

SECURITIES AND EXCHANGE COMMISSION

FORM S-3/A

Registration statement for specified transactions by certain issuers [amend]

Filing Date: **1997-12-18**
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FILER

PALOMAR MEDICAL TECHNOLOGIES INC

CIK: **881695** | IRS No.: **043128178** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **S-3/A** | Act: **33** | File No.: **333-42129** | Film No.: **97740677**
SIC: **3672** Printed circuit boards

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66 CHERRY HILL DR
BEVERLY MA 01915

Business Address
45 HARTWELL AVENUE
LEXINGTON MA 02173
7816767300

Registration No.333-42129

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDED
FORM S-3

REGISTRATION STATEMENT
Under
The Securities Act of 1933

PALOMAR MEDICAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-3128178

(I.R.S. employer identification number)

45 Hartwell Avenue, Lexington, Massachusetts 02173 (781) 676-7300

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

Sarah Burgess Reed
General Counsel
Palomar Medical Technologies, Inc.
45 Hartwell Avenue
Lexington, Massachusetts 02173
(781) 676-7300

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: from
time to time after the effective date of this Registration Statement as
determined by market conditions.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box. []

If any of the securities being registered on this Form are to be offered
on a delayed or continuous basis pursuant to Rule 415 under the Securities Act
of 1933, other than securities offered only in connection with dividend or
interest reinvestment plans, check the following box. [X]

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

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

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

CALCULATION OF REGISTRATION FEE

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>	<C>
Title of Shares to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$.01 per share.	10,913,109(1)	\$1.16(2)	\$12,659,206(2)	\$3,836**(2)

**--Fee paid with original filing

</TABLE>

- (1) Consists of (i) 6,500,000 shares issuable upon conversion of \$7,000,000 principal amount of Convertible Debentures with interest at varying rates of 6%, 7% and 8% due September 30, 2002 (the "Debentures"); (ii) 413,109 shares issued in connection with the Debentures and (iii) 4,000,000 shares held by a third-party lender as security for a guaranty by the Company, all of which are exercisable at prices and terms described in the Selling Stockholders and Plan of Distribution sections of the Prospectus.
- (2) Estimated solely for purposes of calculation of the fee. The actual number of shares of common stock issuable upon conversion of the Debentures may be more or less than such estimate based on a variety of factors, including the date of conversion and the price of the common stock on such date. The fee is estimated pursuant to Rule 457(c) under the Act on the basis of the average of the high and low sale prices reported on the Nasdaq SmallCap Market on December 10, 1997.

Pursuant to Rule 416, there are also registered hereby such additional indeterminate number of shares of common stock as may become issuable as dividends or to prevent dilution resulting from stock splits, stock dividends or similar transactions or as the result of floating rate conversion mechanisms as set forth in the terms of the Debentures referred to above.

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

SUBJECT TO COMPLETION DATED December 18, 1997

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PROSPECTUS

PALOMAR MEDICAL TECHNOLOGIES, INC.

10,913,109 shares of Common Stock
consisting of:

- 6,500,000 shares issuable upon conversion of \$7,000,000 principal amount of Convertible Debentures bearing interest at varying rates of 6%, 7% and 8% due September 30, 2002;
- 413,109 shares issued in connection with the Debentures and
- 4,000,000 shares held by a third-party lender as security for a guarantee by the Company

This Prospectus relates to 10,913,109 shares of common stock (the "Shares") of Palomar Medical Technologies, Inc. (the "Company", the "Registrant" or "Palomar") consisting of (i) 6,500,000 shares issuable upon conversion of \$7,000,000 principal amount of Convertible Debentures bearing interest at varying rates of 6%, 7% and 8% due September 30, 2002 (the "Debentures"), which are exercisable as described in the Selling Stockholders and Plan of Distribution sections of the Prospectus; (ii) 413,109 shares issued in connection with the Debentures and (iii) 4,000,000 shares held by a third-party lender as security for a guaranty by the Company. All shares to be registered hereby are to be offered by the selling stockholders listed herein (the "Selling Stockholders") and the Company will receive no proceeds from the sale of such shares. The Company has agreed to indemnify the Selling Stockholders against certain liabilities, including certain liabilities under the Securities Act of

1933, as amended (the "Securities Act"), or to contribute to payments which such Selling Stockholders may be required to make in respect thereof. See "Plan of Distribution."

The Company's common stock, par value \$.01 per share, is listed on the National Association of Securities Dealers Automated Quotation System ("Nasdaq") and traded on the Nasdaq SmallCap Market. The last reported bid price of the common stock on the Nasdaq SmallCap Market on December 11, 1997 was \$1.1875 per share.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

AN INVESTMENT IN THE SECURITIES OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" AT PAGES 6 THROUGH 14.

It is anticipated that usual and customary brokerage fees will be paid by the Selling Stockholders on the sale of the Shares registered hereby. The Company will pay the other expenses of this offering. See "Plan of Distribution". The offer of Shares by the Selling Stockholders as described in this Prospectus is referred to as the "Offering."

<TABLE>
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	<C>	<C>	<C>
	Price to Public	Underwriting Discounts and Commissions	Proceeds to Issuer or Other Persons
Per Unit.....	\$1.1875 (1)	0 (2)	\$1.1875 (1) (3)
Total.....	12,959,317 (1)	0 (2)	12,959,317 (1) (3)

</TABLE>

- (1) Based on the closing bid price of the Company's common stock as reported on the Nasdaq SmallCap Market on December 11, 1997.
- (2) None, to the Company's knowledge.
- (3) Less usual and customary brokerage fees.

The date of this Prospectus is _____.

No dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus in connection with the offer contained in this Prospectus, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Company or the Selling Stockholders. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company with the Commission can be inspected and copied at the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, Room 1024 and at the public reference facilities maintained by the Commission on the 14th Floor, 75 Park Place, New York, New York 10007; Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661; and Suite 500 East, Securities and Exchange Commission Building, 5757 Wilshire Boulevard, Los Angeles, California 90036. Copies can be obtained from the Commission at prescribed rates by writing to the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Such reports, proxy statements and similar information can also be inspected and copied at the National Association of Securities Dealers, 1735 K Street, N.W., Washington, DC 20006-1500. In addition, the Commission maintains a Web site that

contains reports, proxy and information statements and other information regarding registrants that file electronically, including the Company. The Commission's Web site address is <http://www.sec.gov>. This prospectus, which constitutes part of a Registration Statement filed by the Company with the Commission under the Securities Act omits certain of the information contained in the Registration Statement in accordance with the rules and regulations of the Commission. Reference is hereby made to the Registration Statement and to the Exhibits relating thereto for further information with respect to the Company and the Securities offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such documents filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1996 as amended by Form 10-KSB/A-1 filed April 16, 1997, Form 10-KSB/A-2 filed April 30, 1997, Form 10-KSB/A-3 filed May 28, 1997 and Form 10-KSB/A-4 filed July 11, 1997; the Company's Quarterly Report on Form 10-Q for its quarter ending September 30, 1997 filed November 14, 1997; the Company's Form 8-K filed with the Commission on May 16, 1996, as amended by Form 8-K/A filed June 11, 1996; and the description of the Company's Common Stock contained in its Registration Statement on Form 8-A filed with the Commission on June 6, 1992, all of which have been previously filed with the Commission, are incorporated in this Prospectus by reference. All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date hereof and prior to the termination of the offering made hereby are also incorporated by reference herein and made a part hereof from the date of filing of such documents. Any statement contained in a document incorporated by reference herein is modified or superseded for all purposes to the extent that a statement contained in this Prospectus or in any other subsequently filed document which is incorporated by reference modifies or replaces such statement. The Company will provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, upon the written or oral request of such person, a copy of all documents incorporated herein by reference (not including the exhibits to such documents, unless such exhibits are specifically incorporated by reference herein). Requests for such copies should be directed to: John J. Ingoldsby, Palomar Medical Technologies, Inc., 45 Hartwell Avenue, Lexington, Massachusetts 02173; telephone number (781) 402-2411; e-mail address: JIPalomar@aol.com.

PROSPECTUS SUMMARY

The following summary information is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus or incorporated herein by reference and the financial statements which are incorporated herein by reference.

<p><TABLE> <S> THE COMPANY.....</p>	<p><C> The Company currently has three business segments: cosmetic dermatological laser products, laser services and electronic products. The Company intends to divest its non-core electronics subsidiaries. In addition, the Company anticipates that it will concentrate its efforts in the cosmetic dermatological laser segment on hair removal. The Company has recently signed an agreement with Coherent, Inc. pursuant to which Coherent will distribute the Company's laser hair removal products and obtain a right of first refusal to distribute newly developed laser products. In the laser services segment, which is in the developmental stage, the Company intends to focus on a few strategic partnerships, including its partnership with Columbia/HCA.</p>
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<p>SECURITIES OFFERED.....</p>	<p>10,913,109 shares of Company common stock, par value \$.01 per share. The actual number of shares of common stock issuable upon conversion of the Debentures is indeterminate, is subject to adjustment and could be materially less or more than such estimated number depending on a number of factors which cannot be predicted by the Company at this time, including among other factors, the future market price of the common stock. The actual number of shares offered hereby, and included in the Registration Statement of which this prospectus is a part, includes such additional shares of common stock as may be issued or issuable upon conversion of the Debentures by reason of the floating rate conversion price mechanism or other adjustment mechanisms described</p>
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therein, or be reason of any stock split, stock dividend or similar transaction involving the common stock, in order to prevent dilution, in accordance with Rule 416 under the Securities Act of 1933.

OFFERING PRICE..... All or part of the Shares offered hereby may be sold from time to time in amounts and on terms to be determined by the Selling Stockholders at the time of sale.

USE OF PROCEEDS..... The Company will receive no part of the proceeds from the sale of the Shares registered pursuant to this Registration Statement.

SELLING STOCKHOLDERS..... The Shares being offered hereby are being offered for the account of the Selling Stockholders specified under the caption "Selling Stockholders."

NASDAQ TRADING SYMBOL..... PMTI

</TABLE>

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RISK FACTORS

AN INVESTMENT IN THE SHARES OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK AND SHOULD NOT BE MADE BY PERSONS WHO CANNOT AFFORD THE LOSS OF THEIR ENTIRE INVESTMENT. IN CONNECTION WITH THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, THE COMPANY IS HEREBY IDENTIFYING IMPORTANT FACTORS THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED IN FORWARD-LOOKING STATEMENTS OF THE COMPANY MADE BY OR ON BEHALF OF THE COMPANY. THE COMPANY ADVISES READERS NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, IN LIGHT OF THE RISKS AND UNCERTAINTIES TO WHICH THEY ARE SUBJECT. THE COMPANY UNDERTAKES NO OBLIGATION TO RELEASE PUBLICLY THE RESULT OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. THE FOLLOWING FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING THE COMPANY AND ITS BUSINESS.

SUBSTANTIAL AND CONTINUING LOSSES. The Company incurred a net loss of \$37,863,792 for the year ended December 31, 1996, a net loss of \$36,989,569 for the quarter ended September 30, 1997 and a net loss of \$67,167,702 for the nine months ended September 30, 1997. Losses of this magnitude are expected to continue for the near term, and there can be no assurance that the Company will achieve profitable operations or that profitable operations will be sustained if achieved. The Company's accumulated deficit was \$64,971,200 at December 31, 1996, and \$133,366,880 at September 30, 1997. Each of the Company's subsidiaries, Dynaco Corp. ("Dynaco"), Star Medical Technologies, Inc. ("Star"), Spectrum Medical Technologies, Inc. ("Spectrum"), Palomar Medical Products, Inc. ("PMP"), Cosmetic Technology International, Inc. ("CTI") and Nexar Technologies, Inc. ("Nexar") has had a history of losses. There can be no assurance that these companies will achieve profitable operations or that profitable operations will be sustained if achieved. The Company anticipates incurring substantial research and development expenses, which will reduce cash available to fund current operations. The Company must continue to secure additional financing to complete its research and development activities, commercialize its current and proposed cosmetic laser products and fund ongoing operations. The Company anticipates that it will require substantial additional financing during the immediate foreseeable future. The Company's strategic plan is to liquidate certain assets to fund its core operations over the next twelve-month period. However, there can be no assurance that the Company will be able to execute this strategy, due to market and legal factors outside its control, among other things. Additionally, to the extent that the Company incurs indebtedness to fund increased levels of accounts receivable or to finance the acquisition of capital equipment or issues debt securities in connection with any acquisition, the Company will be subject to risks associated with incurring substantial additional indebtedness, including the risks that interest rates may fluctuate and cash flow may be insufficient to pay principal and interest on any such indebtedness. The Company continues to investigate several financing alternatives, including strategic partnerships, additional bank financing, liquidation of assets, and private debt and equity financing, among other sources. While the Company regularly reviews potential funding sources, there can be no assurance that the current levels of funding or additional funding will be available, or, if available, will be on terms satisfactory to the Company. Failure to obtain additional financing could have a material adverse effect on the Company, including possibly requiring it to significantly curtail its operations. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business," Note 1 to Financial Statements, and "Item 6. Management's Discussion

and Analysis of Financial Condition and Results of Operations"; and September 30, 1997 Form 10-Q Part I "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.")

COHERENT AGREEMENT. The Company has entered into a Sales Agency, Development and License Agreement (the "Coherent Agreement") with Coherent, Inc. ("Coherent") under which Coherent will act as exclusive distributor for the Company's laser based hair removal systems in the United States, Far East and most European countries. As a result, the Company no longer has its own sales force in these countries. If Coherent proves unable to sell Palomar's hair removal lasers in the volume anticipated, it could have a material adverse effect on the Company's business, financial condition and results of operations.

NEXAR. As of November 18, 1997, the Company owns 58% of the voting capital stock of Nexar. In order to successfully execute its business plan, the Company is to a certain degree dependent on the success of Nexar and Nexar's ability to fund its operations and achieve profitability in the near term. The Company may reduce its ownership of Nexar over time as it continues to focus on its core cosmetic laser business. (See "Substantial and Continuing Losses;" "Highly Competitive Industries;" "Government Regulation;" "Uncertainty of Market Acceptance;" "Technological Obsolescence;" "Lack of Patent Protection;" "Dependence on Sole Suppliers;" and "Dependence on Substantial Customers.")

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RISKS ASSOCIATED WITH PENDING LITIGATION. The Company and its subsidiaries are involved in disputes with third parties. Such disputes have resulted in litigation with such parties and, although the Company is a plaintiff in several matters, the Company is subject to claims and counterclaims for damages and has incurred, and likely will continue to incur, legal expenses in connection with such matters. There can be no assurance that such litigation will result in favorable outcomes for the Company. The Company is unable to determine the total expense or possible loss, if any, that may ultimately be incurred in the resolution of these proceedings. These matters may result in diversion of management time and effort from the operations of the business. After consideration of the nature of the claims and the facts relating to these proceedings, the Company believes that the resolution of these proceedings will not have a material effect on the Company's business, financial condition and results of operations; however, the results of these proceedings, including any potential settlements, are uncertain and there can be no assurance to that effect. (See September 20, 1997 Form 10-Q, Part II "Item 1. Legal Proceedings.")

HOLDING COMPANY STRUCTURE. The Company has no significant operations other than those incidental to its ownership of the capital stock of its subsidiaries. As a holding company, the Company is dependent on dividends or other intercompany transfers of funds from its subsidiaries to meet the Company's debt service and other obligations. Claims of creditors of the Company's subsidiaries, including trade creditors, will generally have priority as to the assets of such subsidiaries over the claims of the Company and the holders of the Company's indebtedness.

FUTURE OPERATING STRATEGY. The Company's future operating strategy and results are dependent on its ability to successfully divest its non-core subsidiaries and successfully execute its business plan in the cosmetic laser products and services businesses. There can be no assurance that the Company will be able to successfully execute this plan.

LIMITED OPERATING HISTORY; RECENT ACQUISITIONS. Many of the Company's subsidiaries have limited operating histories and are in the development stage, and the Company is subject to all of the risks inherent in the establishment of a new business enterprise. The likelihood of success of the Company must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of a new business and development of new technologies in the cosmetic laser products and electronic products industries. These include, but are not limited to, government regulation, competition, the need to expand manufacturing capabilities and market expertise, and setbacks in production, product development, market acceptance and sales and marketing. The Company's prospects could be significantly affected by its ability to subsequently manage and integrate the operations of several distinct businesses with diverse products, services and customer bases in order to achieve cost efficiencies. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business" and Note 1 to Financial Statements.)

NEW VENTURES. The Company's CTI subsidiary has entered into several agreements with healthcare providers, including Columbia/HCA, to provide cosmetic laser services at laser treatment centers, and plans to enter into more such agreements in the future. While the Company believes these new partnerships are strategically important, there are substantial uncertainties associated with the development of new products, technologies and services for evolving markets.

The success of these ventures will be determined not only by the Company's efforts, but also by those of its partners. Initial timetables for the development and introduction of new technologies, products or services may not be achieved, and price/performance targets may not prove feasible. External factors, such as the development of competitive alternatives or government regulation, may cause new markets to evolve in unanticipated directions. (See "Highly Competitive Industries," and December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business.")

INVESTMENTS IN UNRELATED BUSINESSES. The Company has investments in marketable and non-marketable securities and loans to related and unrelated parties, including approximately \$3 million invested in equity securities of high-tech companies, both public and privately held. The amount that the Company may ultimately realize from these investments could differ materially from the value of these investments recorded in the Company's financial statements, and the ultimate disposition of these investments could result in a loss to the Company. During the third quarter, the Company established reserves for certain operating assets and liabilities that resulted in a charge to expense of approximately \$9,426,000. Included in the reserves, the Company recognized a restructuring charge of \$2,700,000 based on the decision to discontinue some business units and consolidate others. The Company also assessed its non-core long-term assets and investments and determined that some investments' carrying value will not be realizable due to the Company's change in strategy. The Company has fully reserved for all such investments resulting in a charge to third quarter operations of approximately \$13,548,000. (See September 30, 1997 Form 10-Q Note 2 to Financial Statements and Part I "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.")

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HIGHLY COMPETITIVE INDUSTRIES. The cosmetic laser industry is highly competitive and is characterized by the frequent introduction of new products. The Company competes in the development, manufacturing, marketing and servicing of laser products with numerous other companies, certain of which have substantially greater financial, marketing and other resources than the Company. In addition, the Company's cosmetic laser products face competition from alternative medical products and procedures, such as pharmaceutical treatment, electrolysis, waxing and surgery, among others. There can be no assurance that the Company will be able to differentiate its products from the products of its competitors or that the marketplace will consider the Company's products to be superior to competing products or medical procedures. There can be no assurance that competitors will not develop products or that new technologies will not be developed that render the Company's products obsolete or less competitive. (See "Technological Obsolescence.") In addition, in entering areas of business in which it has little or no experience, such as the opening of laser treatment centers, the Company may not be able to compete successfully with competitors that are more established in such areas. (See "New Ventures.")

The Company's Nexar subsidiary competes with IBM, Apple Computer, Compaq and Dell Computer, among others. Many, if not most, of Nexar's current and prospective competitors are substantial in size and have substantial financial, managerial, technical, manufacturing, marketing and other resources, and may introduce additional products that compete with those of Nexar. There can be no assurance that Nexar's products will compete favorably with the products of its competitors or that Nexar will have the resources necessary to compete effectively against such companies. As a result of the intense competition in the personal computer market, the Company expects that gross margins on sales of Nexar's upgradeable personal computers will be extremely narrow and will require Nexar to manage carefully its cost of goods sold. There can be no assurance that Nexar will be able to manage its cost of goods sold to the degree necessary for sales of upgradeable computer products to generate significant gross margins. Nexar currently has limited marketing capabilities and expects to place significant reliance on independent distributors and resellers for the distribution and marketing of its products. Nexar will be dependent upon the efforts of such third parties. The inability to establish and maintain a network of independent distributors and resellers, or a reduction in their sales efforts, could have a material adverse effect on Nexar's financial condition and results of operations. In addition, there can be no assurance as to the viability or financial stability of independent distributors and resellers. The computer industry has been characterized from time to time by financial difficulties of distributors and resellers; any such problems could lead to reduced sales and could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that Nexar's products will compete favorably with the products of its competitors or that the Company will have the resources necessary to compete effectively against such companies. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business.")

FLUCTUATIONS IN QUARTERLY PERFORMANCE. The Company's results of operations have fluctuated substantially and can be expected to continue to vary

significantly. The Company's quarterly operating results depend on a number of factors, including the timing of the introduction or acceptance of new products offered by the Company or its competitors, changes in the mix of products sold by the Company, changes in regulations affecting the cosmetic laser products or electronics industry, changes in the Company's operating expenses, personnel changes and general economic conditions.

VOLATILITY OF SHARE PRICE. Factors such as announcements of developments related to the Company's business, announcements by competitors, quarterly fluctuations in the Company's financial results, changes in analysts' earnings estimates, market conditions in the high technology sector, as well as general economic conditions and other factors have caused the price of the Company's stock to fluctuate, in some cases substantially, and could continue to do so in the future. In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market price for many technology companies and that have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Company's common stock.

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GOVERNMENT REGULATION. The Company's laser product business segment is subject to regulation in the United States and abroad. Failure to comply with applicable regulatory requirements can result in fines, denial or suspension of approvals, seizures or recall of products, operating restrictions and criminal prosecutions, any or all of which could have a material adverse effect on the Company. Furthermore, changes in existing regulations or adoption of new regulations could prevent the Company from obtaining, or could affect the timing of, future regulatory approvals. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business - Government Regulation.")

All laser product devices, including those sold by the Company, are subject to regulation by the FDA under the Medical Device Amendments of the United States Food, Drug and Cosmetics Act (the "FDA Act"). The Company's future operating results are dependent on its ability to develop, produce and achieve FDA approval for certain medical products and market new and innovative products and services. There are numerous risks inherent in this complex process, including rapid technological change and the requirement that the Company bring to market in a timely fashion new products and services which meet customers' changing needs.

FDA CLEARANCE STATUS FOR COSMETIC LASER PRODUCTS. Four of the Company's lasers have received clearance from the FDA for certain dermatological applications: the Q-switched Ruby laser, the TruPulse laser, the EpiLaser laser system and the StarLite(TM) diode hair-removal laser.

The Company is also investigating other applications in dermatology for its laser systems. It will be required to obtain FDA clearance before commercially marketing any other application. The Company believes that it will be able to seek such clearance under the 510(k) application process; however, no assurance can be given that the FDA will not require the Company to follow the more extensive and time-consuming Pre-Market Approval ("PMA") process. FDA review of a 510(k) application currently averages about seven to twelve months and requires limited clinical data based on "substantial equivalence" to a product marketed prior to 1976, while a PMA review can last for several years and require substantially more clinical data.

The FDA also imposes various requirements on manufacturers and sellers of products under its jurisdiction, such as labeling, good manufacturing practices, record keeping and reporting requirements. The FDA also may require post-market testing and surveillance programs to monitor a product's effects. There can be no assurance that the appropriate clearances from the FDA will be granted, that the process to obtain such clearances will not be excessively expensive or lengthy or that the Company will have sufficient funds to pursue such clearances.

No assurance can be given that FDA approval will be obtained for the Company's current or proposed laser products on a timely basis, if at all. The laser products segment of the Company's business is, and will continue to be, critically dependent upon FDA approval of its current and proposed cosmetic laser products. Delays or failure to obtain such approval would have a material adverse effect on the Company.

OTHER GOVERNMENT APPROVALS FOR LASER PRODUCTS; GOOD MANUFACTURING PRACTICES. In order to be sold outside the United States, the Company's products are subject to FDA permit requirements that are conditioned upon clearance by the importing country's appropriate regulatory authorities. Many countries also require that imported products comply with their own or international electrical and safety standards. Additional approvals may be required in other countries. The Company's TruPulse laser and EpiLaser laser system have received the CE Mark

pursuant to the European Medical Device Directive which allows that laser to be sold in all countries that recognize the CE Mark, including the countries that comprise the European Community. The Company has yet to apply for international approval for its diode laser for use in cosmetic surgery and dermatology.

The Company is subject to the laser radiation safety regulations of the FDA Act administered by the National Center for Devices and Radiological Health ("CDRH") of the FDA. These regulations require a laser manufacturer to file new product and annual reports, to maintain quality control, product testing and sales records, to distribute appropriate operation manuals, to incorporate certain design and operating features in lasers sold to end-users and to certify and label each laser sold to end-users as one of four classes of lasers (based on the level of radiation from the laser). In addition, various warning labels must be affixed on the product and certain protective devices must be installed depending upon the class of product. Under the Act, the Company is also required to register with the FDA as a medical device manufacturer and is subject to inspection on a routine basis by the FDA for compliance with Good Manufacturing Practice ("GMP") regulations. The GMP regulations impose certain procedural and documentation requirements upon the Company relevant to its manufacturing, testing and quality control activities. The CDRH is empowered to seek fines and other remedies for violations of these regulatory requirements.

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UNCERTAINTY OF MARKET ACCEPTANCE. The Company is developing new products intended for use in the cosmetic laser products segment. As with any new products, there is substantial risk that the marketplace may not accept or be receptive to the potential benefits of such products. Market acceptance of the Company's current and proposed products will depend, in large part, upon the ability of the Company or any marketing partners to demonstrate to the marketplace the advantages of the Company's products over other types of products. There can be no assurance that applications or uses for the Company's current and proposed products will be accepted by the marketplace or that any of the Company's current or proposed products will be able to compete effectively. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business.")

DEPENDENCE ON THIRD PARTY RESEARCHERS. The Company is substantially dependent upon third party researchers and others, over which the Company will not have absolute control, to satisfactorily conduct and complete research on behalf of the Company and to grant to the Company favorable licensing terms for products which may be developed. The Company has entered into a number of research agreements with recognized research hospitals and clinical laboratories. These research institutions include the Oregon Medical Laser Center at the Heart Institute of St. Vincent Hospital and Medical Center in Portland, Oregon, the Wellman Labs at Massachusetts General Hospital and the Otolaryngology Research Center for Advanced Endoscopic Applications at New England Medical Center, Boston, Massachusetts. The Company provides research funding, laser technology and optics know-how in return for licensing agreements with respect to specific medical applications and patents. Management believes that this method of conducting research and development provides a higher level of technical and clinical expertise than it could provide on its own and in a more cost efficient manner. The Company's success will be highly dependent upon the results of the research, and there can be no assurance that these research agreements will provide the Company with marketable products in the future or that any of the products developed under these agreements will be profitable for the Company. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business" and Note 6 to Financial Statements.)

TECHNOLOGICAL OBSOLESCENCE. The markets for the Company's products are characterized by rapid and significant technological change, evolving industry standards and frequent new product introductions and enhancements. Many of the Company's products and products under development are technologically innovative, and require significant planning, design, development and testing at the technological, product and manufacturing process levels. These activities require significant capital commitments and investment by the Company. The Company's failure to develop products in a timely manner in response to changes in the industry, whether for financial, technological or other reasons, will have a material adverse effect on the Company's business, financial condition and results of operations. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business.")

NEED FOR CONTINUED PRODUCT DEVELOPMENT. Although the Company received FDA clearance in March 1997 to commercially market its EpiLaser(TM) laser system for hair removal, the Company is continuing to study this laser system to optimize performance and treatment parameters.

LACK OF PATENT PROTECTION. The Company currently holds several patents and intends to pursue various additional avenues that it deems appropriate to protect its technology. There can be no assurance, however, that the Company will file any additional patent applications or that any patent applications

that have been, or may be, filed will result in issued patents, or that any patent, patent application, know-how, license or cross-license will afford any protection or benefit to the Company.

The cosmetic laser device market has been characterized by substantial litigation regarding patent and other intellectual property rights. One of the Company's competitors in the cosmetic laser business has filed suit against the Company alleging patent infringement, among other things. In both the cosmetic laser products and the electronic products segments, litigation, which could result in substantial cost to and diversion of effort by the Company, may be necessary to protect trade secrets or know-how owned by or licensed to the Company or to determine the enforceability, scope and validity of the proprietary rights of others. Adverse determination in litigation or interference proceedings could subject the Company to significant liabilities to third parties, require the Company to seek licenses from third parties and could prevent the Company from manufacturing and selling its products, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. (See September 30, 1997 10-Q, Part II "Item 1. Legal Proceedings.")

POSSIBLE PATENT INFRINGEMENTS. In the medical products segment, the Company is aware of patents relating to laser technologies used in certain applications. The Company intends to pursue such laser technologies in the future; hence, if the patents relating to those technologies are valid and enforceable, they may be infringed by the Company. After consulting with outside

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counsel to the Company, the Company believes that it is not infringing currently on patents held by others; however, were the issue ever to be litigated, a court could reach a different conclusion. If the Company's current or proposed products are, in the opinion of patent counsel, infringing on any of these patents, the Company intends to seek non-exclusive, royalty-bearing licenses to such patents but there can be no assurance that any such license would be available on favorable terms, if at all. One of the Company's competitors in the cosmetic laser business has filed suit against the Company alleging patent infringement, among other things. In the electronic products segment, the Company has not been notified that it is currently infringing on any patents nor has it been the subject of any patent infringement action. No assurance can be given that infringement claims will not be made or that the Company would prevail in any legal action with respect thereto. Defense of a claim of infringement would be costly and could have a material adverse effect on the Company's business, even if the Company were to prevail. (See September 30, 1997 10-Q, Part II "Item 1. Legal Proceedings.")

DEPENDENCE ON PROPRIETARY RIGHTS. The Company relies on trade secrets and proprietary know-how which it seeks to protect, in part, by confidentiality agreements with its collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently developed by competitors.

NEED FOR QUALIFIED PERSONNEL/DEPENDENCE ON KEY PERSONNEL. The Company's ability to develop, manufacture and market all of its products, and to attain a competitive position within the laser products and electronics industries, will depend, in large part, on its ability to attract and retain qualified personnel. Competition for qualified personnel in these industries is intense and the Company will be required to compete for such personnel with companies which may have greater financial and other resources; there can be no assurance that the Company will be successful in attracting, assimilating and retaining the personnel it requires to grow and operate profitably. The Company's inability to attract and retain such personnel could have a material adverse effect upon its business, financial condition and results of operations.

The Company's future success depends to a significant extent on its executive officers and certain technical, managerial and marketing personnel. The loss of the services of any of these individuals or group of individuals could have a material adverse effect on the Company's business, financial condition and results of operations.

ISSUANCE OF PREFERRED STOCK AND DEBENTURES COULD AFFECT RIGHTS OF COMMON SHAREHOLDERS. The Company is authorized to issue up to 5 million shares of Preferred Stock, \$.01 par value. The Preferred Stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors, without further action by shareholders, and may include voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. In July 1996, the Company issued 6,000 shares of Series F Convertible Preferred Stock at a price of \$1,000 per share. In September 1996, the Company issued 10,000 shares of Series G Convertible

Preferred Stock at a price of \$1,000 per share. As of November 30, 1997, 7,316 shares of Series G Preferred Stock were converted into 602,824 shares of common stock and 956,388 shares of Nexar common stock and \$47,731 in cash dividends. In March 1997, the Company issued 6,000 shares of Series H Convertible Preferred Stock at a price of \$1,000 per share. In May 1997, the Company issued an additional 10,000 shares of Series H Convertible Preferred Stock at a price of \$1,000 per share. As of November 30, 1997, 7,690 shares of Series H Preferred Stock were converted into 4,504,008 shares of common stock. In July 1996, the Company issued 9,675 units in a convertible debenture financing. Each unit consisted of a convertible debenture denominated in 1,000 Swiss francs (the "Swiss franc Debentures") and a warrant to purchase 24 shares of the Company's common stock at \$16.50 per share. In February 1997, 300 units were redeemed by the Company for an aggregate price of \$195,044. As of November 13, 1997, acting under applicable provisions of the indenture, the Company notified the holders of the Swiss franc Debentures that it is causing the conversion of all of the Swiss franc Debentures into an aggregate of 914,024 shares of the Company's common stock. These shares have not been accounted for in shares outstanding as the Debentures are still outstanding. The Company is involved in litigation regarding certain provisions of the indenture. (See September 30, 1997 Form 10-Q, Part II "Item 1. Legal Proceedings.") In October 1996, the Company issued \$5,000,000 in 4.5% Convertible Subordinated Promissory Notes. As of November 30, 1997, \$4,900,000 principal amount was converted into 1,381,264 shares of common stock. In December 1996 and January 1997, the Company issued a total of \$6,000,000 in 5% Convertible Debentures. As of November 30, 1997, \$3,911,716 was converted into 1,919,992 shares of common stock. In March 1997, the Company issued \$5,500,000 in 5% Convertible Debentures. As of November 30, 1997, \$3,773,666 was converted into 2,250,266 shares of common stock. In March 1997, the Company issued \$500,000 in 6% Convertible Debentures. In September 1997, the

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Company issued a total of \$7,000,000 in 6%, 7% and 8% Convertible Debentures. The issuance of any such additional Preferred Stock or Debentures could affect the rights of the holders of Shares, and could reduce the market price of the Shares. In particular, specific rights granted to future holders of Preferred Stock or Debentures could be used to restrict the Company's ability to merge with or sell its assets to a third party, thereby preserving control of the Company by the existing control group. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business," "Item 5. Market for Common Equity and Related Stockholder Matters," and Notes 4 and 5 to Financial Statements and September 30, 1997 Form 10-Q, Notes 7 and 8 to Financial Statements and Part II, "Item 2. Changes in Securities.")

ISSUANCE OF RESERVED SHARES; REGISTRATION RIGHTS. As of November 30, 1997, the Company had 43,116,141 shares of common stock outstanding. The Company has reserved an additional 34,505,015 shares for issuance as follows: (1) 3,709,504 shares for issuance to key employees, officers, directors, consultants and advisors pursuant to the Company's Stock Option Plans; (2) 212,690 shares for issuance to employees, officers and directors pursuant to the Company's 401(k) Plan; (3) 984,623 shares for issuance pursuant to the Company's Employee Stock Purchase Plan; (4) 9,412,940 shares for issuance upon exercise of three-, four-, five- and seven-year warrants issued to certain lenders, investors, consultants, directors and officers (a portion of which are subject to certain antidilutive adjustments); (5) 600,000 shares for issuance upon conversion of the 6,000 shares of Series F Convertible Preferred Stock; (6) 487,176 shares for issuance upon conversion of the 2,684 shares of Series G Convertible Preferred Stock; (7) 7,690,760 shares for issuance upon conversion of the 8,310 shares of Series H Convertible Preferred Stock (8) 1,275,000 shares for issuance upon conversion of the Swiss franc Debentures; (9) 65,393 shares for issuance upon conversion of \$100,000 principal amount of a 4.5% Convertible Subordinated Promissory Note; (10) 1,899,889 shares for issuance upon conversion of \$2,088,284 principal amount of a 5% Convertible Debenture; (11) 1,621,585 shares for issuance upon conversion of \$1,726,334 principal amount of a 5% Convertible Debenture; (12) 45,455 shares for issuance upon conversion of \$500,000 principal amount of a 6% Convertible Debenture and (13) 6,500,000 shares for issuance upon conversion of the Debentures. All of the foregoing reserved shares are, or the Company intends for them shortly to be, registered with the Commission and therefore freely saleable on Nasdaq or elsewhere.

PRODUCT LIABILITY EXPOSURE. Cosmetic laser product companies face an inherent business risk of financial exposure to product liability claims in the event that the use of their products results in personal injury. The Company's products are and will continue to be designed with numerous safety features, but it is possible that patients could be adversely affected by use of one of the Company's products. Further, in the event that any of the Company's products prove to be defective, the Company may be required to recall and redesign such products. Although the Company has not experienced any material losses due to product liability claims to date, there can be no assurance that it will not experience such losses in the future. The Company maintains general liability insurance in the amount of \$1,000,000 per occurrence and \$2,000,000 in the

aggregate and maintains umbrella coverage in the aggregate amount of \$25,000,000; however, there can be no assurance that such coverage will continue to be available on terms acceptable to the Company or that such coverage will be adequate for liabilities actually incurred. In the event the Company is found liable for damages in excess of the limits of its insurance coverage, or if any claim or product recall results in significant adverse publicity against the Company, the Company's business, financial condition and results of operations could be materially and adversely affected. In addition, although the Company's products have been and will continue to be designed to operate in a safe manner, and although the Company attempts to educate medical personnel with respect to the proper use of its products, misuse of the Company's products by medical personnel over whom the Company cannot exert control may result in the filing of product liability claims or significant adverse publicity against the Company.

DEPENDENCE ON SOLE SUPPLIERS. The Company relies on outside suppliers for substantially all of its manufacturing supplies, parts and components.

Several component parts of the Company's cosmetic laser products are manufactured exclusively by one supplier. There can be no assurance that the Company will be able to obtain a sufficient supply of such components at commercially reasonable prices or at all. A shortage of necessary parts and components or the inability of the Company to obtain such parts and components would have a material adverse effect on the Company's business, financial condition and results of operations. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business.")

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In July 1997, one of Nexar's two outside turn-key manufacturers notified Nexar of its inability to timely manufacture on a going forward basis Nexar's proprietary motherboards. Nexar made arrangements with two new manufacturers to assume timely production of the motherboards. Nexar does not believe that the transition to the new manufacturers will have a long-term material adverse effect on Nexar, but the several weeks it took to resume full production of these key components had a short-term negative impact on Nexar's results of operations in the third quarter due to limited delays in the initial shipments of Nexar's new XPA products, and could similarly impact Nexar's results of operations in the fourth quarter.

DEPENDENCE ON SUBSTANTIAL CUSTOMERS. In the year ended December 31, 1996, one customer of Nexar, Government Technology Services, Inc. ("GTSI"), a leading supplier of desktop systems to United States government agencies, accounted for 17.5% of the Company's revenues and 23.2% of the Company's accounts receivable balance. In the quarter ended September 30, 1997, GTSI accounted for 3.3% of the Company's revenues and 17.1% of the Company's accounts receivable balance. The Company expects that GTSI will continue to be an important customer, and that, while Nexar's revenues from GTSI will increase, such sales as a percentage of total revenue will decline substantially as Nexar further expands its distribution network and increases its overall sales. Nexar has entered into an agreement with GTSI pursuant to which GTSI serves as Nexar's exclusive federal reseller with respect to Government Services Administration (GSA) scheduled purchases, provided that GTSI purchases at least \$35 million of Nexar's products in 1997. GTSI is under no obligation, however, to purchase any products of Nexar. If GTSI makes fewer purchases in 1997 than the Company anticipates, that would have a material adverse effect on the Company.

UNCERTAINTY OF HEALTHCARE REIMBURSEMENT AND REFORM. The healthcare industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of healthcare industry participants. During the past several years, state and federal government regulation of reimbursement rates and capital expenditures in the United States healthcare industry has increased. Lawmakers continue to propose programs to reform the United States healthcare system, which may contain programs to increase governmental involvement in healthcare, lower Medicare and Medicaid reimbursement rates or otherwise change the operating environment for the Company's customers. Healthcare industry participants may react to these proposals by curtailing or deferring investments, including investments in the Company's products.

HAZARDOUS SUBSTANCE AND ENVIRONMENTAL CONCERNS; LACK OF ENVIRONMENTAL IMPAIRMENT INSURANCE. The manufacture of substrate interconnect products involves numerous chemical solvents and other solid, chemical and hazardous wastes and materials. The Company's Dynaco subsidiary is subject to a variety of environmental laws relating to the generation, storage, handling, use, emission, discharge and disposal of these substances and potentially significant risks of statutory and common law liability for environmental damage and personal injury. The Company, and in certain circumstances, its officers, directors and employees, may be subject to claims arising from the Company's manufacturing activities, including the improper release, spillage, misuse or mishandling of hazardous or non-hazardous substances or material. The Company may be strictly

liable for damages, regardless of whether it exercised due care and complied with all relevant laws and regulations. The Company does not currently maintain environmental impairment insurance. There can be no assurance that the Company will not face claims resulting in substantial liability for which the Company is uninsured or that hazardous substances are not or will not be present at the Company's facilities. The Company believes that it operates its Dynaco facilities in substantial compliance with existing environmental laws and regulations. In June 1989 and April 1994, Dynaco conducted environmental studies of its Tempe, Arizona substrate manufacturing facility and did not discover any contamination requiring remediation. Failure to comply with proper hazardous substance handling procedures or violation of environmental laws and regulations would have a material adverse effect on the Company. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business.")

SIGNIFICANT OUTSTANDING INDEBTEDNESS; SUBORDINATION OF DEBENTURES. The Company has incurred substantial indebtedness in relation to its equity capital and will be subject to all of the risks associated with substantial leverage, including the risk that available cash may not be adequate to make required payments to the holders of the Company's debentures. The Company's ability to satisfy its obligations under the debentures from cash flow will be dependent upon the Company's future performance and will be subject to financial, business and other factors affecting the operation of the Company, many of which may be beyond the Company's control. In the event the Company does not have sufficient cash resources to satisfy quarterly interest or other repayment obligations to the holders of the debentures, the Company will be in default under the debentures, which would have a material adverse effect on the Company. To the extent that the Company is required to use cash resources to satisfy interest

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payments to the holders of the debentures, it will have less resources available for other purposes. Inability of the Company to repay the debentures upon maturity would have a material adverse effect on the Company, which could result in a reduction of the price of the Company's Shares. The debentures will be unsecured and subordinate in right of payment to all senior indebtedness of the Company. The debentures do not restrict the Company's ability to incur additional senior indebtedness and most other indebtedness. The terms of senior indebtedness now existing or incurred in the future could affect the Company's ability to make payments of principal and/or interest to the holders of debentures. (See December 31, 1996 Form 10-KSB/A-4 "Item 5. Market for Common Equity and Related Shareholder Matters"; September 30, 1997 Form 10-Q, Notes 7 and 8 to Financial Statements and Part II "Item 1. Legal Proceedings;" "Item 2. Changes in Securities.")

POTENTIAL EFFECT OF ANTI-TAKEOVER PROVISIONS. The Company is subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibit the Company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless the business combination is approved in a prescribed manner. The application of Section 203 could have the effect of delaying or preventing a change of control of the Company. The Company's stock option grants generally provide for an exercise of some or all of the optioned stock, including non-vested shares, upon a change of control or similar event. The Board of Directors has authority to issue up to 5,000,000 shares of Preferred Stock and to fix the rights, preference, privileges and restrictions, including voting rights, of these shares without any further vote or action by the stockholders. The rights of the holders of the common stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company, thereby delaying, deferring or preventing a change in control of the Company. Furthermore, such Preferred Stock may have other rights, including economic rights senior to the common stock, and, as a result, the issuance of such Preferred Stock could have a material adverse effect on the market value of the common stock. (See "Issuance of Preferred Stock and Debentures Could Affect Rights of Common Shareholders.")

RISKS ASSOCIATED WITH ACQUISITIONS. Since going public, the Company acquired seven companies. Although the Company intends to focus primarily on its laser based hair removal business going forward, the Company nevertheless evaluates potential acquisitions of businesses, products and technologies that would complement or expand its core business. Promising acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers and the need for regulatory approvals. Acquisitions may result in the incurrence of additional debt, the write-off of in-process research and development or technology acquisition and development costs and the amortization of expenses related to goodwill and other intangible

assets, any of which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow. Acquisitions involve numerous additional risks, including difficulties in the assimilation of the operations, services, products and personnel of the acquired company, the diversion of management's attention from other business concerns, entering markets in which the Company has little or no direct prior experience and the potential loss of key employees of the acquired company. In order to finance acquisitions, it may be necessary for the Company to raise additional funds through public or private financings. Any equity or debt financing, if available at all, may be on terms which are not favorable to the Company and, in the case of equity financing, may result in dilution to the Company's stockholders. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business" and Note 1 to Financial Statements.)

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THE COMPANY

The Company was organized to design, manufacture and market lasers, delivery systems and related disposable products for use in medical procedures. The Company currently operates in three business segments: cosmetic laser products, cosmetic laser services, and electronic products. The Company is in the process of divesting its non-core electronics subsidiaries. In the cosmetic laser products segment, the Company is focusing its efforts on the FDA-cleared EpiLaser hair removal laser and other hair removal lasers are currently under development. The Company recently entered into an agreement with the world's largest laser company, Coherent, pursuant to which Coherent will act as exclusive distributor for the Company's laser hair removal systems in the U.S., Far East and most European countries. Under this agreement, Coherent also will obtain a right of first refusal to distribute the Company's future laser products, and Coherent and the Company have agreed to cross-license certain hair removal technology. The Company anticipates that Coherent, with its direct sales force numbering over 200, will be able to sell the Company's products in greater volume than the Company could in the past through its independent sales representatives. However, the Company does not anticipate that its gross margins will improve until it introduces its new ruby and diode cosmetic lasers currently under development. The Company is developing ruby and diode cosmetic lasers for use in clinical trials and is engaged in the research and development of additional cosmetic laser and surgical products. (See December 31, 1996 Form 10-KSB/A-4 "Item 1. Description of Business--Medical Products and Lasers in Medicine; Future Products.") The Company has entered into a number of research agreements with recognized research hospitals and clinical laboratories. The Company provides research funding, laser technology and optics know-how in return for licensing agreements to specific cosmetic laser applications and patents. Management feels that this method of conducting research and development provides a higher level of technical and clinical expertise than it could provide on its own and in a more cost efficient manner.

In late 1996, CTI was formed as a wholly-owned subsidiary of the Company. CTI is a services company which intends to establish a network of cosmetic dermatological laser sites with medical services partners in key geographic locations. Each site will be provided a turnkey package of laser technology, equipment, training and service, operations personnel, strategic advertising and marketing programs, patient financial credit programs and management assistance. In early 1997, CTI entered into an agreement with Columbia/HCA to establish revenue sharing sites throughout the country in existing Columbia/HCA facilities. To date, CTI has established fourteen sites. CTI's revenues from its operations are, to date, immaterial.

In February 1997, Palomar Medical Products, Inc. was formed as a wholly-owned subsidiary with the purpose of consolidating the management and operations of the medical products companies. The Company plans further consolidation in this business, as well, by focusing principally on its laser hair removal technology. As part of this consolidation, the Company has entered into an agreement with a new entity formed by the management of Tissue Technologies, Inc. ("TTI") pursuant to which the Company obtained (i) a note receivable; (ii) a fifteen percent equity stake and warrants for an additional ten percent equity stake in the new entity; (iii) royalties on cosmetic laser products sold by the new entity and (iv) discounted pricing on the TruPulse laser system. In exchange, the new entity acquired TTI's assets and liabilities. The Company has also reached an agreement with Dermascan, Inc. to sell that subsidiary to its management.

In September 1995, the Company established Palomar Electronics Corporation ("PEC"), a wholly-owned subsidiary, as part of its plan to separate the electronics segment from the cosmetics segment. On April 9, Nexar, a subsidiary of PEC, completed an initial public offering of its common stock. Nexar sold 2,500,000 shares of its common stock for its own account at \$9.00 per share and received net proceeds of approximately \$20,300,000. (See December 31,

1996 Form 10-KSB/A-4 "Item 1. Description of Business.) In the second quarter of 1997, the Company sold all of the issued and outstanding common stock of its former subsidiary CD Titles. The Company has signed an agreement with the current management of Dynaco to sell to them Dynaco and its subsidiaries in a two phase transaction; the first phase begins with the immediate sale of Comtel and Dynamem and, in the second phase, Dynaco will be sold by June 30, 1998 at the latest. The overall sale price for both phases is approximately ten million dollars in notes, common stock and warrants, payable over time. As part of its divestiture strategy, the Company will also consider winding down unprofitable subsidiaries if doing so provides greater economic benefits to the Company than a sale.

In the past, the Company made early stage investments in core technologies and in companies that management felt were strategic to the Company's business or would yield a higher than average financial return to support the Company's core business. Some of these investments were with companies that were related to some of the directors and officers of the Company. In the third quarter of 1997, the Company determined that the carrying value of some of its non-core long-term assets and investments would not be realizable due to the change in the Company's strategy. Accordingly, the Company fully reserved for all such investments, resulting in a charge to third quarter operations of approximately \$13,548,000. (See December 31, 1996 Form 10-KSB/A-4 "Management Discussion and Analysis-- Liquidity and Capital Resources" and "Item 12. Certain Relationships and Related Transactions.")

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The Company will continue to develop, acquire or license technologies that can be integrated into its current and proposed products in the cosmetic laser business segment. The Company intends to address very large markets incorporating its core technology with proprietary products and services and structure its operations to strive to be the low-cost producer and provider of these products and services. The Company intends to seek agreements or arrangements with other medical products and high technology companies in order to acquire technical and financial assistance in the research and development of such products and in the extensive experimentation and testing required to obtain regulatory approvals in the United States and elsewhere.

The Company's strategic plan is to liquidate certain assets to fund its core operations over the next twelve-month period. (See "Risk Factors--Substantial and Continuing Losses.")

USE OF PROCEEDS

The Company will receive no part of the proceeds from the sale of any of the Shares by the Selling Stockholders.

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SELLING STOCKHOLDERS

The following table sets forth information concerning the beneficial ownership of shares of common stock by the Selling Stockholders as of the date of this Prospectus and the number of such shares included for sale in this Prospectus assuming the sale of all Shares being offered by this Prospectus. The number of shares included in the Registration Statement of which this Prospectus is a part and available for resale (i) is based, in part, upon an estimate of the number of shares underlying the Debentures utilizing a hypothetical conversion price of \$1.08, (ii) is subject to adjustment and (iii) could be materially more or less than such estimated amount depending on factors which cannot be predicted by the Company at this time, including, among others, the future market price of the Company's common stock. The use of such hypothetical prices is not intended, and should in no way be construed, to constitute a prediction as to the future market price of the Company's common stock. To the best of the Company's knowledge, except as stated in this Prospectus, the Selling Stockholders have not held any office or maintained any material relationship with the Company or any of its predecessors or affiliates over the past three years. The Selling Stockholders reserve the right to reduce the number of shares offered for sale or to otherwise decline to sell any or all of the Shares registered hereunder.

<TABLE>
<CAPTION>

	Shares owned prior to Offering (1)	Shares to be sold in Offering (2)	Shares owned after Offering
Selling Stockholders			

<S>	<C>	<C>	<C>	<C>
JNC Opportunity Fund Ltd. (3) Olympia Capital (Cayman) Ltd. c/o Olympia Capital (Bermuda) Ltd. Williams House 20 Reid Street Hamilton HM11 Bermuda	3,456,555	3,456,555	-	-
Southbrook International Investments, Ltd. (4) c/o Tripppeak Advisors, Inc. 630 Fifth Avenue, Suite 2000 New York, NY 10111	2,093,205	1,975,174	118,031	-
Diversified Strategies Fund, L.P. (5) c/o Encore Capital Management L.L.C. 12007 Sunrise Valley Drive, Suite 460 Reston, VA 20191	1,481,380	1,481,380	-	-
Coast Business Credit (6) 245 Fischer Avenue Suite A1 Coasta Mesa, CA 92626 </TABLE>	4,000,000	4,000,000	-	-

1. Pursuant to the rules of the Commission, shares of common stock which an individual or group has a right to acquire within 60 days pursuant to the exercise of options, warrants or certain other derivative instruments (including the Debentures) are deemed to be outstanding for the purpose of computing the ownership of such individual or group. In addition, pursuant to the terms of the Debentures as described below, the conversion rights of the Debentureholders are limited to the extent that the number of shares of common stock thereby issuable, together with the number of shares of common stock then held by such holder and its affiliates (not including shares which have not been converted), exceed 4.9% of the then outstanding common stock of the Company, as determined in accordance with Section 13(d) of the Exchange Act.

2. The actual number of shares set forth represent an estimate of the number of shares of common stock to be offered by the Selling Stockholders; the actual number of shares of common stock issuable upon conversion of the Debentures is indeterminate, is subject to adjustment and could be materially less or more than such estimated number depending on a number of factors which cannot be predicted by the Company at this time, including among other factors, the future market price of the common stock. The actual number of shares of common stock offered hereby, and included in the Registration Statement of which this prospectus is a part, includes such additional shares of common stock as may be issued or issuable upon conversion of the Debentures by reason of the floating rate conversion price mechanism or other adjustment mechanisms described therein, or by reason of any stock split, stock dividend or similar transaction involving the common stock, in order to prevent dilution, in accordance with Rule 416 under the Securities Act of 1933.

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3. Represents 3,250,000 shares of common stock issuable upon conversion of \$3,500,000 principal amount of the Debentures and 206,555 shares of common stock issued in connection with the Debentures. The Debentures may be converted at 100% of the average closing bid price for the ten (10) days preceding conversion. The Debentures accrue interest at 6% for the first 179 days, 7% for the following 90 days and 8% thereafter.

4. Represents 1,857,143 shares of common stock issuable upon conversion of 2,000,000 principal amount of the Debentures and 118,031 shares of common stock issued in connection with the Debentures. The Debentures may be converted at 100% of the average closing bid price for the ten (10) days preceding conversion. The Debentures accrue interest at 6% for the first 179 days, 7% for the following 90 days and 8% thereafter.

5. Represents 1,392,857 shares of common stock issuable upon conversion of \$1,500,000 principal amount of the Debentures and 88,523 shares of common stock issued in connection with the Debentures. The Debentures may be converted at 100% of the average closing bid price for the ten (10) days preceding conversion. The Debentures accrue interest at 6% for the first 179 days, 7% for the following 90 days and 8% thereafter.

6. Represents 4,000,000 shares of common stock held by Coast Business

PLAN OF DISTRIBUTION

The 10,913,109 shares being registered herein for sale by the Selling Stockholders consist of (i) 6,500,000 shares issuable upon conversion of the Debentures (ii) 413,109 shares issued in connection with the Debentures and (iii) 4,000,000 shares held as security by a third-party for a guarantee by the Company.

The Selling Stockholders and their respective pledgees, donees, transferees and other successors in interest may sell the common stock registered in connection with this Offering on the Nasdaq market system or otherwise. There will be no charges or commissions paid to the Company by the Selling Stockholders in connection with the resale of shares offered hereby. It is anticipated that usual and customary brokerage fees will be paid by the Selling Stockholders upon sale of the Shares offered hereby. The Company will pay the other expenses of this Offering. Such sales may be made on one or more exchanges or in the over-the-counter market, or otherwise at fixed prices, at prices and at terms then prevailing or at prices related to the then current market price, or in negotiated transactions. The Shares may be sold by one or more of the following methods: (a) a block trade in which the broker so engaged will attempt to sell the Shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (b) purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this Prospectus; (c) an exchange distribution in accordance with the rules of Nasdaq; (d) ordinary brokerage transactions and (e) used to cover short sales. In effecting sales, brokers or dealers engaged by the Selling Stockholders may arrange for other brokers or dealers to participate. Brokers or dealers will receive commissions or discounts from Selling Stockholders in amounts to be negotiated prior to the sale. The Selling Stockholders and brokers or dealers and any other participating brokers or dealers may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In addition, any securities covered by this Prospectus which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this Prospectus.

The Company has agreed to indemnify the Selling Stockholders against certain liabilities, including certain liabilities under the Securities Act, or to contribute to payments which the Selling Stockholders will be required to make in respect thereof.

EXPERTS

The audited financial statements incorporated by reference in this Prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein upon the authority of said Firm as experts in giving said reports.

LEGAL OPINIONS

The validity of the shares of common stock offered hereby will be passed upon for the Company by its General Counsel.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR
SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The expenses in connection with the issuance and distribution of the common stock to be registered are estimated (except for Commission filing fee) below. All such expenses will be paid by the Registrant.

Securities and Exchange Commission Filing Fee	\$3,836
Accounting Fees and Expenses	2,500
Legal Fees and Expenses	2,000
Blue Sky Filing Fees and Expenses	500
Printing and Mailing Costs	100
Transfer Agent Fees	500
Miscellaneous	500

Total Expenses	\$9,936
	=====

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Delaware General Corporation Law, Section 102(b)(7), enables a corporation in its original certificate of incorporation or an amendment thereto validly approved by stockholders to eliminate or limit personal liability of members of its Board of Directors for violations of a director's fiduciary duty of care. However, the elimination or limitation shall not apply where there has been a breach of the duty of loyalty, failure to act in good faith, engaging in intentional misconduct or knowingly violating a law, paying a dividend or approving a stock repurchase which was deemed illegal or obtaining an improper personal benefit. The Company's Certificate of Incorporation includes the following language:

"To the maximum extent permitted by Section 102(b)(7) of the General Corporation Laws of Delaware, a director of this corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit."

Section 145 of the General Corporation Law of the State of Delaware generally provides that a corporation may indemnify any director, officer, employee or agent against expenses, judgments, fines and amounts paid in settlement in connection with any action against him by reason of his being or having been such a director, officer, employee or agent, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action, had no reasonable cause to believe his conduct was unlawful. No indemnification shall be made, however, if he is adjudged liable for negligence or misconduct in the performance of his duty to the corporation, unless a court determines that he is nevertheless entitled to indemnification. If he is successful on the merits or otherwise in defending the action, the corporation must indemnify him against expenses actually and reasonably incurred by him. Article IX of the Company's Bylaws provides indemnification as follows:

INDEMNIFICATION

SECTION 1. Actions, Etc. Other Than by or in the Right of the Corporation. The Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including a grand jury proceeding, and all appeals (but excluding any such action, suit or proceeding by or in the right of the Corporation), by reason of the fact that such person is or was a director, executive officer (as hereinafter defined) or advisory council member of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the

Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct in question was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that such person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that such person had reasonable cause to believe that the conduct in question was unlawful. As used in this Article IX, an "executive officer" of the Corporation is the president, treasurer, a vice president given the title of executive vice president, or any officer designated as such pursuant to vote of the Board of Directors.

SECTION 2. Actions. Etc. by or in the Right of the Corporation. The Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit, including appeals, by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person is or was a director or executive officer of the Corporation as defined in Section 1 of this Article, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. Determination of Right of Indemnification. Any indemnification of a director or officer (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that such indemnification is proper in the circumstances because the director or executive officer has met the applicable standard of conduct as set forth in Sections 1 and 2 hereof. Such a determination shall be reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) (if such a quorum is not obtainable, or, even if obtainable if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, or (iii) by the stockholders.

SECTION 4. Indemnification Against Expenses of Successful Party. Notwithstanding any other provision of this Article, to the extent that a director or officer of the Corporation has been successful in whole or in part on the merits or otherwise, including the dismissal of an action without prejudice, in defense of any action, suit or proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified against all expenses incurred in connection therewith.

SECTION 5. Advances of Expenses. Expenses incurred by a director or officer in any action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of thereof, if such person shall undertake to repay such amount in the event that it is ultimately determined, as provided herein, that such person is not entitled to indemnification. Notwithstanding the foregoing, no advance shall be made by the Corporation if a determination is reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum of disinterested directors, or (ii) (if such a quorum is not obtainable or, even if obtainable, if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, that, based upon the facts known to the

Board of Directors or such counsel at the time such determination is made, such person has not met the relevant standards set forth for indemnification in Section 1 or 2, as the case may be.

SECTION 6. Right to Indemnification Upon Application: Procedure Upon Application. Any indemnification or advance under Sections 1, 2, 4 or 5 of this Article shall be made promptly, and in any event within ninety days, upon the written request of the person seeking to be indemnified, unless a determination is reasonably and promptly made by the Board of Directors that such person acted in a manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. In the event no quorum of disinterested directors is obtainable, the Board of Directors shall promptly

appoint independent legal counsel to decide whether the person acted in the manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. The right to indemnification or advances as granted by this Article shall be enforceable by such person in any court of competent jurisdiction, if the Board of Directors or independent legal counsel denies the claim therefor, in whole or in part, or if no disposition of such claim is made within ninety days.

SECTION 7. Other Right and Remedies: Continuation of Rights. The indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any Bylaw, agreement, Vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. All rights to indemnification or advancement under this Article shall be deemed to be in the nature of contractual rights bargained for and enforceable by each director and executive officer as defined in Section 1 of this Article who serves in such capacity at any time while this Article and other relevant provisions of the General Corporation Law of the State of Delaware and other applicable laws, if any, are in effect. All right to indemnification under this Article or advancement of expenses shall continue as to a person who has ceased to be a director or executive officer, and shall inure to the benefit of the heirs, executors and administrators of such a person. No repeal or modification of this Article shall adversely affect any such rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts. The Corporation shall also indemnify any person for attorneys' fees, costs, and expenses in connection with the successful enforcement of such person's rights under this Article.

SECTION 8. Other Indemnities. The Board of Directors may, by general vote or by vote pertaining to a specific officer, employee or agent, advisory council member or class thereof, authorize indemnification of the Corporation's employees and agents, in addition to those executive officers and to whatever extent it may determine, which may be in the same manner and to the same extent provided above.

SECTION 9. Insurance. Upon resolution passed by the Board of Directors, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, advisory council member or agent of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

SECTION 10. Constituent Corporations. For the purposes of this Article, reference to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporations (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

SECTION 11. Savings Clause. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, executive officer, advisory council member, and those employees and agents of the Corporation granted indemnification pursuant to Section 3 hereof as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect

to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including a grand jury proceeding, and all appeals, and any action by the Corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated or by any other applicable law.

SECTION 12. Other Enterprises. Fines. and Serving at Corporation's Request. For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes

assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of any employee benefit plan shall be deemed to have acted in a manner not opposed to the best interests of the Corporation" as referred to in this Article.

ITEM 16. EXHIBITS

The following documents have been previously filed as Exhibits to Registration statement No. 333-42129 and are incorporated herein by reference except those exhibits indicated with an asterisk which are filed herewith:

Exhibit No.	Description
4(b)	Form of 6%, 7% and 8% Convertible Debentures Due September 30, 2002.
4(c)	Form of Registration Rights Agreement, dated September 30, 1997.
4(d)	Form of Securities Purchase Agreement dated September 30, 1997.
5*	Opinion of General Counsel of Palomar
23(a)*	Consent of Arthur Andersen LLP, independent public accountants
23(b)*	Consent of General Counsel of Palomar (included in Exhibit 5)

ITEM 17. UNDERTAKINGS

- (1) The undersigned Registrant hereby undertakes:
- (a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of the Registration Fee" table in the effective registration statement;
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs 2(a)(i) and 2(a)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference herein.

- (b) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof. (c) To remove from registration by means of a

post-effective amendment any of the securities being registered which remain at the termination of the offering.

(2) The undersigned Registrant hereby undertakes that, for the purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of any employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time be deemed to be the initial BONA FIDE offering thereof.

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(3) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provision, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Lexington, Commonwealth of Massachusetts, on December 18, 1997.

PALOMAR MEDICAL TECHNOLOGIES, INC.

By: /s/ Louis P. Valente

Louis P. Valente, Chief Executive Officer

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

<TABLE> <CAPTION> <S>	<C>	<C>
Signature	Title	Date
----- Louis P. Valente	Chief Executive Officer, President and Director (Principal Executive Officer)	December 18, 1997
----- Joseph P. Caruso	Vice President, Chief Financial Officer, Treasurer (Principal Financial Accounting Officer)	December 18, 1997
----- Buster Glosson	Director	December 18, 1997
----- Nicholas Economou	Director	December 18, 1997
	Director	December 18, 1997

A. Neil Pappalardo

Director

December 18, 1997

James G. Martin

</TABLE>

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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report and to all references to our Firm included in or made part of the registration statement

/s/ Arthur Andersen LLP

Boston, Massachusetts

December 18, 1997

December 18, 1997

Palomar Medical Technologies, Inc.
45 Hartwell Avenue
Lexington, MA 02173

Gentlemen:

I am familiar with the amended Registration Statement on Form S-3 (the "S-3 Registration Statement") to which this opinion is an exhibit, to be filed by Palomar Medical Technologies, Inc., a Delaware corporation (the "Company"), with the Securities and Exchange Commission under the Securities Act of 1933, as amended. The amended S-3 Registration Statement relates to a total of 10,913,109 shares (the "Shares") of the Company's common stock, \$.01 par value per share, issuable pursuant to certain debentures and a guarantee, both issued/issuable to certain entities.

In arriving at the opinion expressed below, I have examined and relied on the following documents:

- (1) the Certificate of Incorporation and By-Laws of the Company, each as amended as of the date hereof; and
- (2) the records of meetings and consents of the Board of Directors and stockholders of the Company provided to me by the Company.

In addition, I have examined and relied on the originals or copies certified or otherwise identified to my satisfaction of all such corporate records of the Company and such other instruments and other certificates of public officials, officers and representatives of the Company and such other persons, and have made such investigations of law, as I have deemed appropriate as a basis for the opinion expressed below.

Based upon the foregoing, it is my opinion that the Company has corporate power adequate for the issuance of the Shares. The Company has taken all necessary corporate action required to authorize the issuance and sale of the Shares, and when certificates for the Shares have been duly executed and countersigned and delivered, such Shares will be legally issued, fully paid and non-assessable.

I hereby consent to the filing of this opinion as an exhibit to the amended S-3 Registration Statement.

Sincerely,

/s/ Sarah Burgess Reed

Sarah Burgess Reed
General Counsel
Palomar Medical Technologies, Inc.