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PARADIGM MEDICAL INDUSTRIES INC
Form 10QSB
November 15, 2004

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

FORM 10-QSB

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

For Quarter Ended September 30, 2004

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

For the Transition Period From ____ to

Commission File Number: 0-28498

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

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0459536
(I.R.S. Employer
Identification No.)

2355 South 1070 West, Salt Lake City, Utah
(Address of principal executive office)

84119
(Zip Code)

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

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

Indicate by check mark whether the small business issuer is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| | |
|--|---|
| Common Stock, \$.001 par value | 25,509,868 |
| ----- | ----- |
| Title of Class | Number of Shares Outstanding as of September 30, 2004 |
| Class A Warrant to Purchase One Share of Common Stock | 1,000,000 |
| ----- | ----- |
| Title of Class | Number of Warrants Outstanding as of September 30, 2004 |

PARADIGM MEDICAL INDUSTRIES, INC.

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FORM 10-QSB

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

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

September 30, 2004

ASSETS

Current Assets

| | | |
|-------------------------|----|---------|
| Cash & Cash Equivalents | \$ | 188,000 |
| Receivables, Net | | 726,000 |
| Inventory | | 770,000 |
| Prepaid Expenses | | 88,000 |

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| | |
|---|--------------|
| Total Current Assets | 1,772,000 |
| Intangibles, Net | 679,000 |
| Property and Equipment, Net | 135,000 |
| Total Assets | \$ 2,586,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current Liabilities: | |
| Trade Accounts Payable | 653,000 |
| Accrued Expenses | 990,000 |
| Current Portion of Long-term Debt | 53,000 |
| Total Current Liabilities | 1,696,000 |
| Long-term Debt | 22,000 |
| Total Liabilities | 1,718,000 |
| Stockholders' Equity: | |
| Preferred Stock, Authorized: | |
| 5,000,000 Shares, \$.001 par value | |
| Series A | |
| Authorized: 500,000 shares; issued and | |
| outstanding: 5,627 shares at September 30, 2004 | - |
| Series B | |
| Authorized: 500,000 shares; issued and | |
| outstanding: 8,986 shares at September 30, 2004 | - |
| Series C | |
| Authorized: 30,000 shares; issued and | |
| outstanding: zero shares at September 30, 2004 | - |
| Series D | |
| Authorized: 1,140,000 shares; issued and | |
| outstanding: 5,000 shares at September 30, 2004 | - |
| Series E | |
| Authorized: 50,000; issued and | |
| outstanding: 1,000 at September 30, 2004 | - |
| Series F | |
| Authorized: 50,000; issued and | |
| outstanding: 4,598.75 at September 30, 2004 | - |
| Series G | |
| Authorized: 2,000,000; issued and | |
| outstanding: 1,981,560 at September 30, 2004 | 2,000 |
| Common Stock, Authorized: | |
| 80,000,000 Shares, \$.001 par value; issued and | |
| outstanding: 25,509,868 at September 30, 2004 | 25,000 |
| Additional paid-in-capital | 57,470,000 |
| Accumulated Deficit | (56,629,000) |
| Total Stockholders' Equity | 868,000 |
| Total Liabilities and Stockholders' Equity | \$ 2,586,000 |

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

| | Three Months Ended September 30, | | Nine Sep |
|---|-------------------------------------|------------|--------------|
| | 2004 | 2003 | 2004 |
| Sales | \$ 899,000 | \$ 853,000 | \$ 2,288,000 |
| Cost of Sales | 358,000 | 354,000 | 859,000 |
| Gross Profit | 541,000 | 499,000 | 1,429,000 |
| Operating Expenses: | | | |
| Marketing and Selling | 198,000 | 171,000 | 547,000 |
| General and Administrative | 276,000 | 331,000 | 703,000 |
| Research, development and service | 163,000 | 203,000 | 543,000 |
| Impairment of assets | - | - | - |
| Total Operating Expenses | 637,000 | 705,000 | 1,793,000 |
| Operating Income (Loss) | (96,000) | (206,000) | (672,000) |
| Other Income and (Expense): | | | |
| Interest Income | - | - | - |
| Interest Expense | (11,000) | (4,000) | (40,000) |
| Other Income (Expense) | 588,000 | 247,000 | 592,000 |
| Total Other Income and (Expense) | 577,000 | 243,000 | 552,000 |
| Net income (loss) before provision for income taxes | 481,000 | 37,000 | 188,000 |
| Income taxes | - | - | - |
| Net income (loss) | \$ 481,000 | \$ 37,000 | \$ 188,000 |
| Net income (loss) Per Common Share - Basic and Diluted | \$ 0.02 | - | \$ 0.00 |
| Weighted Average Outstanding Shares - Basic | 25,373,000 | 23,668,000 | 25,373,000 |
| - Diluted | 27,675,000 | 26,752,000 | 27,675,000 |

See accompanying notes to condensed financial statements.

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

| | Nine Months Ended September 30, | |
|---|---------------------------------|----------------|
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| Cash Flows from Operating Activities: | | |
| ----- | | |
| Net Income (Loss) | \$ 188,000 | \$ (2,305,000) |
| Adjustment to Reconcile Net Loss to Net | | |
| Cash Used In Operating Activities: | | |
| ----- | | |
| Depreciation and Amortization | 112,000 | 268,000 |
| Issuance of Stock Option/Warrant for Services | - | 83,000 |
| Issuance of Common Stock for Settlement | | |
| of potential litigation | - | 190,000 |
| Increase/decrease in Inventory Reserve | (226,000) | 382,000 |
| (Recovery of) provision for Losses on Receivables | (46,000) | 83,000 |
| Impairment of Intangible and other assets | - | 159,000 |
| Gain on sale of investment | (532,000) | |
| Gain on Settlement of obligations | (21,000) | (247,000) |
| Loss on disposal of assets | 6,000 | |
| (Increase) Decrease from Changes in: | | |
| Trade Accounts Receivable | 28,000 | 161,000 |
| Inventories | 459,000 | 402,000 |
| Prepaid Expenses | 53,000 | (215,000) |
| Increase (Decrease) from Changes in: | | |
| Trade Accounts Payable | (32,000) | (120,000) |
| Accrued Expenses and Deposits | ----- | ----- |
| Net Cash Used in Operating Activities | (440,000) | (712,000) |
| | ----- | ----- |
| Cash Flow from Investing Activities: | | |
| ----- | | |
| Purchase of Property and Equipment | - | (1,000) |
| Disposal of Property and Equipment | - | 6,000 |
| Proceeds from the sale of assets | 6,000 | |
| Proceeds from the sale of investment | 532,000 | |
| Net Cash Provided By Investing Activities | 538,000 | 5,000 |
| | ----- | ----- |
| Cash Flows from Financing Activities: | | |
| ----- | | |
| Additions to notes payable | - | |
| Principal Payments on Notes Payable | (42,000) | (63,000) |
| Proceeds from Short-Term Borrowing | - | 90,000 |
| Sale of stock and exercise of warrants | - | 429,000 |
| Sale of stock and exercise of warrants Series G | - | 270,000 |
| | ----- | ----- |
| Net Cash (Used In) Provided By Financing Activities | (42,000) | 726,000 |
| | ----- | ----- |

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| | | |
|---|------------|------------|
| Net increase in Cash and Cash Equivalents | 56,000 | 19,000 |
| Cash and Cash Equivalents at Beginning of Period | 132,000 | 194,000 |
| Cash and Cash Equivalents at End of Period | \$ 188,000 | \$ 213,000 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash Paid for Interest | \$ 9,000 | \$ 17,000 |
| Cash Paid for Income Taxes | \$ - | \$ - |

See accompanying notes to condensed financial statements

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PARADIGM MEDICAL INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Significant Accounting Policies

The accompanying condensed financial statements of the Company have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the results of operations of the Company for the periods presented. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10KSB for the year ended December 31, 2003. The results of operations for the three and nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2004.

Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Historically, the Company has not demonstrated the ability to generate sufficient cash flows from operations to satisfy its liabilities and sustain operations, and the Company has incurred significant losses. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent on its ability to generate sufficient income and cash flow to meet its obligations on a timely basis and/or obtain additional financing as may be required. The Company is

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actively seeking options to obtain additional capital and financing.

In addition, the Company has taken significant steps to reduce costs and increase operating efficiencies. Specifically, the Company has established procedures to more efficiently manage inventory purchases, reduced administrative personnel, and significantly reduced the use of consultants, all of which has resulted in large decreases in expenses. However, the sales force increased from three to five representatives in June, which has resulted in more payroll, travel and other selling expenses. Although these cost savings have significantly reduced the Company's losses and ongoing cash flow needs, if the Company is unable to obtain equity or debt financing, it may be unable to continue development of its products and may be required to substantially curtail or cease operations.

Net loss Per Share

Net loss per common share is computed on the weighted average number of common and common equivalent shares outstanding during each period. Common stock equivalents consist of convertible preferred stock, common stock options and warrants. Common equivalent shares are excluded from the computation when their effect is anti-dilutive. Other common stock equivalents consisting of options and warrants to purchase 6,427,000 and 5,704,000 shares of common stock and preferred stock convertible into 2,302,000 and 2,384,000 shares of common stock at September 30, 2004 and 2003, respectively, have not been included in loss periods because they are anti-dilutive.

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For the three months ended September 30, 2004 the options and warrants to purchase 6,427,000 shares of common stock were excluded because of the treasury stock method.

The following table is a reconciliation of the basic and diluted weighted average shares for the three and nine month periods ended September 30, 2004 and September 30, 2003:

| | Three Months Ended September 30, | | Nine Mont September |
|---|-------------------------------------|------------|------------------------|
| | 2004 | 2003 | 2004 |
| Basic weighted average shares outstanding | 25,373,000 | 23,668,000 | 25,373,000 |
| Common stock equivalents-convertible preferred stock | 2,302,000 | 2,384,000 | 2,302,000 |
| Dilutive effect of stock options | | 700,000 | |
| | | | |
| Diluted weighted average shares outstanding | 27,675,000 | 26,752,000 | 27,675,000 |
| | | | |

Preferred Stock Conversions

Under the Company's Articles of Incorporation, holders of the Company's Class A and Class B Preferred Stock have the right to convert such stock into shares of the Company's common stock at the rate of 1.2 shares of common stock for each share of preferred stock. During the nine months ended September 30, 2004, no

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shares of Series A Preferred Stock and no shares of Series B Preferred Stock were converted to the Company's Common Stock.

Holders of Series D Preferred have the right to convert such stock into shares of the Company's common stock at the rate of one share of common stock for each share of preferred stock. During the six months ended September 30, 2004, no shares of Series D Preferred Stock were converted to the Company's Common stock.

Holders of Series E Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the six months ended September 30, 2004, no shares of Series E Preferred Stock were converted to the Company's Common stock.

Holders of Series F Preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the six months ended September 30, 2004, no shares of Series F Preferred Stock were converted to shares of the Company's Common stock.

Holders of Series G Preferred have the right to convert such stock into shares of the Company's common stock at the rate of one share of common stock for each share of preferred stock. During the six months ended September 30, 2004, no shares of Series G Preferred Stock were converted to shares of the Company's Common stock.

Stock - Based Compensation

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

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

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| | Three Months Ended September 30, 2004 | 2003 | Nine Months Ended 2004 |
|---------------------------------|--|--------|---------------------------|
| | ----- | ----- | ----- |
| Net income (loss) - as reported | \$ 481,000 | 37,000 | 188,000 |

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| | | | |
|---|------------|----------|-----------|
| Deduct: total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects | (93,000) | (48,000) | (266,000) |
| Net income (loss) - pro forma | \$ 388,000 | (11,000) | (78,000) |
| | | | |
| Earnings per share: | | | |
| Basic and diluted - as reported | \$ 0.02 | - | 0.01 |
| Basic and diluted - pro forma | \$ 0.01 | - | (0.00) |

Related Party Transactions

Payments for legal services to the firm of which the chairman of the board of directors is a partner were approximately \$55,000 and \$23,000 for the three months ended September 30, 2004 and 2003, respectively.

Accrued Expenses

Accrued expenses consist of the following at September 30, 2004:

| | | |
|---|----|---------|
| Accrued consulting and litigation reserve | \$ | 498,000 |
| Accrued payroll and employee benefits | | 142,000 |
| Sales taxes payable | | 40,000 |
| Customer deposits | | 10,000 |
| Accrued royalties | | 17,000 |
| Deferred revenue | | 73,000 |
| Warranty and return allowance | | 154,000 |
| Other accrued expenses | | 56,000 |
| | | ----- |
| Total | \$ | 990,000 |
| | | ===== |

During the quarter ended June 30, 2004, the Company recorded a reduction in the warranty accrual of approximately \$308,000. This reduction was a result of a comprehensive analysis by management regarding historical warranty costs. Historically the Company has recorded a monthly warranty expense and related increase to the warranty accrual, however in recent periods the usage of the warranty accrual has continued to decline. After reviewing the recent historical data, management determined that the warranty accrual should be reduced by approximately \$308,000. Management will continue to closely monitor the warranty accrual usage to ensure that the proper amount has been accrued.

Sale of Investment

In July 2004, the Company sold its investment in International Bioimmune Systems, Inc. (IBS) for \$532,000 cash. Because, for book purposes, the Company's investment in IBS had previously been reduced to \$0, the full amount of \$532,000 was recorded as a gain in the quarter ended September 30, 2004.

Item 2: Management's Discussion and Analysis or Plan of Operation

This report contains forward-looking statements and information relating to the Company that is based on beliefs of management as well as assumptions made by, and information currently available to management. These statements reflect its current view respecting future events and are subject to risks, uncertainties and assumptions, including the risks and uncertainties

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noted throughout the document. Although the Company has attempted to identify important factors that could cause the actual results to differ materially, there may be other factors that cause the forward-looking statements not to come true as anticipated, believed, projected, expected or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, projected, estimated, expected or intended.

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Critical Accounting Policies

Revenue Recognition. The Company recognizes revenue in compliance with Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements (SAB 101), as revised by Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). SAB 101 and SAB 104 detail four criteria that must exist before revenue is recognized:

1. Persuasive evidence of an arrangement exists. Prior to shipment of product, the Company requires a signed purchase order and, depending upon the customer, a down payment toward the final invoiced price or full payment in advance with certain international product distributors.

2. Delivery and performance have occurred. Unless the purchase order requires specific installation or customer acceptance, the Company recognizes revenue when the product ships. If the purchase order requires specific installation or customer acceptance, the Company recognizes revenue when such installation or acceptance has occurred. Title to the product passes to the customer upon shipment. This revenue recognition policy does not differ among the various different product lines. The Company guarantees the functionality of its product. If its product does not function as marketed when received by the customer, the Company either makes the necessary repairs on site or has the product shipped to the Company for the repair work. Once the product has been repaired and retested for functionality, it is re-shipped to the customer. The Company provides warranties that generally extend for one year from the date of sale. Such warranties cover the necessary parts and labor to repair the product as well as any shipping costs that may be required. The Company maintains a reserve for estimated warranty costs based on its historical experience and management's current expectations.

3. The sales price is fixed or determinable. The purchase order received from the customer includes the agreed-upon sales price. The Company does not accept customer orders, and therefore do not recognize revenue, until the sales price is fixed.

4. Collectibility is reasonably assured. With limited exceptions, the Company requires down payments on product prior to shipment. In some cases the Company requires payment in full prior to shipment. The Company also performs credit checks on new customers and ongoing credit checks on existing customers. The Company maintains an allowance for doubtful accounts receivable based on historical experience and management's current expectations.

Recoverability of Inventory. Since its inception, the Company has purchased several complete lines of inventory. In some circumstances the Company has been able to utilize certain items acquired and others remain unused. On a quarterly basis, the Company attempts to identify inventory items that have shown relatively no movement or very slow movement. Generally, if an item has shown little or no movement for over a year, it is determined not to be recoverable and a reserve is established for that item. In addition, if the Company identifies products that have become obsolete due to product upgrades or

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enhancements, a reserve is established for such products. The Company intends to make efforts to sell these items at significantly discounted prices. If items are sold, the cash received would be recorded as revenue, but there would be no cost of sales on such items due to the reserve that has been recorded. At the time of sale, the inventory would be reduced for the item sold and the corresponding inventory reserve would also be reduced.

Recoverability of Goodwill and Other Intangible Assets. The Company's intangible assets consist of goodwill, product and technology rights, engineering and design costs, and patent costs. Intangibles with a determined life are amortized on a straight-line basis over their determined useful life and are also evaluated for potential impairment if events or circumstances indicate that the carrying amount may not be recoverable. Intangibles with an indefinite life, such as goodwill, are not amortized but are tested for impairment on an annual basis or when events and circumstances indicate that the asset may be impaired. Impairment tests include comparing the fair value of a reporting unit with its carrying net book value, including goodwill. To date, the Company's determination of the fair value of the reporting unit has been based on the estimated future cash flows of that reporting unit.

Allowance for Doubtful Accounts. The Company records an allowance for doubtful accounts to offset estimated uncollectible accounts receivable. Bad debt expense associated with the increases in the allowance for doubtful accounts is recorded as part of general and administrative expense. The Company's accounting policy generally is to record an allowance for receivables over 90 days past due unless there is significant evidence to support that the receivable is collectible.

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General

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

The Company is engaged in the design, development, manufacture and sale of high technology diagnostic and surgical eye care products. Given the "going concern" status of the Company, management has focused efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow. As seen in the results for the three months ended September 30, 2004, diagnostic products have been the major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. The Company does not focus on a specific diagnostic product or products but, instead, on this entire diagnostic product group.

Paradigm has improved its financial and operating performance through higher sales, improving margins, and a substantial reduction in our costs.

Paradigm has displayed improvement in its manufacturing efficiencies, as well as the timeliness and the quality of its services to its customers. For example, a great deal of the improvement is attributable to reforms in operations, which enabled dramatically improved availability of product and decreased lead times. Additional reorganization of services enabled substantially reduced 'wait times' and reserve requirements. Specifically, the Company was able to record an increase in income of approximately \$300,000 from a reduction in warranty reserves. This reduction was a result of a comprehensive

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analysis by management regarding historical warranty costs. Historically the Company has recorded a monthly warranty expense and related increase to the warranty accrual, however in recent periods the usage of the warranty accrual has continued to decline. After reviewing the recent historical data, management determined that the warranty accrual should be reduced by approximately \$300,000. Management will continue to closely monitor the warranty accrual usage to ensure that the proper amount has been accrued.

The increase in sales was due primarily to the strength in the Company's diagnostic products, specifically the Perimetry and Topography lines, as well as strong growth in the Blood Flow Analyzer (BFA) line, where sales more than doubled from the year-ago period.

Results of Operations

Three Months Ended September 30, 2004, Compared to Three Months Ended September 30, 2003

Net sales for the three months ended September 30, 2004 increased by \$46,000, or 5.4%, to \$899,000 as compared to \$853,000 for the same period of 2003. This increase was primarily due to increased sales of the P40 and P45 UBM Ultrasound Biomicroscopes as well as continued strength in the sales of the Blood Flow Analyzer(TM).

For the three months ended September 30, 2004, sales from the Company's diagnostic products totaled \$833,000, or 93% of total revenues, compared to \$664,000, or 78% of total revenues for the same period of 2003. There were no sales from the surgical line consisting of the Precissionist Thirty Thousand(TM) and the Photon(TM) laser system for the three months ended September 30, 2004, compared to \$46,000, or 5% of total revenues, for the corresponding period of 2003. The remaining 7% of sales, or \$66,000, during the three months ended September 30, 2004 was from parts, disposables, and service revenue.

Sales of the P40 and P45 UBM Ultrasound Biomicroscopes increased to \$373,000 during the third quarter 2004, or 41% of total quarterly revenues, compared to \$211,000, or 25% of total revenues, for the same period last year. Sales of the Blood Flow Analyzer(TM) increased by \$130,000 to \$184,000, or 20% of total revenues, for the three months ended September 30, 2004, compared to net sales of \$54,000, or 6% of total revenues during the same period in 2003. Sales from the P37 A/B Scan Ocular Ultrasound Diagnostic increased to \$98,000, or 6% of total revenues, for the quarter ended September 30, 2004, up slightly compared to \$93,000, or 11% of total revenues, for the same period last year. Combined sales of the LD 400 and TKS 5000 Autoperimeters and the 200 Corneal Topographer were \$178,000, or 20% of the total revenues, for the three months ended September 30, 2004, compared to \$306,000, or 36% of total revenues, for the same quarter of 2003.

Sales have been higher for the Company despite, an industry slow down, due to the emphasis on the sales of the P40 and P45 Ultrasound Biomicroscopes, particularly in Asian markets as well an increased focus on the sales of the Blood Flow Analyzer(TM) in the United States market.

For the three months ended September 30, 2004, gross profit increased slightly by 2%, to 60% of total revenues, compared to the 58% of total revenues for the comparable period of 2003.

Marketing and selling expenses increased by approximately \$27,000, or 16%, to \$198,000, for the three months ended September 30, 2004, from \$171,000 for the comparable period in 2003. This increase was due mainly to the Company's initiation of an advertising campaign as well as to prepayments for participation at the American Academy of Ophthalmologists annual show in New Orleans.

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General and administrative expenses decreased by \$55,000, or 17 %, to \$276,000 for the three months ended September 30, 2004, from \$331,000 for the comparable period in 2003. The general and administrative expense savings were the result of greater focus and cost containment measures and more aggressive budget management procedures implemented in the second quarter of 2004.

Research, development and service expenses decreased \$40,000, or 20%, for the three months ended September 30, 2004 to \$163,000, compared to \$203,000 recorded in the same period of 2003. Much of the improvement was from the continued benefit of the reorganization of the service department initiated in the second quarter of 2004, which is yielding not only cost improvement but dramatically lower response times and enabled clean up of the service unit backlogs.

Other income of mainly consists of a gain recorded from the sale of the Company's investment in International Bioimmune Systems, Inc. In July 2004, the Company sold its investment in International Bioimmune Systems, Inc. (IBS) for \$532,000 cash. Because, for book purposes, the Company's investment in IBS had previously been reduced to \$0, the full amount of \$532,000 was recorded as a gain in the quarter ended September 30, 2004.

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Nine Months Ended September 30, 2004, Compared to Nine Months Ended September 30, 2003

Net sales increased by \$63,000, or 3%, to \$2,288,000 for the nine months ended September 30, 2004, from \$2,225,000 for the comparable period in 2003. The Company's diagnostic products sales increased by \$336,000, or 19%, to \$2,085,000, or 91% of revenues, during the first nine months of 2004 compared with \$1,750,000, or 79% of total revenues, for the comparable period of 2003.

In the first nine months of 2004, sales of the Company's P40 and P45 UBM Ultrasound Biomicroscopes were \$639,000, or 28% of total revenues, compared to \$421,000, or 19% of total revenues, in the same period of 2003. Sales from the Blood Flow Analyzer(TM) increased by \$178,000 to \$475,000, or 21% of total revenues, during the first two quarters of 2004 compared with \$297,000, or 13% of total revenues, in the same period of last year.

During the first nine months of 2004, sales from P37 A/B Scan Ocular Ultrasound Diagnostic increased to \$229,000, or 10% of total revenue, slightly up from the \$222,000, or 10% of total revenues, in the same period last year. Sales of the LD 400 and TKS 5000 Autoperimeters and the CT 200 Corneal Topographer were slightly lower in the second quarter, with total revenue of \$741,000, or 32% of total revenues, in the first three quarters of 2004 compared with \$808,000, or 36% of total revenues, during the same period of 2003.

Sales of surgical products are at a standstill pending FDA approval of the Photon(TM) laser system. In the nine month period ended September 30 2004, the Company realized a loss of \$3,000 in the surgical line consisting of the Precisionist Thirty Thousand (TM) and the Photon(TM) laser system. This compared to \$94,000, for the comparable period of 2003.

Gross profit for the nine months ended September 30, 2004 increased by 18% to 62% of total revenues, compared to 44% of total revenues, for the same period in 2003. The increase was mainly due to an increase in the reserve for inventory obsolescence of \$382,000 in the nine months ended September 30, 2003. There was a decrease of \$226,000 in the reserve during the nine months ended September 30, 2004; however this decrease was the result of a write-off of

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inventory directly against the reserve. The \$382,000 increase in inventory reserve in 2003 resulted in an increase to cost of sales whereas the \$226,000 reduction in 2004 resulted in a corresponding reduction to inventory and did not have any effect on the statement of operations.

Marketing and selling expenses decreased by \$164,000, or 30%, to \$547,000 for the nine months ended September 30, 2004, from \$711,000 for the comparable period in 2003. This reduction was due primarily to more effective use of marketing programs. During this period two additional full-time salespersons were added, a print advertising campaign initiated, and plans were made to support a major trade show in the fourth quarter of 2004.

General and administrative expenses decreased by \$1,164,000, or 62%, to \$703,000 for the nine months ended September 30, 2004, from \$1,867,000 for the same period in 2003. The favorable reduction in general and administrative expense in 2004 also reflected the ongoing results of the Company's new budget management and cost reduction programs. In addition, during the quarter ended June 30, 2004, the Company recorded a reduction in the warranty accrual of approximately \$308,000. This reduction was a result of a comprehensive analysis by management regarding historical warranty costs. Historically the Company has recorded a monthly warranty expense and related increase to the warranty accrual, however in recent periods the usage of the warranty accrual has continued to decline. After reviewing the recent historical data, management determined that the warranty accrual should be reduced by approximately \$308,000. Management will continue to closely monitor the warranty accrual usage to ensure that the proper amount has been accrued. The general and administrative expenses during the nine months ended September 30, 2003 also included \$443,000 in accruals to settle outstanding disputes and \$83,000 for additional allowance for doubtful accounts receivable.

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Research, development and service expenses decreased by \$246,000, or 45%, to \$543,000 for the nine months ended September 30, 2004, from \$789,000 for the same period in 2003. Expenses associated with the development of new products during the first nine months of 2004 decreased compared to the same period in 2003, as a result of the Company's cost reduction program.

There was no impairment of assets for the nine months ended September 30, 2004, compared to \$159,000 in impairment of assets recorded in the same period of 2003.

Other income of mainly consists of a gain recorded from the sale of the Company's investment in International Bioimmune Systems, Inc. In July 2004, the Company sold its investment in International Bioimmune Systems, Inc. (IBS) for \$532,000 cash. Because, for book purposes, the Company's investment in IBS had previously been reduced to \$0, the full amount of \$532,000 was recorded as a gain in the quarter ended September 30, 2004.

Liquidity and Capital Resources

The Company used \$440,000 cash in operating activities for the nine months ended September 30, 2004, compared to \$712,000 for the nine months ended September 30, 2003. The increase in cash used by operating activities for the nine months ended September 30, 2004 was primarily attributable to reduction in accrued expenses and deposits. The Company's efforts to substantially reduce costs and manage current assets and current liabilities continued to minimize cash used for operating activities. Net cash used in financing activities was \$42,000 for the nine months ended September 30, 2004, versus cash provided of \$726,000 in the same period in 2003. During the nine months ended September 30,

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2004, the Company did not sell any shares of common or preferred stock. In the past, the Company has relied heavily upon sales of its common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to the Company in the future.

The Company had working capital of \$76,000 as of September 30, 2004. In the past, the Company has relied heavily upon sales of its common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to the Company in the future. The Company will continue to seek funding to meet its working capital requirements through collaborative arrangements and strategic alliances, additional public offerings and private placements of its securities; and bank borrowings. In July 2004, the Company sold its investment in International Bio-Immune Systems, Inc. (IBS) for \$532,000 cash. The Company is uncertain whether or not the combination of the cash received from the sale of IBS stock and the benefits from sales of its products will be sufficient to assure its operations through December 31, 2004. The Company will continue to seek funding through the sale of common and preferred stock.

As of September 30, 2004, the Company had net operating loss carry-forwards (NOLs) of approximately \$36 million. These carry-forwards are available to offset future taxable income, if any, and have begun to expire in 2001 and extend for twenty years. The Company's ability to use net operating loss carryforwards (NOLs) to offset future income is dependant upon certain limitations as a result of the pooling transaction with Vismed and the tax laws in effect at the time of the NOLs can be utilized. The Tax Reform Act of 1986 significantly limits the annual amount that can be utilized for certain of these carryforwards as a result of change of ownership.

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As of September 30, 2004, the Company had accounts payable of \$653,000, a significant portion of which is over 90 days past due. The Company has contacted many of the vendors or companies that have significant amounts of payables past due in an effort to delay payment, renegotiate a reduced settlement payment, or establish a longer-term payment plan. While some companies have been willing to renegotiate the outstanding amounts, others have demanded payment in full. Under certain conditions, including but not limited to judgments rendered against the Company in a court of law, a group of creditors could force the Company into bankruptcy due to its inability to pay the liabilities arising out of such judgments at that time. In addition to the accounts payable noted above, the Company also has non-cancelable capital lease obligations and operating lease obligations that require the payment of approximately \$172,000 in 2005, and \$14,000 in 2006.

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

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

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

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

Because the Company has significantly fewer sales representatives, its

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ability to generate sales has been reduced.

The Company has taken measures to reduce the amount of uncollectible accounts receivable such as more thorough and stringent credit approval, improved training and instruction by sales personnel, and frequent direct communication with the customer subsequent to delivery of the system. The allowance for doubtful accounts was 37% of total outstanding receivables as of September 30, 2004 and 40% as of December 31, 2003. The allowance for doubtful accounts has decreased from \$470,000 at December 31, 2003 to \$424,000 at September 30, 2004. The downturn in the economy worldwide has resulted in increased difficulty in collecting certain accounts. Certain international dealers have some aged unpaid invoices that have not been resolved. The Company has addressed its credit procedures and collection efforts and have instituted changes that require more payments at the time of sale via letters of credit and not on a credit term basis.

The Company intends to continue its efforts to reduce the allowance for doubtful accounts as a percentage of accounts receivable. The Company has ongoing efforts to collect a significant portion of the sales price in advance of the sale or in a timely manner after delivery. The majority of the receivables included in the allowance for doubtful accounts are a result of sales before the Company implemented the various changes to improve the collectibility of our receivables. During the nine months ended September 30, 2004, the Company had a net recovery of receivables previously allowed for of \$46,000 and during the twelve months ended December 31, 2003, the Company added a net of \$123,000 to the allowance for doubtful accounts. The Company believes that by requiring a large portion of payment prior to shipment, it has greatly improved the collectibility of its receivables.

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The Company carried an allowance for obsolete or estimated non-recoverable inventory of \$1,416,000 at September 30, 2004, or approximately 65% of total inventory, respectively. This inventory reserve was decreased by \$226,000 during the nine months ended September 30, 2004 due to management's evaluation of the recoverability of certain inventory items. The Company's means of expansion and development of product has been largely from acquisition of businesses, product lines, existing inventory, and the rights to specific products. Through such acquisitions, the Company has acquired substantial inventory, some of which the eventual use and recoverability was uncertain. In addition, the Company has a significant amount of inventory relating to the Photon(TM) laser system, which does not yet have FDA approval in order to sell the product domestically. Therefore, the allowance for inventory was established to reserve for these potential eventualities.

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

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equal to the sales price of \$125,000. The Company does not expect the sales of these items, if any, to be significant in the future.

At this time, the Company's Photon(TM) Laser Ocular Surgery Workstation requires regulatory FDA approval in order to be sold in the United States. Any possible future efforts to complete the clinical trials on the Photon(TM) in order to file for FDA approval would depend on the Company obtaining adequate funding. The Company estimates that the liquidity needed to complete the clinical trials in order to obtain the necessary regulatory approval on the Photon(TM) to be approximately \$225,000.

Effect of Inflation and Foreign Currency Exchange

The Company has not realized a reduction in the selling price of its products as a result of domestic inflation. Nor has the Company experienced unfavorable profit reductions due to currency exchange fluctuations or inflation with its foreign customers. All sales transactions to date have been denominated in U.S. Dollars.

Impact of New Accounting Pronouncements

In November 2003, the EITF reached a consensus on Issue No.00-21, Revenue Arrangements with Multiple Deliverables. EITF Issue No. 00-21 provides guidance on how to account for certain arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on the Company's operating results or financial condition.

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In December 2003, the FASB issued Interpretation No. 46 ("FIN 46R") (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("ARB 51"), which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity though means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46 (FIN 46), which was issued in January 2003. Before concluding that it is appropriate to apply ARB 51 voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity (VIE). As of the effective date of FIN 46R, an enterprise must evaluate its involvement with all entities or legal structures created before February 1, 2003, to determine whether consolidation requirements of FIN 46R apply to those entities. There is no grandfathering of existing entities. Public companies must apply either FIN 46 or FIN 46R immediately to entities created after January 31, 2003 and no later than the end of the first reporting period that ends after March 15, 2005. The adoption of FIN 46 had no effect on the Company's consolidated financial position, results of operations or cash flows.

In April 2003, FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133, Accounting for Derivatives and Hedging Activities. SFAS 149 is generally effective for derivative instruments, including derivative instruments embedded in certain contracts, entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's operating results or financial condition.

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In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On November 7, 2003, FASB Staff Position 150-3 was issued, which indefinitely deferred the effective date of SFAS 150 for certain mandatory redeemable non-controlling interests. As the Company does not have any of these financial instruments, the adoption of SFAS 150 did not have any impact on its financial statements.

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 revises or rescinds portions of the interpretive guidance included in Topic 13 of the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB 104 did not have a material effect on the Company's results of operations or financial position.

Item 3 Controls and Procedures

a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of September 30, 2004. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and adequately designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

(b) Changes in internal controls over financial reporting.

During the quarter ended September 30, 2004, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II Other Information

Item 1. Legal Proceedings

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

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

It is anticipated that once the parties can agree on the correct calculations on the royalties, the legal action will be dismissed. The issue in dispute concerning the method of calculating royalties is whether royalties should be paid on returned equipment. Since July 1, 2001, only one Photon(TM) laser system has been sold and no systems returned. Thus, the amount of royalties due, according to the Company's calculations, is \$600. The Company intends to make payment of this amount to PhotoMed and Dr. Eichenbaum and, as a result, to have the legal action dismissed. However, if the parties are unable to agree on a method for calculating royalties, there is a risk that PhotoMed and Dr. Eichenbaum might amend their complaint to request termination of the license agreement and, if successful, the Company would lose its right to manufacture and sell the Photon(TM) laser system.

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

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

The complaint also alleges that on July 11, 2002, the Company issued a press release falsely announcing that it had received a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation for 200 sets of its entire portfolio of products, with \$70 million in systems to be delivered over a two-year period, then another \$35 million of orders to be completed in the third year. The complaint further alleges that the Company had never received a true purchase order for its products. As a result of these

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alleged misstatements, the complaint contends that the price of the Company's shares of common stock was artificially inflated during the period from April 25, 2001 through May 14, 2003, and the persons who purchased or retained the Company's common shares during that period suffered substantial damages. The complaint requests judgment for unspecified damages, together with interest and attorney's fees.

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

Currently, there is reimbursement by insurance payors to doctors using the Blood Flow Analyzer(TM) in 22 states and partial reimbursement in four other states. The amount of reimbursement to doctors using the Blood Flow Analyzer(TM) generally ranges from \$56.00 to \$76.00 per patient, depending upon the insurance payor. Insurance payors providing reimbursement for the Blood Flow Analyzer(TM) have the discretion to increase or reduce the amount of reimbursement. The Company is endeavoring to obtain reimbursement by insurance payors in other states where there is currently no reimbursement being made. The Company believes it has continued to correctly represent in its Securities and Exchange Commission filings that the CPT Editorial Research and Development Department of the American Medical Association has advised it that CPT code number 92120 is the appropriate CPT code for the Company's Blood Flow Analyzer(TM), for reimbursement purposes for doctors using the device.

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

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

On June 2, 2003, a complaint was filed in the United States District Court, captioned Michael Marrone v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00513 PGC. On July 11, 2003, a complaint was filed in the same United States District Court, captioned Lidia Milian v. Paradigm Medical Industries, Inc., Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV00617PGC. Both complaints seek class action status. These cases are substantially similar in nature to the Meyer case, including the contention that as a result of allegedly false statements regarding the Blood Flow Analyzer(TM) and the purchase order from Westland Financial Corporation and Valdespino Associates Enterprises, the price of the Company's common stock was artificially inflated and the persons who purchased the Company's common shares during the class period suffered substantial damages. In a press release dated July 11, 2003, captioned "Milberg Weiss announces the filing of a class action suit against Paradigm Medical Industries, Inc. on behalf of investors," the law firm of Milberg Weiss Bershad Hynen & Levach LLP, which represents purchasers of the Company's securities in the class action suit filed on July 11, 2003, stated that the Company's alleged misrepresentations caused the market price of the stock to be artificially inflated during the class period. As a result, it is alleged that investors suffered millions of dollars in damages from the Company's alleged misstatements.

The cases request judgment for unspecified damages, together with interest and attorney's fees. These cases have now been consolidated with the Meyer case into a single action, captioned In re: Paradigm Medical Industries Securities Litigation, Case No. 03-CV-448TC. The law firm of Milberg Weiss Bershad & Schulman LLP is representing purchasers of the Company's securities in the consolidated class action. On June 28, 2004, a consolidated amended class action complaint was filed on behalf of purchasers of the Company's securities. The consolidated complaint is similar to the three class action complaints and alleges that the Company made false representations regarding the CPT code for the Blood Flow Analyzer(TM), but it includes additional allegations that the Company failed to disclose in a timely manner that doctors were being denied reimbursement for procedures performed with the Blood Flow Analyzer(TM). The consolidated complaint also alleges that the Company made false statements regarding the purchase order from Westland Financial Corporation and Valdespino Associates Enterprises. The Company believes the consolidated complaint is without merit and intends to vigorously defend and protect its interests in the case.

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

The Company has paid \$30,000 to U.S. Fire toward satisfaction of the \$250,000 retention that is applicable to the consolidated cases. The Company has advised U.S. Fire that it cannot pay the \$250,000 retention due to its current financial circumstances. As a consequence, on January 8, 2004, the Company entered into a non-waiver agreement with U.S. Fire in which U.S. Fire agreed to fund and advance the Company's retention obligation in consideration for which the Company has agreed to reimburse U.S. Fire the sum of \$5,000 a month, for a period of six months, with the first of such payments due on February 15, 2004.

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Thereafter, commencing on August 15, 2004, the Company is currently required to reimburse U.S. Fire the sum of \$10,000 per month until the entire amount of \$250,000 has been reimbursed to U.S. Fire. The Company has made the \$5,000 payments due to U.S. Fire on February 15, March 15, April 15, May 15, June 15, and July 15, 2004, leaving a remaining retention obligation to U.S. Fire of \$220,000.

In the event U.S. Fire determines that the Company or its former officers and directors named in the consolidated cases are not entitled to coverage under the policy, or that it is entitled to rescind the policy, or should the Company be declared in default under the non-waiver agreement, for not making the monthly payments in a timely manner that are owed to U.S. Fire, then the Company agrees to pay U.S. Fire, on demand, the full amount of all costs advanced by U.S. Fire, except for those amounts that it may have reimbursed to U.S. Fire pursuant to the monthly payments due under the non-waiver agreement. Moreover, if U.S. Fire denies coverage for the consolidated cases under the policy, the Company would owe its litigation counsel in the class action lawsuits, for any legal fees not paid by U.S. Fire. However, U.S. Fire has currently agreed to pay the legal fees relating to the class action lawsuits.

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

On July 10, 2003, a complaint was filed in the United States District Court, District of Utah captioned Innovative Optics, Inc. and Barton Dietrich Investments, L.P. v. Paradigm Medical Industries, Inc., Mackey Price & Thompson, Thomas Motter, Mark Miehle and John Hemmer, Case No. 2:03 CV 00582DB. The complaint claims that Innovative and Barton entered into an asset purchase agreement with the Company on January 31, 2002, in which the Company agreed to purchase all the assets of Innovative in consideration for the issuance of 1,310,000 shares of the Company's common stock to Innovative. The complaint claims the Company breached the asset purchase agreement. The complaint also claims that the Company allegedly made false and misleading statements pertaining to the Blood Flow Analyzer(TM) and concerning a purchase order from Valdespino Associates Enterprises and Westland Financial Corporation. The purpose of these statements, according to the complaint, was to induce Innovative to sell its assets and purchase the shares of the Company's common stock at artificially inflated prices while simultaneously deceiving Innovative and Barton into believing that the Company's shares were worth more than they actually were. The complaint contends that had Innovative and Barton known the truth they would not have sold Innovative to the Company, would not have purchased the Company's stock for the assets of Innovative, or would not have purchased the stock at the inflated prices that they allegedly paid. The complaint further contends that as a result of the allegedly false statements, Innovative and Barton suffered substantial damages in an amount to be proven at trial.

The complaint also claims that 491,250 of the shares to be issued to Innovative in the asset purchase transaction were not issued on a timely basis and the Company did not file a registration statement with the Securities and

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

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

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

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

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discussions with CitiCorp.

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

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

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

On May 25, 2004, an action was brought against the Company by Jeffrey F. Poore, former President and Chief Executive Officer of the company, in the Third Judicial District Court of Salt Lake County, State of Utah (Civil No. 040910875). The complaint alleges that the Company unlawfully terminated the written employment agreement between Mr. Poore and the Company. As a result, Mr. Poore demands judgment against the Company for \$350,000, representing his annual salary for the two remaining years under the employment agreement, for money judgment based on the value of his benefits for the two remaining years under the employment agreement, including profit sharing plans, 401(k) and cafeteria plans, health, hospitalization, dental, disability and other insurance plans canceled by the Company, and for money judgment equal to the value of the stock options granted to him under the employment agreement. The Company disputes the amounts allegedly owed in the complaint and believes that there was a sufficient basis to terminate Mr. Poore's employment for cause under the terms of the employment agreement. Accordingly, the Company intends to vigorously defend against the action.

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On August 9, 2004, a third party complaint was brought against the Company by Wakefield Eye Center. The original action was brought by American Express Business Corporation against Westfield Eye Center on May 27, 2004 in the District Court, Clark County, State of Nevada (Civil No. A486307, Dept. No. XXI) concerning the financing of the purchase of a Blood Flow Analyzer(TM) involving Westfield Eye Center. The transaction took place during the latter half of 2001. Westfield Eye Center takes the position that if there is liability of Westfield to American Express this liability is ultimately the Company and the other third-party defendants. The amount being sought against Westfield Eye Center by American Express in the original action includes the sum of \$29,765.83, together with interest and attorney's fees. Westfield's alleged claims against the Company include fraud, breach of contract, promissory estoppel, declaratory relief, negligence, negligent supervision, damages for injuries resulting from actions of employee/contractor, wilful and wanton misconduct, conspiracy, and breach of fiduciary duty as well as costs and attorney's fees. Westfield also seeks punitive damages. The Company has filed an answer to the third party complaint in which we deny liability. Formal discovery in the matter involving us has not commenced. The Company intends to vigorously defend the action.

The Company is not a party to any other material legal proceedings outside the ordinary course of its business or to any other legal proceedings which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

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Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

On September 28, 2004, the Company entered into an Investment Banking Agreement with Alpha Advisory Services, Inc. Under the terms of the Agreement, Alpha Advisory Services is to use its best efforts to provide the following services to the Company: (i) review of and make recommendations regarding the Company's business plan and promotional materials; (ii) identify and contact potential investors in the United States and Europe for potential investment in the Company's securities; (iii) organize meetings with potential investors and participate in such meetings; and (iv) assist the Company in future financings, mergers, acquisitions and potential buyouts.

The term of the Agreement is for a period of three months, which is to be automatically renewed for successive one-year terms. Following the initial three month period, either party may terminate the agreement upon 15 days written notice to the other party. In consideration for the services to be performed under the agreement, Alpha Advisory Services is to receive a fee of \$3,000 per month, plus reasonable travel and other expenses, plus warrants to purchase 25,000 shares of the Company's common stock at \$.15 per share. The warrants are exercisable, on a cashless basis, over a two year period from the date of issuance.

On October 25, 2004, the Company entered into a Manufacturing and

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Distribution Agreement with E-Technologies, Inc., a Iowa based developer of software and related technology for technical applications. Under the terms of the agreement, E-Technologies granted to the Company the exclusive right to manufacture, market, sell and distribute an ultrasonic biomicroscope. Upon execution of the agreement, the Company paid \$30,000 to E-Technologies for engineering costs associated with the development of the biomicroscope. Once the biomicroscope receives FDA approval, the Company agrees to pay E-Technologies an additional fee of \$45,000.

In consideration for the exclusive right to manufacture and distribute the biomicroscope, the Company agrees to pay E-Technologies the sum of \$5,000 for each of the first 25 biomicroscopes sold by the Company. Thereafter, the Company agrees to pay E-Technologies the sum of \$4,000 for each biomicroscope sold. As an additional condition, the Company agrees to sell 25 biomicroscopes during the first 12 months after the biomicroscope receives FDA approval. The agreement is effective for a term of two years. After the expiration of the two year period, the agreement is to automatically renew for additional one year periods, unless either party elects to terminate the agreement upon at least 30 days prior written notice to the other party before the end of any term of the agreement.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

| Exhibit No. | Document Description |
|----------------|---|
| 2.1 | Amended Agreement and Plan of Merger between Paradigm Medical Industries, Inc., a California corporation and Paradigm Medical Industries, Inc., a Delaware corporation(1) |
| 3.1 | Certificate of Incorporation(1) |
| 3.2 | Amended Certificate of Incorporation(10) |
| 3.3 | Bylaws(1) |
| 4.1 | Warrant Agency Agreement with Continental Stock Transfer & Trust Company(3) |
| 4.2 | Specimen Common Stock Certificate (2) |
| 4.3 | Specimen Class A Warrant Certificate(2) |
| 4.4 | Form of Class A Warrant Agreement(2) |
| 4.5 | Underwriter's Warrant with Kenneth Jerome & Co., Inc.(3) |
| 4.6 | Warrant to Purchase Common Stock with Note Holders re bridge financing (1) |
| 4.7 | Specimen Series C Convertible Preferred Stock Certificate(4) |
| 4.8 | Certificate of the Designations, Powers, Preferences and Rights of the Series C Convertible Preferred Stock(4) |
| 4.9 | Specimen Series D Convertible Preferred Stock Certificate (6) |
| 4.1 | Certificate of the Designations, Powers, Preferences and Rights of the Series D Convertible Preferred Stock (7) |
| 4.11 | Warrant to Purchase Common Stock with Cyndel & Co. (6) |
| 4.12 | Warrant to Purchase Common Stock with R.F. Lafferty & Co., Inc. (6) |
| 4.13 | Warrant to Purchase Common Stock with Dr. Michael B. Limberg (7) |
| 4.14 | Warrant to Purchase Common Stock with John W. Hemmer (7) |
| 4.15 | Stock Purchase Warrant with Triton West Group, Inc.(9) |
| 4.16 | Warrant to Purchase Common Stock with KSH Investment Group, Inc.(9) |

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|-------|--|
| 4.17 | Warrant to Purchase Common Stock with Consulting for Strategic Growth, Ltd.(9) |
| 4.18 | Certificate of Designations, Powers, Preferences and Rights of the Series G Convertible Preferred Stock (14) |
| 10.1 | Exclusive Patent License Agreement with PhotoMed(1) |
| 10.2 | Consulting Agreement with Dr. Daniel M. Eichenbaum(1) |
| 10.3 | 1995 Stock Option Plan (1) |
| 10.4 | Employment Agreement with Thomas F. Motter (5) |
| 10.5 | Stock Purchase Agreement with Ocular Blood Flow, Ltd. and Malcolm Redman (7) |
| 10.6 | Consulting Agreement with Malcolm Redman (7) |
| 10.7 | Royalty Agreement with Malcolm Redman (7) |
| 10.8 | Registration Rights with Malcolm Redman (7) |
| 10.9 | Employment Agreement with Mark R. Miehle (8) |
| 10.10 | Agreements with Steven J. Bayern and Patrick M. Kolenik (8) |
| 10.11 | Private Equity Line of Credit Agreement with Triton West Group, Inc. (9) |
| 10.12 | Asset Purchase Agreement with Innovative Optics, Inc. and Barton Dietrich Investments, L.P.(10) |
| 10.13 | Escrow Agreement with Innovative Optics, Inc., Barton Dietrich Investments, L.P. (10) |
| 10.14 | Assignment and Assumption Agreement with Innovative Optics, Inc.(10) |

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| | |
|-------|--|
| 10.15 | General Assignment and Bill of Sale with Innovative Optics, Inc.(10) |
| 10.16 | Non-Competition and Confidentiality Agreement with Mario F. Barton(10) |
| 10.17 | Termination of Employment Agreement with Mark R. Miehle(12) |
| 10.18 | Consulting Agreement with Mark R. Miehle(12) |
| 10.19 | Employment Agreement with Jeffrey F. Poore (13) |
| 10.20 | License Agreement with Sunnybrook Health Science Center(15) |
| 10.21 | Major Account Facilitator Contract(15) |
| 10.22 | Mutual Release with Douglas A. MacLeod, M.D. and Others(15) |
| 10.23 | Purchase Agreement with American Optisurgical, Inc.(15) |
| 10.24 | Purchase Order with Westland Financial Corporation(16) |
| 10.25 | Non-Waiver Agreement with United States Fire Insurance Company(16) |
| 10.26 | Employment Agreement with John Y. Yoon(17) |
| 10.27 | Consulting Agreement with Dr. John Charles Casebeer(18) |
| 10.28 | Consulting Agreement with Kinexsys Corporation(18) |
| 10.29 | Stock Purchase and Sale Agreement with William Ungar(19) |
| 10.30 | Employment Agreement with Aziz A. Mohabbat (20) |
| 10.31 | Investment Banking Agreement with Alpha Advisory Services, Inc. |
| 10.32 | Manufacturing and Distribution Agreement with E-Technologies, Inc. |
| 31.1 | Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(1) Incorporated by reference from Registration Statement on Form

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- SB-2, as filed on March 19, 1996.
- (2) Incorporated by reference from Amendment No. 1 to Registration Statement on Form SB-2, as filed on May 14, 1996.
 - (3) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on June 13, 1996.
 - (4) Incorporated by reference from Annual Report on Form 10-KSB, as filed on April 16, 1998.
 - (5) Incorporated by reference from Report on Form 10-QSB, as filed on November 12, 1998.
 - (6) Incorporated by reference from Registration Statement on Form SB-2, as filed on April 29, 1999.
 - (7) Incorporated by reference from Report on Form 10-QSB, as filed on August 16, 2000.
 - (8) Incorporated by reference from Report on Form 10-QSB, as filed on November 1, 2000.
 - (9) Incorporated by reference from Report on Form 10-KSB, as filed on April 16, 2001.
 - (10) Incorporated by reference from Current Report on Form 8-K, as filed on March 5, 2002.
 - (11) Incorporated by reference from Amendment No. 1 to Registration Statement on Form S-3, as filed on March 20, 2002.
 - (12) Incorporated by reference from Report on Form 10-QSB, as filed on November 18, 2002.

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- (13) Incorporated by reference from Registration Statement on Form SB-2, as filed on July 7, 2003.
- (14) Incorporated by reference from Report on Form 10-QSB, as filed on November 14, 2003.
- (15) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on December 15, 2003.
- (16) Incorporated by reference from Amendment No. 3 to Registration Statement on Form SB-2, as filed on February 27, 2004.
- (17) Incorporated by reference from Current Report on Form 8-K, as filed on March 23, 2004.
- (18) Incorporated by reference from Annual Report on Form 10-KSB, as filed on April 14, 2004.
- (19) Incorporated by reference from Report on Form 10-QSB, as filed on August 16, 2004.
- (20) Incorporated by reference from Amendment No. 6 to Registration Statement on Form SB-2, as filed on October 20, 2004.

(b) Reports on Form 8-K

No reports were filed by the Company during the quarter ended September 30, 2004.

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SIGNATURES

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

PARADIGM MEDICAL INDUSTRIES, INC.

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November 15, 2004

/s/John Y. Yoon

John Y. Yoon
President and Chief Executive Officer

November 15, 2004

/s/ Luis A. Mostacero

Luis A. Mostacero, Controller

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03;

Basic earnings per share

\$2.95 \$1.28 \$4.61 \$2.58 \$1.24

Diluted earnings per share

\$2.91 \$1.26 \$4.54 \$2.54 \$1.24

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Table of Contents**Consolidated Balance Sheet Data**

| | As of June 30, | | As of December 31, | |
|--|-----------------------------|-------------------|--------------------|-------------------|
| | 2015 | | 2014 | |
| | (U.S. dollars in thousands) | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ | 1,568,345 | \$ | 1,490,369 |
| Restricted cash | | 379,509 | | 717,388 |
| Flight equipment held for operating leases, net | | 32,750,877 | | 31,984,668 |
| Maintenance rights intangible and lease premium, net | | 3,607,717 | | 3,906,026 |
| Prepayments on flight equipment | | 3,416,378 | | 3,486,514 |
| Other assets | | 2,333,653 | | 2,282,415 |
| Total assets | \$ | 44,056,479 | \$ | 43,867,380 |
| Liabilities and Equity | | | | |
| Debt | | 30,682,408 | | 30,402,392 |
| Other liabilities | | 5,551,731 | | 5,522,440 |
| <i>Total liabilities</i> | | 36,234,139 | | 35,924,832 |
| AerCap Holdings N.V. shareholders' equity | | 7,746,243 | | 7,863,777 |
| Non-controlling interest | | 76,097 | | 78,771 |
| <i>Total equity</i> | | 7,822,340 | | 7,942,548 |
| Total liabilities and equity | \$ | 44,056,479 | \$ | 43,867,380 |

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RISK FACTORS

Investing in our ordinary shares involves risk. Those risks are specified in the section captioned "Risk Factors" in Item 3 of our Annual Report on Form 20-F for the year ended December 31, 2014, filed with the SEC on March 30, 2015, and Item 1 of Part II of our interim financial report on Form 6-K for the quarter ended June 30, 2015, filed with the SEC on August 18, 2015, each of which is incorporated by reference in this prospectus supplement. You should carefully consider those risks together with the other information contained or incorporated by reference in this prospectus supplement before deciding to invest in our ordinary shares. If any of those risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our ordinary shares could decline, and you may lose all or part of your investment.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of the ordinary shares offered hereby.

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Table of Contents**PRICE RANGE OF ORDINARY SHARES**

Our ordinary shares are listed and traded publicly on the New York Stock Exchange, or NYSE, and trade under the symbol "AER". The following table presents quarterly and monthly information on the price range of our ordinary shares. This information indicates the high and low market price per share of our ordinary shares for the quarterly periods indicated and for the most recent six months reported by the NYSE. Our ordinary shares began trading on the NYSE on November 27, 2006.

On June 30, 2015, there were 197,411,207 ordinary shares outstanding.

| | High | Low |
|---|-------------|------------|
| Quarter Ended | | |
| March 31, 2013 | \$ 16.57 | \$ 13.73 |
| June 30, 2013 | 17.72 | 15.04 |
| September 30, 2013 | 19.71 | 17.17 |
| December 31, 2013 | 39.10 | 19.03 |
| March 31, 2014 | 43.69 | 34.38 |
| June 30, 2014 | 48.81 | 37.88 |
| September 30, 2014 | 50.02 | 40.68 |
| December 31, 2014 | 45.78 | 35.59 |
| March 31, 2015 | 47.09 | 37.42 |
| June 30, 2015 | 51.50 | 43.55 |
| Months Ended | | |
| March 31, 2015 | 45.27 | 42.90 |
| April 30, 2015 | 47.22 | 43.55 |
| May 31, 2015 | 49.12 | 48.20 |
| June 30, 2015 | 51.50 | 45.50 |
| July 31, 2015 | 48.10 | 43.67 |
| August 31, 2015 (through August 17, 2015) | 49.04 | 45.83 |

On August 17, 2015, the last reported sale price of our ordinary shares was \$48.49 per share.

Table of Contents**SELLING SHAREHOLDER****Beneficial Ownership**

The following table sets forth the number of ordinary shares that the selling shareholder beneficially owns before this offering and the number of ordinary shares that the selling shareholder will beneficially own assuming the sale of all the ordinary shares offered pursuant to this prospectus supplement. The ownership percentages indicated in the following table are based on 197,411,207 ordinary shares outstanding as of June 30, 2015.

We have determined beneficial ownership in accordance with the rules of the SEC. The ordinary shares offered by the selling shareholder were initially issued in connection with the ILFC Transaction (defined below). On May 14, 2014, AerCap acquired, through a wholly-owned subsidiary, 100% of the common shares of ILFC, which was then a wholly-owned subsidiary of the selling shareholder, for consideration consisting of \$2.4 billion in cash and 97,560,976 newly issued AerCap ordinary shares (the "ILFC Transaction"). We have filed with the SEC, under the Securities Act, a Registration Statement on Form F-3 with respect to the offering of our ordinary shares from time to time by the selling shareholder, and this prospectus supplement forms a part of that registration statement. On June 9, 2015, the selling shareholder sold 71,184,686 ordinary shares through a public underwritten offering (the "June Offering"). Following the June Offering and the Share Repurchase (described below), the selling shareholder beneficially owned 10,677,702 ordinary shares, representing approximately 5.4% of our ordinary shares outstanding as of June 30, 2015.

| Name of Selling Shareholder: | Ordinary Shares Beneficially Owned Prior to This Offering | | Ordinary Shares Being Sold in this Offering | Ordinary Shares Beneficially Owned After This Offering | |
|------------------------------------|---|---------|---|--|---------|
| | Number | Percent | Number | Number | Percent |
| American International Group, Inc. | 10,677,702 | 5.4% | 10,677,702 | 0 | 0.0% |

Other Relationships with AIG

The following is a summary of material provisions of certain agreements we currently have in place with AIG, and should be read together with the information set forth under "Beneficial Ownership" above.

Share Repurchase Agreement and Notes Issuance

Pursuant to a share repurchase agreement, dated June 1, 2015 (the "Share Repurchase Agreement"), among us, AerCap Global Aviation Trust ("AGAT") and the other guarantors named therein, the selling shareholder and AIG Capital Corporation, we repurchased \$750 million of our ordinary shares from the selling shareholder in a private transaction (the "Share Repurchase"). The consideration for the Share Repurchase consisted of the issuance by AGAT of \$500 million in aggregate principal amount of 6.50% fixed-to-floating rate junior subordinated notes (the "Notes") to the selling shareholder and the payment of \$250 million in cash to the selling shareholder. The Share Repurchase and the issuance of the Notes were completed on June 9, 2015.

The Notes accrue interest at a fixed interest rate of 6.50% per annum until but excluding June 15, 2025, payable semi-annually. The Notes accrue interest from and including June 15, 2025, until but excluding the maturity date or earliest redemption date, at a floating rate based on the

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three-month LIBOR rate plus 4.30%, reset quarterly, payable quarterly. AGAT has certain rights to defer interest payments on the Notes for one or more interest periods for up to five consecutive years per deferral period. Subject to the terms of the indenture governing the Notes, AGAT may redeem the Notes, in whole or in part, at any time on and after June 15, 2025 at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest thereon. In addition, subject to the terms of the indenture governing the Notes, AGAT may redeem the Notes, in whole but not in part, (1) upon a "rating agency event" (as defined in the Notes), at a make-whole redemption price, and (2) in the event that AGAT may be required to pay additional amounts in respect of certain withholding taxes resulting from a change of law, at a redemption price of 100% of the principal amount redeemed, plus, in each case, accrued and unpaid interest thereon. If we experience a "change of control" followed by a "ratings decline" (each as defined in the Notes) (a "change of control triggering event"), the Notes may be redeemed at AGAT's option, in whole but not in part, at a price of 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of the redemption. If (i) a change of control triggering event occurs and (ii) AGAT does not give notice prior to the 31st day following the change of control triggering event to redeem all outstanding Notes, the interest rate per annum of the Notes will increase by 5.00%. The Notes are guaranteed by AerCap and certain of its subsidiaries.

Simultaneously with the closing of the Share Repurchase, AGAT, the selling shareholder and the guarantors of the Notes (including AerCap) entered into a registration rights agreement (the "Notes Registration Rights Agreement"). Under the Notes Registration Rights Agreement, the selling shareholder has demand rights providing for the sale or distribution of the Notes in SEC-registered offerings beginning 90 days after the closing of the Share Repurchase.

Shareholders' Agreement and Registration Rights Agreement with AIG

In connection with the closing of the ILFC Transaction, we entered into a shareholders' agreement, dated as of May 14, 2014, with AIG Capital Corporation and AIG (the "Shareholders' Agreement"), and a registration rights agreement, dated as of May 14, 2014, with AIG (the "AIG Registration Rights Agreement"), each of which will automatically terminate once AIG ceases to own any of our outstanding ordinary shares, as will be the case upon the completion of this offering assuming the sale of all the ordinary shares offered pursuant to this prospectus supplement.

Board nomination rights

Currently, AIG is entitled to designate for election at the Annual General Meeting of Shareholders one director of our Board for as long as AIG owns any of our ordinary shares. Once AIG ceases to own any of our outstanding ordinary shares, as will be the case upon the completion of this offering assuming the sale of all the ordinary shares offered pursuant to this prospectus supplement, AIG's designee will be required to resign from our Board of Directors. In addition, pursuant to the Share Repurchase Agreement, we may not grant any person the right to nominate more than two directors to the Board until AIG ceases to own any of our outstanding ordinary shares, as will be the case upon the completion of this offering assuming the sale of all the ordinary shares offered pursuant to this prospectus supplement.

Lock-up periods

Pursuant to the Shareholders' Agreement, the ordinary shares issued in the ILFC Transaction to AIG were subject to a lock-up agreement providing for the staggered expiration of lock-up periods beginning nine months and ending 15 months after the closing of the ILFC Transaction. Pursuant to the Share Repurchase Agreement, waivers of certain restrictions under the Shareholders' Agreement and the AIG Registration Rights Agreement, including certain transfer restrictions relating to lock-up periods, were granted to permit the sale of the ordinary shares by the

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selling shareholder in the offering that closed on June 9, 2015 and the Share Repurchase. All of the remaining ordinary shares currently owned by AIG, and being offered pursuant to this prospectus supplement, were subject to a lock-up agreement that expired on August 14, 2015 (15 months after the closing of the ILFC Transaction).

Standstill provisions

Until December 9, 2015 (the date that is six months after the first date on which AIG owned less than 10% of the outstanding ordinary shares), AIG will remain subject to customary standstill provisions.

Registration rights

The AIG Registration Rights Agreement allows AIG to cause us to register the ordinary shares being offered pursuant to this prospectus supplement.

Specific performance

The parties have agreed that they will be entitled to seek an injunction or injunctions to prevent breaches of the Shareholders' Agreement and the AIG Registration Rights Agreement and to enforce specifically the terms and provisions of the Shareholders' Agreement and the AIG Registration Rights Agreement without proof of damages or otherwise in addition to any other remedy to which they are entitled.

Governing law, submission to jurisdiction and dispute resolution

The Shareholders' Agreement is governed by Dutch law and the AIG Registration Rights Agreement is governed by New York law. The Shareholders' Agreement provides that all disputes will be settled in the courts of Amsterdam, the Netherlands. The AIG Registration Rights Agreement provides that all disputes will be settled by arbitration in accordance with the Rule of Arbitration of the International Chamber of Commerce.

Compliance agreement

We and AIG have entered into a financial reporting and compliance agreement pursuant to which AerCap has agreed to, among other things, maintain certain compliance policies, provide AIG with reports and access to certain information and personnel and cooperate with AIG in complying with certain regulatory requirements.

\$1.0 billion revolving credit facility with AIG

In connection with the ILFC Transaction, we executed an agreement with AIG under which it provided us with a \$1.0 billion five-year unsecured revolving credit facility (the "AIG Revolver"), which became effective upon the consummation of the ILFC Transaction. AerCap Ireland Capital Limited is the borrower under the facility. Loans under the facility bear interest at, at the election of the borrower, LIBOR plus 375 basis points or a base rate plus 275 basis points. Amounts borrowed under the credit facility can be repaid and reborrowed up until maturity. The credit facility contains customary borrowing conditions, representations, covenants and events of default. Pursuant to the Share Repurchase Agreement, the amount available under the AIG Revolver was reduced by the aggregate principal amount of the Notes, from \$1.0 billion to \$500 million, upon the issuance of the Notes to AIG. The AIG Revolver was undrawn as of the date hereof.

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Other related party transactions with AIG

Derivatives: The counterparty of some of our interest rate swap agreements, which were acquired as part of the ILFC Transaction, is AIG Markets, Inc., a wholly-owned subsidiary of AIG, and these swap agreements are guaranteed by AIG. The net effect in our Consolidated Income Statements for the year ended December 31, 2014 from derivative contracts with AIG Markets, Inc., was nil, as the cash expense of \$4.3 million was offset by a mark-to-market gain of \$4.3 million. The net effect in our Condensed Consolidated Income Statements for the six months ended June 30, 2015 from derivative contracts with AIG Markets, Inc. was nil, as the cash expense of \$1.5 million was offset by a mark-to-market gain of \$1.5 million.

Management fees: As a result of the ILFC Transaction, we received management fees of \$4.9 million in the year ended December 31, 2014, and of \$3.5 million in the six months ended June 30, 2015, from the Castle Trusts, affiliates of AIG.

Related party receivable: As of December 31, 2014, we had a receivable from AIG of \$5.7 million relating to reimbursements on compensation programs as part of the ILFC Transaction. As of June 30, 2015, we had a receivable from AIG of \$1.6 million relating to reimbursements on compensation programs as part of the ILFC Transaction.

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DESCRIPTION OF ORDINARY SHARES

A summary description of our ordinary shares and related material provisions of our articles of association and of Book 2 of The Netherlands Civil Code (Boek 2 van het Burgerlijk Wetboek), which governs the rights of holders of our ordinary shares, is set forth in the sections captioned "Memorandum and articles of association", "Ordinary Share Capital", "Issuance of Ordinary Shares", and "Preemptive Rights" in Item 10 of our Annual Report on Form 20-F for the fiscal year ended December 31, 2014 and filed with the SEC on March 30, 2015, which report is incorporated by reference herein. The descriptions are qualified in their entirety by reference to our articles of association, copies of which are filed with the SEC as exhibits to our Annual Report on Form 20-F for the fiscal year ended December 31, 2014, and applicable law.

CERTAIN TAX CONSIDERATIONS

Certain tax considerations relating to an investment in our ordinary shares are set forth in the section captioned "Taxation" in Item 10 of our Annual Report on Form 20-F for the fiscal year ended December 31, 2014 and filed with the SEC on March 30, 2015, which report is incorporated by reference herein.

Table of Contents**UNDERWRITING**

Citigroup Global Markets Inc. and Goldman, Sachs & Co. are acting as global coordinators and as underwriters. Subject to the terms and conditions stated in the underwriting agreement dated August 18, 2015, each underwriter named below has severally agreed to purchase, and the selling shareholder has agreed to sell to that underwriter, the number of ordinary shares set forth opposite the underwriter's name.

| Underwriter | Number of Ordinary Shares |
|-------------------------------|--------------------------------------|
| Citigroup Global Markets Inc. | 5,338,851 |
| Goldman, Sachs & Co. | 5,338,851 |
| Total | 10,677,702 |

The underwriting agreement provides that the obligations of the underwriters to purchase the ordinary shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the ordinary shares if they purchase any of the ordinary shares.

Ordinary shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any ordinary shares sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price not to exceed \$0.357 per ordinary share. If all the ordinary shares are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The following table shows the underwriting discounts and commissions that the selling shareholder is to pay to the underwriters in connection with this offering.

| | Per Ordinary Share | Total |
|--|-----------------------------------|-----------------|
| Underwriting discounts and commissions paid by the selling shareholder | \$ 0.595 | \$ 6,353,232.69 |

We estimate that the total expenses of this offering payable by us will be \$270,000.

We and the selling shareholder have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

No Sales of Similar Securities

We and the selling shareholder have agreed that, for a period of 45 days from the date of this prospectus supplement, we and they will not, without the prior written consent of Citigroup Global Markets Inc. and Goldman, Sachs & Co., (i) offer, pledge, sell, contract to sell, sell any option or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any ordinary shares or any ordinary shares or any securities convertible into or exercisable or exchangeable for ordinary shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the ordinary shares or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of ordinary shares or such other securities, in cash or otherwise, other than, in the case of the selling shareholder, the ordinary shares to be sold in this offering and securities held by affiliates of the selling shareholder in

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connection with ordinary course (a) proprietary and third party fund and asset management activities, (b) brokerage and securities trading activities and (c) financial services and insurance activities, and, in our case, any shares of our ordinary shares issued upon the exercise of options granted under terms of any employee plan, benefit or compensation arrangement or employment agreement described, including by incorporation by reference, in the registration statement, this prospectus supplement and the accompanying prospectus. The restrictions described above will only apply to securities held directly by the selling shareholder. None of our officers or directors are subject to a lock-up agreement.

Price Stabilization, Syndicate Covering Transactions and Penalty Bids

In connection with this offering, the underwriters may purchase and sell ordinary shares in the open market. Purchases and sales in the open market may include stabilizing purchases, short sales, purchases to cover short positions and penalty bids.

Stabilizing purchases involve bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Short sales involve secondary market sales by the underwriters of ordinary shares in excess of the number of ordinary shares the underwriters are obligated to purchase in this offering, which creates a syndicate short position.

A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ordinary shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Covering transactions involve purchases of ordinary shares in the open market in order to cover short positions.

The underwriters may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ordinary shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our ordinary shares or preventing or retarding a decline in the market price of the ordinary shares. As a result, the price of our ordinary shares may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NYSE or otherwise and, if commenced, may be discontinued at any time.

New York Stock Exchange Listing

The ordinary shares are currently listed on the NYSE under the symbol "AER".

Electronic Offer, Sale and Distribution of Shares

Certain of the underwriters or securities dealers may distribute prospectus supplements and accompanying prospectuses by electronic means, such as e-mail. A prospectus supplement and accompanying prospectus in electronic format is being made available on Internet web sites maintained by one or more of the underwriters and may be made available on web sites maintained by other underwriters. Other than the prospectus supplement and accompanying prospectus in electronic format, the information on any underwriter's web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus supplement or accompanying prospectus or the registration statement of which the prospectus supplement or accompanying prospectus forms a part.

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Stamp Taxes

Purchasers of our ordinary shares offered by this prospectus supplement may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay those taxes or charges, as well as any other tax consequences that may arise under the laws of the country of purchase.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to us, to persons and entities with relationships with us, to the selling shareholder and to persons and entities with relationships with the selling shareholder, for which they received or will receive customary fees and expenses. In addition, affiliates of certain of the underwriters from time to time have acted or in the future may continue to act as agents and lenders to us and our affiliates and subsidiaries under our or their respective credit facilities, for which services the affiliates of the underwriters expect to receive customary compensation. For example, an affiliate of Citigroup Global Markets Inc. serves as administrative agent and collateral agent under our Citi revolving credit facility.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of AerCap (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with us. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Selling Restrictions

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), an offer to the public of any ordinary shares that are the subject of the offering contemplated by the prospectus supplement (the "Securities") may not be made in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity that is a qualified investor as defined in the Prospectus Directive;

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- (b) to fewer than 150, natural or legal persons (other than qualified investors, as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public of ordinary shares" in relation to the Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms for the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe for the ordinary shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in each Relevant Member State. This EEA selling restriction is in addition to any other selling restrictions set out in this prospectus supplement and accompanying prospectus.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and accompanying prospectus and any other material in relation to the ordinary shares described herein is only being distributed to, and is only directed at, (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, or (iii) high net worth companies, or other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The ordinary shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such ordinary shares will be engaged in only with, relevant persons. This prospectus supplement and accompanying prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus supplement and the accompanying prospectus or any of their contents.

Notice to Prospective Investors in the Netherlands

The ordinary shares may only be offered to legal entities that are qualified investors as defined in the Prospectus Directive.

Notice to Prospective Investors in Ireland

This prospectus supplement and accompanying prospectus has not been prepared in accordance with and is not a "prospectus" for the purposes of Article 5 of Directive 2003/71/EC (as amended by Directive 2010/73/EU) (the "Prospectus Directive") and has not been reviewed or approved by the Central Bank of Ireland or any other competent authority for the purposes of the Prospectus Directive and is referred to as a "prospectus" because this is the terminology used for such an offer document in the U.S. No action may be taken with respect to the ordinary shares in Ireland otherwise than in conformity with the provisions of (1) the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof or any codes of conduct issued in connection therewith and the provisions of the Investor Compensation Act 1998, (2) the Companies Act 2014, the Central Bank Acts 1942 to 2015 and any code of conduct rules made under Section 117(1) of the Central Bank Act 1989, (3) the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 or, as applicable, section 1363 of the Companies Act 2014 by the Central Bank of Ireland and (4) the Market Abuse

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(Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 or, as applicable, section 1370 of the Companies Act 2014 by the Central Bank of Ireland.

Notice to Prospective Investors in Hong Kong

The ordinary shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) ("Companies (Winding Up and Miscellaneous Provisions) Ordinance"), or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("Securities and Future Ordinance") and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the ordinary shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to ordinary shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Notice to Prospective Investors in Singapore

This prospectus supplement and the accompanying prospectus have not been registered as a Prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly, the ordinary shares may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this prospectus supplement and the accompanying prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any ordinary shares be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where ordinary shares are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person who is:

- (a) a corporation (which is not an accredited investor) (as defined in Section 4A of the Securities and Futures Act) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months

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after that corporation or that trust has acquired the ordinary shares under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor (for corporations, under Section 274 of the Securities and Futures Act) or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person pursuant to an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the Securities and Futures Act.

Notice to Prospective Investors in Japan

The ordinary shares offered in this prospectus supplement and the accompanying prospectus have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "FIEA"). The ordinary shares may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any other relevant laws and regulations of Japan.

Notice to Prospective Investors in Australia

Not a Prospectus under the Corporations Act

This prospectus supplement and the accompanying prospectus do not constitute a disclosure document or a product disclosure statement for the purposes of the Corporations Act 2001 of the Commonwealth of Australia (the "Act") and has not been, and will not be, lodged with the Australian Securities and Investments Commission. No securities commission or similar authority in Australia has reviewed this document or the merits of the ordinary shares, and any representation to the contrary is an offence.

The ordinary shares will be offered to persons who receive offers in Australia only to the extent that:

- (a) those persons are "wholesale clients" for the purposes of Chapter 7 of the Act; and
- (b) such offer of the ordinary shares for issue or sale does not need disclosure to investors under Part 6D.2 of the Act.

Any offer of the ordinary shares received in Australia is void to the extent that it needs disclosure to investors under the Act. In particular, offers for the issue or sale of the ordinary shares will only be made, and this document may only be distributed, in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Act and where the investors are also "wholesale clients" as described above.

Secondary Sale Restriction

As the offer for the ordinary shares will be made in Australia without disclosure under the Act, the offer of the ordinary shares for sale in Australia within 12 months of their issue or sale may, under section 707 of the Act, require disclosure to investors under the Act if none of the exemptions under the Act apply. Accordingly, any person to whom the ordinary shares are issued or sold pursuant to this document must not, within 12 months after the issue, offer (or transfer,

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assign or otherwise alienate) those ordinary shares to investors in Australia except in circumstances where disclosure to investors is not required under the Act or unless a compliant disclosure document or product disclosure statement is prepared and lodged with the Australian Securities and Investments Commission. Disclosure to investors would not generally be required:

- (a) under Part 6D.2 of the Act where:
 - (i) the ordinary shares are offered for sale outside of Australia;
 - (ii) the ordinary shares are offered for sale to categories of "professional investors" referred to in section 708(11) of the Act; or
 - (iii) the ordinary shares are offered to persons who are "sophisticated investors" that meet the criteria set out in section 708(8) of the Act; or
 - (iv) the ordinary shares are offered through a financial services licensee in satisfaction of section 708(10) of the Act; and
- (b) under Chapter 7 of the Act where the ordinary shares are only offered to persons who are "wholesale clients" within the meaning of section 761G of the Act.

However, Chapter 6D and Chapter 7 of the Act are complex, and if in any doubt, you should confer with your professional advisers regarding the position.

General Advice Only

This prospectus supplement and the accompanying prospectus is intended to provide general information only and has been prepared without taking into account any particular person's objectives, financial situation or needs. We provide that financial product advice to you to the exclusion of any person named in this prospectus supplement and the accompanying prospectus. The information in this prospectus supplement and the accompanying prospectus is, however, subject to all the qualifications, limitations and other matters set out in the prospectus supplement and the accompanying prospectus.

Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Investors should review and consider the contents of this document and obtain financial advice specific to their situation before making any decision to make an application for the shares.

No person referred to in this prospectus supplement and the accompanying prospectus, including us and our named advisers holds an Australian Financial Services License authorizing it to deal in securities or to provide financial product advice in relation to the ordinary shares. No cooling-off regime applies in respect of the ordinary shares.

This prospectus supplement and the accompanying prospectus is not, and under no circumstances is to be construed as, an advertisement or a public offering of the ordinary shares in Australia.

Notice to Prospective Investors in Chile

Pursuant to Law No. 18,045 of Chile (the securities market law of Chile) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile* or "SVS"), the ordinary shares may be privately offered in Chile to certain "qualified investors" identified as such by Rule 336 (which in turn are further described in rule No. 216, dated June 12, 2008, of the SVS).

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Rule 336 requires the following information to be provided to prospective investors in Chile:

- (1) Date of commencement of the offer: June 1, 2015. The offer of the ordinary shares is subject to Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the SVS;
- (2) The ordinary shares and the prospectus supplement and accompanying prospectus are not registered with the Securities Registry (*Registro de Valores*) of the SVS, nor with the foreign securities registry (*Registro de Valores Extranjeros*) of the SVS and as such as not subject to the oversight of the SVS;
- (3) Since the ordinary shares are not registered in Chile, there is no obligation by the issuer to make publicly available information about the ordinary shares in Chile; and
- (4) The ordinary shares shall not be subject to a public offering in Chile unless registered with the relevant Securities Registry of the SVS.

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LEGAL MATTERS

Certain legal matters in connection with the effectiveness of the registration statement will be passed upon for us by Cravath, Swaine & Moore LLP, New York, New York, and certain legal matters in connection with the ordinary shares offered hereby will be passed upon for us by NautaDutilh N.V., the Netherlands. Certain legal matters relating to the offering will be passed upon for the underwriters by Cleary Gottlieb Steen & Hamilton LLP, New York, New York. Debevoise & Plimpton LLP, New York, New York is acting as counsel to the selling shareholder.

EXPERTS

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to AerCap Holdings N.V.'s Report on Form 6-K dated April 23, 2015 have been so incorporated in reliance on the report of PricewaterhouseCoopers Accountants N.V., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of International Lease Finance Corporation incorporated in this prospectus supplement by reference to AerCap Holdings N.V.'s Report on Form 6-K dated May 14, 2014 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

**Up to 97,560,976
Ordinary Shares**

This prospectus relates to the resale, from time to time, of up to 97,560,976 of our ordinary shares, par value €0.01 per share, by American International Group, Inc. (the "selling shareholder").

We will not receive any proceeds from sales of the ordinary shares offered by the selling shareholder pursuant to this prospectus. We will pay all expenses incidental to registering the ordinary shares, including SEC filing fees. The selling shareholder identified in this prospectus may, from time to time, sell, transfer or otherwise dispose of any or all of its ordinary shares or interests in ordinary shares on any stock exchange, market or trading facility on which the ordinary shares are traded or in private transactions. These dispositions may be at fixed prices, at the prevailing market price at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

Any underwriters, broker-dealers or agents that participate with the selling shareholder in the distribution of the ordinary shares may be considered "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), and any commissions, discounts or profit received by them on the resale of the ordinary shares may be considered underwriting commissions and discounts under the Securities Act.

Our ordinary shares are listed on the New York Stock Exchange, or "NYSE," under the symbol "AER." On March 30, 2015, the closing sale price of our ordinary shares on the NYSE was \$44.59 per share. You are urged to obtain the current market quotations for our ordinary shares.

Investing in our ordinary shares involves risk. See "Risk Factors" beginning on page 1 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission or other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 31, 2015.

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ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement that we filed with the Securities and Exchange Commission (the "SEC") using a "shelf" registration process for the delayed offering and sale of securities pursuant to Rule 415 under the Securities Act. Under the shelf process, the selling shareholder may offer up to a total of 97,560,976 ordinary shares, from time to time, in one or more offerings, in any manner described under the section in this prospectus entitled "Plan of Distribution." In addition, under the shelf process, in certain circumstances, we may provide a prospectus supplement that will contain specific information about the terms of a particular offering by the selling shareholder. We may also provide a prospectus supplement to add, update or change information contained in this prospectus.

This prospectus and any accompanying prospectus supplements do not contain all of the information included in the registration statement. We have omitted parts of the registration statement in accordance with the rules and regulations of the SEC. For further information, we refer you to the registration statement on Form F-3, including its exhibits, of which this prospectus is a part. Statements contained in this prospectus and any accompanying prospectus supplements about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC rules and regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters. You should not assume that the information in this prospectus, any prospectus supplements or in any documents incorporated herein or therein by reference is accurate as of any date other than the date on the front of each of such documents.

You should read both this prospectus and any prospectus supplements together with the additional information described under the heading "Where You Can Find More Information" in this prospectus.

We are responsible only for the information contained or incorporated by reference in this prospectus or any prospectus supplements. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are not making an offer to sell, or seeking offers to buy, these securities in any jurisdictions where offers or sales are not permitted.

Unless otherwise noted or unless the context otherwise requires, all references to "AerCap," "the company," "our company," "we," "us" or "our" include AerCap Holdings N.V. and its subsidiaries as a combined entity.

ABOUT AERCAP

AerCap is the world's largest independent aircraft leasing company. Aircraft leasing is a high growth sector of the growing aviation industry. AerCap focuses on acquiring in-demand aircraft at attractive prices, funding them efficiently, hedging interest rate risk conservatively and using its platform to deploy those assets with the objective of delivering superior risk adjusted returns. AerCap is a New York Stock Exchange-listed company (AER) and has its headquarters in the Netherlands with offices in Ireland, the United States, China, Singapore and the United Arab Emirates. AerCap's principal executive offices are located at Stationsplein 965, 1117 CE Schiphol Airport, The Netherlands. AerCap's telephone number at such address is +31 20 655 9655.

RISK FACTORS

Investing in our ordinary shares involves risk. Those risks are specified in the section captioned "Risk Factors" in Item 3 of our Annual Report on Form 20-F for the year ended December 31, 2014, filed with the SEC on March 30, 2015 and incorporated by reference herein. You should carefully consider those risks together with the other information contained or

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incorporated by reference in this prospectus or any prospectus supplement before deciding to invest in our ordinary shares. If any of those risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our ordinary shares could decline, and you may lose all or part of your investment.

SPECIAL NOTE ABOUT FORWARD LOOKING STATEMENTS

This prospectus includes "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward looking statements largely on our current beliefs and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed in this prospectus, could cause our actual results to differ substantially from those anticipated in our forward looking statements, including, among other things:

the availability of capital to us and to our customers and changes in interest rates,

the ability of our lessees and potential lessees to make operating lease payments to us,

our ability to successfully negotiate aircraft purchases, sales and leases, to collect outstanding amounts due and to repossess aircraft under defaulted leases, and to control costs and expenses,

decreases in the overall demand for commercial aircraft leasing and aircraft management services,

the economic condition of the global airline and cargo industry and the general economic and political conditions,

competitive pressures within the industry,

the negotiation of aircraft management services contracts,

our ability to achieve the anticipated benefits of the recently completed acquisition of International Lease Finance Corporation from a subsidiary of American International Group, Inc., and

regulatory changes affecting commercial aircraft operators, aircraft maintenance, engine standards, accounting standards and taxes.

The words "believe", "may", "aim", "estimate", "continue", "anticipate", "intend", "expect" and similar words are intended to identify forward looking statements. Forward looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward looking statements speak only as of the date they were made and we undertake no obligation to update publicly or to revise any forward looking statements because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward looking events and circumstances described in this prospectus might not occur and are not guarantees of future performance. The factors described above should not be construed as exhaustive and should be read in conjunction with the other cautionary statements and the risk factors that are described under "Risk Factors" and incorporated by reference herein. Except as required by applicable law, we do not undertake any obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of the ordinary shares by the selling shareholder.

SELLING SHAREHOLDER

The selling shareholder is American International Group, Inc. The selling shareholder has informed us that it exercises sole voting and investment authority and is deemed to beneficially own all of our ordinary shares it owns pursuant to Rule 13d-3 of the Securities Exchange Act of 1934.

The selling shareholder beneficially owns 97,560,976 ordinary shares prior to the offering. The information concerning the beneficial ownership of ordinary shares by the selling shareholder included in this prospectus has been obtained from the selling shareholder. The selling shareholder may sell all, some or none of the ordinary shares beneficially owned by it, and therefore we cannot estimate either the number or the percentage of ordinary shares that will be beneficially owned by the selling shareholder following any offering or sale hereunder. See the section captioned "Plan of Distribution."

We are registering the ordinary shares in order to permit the selling shareholder to offer the ordinary shares for resale from time to time. The table below sets forth the total number of ordinary shares that the selling shareholder may sell under this registration statement, as adjusted for any ordinary share split, ordinary share dividend or similar transaction.

| | Ordinary Shares | Fully Diluted Ownership Percentage |
|-------|----------------------------|---|
| Total | 97,560,976 | 46.0% |

The address of American International Group, Inc. is 175 Water Street, New York, New York 10038. For information regarding certain material relationships between the selling shareholder and the company, see "Major Shareholders and Related Party Transactions", Item 7 of our Annual Report on Form 20-F for the year ended December 31, 2014, filed with the SEC on March 30, 2015 and incorporated by reference herein.

TAX CONSIDERATIONS

Certain tax considerations relating to an investment in our ordinary shares are set forth in the section captioned "Taxation" in Item 10 of our Annual Report on Form 20-F for the fiscal year ended December 31, 2014 and filed with the SEC on March 30, 2015, which report is incorporated by reference herein.

PLAN OF DISTRIBUTION

The selling shareholder may, from time to time, sell, transfer or otherwise dispose of any or all of its ordinary shares or interests in ordinary shares on any stock exchange, market or trading facility on which the ordinary shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

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The selling shareholder may use any one or more of the following methods when disposing of ordinary shares:

underwritten public offerings, pursuant to which underwriters may resell the ordinary shares in one or more transactions, including in negotiated transactions at a fixed public offering price or at varying prices determined at the time of sale;

"at the market" to or through market makers or into an existing market for the ordinary shares;

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the ordinary shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise, or through derivative transactions or short sales;

in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents;

by pledge to secure debts and other obligations;

broker-dealers may agree with the selling shareholder to sell a specified number of such ordinary shares at a stipulated price per share; and

a combination of any such methods of sale.

The selling shareholder may enter into derivative transactions with broker-dealers, other financial institutions or third parties or sell securities not covered by this prospectus in privately negotiated or registered transactions. These transactions may involve the sale of ordinary shares by the selling shareholder by forward sale or by an offering (directly or by entering into derivative transactions with broker-dealers, other financial institutions or third parties) of options, rights, warrants or other securities that are offered with, convertible into or exchangeable for ordinary shares.

If the applicable prospectus supplement indicates, in connection with derivative transactions, the broker-dealers, other financial institutions or third parties may sell ordinary shares covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the broker-dealer, other financial institution or third party may use ordinary shares pledged by the selling shareholder or borrowed from the selling shareholder or others to settle those sales or to close out any related open borrowings of ordinary shares, and may use ordinary shares received from the selling shareholder in settlement of derivative transactions to close out any related open borrowing of ordinary shares.

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In connection with the sale of our ordinary shares, the selling shareholder may loan or pledge, hypothecate or grant a security interest in the ordinary shares to broker-dealers, other financial institutions or third parties which in turn may resell or otherwise transfer the ordinary shares. The selling shareholder may also enter into option or other transactions with broker-dealers, other financial institutions or third parties or enter into one or more derivative securities that in each case

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may involve the delivery to such broker-dealer, other financial institution or third party of ordinary shares offered by this prospectus, which may then resell or otherwise transfer the ordinary shares.

The selling shareholder may also enter into hedging transactions with broker-dealers or other financial institutions and the broker-dealers or other financial institutions may engage in short sales of the ordinary shares in the course of hedging the positions they assume with the selling shareholder, including, without limitation, in connection with distributions of the ordinary shares by those broker-dealers or other financial institutions.

This prospectus may be supplemented or amended from time to time to describe a specific plan of distribution and any related transactions.

The aggregate proceeds to the selling shareholder from the sale of the ordinary shares offered by it will be the purchase price of the ordinary shares less discounts or commissions, if any. The selling shareholder reserves the right to accept and, together with its agents from time to time, to reject, in whole or in part, any proposed purchase of ordinary shares to be made directly or through agents. We will not receive any of the proceeds from any offering or sale hereunder.

The selling shareholder also may resell all or a portion of the ordinary shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, provided that it meets the criteria and conforms to the requirements of that rule.

Any underwriters, broker-dealers or agents that participate in the sale of the ordinary shares or interests therein may be "underwriters" within the meaning of Section 2(a)(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the ordinary shares may be underwriting discounts and commissions under the Securities Act.

To the extent required, the ordinary shares to be sold, the respective purchase prices and public offering prices, the names of any agent, dealer or underwriter, any applicable commissions, discounts or concessions, and other terms with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the ordinary shares may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the ordinary shares may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling shareholder that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of ordinary shares in the market and to the activities of the selling shareholder and its affiliates. In addition, to the extent applicable, we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling shareholder for the purpose of satisfying the prospectus delivery requirements of the Securities Act.

We and the selling shareholder may enter into agreements pursuant to which underwriters, dealers and agents who participate in the distribution of the ordinary shares may be entitled to indemnification by us or the selling shareholder against certain liabilities, including liabilities arising under the Securities Act, and to contribution with respect to payments which the underwriters, dealers or agents may be required to make.

The selling shareholder may also make sales through the Internet or through other electronic means. Since the selling shareholder may from time to time elect to offer securities directly to the public, with or without the involvement of agents, underwriters or dealers, utilizing the Internet or other forms of electronic bidding or ordering system for the pricing and allocation of such

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securities, you should pay particular attention to the description of that system provided in a prospectus supplement.

Such electronic system may allow bidders to directly participate, through electronic access to an auction site, by submitting conditional offers to buy that are subject to acceptance by the selling shareholder, and which may directly affect the price or other terms and conditions at which such securities are sold. These bidding or ordering systems may present to each bidder, on a so-called "real-time" basis, relevant information to assist in making a bid, such as the clearing spread at which the offering would be sold, based on the bids submitted, and whether a bidder's individual bids would be accepted, prorated or rejected.

Upon completion of such an electronic auction process, securities will be allocated based on prices bid, terms of bid or other factors. The final offering price at which securities would be sold and the allocation of securities among bidders would be based in whole or in part on the results of the Internet or other electronic bidding process or auction.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a Netherlands public limited liability company ("naamloze vennootschap"). Most of our directors and executive officers live outside of the United States. Most of the assets of our directors and most of our assets are located outside of the United States. As a result, it may not be possible to serve process on us or on such persons in the United States or to enforce judgments obtained in U.S. courts against them or us based on the civil liability provisions of the securities laws of the United States. Under our articles of association (i) certain disputes between, among others, our shareholders and us and or our directors must be exclusively submitted to Netherlands courts, and (ii) the legal relationships between, among others, those persons are governed by the laws of The Netherlands. We are advised that there is no enforcement treaty between the Netherlands and the United States providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Therefore, a judgment rendered by any federal or state court in the United States in such matters cannot automatically be enforced in the Netherlands. An application will have to be made to the competent Dutch court in order to obtain a judgment that can be enforced in the Netherlands. The Dutch courts can in principle be expected to give conclusive effect to a final and enforceable judgment of a competent United States court in respect of the contractual obligations under the relevant document without re-examination or re-litigation, but would require (i) proper service of process to have been given, (ii) the proceedings before such court to have complied with principles of proper procedure ("behoorlijke rechtspleging"), and (iii) such judgment not being contrary to the public policy of the Netherlands or the European Union. The court will have discretion to attach such weight to the judgment of any federal or state court in the United States as it deems appropriate and may re-examine or re-litigate the substantive matters adjudicated upon. Furthermore, a Dutch court may reduce the amount of damages granted by a federal or state court in the United States and recognize damages only to the extent that they are necessary to compensate actual losses or damages.

We have appointed Puglisi & Associates as our agent solely to receive service of process in any action against us in any U.S. federal court or the courts of the State of New York arising out of any offering or sale hereunder, as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form F-3, including the exhibits and schedules thereto, with the SEC under the Securities Act, and the rules and regulations thereunder, for the registration of the ordinary shares that are being offered by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the

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registration statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreements or other documents.

We are subject to the information reporting requirements of the Exchange Act, as applicable to foreign private issuers. As a "foreign private issuer," we are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of shares. We file with the SEC an Annual Report on Form 20-F containing financial statements audited by an independent registered public accounting firm. We also file Interim Reports on Form 6-K containing unaudited interim financial information for the first three quarters of each fiscal year.

You may read and copy any document we file with or furnish to the SEC at the SEC's Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F. Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You can review our SEC filings, including the registration statement by accessing the SEC's Internet website at www.sec.gov. We will provide each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the information that has been incorporated by reference into this prospectus but not delivered with this prospectus upon written or oral request at no cost to the requester. Requests should be directed to: AerCap Holdings N.V., Stationsplein 965, 1117 CE Schiphol Airport, The Netherlands, or telephoning us at +31 20 655 9655. Our website is located at www.aercap.com. The information contained on our website is not a part of this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the SEC by us are incorporated herein by reference:

our Annual Report on Form 20-F for the fiscal year ended December 31, 2014, as filed with the SEC on March 30, 2015;

our Current Reports on Form 6-K, as filed with the SEC on May 14, 2014, January 5, 2015, January 16, 2015 and March 30, 2015; and

the description of our ordinary shares, par value €0.01 per share, set forth under "Description of Ordinary Shares" in our Registration Statement on Form F-1 (File No. 333-138381), as amended, which was originally filed with the Commission on November 16, 2006.

All documents subsequently filed by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the filing of a post-effective amendment to this Registration Statement that indicates that all securities offered have been sold or that deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such documents. Unless expressly incorporated into this Registration Statement, a report (or portion thereof) furnished on Form 6-K shall not be incorporated by reference into this Registration Statement. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that

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a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement. Copies of these documents are not required to be filed with this Registration Statement.

EXPENSES

We anticipate that our total expenses with respect to the registration statement of which this prospectus is a part and the offering to be made hereby will aggregate approximately \$603,362, of which \$495,862.25 is attributable to the SEC registration fee, approximately \$57,500 is attributable to legal fees and approximately \$50,000 is attributable to accounting fees.

DISCLOSURE OF SEC POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Under Dutch law, AerCap may purchase directors' and officers' insurance. AerCap carries such insurance. In addition, AerCap's articles of association include indemnification of its directors and officers against liabilities, including judgments, fines and penalties, as well as against associated reasonable legal expenses and settlement payments, to the extent this is allowed under Dutch law. Such indemnification is effective under Dutch law except with respect to any liability resulting from intentional acts, willful recklessness or serious culpability of such person or in case such person did not act in good faith and in the reasonable belief that his or her action was in the best interest of AerCap.

Insofar as such indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, AerCap 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. Under AerCap's articles of association, (i) the rights and obligations among or between AerCap and any of its current or former directors and officers, including the indemnification, are governed exclusively by the laws of the Netherlands; and (ii) any suit by and between AerCap and its current or former directors and officers shall be exclusively submitted to the courts of The Netherlands. When a current or former director or officer seeks to enforce the indemnification against AerCap before the courts of the Netherlands, such courts are not bound by the opinion of the Securities and Exchange Commission.

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by NautaDutilh N.V.

EXPERTS

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 20-F for the year ended December 31, 2014 have been so incorporated in reliance on the report of PricewaterhouseCoopers Accountants N.V., an independent registered public accounting firm given on the authority of said firm as experts in auditing and accounting.

The financial statements of International Lease Finance Corporation incorporated in this prospectus by reference to our Current Report on Form 6-K dated May 14, 2014 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm given on the authority of said firm as experts in auditing and accounting.

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10,677,702
Ordinary Shares

PROSPECTUS SUPPLEMENT
Dated August 18, 2015

Global Coordinators

Citigroup

Goldman, Sachs & Co.
