities exceeded its total assets by $634,508.

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 EVENTS

On February 25, 2002, the Company settled a pending lawsuit through a mediation conference (See Note 15).

In February, the Company entered into a proposal to issue restricted common stock at a 25% discount price to purchase the consigned inventory of $41,000 from a prior distributor based on the Settlement Agreement and Mutual Release signed in 1993 (See Note 6). Management believes the likelihood of this event is probable and accordingly, a provision of $41,000 was included in the accompanying financial statements. The proposal also proposed to extend the due date of note payable to July 1, 2002.