PARADIGM MEDICAL INDUSTRIES INC
Form SB-2
September 15, 2006

As filed with the Securities and Exchange Commission on September 15, 2006
Commission File No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PARADIGM MEDICAL INDUSTRIES, INC.
(Name of small business issuer in its charter)

Delaware	3841	87-0459536
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2355 South 1070 West
Salt Lake City, Utah 84119
(801) 977-8970
(Address and telephone number of registrant's principal executive offices and principal place of business)

Raymond P.L. Cannefax, President and Chief Executive Officer
Paradigm Medical Industries, Inc.
2355 South 1070 West
Salt Lake City, Utah 84119
(801) 977-8970
(Name, address and telephone number of agent for service)

Copies to:

Randall A. Mackey, Esq.
Mackey Price Thompson & Ostler
350 American Plaza II
57 West 200 South
Salt Lake City, Utah 84101-3663
Telephone: (801) 575-5000

Approximate date of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 (the "Securities Act"), check the following box. |X|

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

If this Form is a post-effective amendment filed pursuant to Rule

462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Number of Shares to be registered(1)	Proposed maximum offering price per Share(2)	Proposed maximum aggregate offering pri
Common Stock, $.001 par value per share (3).....	60,000,000	.006	$ 360,000

(1) Includes shares of our common stock, $.001 par value per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of callable secured convertible notes and the exercise of warrants held by the selling stockholders. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate amount of shares issuable upon conversion of the callable secured convertible notes and exercise of the warrants, as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. The number of shares of common stock registered hereunder represents a good faith estimate by us of the number of shares of common stock issuable upon conversion of the callable secured convertible notes and upon exercise of the warrants.

For purposes of estimating, the number of shares of common stock to be included in this registration statement, we calculated a good faith estimate of the number of shares of common stock that we believe will be issuable upon exercise of the callable secured convertible notes and upon exercise of the warrants to account for market fluctuation, and anti-dilution and price protection adjustments, respectively. Should the conversion ratio result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of issuance or sale of shares below the then current market price, result in our having insufficient shares, we would not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.

(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) and Rule 457(g) under the Securities Act of 1933, as amended, using the last reported sale price on the OTC Bulletin Board on September 6, 2006, which was $.006 per share.

(3) Includes a good faith estimate of shares underlying callable secured convertible notes to account for market fluctuations.

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 such Section 8(a), may determine.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED SEPTEMBER , 2006

Up to 60,000,000 Shares of Common Stock

PARADIGM MEDICAL INDUSTRIES, INC.

This prospectus relates to the resale by the selling stockholders of up to 60,000,000 shares of our common stock issuable upon conversion of the callable secured convertible notes in the principal amount of $1,500,000. The $1,500,000 in callable secured convertible notes are convertible into our common stock at the lower of $.02 or 60% of the average of the three lowest intraday trading prices for our common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. The selling stockholders may sell common shares from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock that they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934, as amended, and is quoted on the Over-the-Counter Bulletin Board under the symbol PMED.OB. On September 6, 2006, the last reported sale price of our common stock was $.006 per share.

Investing in our common stock involves substantial risks that are described in the "Risk Factors" section beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The information in this prospectus is not complete and may be changed. This prospectus is included in the registration statement that was filed by Paradigm Medical Industries, Inc. with the U.S. Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

The date of this prospectus is September __, 2006.

PROSPECTUS SUMMARY

This summary highlights some information from this prospectus. It may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the risk factors and the financial statements.

The Company

We develop, manufacture, source, market and sell ophthalmic surgical and diagnostic instrumentation and related accessories, including disposable products. Our surgical equipment is designed for minimally invasive cataract treatment. A cataract is a condition, which largely affects the elderly population, in which the natural lens of the eye hardens and becomes cloudy, thereby reducing visual acuity. Treatment consists of removal of the cloudy lens and replacement with a synthetic lens implant, which restores visual acuity. Cataract surgery is the single largest volume and revenue producing outpatient surgical procedure for ophthalmologists worldwide. The Health Care Finance Administration reports that in the United States approximately two million cataract removal procedures are performed annually, making this the largest outpatient procedure reimbursed by Medicare. Most cataract procedures are performed using a method called phacoemulsification or "phaco", which employs a high frequency (40 kHz to 60 kHz) ultrasonic probe needle device to fragment the cataract while still in the eye and remove it in pieces by suction through a small incision.

As reflected in the results for the fiscal years ended December 31, 2005 and 2004, diagnostic products are currently our major focus and the Photon(TM) laser system and other extensive research and development projects have been put on hold pending future evaluation when our financial position improves. Our focus is not on any specific diagnostic product or products, but rather on our entire group of diagnostic products. We sell our products in all countries of the world in which we are permitted to do so. The nature of the regulatory approval processes in those countries vary by country but, in general terms, follow the approach of the regulatory approval processes of the United States Food and Drug Administration, or FDA, and the approval processes of the countries in the European Union. The status of specific approvals is detailed in the table in the Business section of this prospectus.

We market two cataract surgery systems with related accessories and disposable products. Our cataract removal system, the Photon(TM) laser system, is a laser cataract surgery system marketed as the next generation of cataract removal. The Photon(TM) product has yet to be approved by the Food and Drug Administration. Except for the Photon(TM) laser system, which can only be sold in countries outside of the United States, our products can be sold in the United States and in foreign countries including but not limited to Argentina, Australia, Bangladesh, Borneo, Brazil, Canada, China, Czechoslovakia, Egypt, France, Germany, Greece, Hong Kong, India, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, New Zealand, Pakistan, Peru, Poland, Puerto Rico, Russia, Saudi Arabia, Spain, Sri Lanka, Taiwan, Thailand, Turkey, United Kingdom, and United Arab Emirates . Both the Photon(TM) laser system and the Precisionist ThirtyThousand (TM) are manufactured as an Ocular Surgery Workstation(TM). At present, because the Photon(TM) laser system has not received FDA approval, it does not provide significant revenues to us. We estimate that the funds needed to complete the clinical trials in order to obtain the necessary regulatory approval on the Photon(TM) to be approximately $225,000. Any possible future efforts to complete the clinical trials on the Photon(TM) would depend on our obtaining adequate funding. Thus, due to the uncertainty surrounding the timetable for obtaining FDA approval and the lack of significant revenues from

other surgical products, we have recorded an inventory reserve against the majority of inventory associated with the Photon(TM) laser system and Precisionist Thirty Thousand(TM).

Our diagnostic products include a P55 pachmetric analyzer, a P37 Ultrasonic A/B Scan, the P40, P45 and P60 UBM Ultrasound Biomicroscopes, a P37 A/B Scan, two perimeters, a corneal topographer and the Blood Flow Analyzer (TM). The diagnostic ultrasonic products, including the P55 pachymetric analyzer, the P37 Ultrasonic A/B Scan and the P40 UBM Ultrasound Biomicroscope were acquired from Humphrey Systems, a division of Carl Zeiss, Inc. in 1998. We developed and offered for sale in the fall of 2000 the P45, which combines the P37 Ultrasonic A/B Scan and the P40 UBM Ultrasound Biomicroscope into one machine. The perimeter and the corneal topographer were added when we acquired the outstanding shares of the stock of Vismed, Inc. d/b/a/ Dicon(TM) in June 2000. We acquired the Ocular Blood Flow, Ltd. in June of 2000, whose principal product is the Blood Flow Analyzer(TM). This product is designed for the measurement of intraocular pressure and pulsatile ocular blood flow volume for detection and treatment of glaucoma. In March 2005, we developed and offered for sale the P60 UBM Ultrasound Biomicroscope, the fourth generation of UBM devices, which has better visual clarity and image flexibility than earlier versions. We are currently developing additional applications for all of our diagnostic products.

We rely upon several products for revenues. For the six months ended June 30, 2006, 46% of our revenues were derived from the Dicon(TM) diagnostic products sales (the perimeter and corneal topographer), 7% of revenues from Blood Flow Analyzer(TM) sales, 22% of revenues from P40, P45 and P60 UBM Ultrasound Biomicroscope sales, 12% of revenues from Humphrey Systems diagnostic product sales (the P55 pachymetric analyzer and the P37 Ultrasonic A/B Scan), and 13% of revenues from services, disposables and other sales.

For the fiscal year ended December 31, 2005, 31% of our revenues were derived from the Dicon(TM) diagnostic products sales (the perimeter and the corneal topographer), 4% of revenues from Blood Flow Analyzer(TM) sales, 43% of revenues from the P40, P45 and P60 UBM Ultrasound Biomicroscope sales, 10% of revenues from Humphrey systems diagnostic products sales (the P55 pachymetric analyzer, the P20 A-Scan and the P37 A/B Scan), and 12% of revenues from services, disposables and other sales.

For the fiscal year ended December 31, 2004, 34% of our revenues were derived from the Dicon (TM) diagnostic products sales (the perimeter and corneal topographer), 18% of revenues from Blood Flow Analyzer(TM) sales, 27% of revenues from P40 and P45 UBM Ultrasound Biomicroscope sales, 12% of revenues from Humphrey Systems diagnostic product sales (the P55 pachymetric analyzer, the P20 A-Scan and the P37 A/B Scan), and 9% of revenues from services, disposables and other sales. Our principal executive offices are located at 2355 South 1070 West, Salt Lake City, Utah 84119 and our telephone number is (801) 977-8970.

Audited revenues for the fiscal year ended December 31, 2005 were $2,201,000 as compared to $3,062,000 for the comparable period for fiscal 2004. Unaudited revenues for the six months ended June 30, 2006 were $1,182,000 as compared to $1,413,000 for the comparable period of 2005.

On January 5, 2006, our Board of Directors appointed Raymond P.L. Cannefax as President and Chief Executive Officer of the company, replacing John Y. Yoon who served in those positions from March 18, 2004 to December 31, 2005.

Mr. Yoon resigned as President and Chief Executive Officer, effective December 31, 2005, to pursue other opportunities. On March 20, 2006, our Board of Directors appointed Luis A. Mostacero as Vice President of Finance, Treasurer and Secretary. Mr. Mostacero previously served as Controller from June 20, 2000 to September 15, 2005, when he resigned to pursue other opportunities. On April 10, 2006, Michael S. Austin was appointed as Vice President of Sales and Marketing.

On November 15, 2005, Aziz A. Mohabbat resigned as Vice President of Operations and Chief Operating Officer to pursue other opportunities. Mr. Mohabbat served as Vice President of Operations and Chief Operating Officer from March 22, 2004 to November 15, 2005, and as Chief Operating Officer from August 30, 2002 to March 2003. On January 20, 2006, Frederick D. Geiger resigned as Vice President of Engineering to pursue other opportunities. Mr. Geiger served as Vice President of Engineering from May 23, 2005 to January 20, 2006. The Board of Directors has not yet appointed a new Chief Operating Officer since Aziz A. Mohabbat resigned or a new Vice President of Engineering since Mr. Geiger resigned in an effort to conserve our financial resources. Moreover, since Mr. Mohabbat's and Mr. Geiger's resignations, we have endeavored to reduce our operating expenditures, which has resulted in a reduction in the number of our employees. It is our intention to appoint a new Chief Operating Officer and a new Vice President of Engineering in the future when we have adequate funds to do so.

The Offering

Common stock offered by selling stockholders	Up to 60,000,000 shares, based on current market prices and assuming full conversion of the callable secured convertible notes in the principal amount of $1,500,000.
Common stock outstanding prior to the offering(1)	99,956,828 shares.
Common stock outstanding after the offering(1)	Up to 259,956,828 shares.
Use of proceeds	We will not receive any proceeds from the sale of the common stock hereunder. We received gross proceeds of $1,000,000 from the sale of the callable secured convertible notes on February 28, 2006,and the investors are obligated to provide us with an additional $500,000 within five days of a registration statement being declared effective by the Securities and Exchange Commission that registers the shares of common stock underlying the callable secured convertible notes. The proceeds from the sale of the callable secured convertible notes will be used for purchase of inventory, marketing and sales, increasing the number of our direct sales representatives, and working capital.
Risk Factors/Dilution	The offering involves a high degree of risk.
OTC Bulletin Board symbols Common stock	PMED.OB

(1) Does not include 6,753 shares of common stock issuable upon conversion of 5,627 shares of Series A preferred stock, 10,783 shares of common stock issuable upon conversion of 8,986 shares of Series B preferred stock, 8,750 shares of common stock issuable upon conversion of 5,000 shares of Series D preferred stock, 13,333 shares of common stock issuable upon conversion of 250 shares of Series E preferred stock, 245,217 shares of common stock issuable upon conversion of 4,598.75 shares of Series F preferred stock, 588,235 shares of stock issuable upon conversion of 588,235 shares of Series G preferred stock, options to purchase a total of 7,107,500 shares of common stock issuable upon the exercise of stock options at prices ranging from $.01 to $2.75 per share, and warrants to purchase 29,059,392 shares of common stock issuable upon the exercise of warrants at prices ranging from $.10 to $6.75 per share.

Callable Secured Convertible Notes and Warrants

April 27, 2005 Sale of $2,500,000 in Callable Secured Convertible Notes: To obtain funding for our ongoing operations, we entered into a securities purchase agreement with four accredited investors on April 27, 2005 for the sale of (i) $2,500,000 in callable secured convertible notes and (ii) warrants to purchase 16,534,392 shares of our common stock. The sale of the callable secured convertible notes and warrants occurred in three traunches and the investors provided us with an aggregate of $2,500,000 as follows:

- $850,000 was disbursed on April 27, 2005;
- $800,000 was disbursed on June 23, 2005 after we filed a registration statement on June 22, 2005 to register the shares of common stock underlying the callable secured convertible notes and the warrants; and
- $850,000 was disbursed on June 30, 2005, the effective date of the registration statement.

Under the terms of the securities purchase agreement, we agreed not, without the prior written consent of a majority-in- interest of the investors, to negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning April 27, 2005 and ending on the later of (A) 270 days from April 27, 2005, and (B) 180 days from the date the registration statement is declared effective.

In addition, we agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning April 27, 2005 and ending two years after the end of the above lock-up period unless we have first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The $2,500,000 in callable secured convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a

365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0945, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into our common stock at the selling stockholders' option, at the lower of (i) $.09 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The $2,500,000 in callable secured convertible notes are secured by our assets, including our inventory, accounts receivable and intellectual property. Moreover, we have a call option under the terms of the notes. The call option provides us with the right to prepay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by us and our stock is trading at or below $.09 per share. An event of default includes the failure by us to pay the principal or interest on the callable secured convertible notes when due or to timely file a registration statement as required by us or obtain effectiveness with the Securities and Exchange Commission of the registration statement. Prepayment of the callable secured convertible notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (ii) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; and (iii) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The warrants are exercisable until five years from the date of issuance at a purchase price of $.20 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, we will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the callable secured convertible notes issued pursuant to the securities purchase agreement.

The noteholders have agreed to restrict their ability to convert their callable secured convertible notes or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional callable secured convertible notes. As of August 31, 2006, a total of $842,830 in callable secured convertible notes have been converted into 166,666,667 shares of our common stock pursuant to conversion notices from The NIR Group.

February 28, 2006 Sale of $1,500,000 in Callable Secured Convertible Notes: To obtain additional funding for our ongoing operations, we entered into a second securities purchase agreement on February 28, 2006 with the same four accredited investors for the sale of (i) $1,500,000 in callable secured

convertible notes and (ii) warrants to purchase 12,000,000 shares of its common stock. The sale of the callable secured convertible notes and warrants is to occur in three traunches and the investors are obligated to provide us with an aggregate of $1,500,000 as follows:

- $500,000 was disbursed on February 28, 2006;
- $500,000 was disbursed on June 28, 2006 after we filed a registration statement on June 15, 2006 to register the shares of common stock underlying the callable secured convertible notes. The registration statement was subsequently withdrawn on July 25, 2006; and
- $500,000 will be disbursed upon the effectiveness of a registration statement to register 60,000,000 shares of common stock issuable upon conversion of the callable secured convertible notes.

Each closing under the securities purchase agreement is subject to the following conditions:

- We deliver to the investors duly executed callable secured convertible notes and warrants;
- No litigation, statute, regulation or order had been commenced, enacted or entered by or in any court, governmental authority or any self-regulatory organization that prohibits consummation of the transactions contemplated by the securities purchase agreement; and
- No event occurred that could reasonably be expected to have a material adverse effect on our business.

We also agreed not, without the prior written consent of a majority-in-interest of the investors, to negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning February 28, 2006 and ending on the later of (a) 270 days from February 28, 2006, or (b) 180 days from the date the registration statement is declared effective.

In addition, we agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning February 28, 2006 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the securities purchase agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

The callable secured convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or $.0275, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into our common stock at the selling stockholders'

option, at the lower of (i) $.02 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted.

The callable secured convertible notes are secured by our assets, including our inventory, accounts receivable and intellectual property. Moreover, we have a call option under the terms of the notes. The call option provides us with the right to prepay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by us and our stock is trading at or below $.02 per share. An event of default includes the failure by us to pay the principal or interest on the callable secured convertible notes when due or to timely file a registration statement as required by us or obtain effectiveness with the U.S. Securities and Exchange Commission of the registration statement. Prepayment of the callable secured convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes.

The warrants are exercisable until five years from the date of issuance at a purchase price of $.10 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, we will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the callable secured convertible notes issued pursuant to the securities purchase agreement.

The noteholders have agreed to restrict their ability to convert their callable secured convertible notes or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the noteholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional callable secured convertible notes.

We are required to register 60,000,000 shares of our common stock issuable upon the conversion of the callable secured convertible notes that were issued to the noteholders pursuant to the securities purchase agreement we entered into on February 28, 2006. The registration statement must be filed with the Securities and Exchange Commission within 60 days of the February 28, 2006 closing date and the effectiveness of the registration is to be within 135 days of such closing date. Penalties of 2% of the outstanding principal balance of the callable secured convertible notes plus accrued interest are to be applied for each month the registration is not effective within the required time. The penalty may be paid in cash or stock at our option.

Simple Conversion Calculation

The number of shares of common stock issuable upon conversion of the callable secured convertible notes is determined by dividing that portion of the

principal of the notes to be converted and interest, if any, by the conversion price. For example, assuming conversion of $1,500,000 of notes outstanding on September 6, 2006 (representing the amount of the notes sold pursuant to the second securities purchase agreement dated February 28, 2006) and a conversion price of $.006 per share, the number of shares issuable upon conversion would be:

$1,500,000/$.006 = 250,000,000 shares.

Our obligation to issue shares upon conversion of our callable secured convertible notes is essentially limitless. The following is an example of the amount of shares of common stock that are issuable upon conversion of $1,500,000 principal amount of callable secured convertible notes (excluding accrued interest), based on market prices 25%, 50%, and 75% below the market price, as of September 6, 2006 of $.006.

% Below Market	Price Per Share	With 40% Discount	Number of Shares Issuable	% of Outstanding*
25%	$.0045	$.0027	555,555,556	277.8%
50%	$.003	$.0018	833,333,333	416.8%
75%	$.0015	$.0009	1,666,666,667	833.5%

*Based on 199,956,828 shares outstanding.

As illustrated, the number of shares of common stock issuable upon conversion of our callable secured convertible notes will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

See the "Risk Factors" and "Selling Stockholders" sections for a complete description of the callable secured convertible notes and warrants.

Summary Financial Information

	For the year ended December 31,		For the six months June 30,	
Statement of Operations Data:	2004	2005	2005	
Net Sales	$3,062,000	$2,201,000	$1,413,000	$1
Net cost of sales	1,217,000	1,599,000	692,000	
Operating expenses	2,237,000	2,782,000	1,476,000	
Operating loss	(392,000)	(2,180,000)	(755,000)	
Other income (expense)	456,000	(3,209,000)	(2,846,000)	(1
Net income (loss)	64,000	(5,389,000)	(3,601,000)	(1
Net income (loss) applicable to common shareholders	10,000	(5,389,000)	(3,601,000)	(1
Net income (loss) per common share	$0.00	$(0.13)	$(0.13)	
Shares used in computing net loss per share	25,405,000	42,033,000	27,745,000	150

	As of	As of

Balance Sheet Data:	December 31, 2005	June 30, 2006
Current assets.....	$1,331,000	$1,912,000
Current liabilities.....	1,177,000	1,239,000
Working capital (deficit).....	154,000	673,000
Total assets.....	1,702,000	2,275,000
Accumulated deficit.....	(62,196,000)	(63,705,000)
Stockholder's equity	(1,513,000)	(1,634,000)

RISK FACTORS

Before you invest in our common stock, you should be aware of the risks described below which constitute material risks to potential investors. You should consider carefully these risk factors together with all of the other information included in this prospectus before you decide to invest in our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer, in which case the trading price of our common stock could decline. No investment should be made by any person who is not in a position to lose the entire amount of his investment.

Special Note Regarding Forward-Looking Statements

Some of the information in this prospectus may contain forward-looking statements. Such statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information. When considering such forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Prospectus. The risk factors noted in this section and other factors noted throughout this prospectus, including certain risks and uncertainties, could cause our actual results to differ materially from those contained in any forward-looking statement.

Our auditors have expressed substantial doubt about our ability to continue as a going concern.

Due to our significant recurring losses and our inability to generate sufficient cash flows from operations to satisfy our liabilities and sustain operations, our auditors have expressed substantial doubt about our ability to continue as a going concern. Although we have had success in raising working capital from the sale of our common stock in the past, the going concern language in our auditors' report could negatively affect our ability to raise such funds in the future. Some investors are unwilling to invest with companies that have going concern language in the auditors' report and others demand substantial discounts from the market price. Unless we are able to raise additional working capital through the sale of our common stock, we will not be able to continue the development of our products nor will we be able to pay our existing current liabilities, which could result in protection under bankruptcy laws. Under certain conditions, including but not limited to having judgments rendered against us in a court of law, a group of creditors could force us into bankruptcy due to our inability to pay the liabilities arising out of such judgments. At this time, we are unable to assess the likelihood that we would seek bankruptcy protection in the near future. There can be no assurance that we will be successful in raising working capital from the sale of our common stock.

We have limited working capital, have accumulated significant losses, and expect our losses to continue.

As of December 31, 2005,we had working capital of $154,000. As of June 30, 2006, our working capital was $673,000. Our accumulated deficit was $62,196,000 as of December 31,2005, and $63,705,000 as of June 30, 2006. We had

net income of $64,000 for the fiscal year ended December 31, 2004, a net loss of $5,389,000 for the fiscal year ended December 31, 2005, and a net loss of $1,511,000 for the six months ended June 30, 2006. Our losses have resulted principally from costs incurred in connection with research and development, including clinical trials, of the laser surgery system. We did not sell medical products until late 1992. Our ability to become profitable largely depends on

successfully developing clinical applications and obtain regulatory approvals for our laser surgery products, including the Photon(TM) laser system, and to effectively market such products. The problems and expenses frequently encountered in developing new products and the competitive industry in which we operate will impact whether we are successful. We may never achieve profitability. Furthermore, we may encounter substantial delays and unexpected expenses related to research, development, production, marketing, regulatory matters or other unforeseen difficulties.

Because our securities trade on the Over-the-Counter Bulletin Board, your ability to sell your shares in the secondary market may be limited.

Since June 26, 2003, our shares have traded on the Over-the-Counter Bulletin Board. As a result, it may be more difficult for an investor to dispose of our securities, or to obtain accurate quotations on their market value. Furthermore, the prices for our securities may be lower than might otherwise be obtained. On October 8, 2002, we received a notice from Nasdaq's Listing Qualifications staff that for the previous 30 consecutive trading days, the price of our common stock closed below the minimum $1.00 per share requirement for continued inclusion on Nasdaq. The notice further provided that if at anytime before April 7, 2003, the bid price of our common stock closed at $1.00 or more for a minimum of 10 consecutive trading days, we would be notified by the staff that we comply with such rule.

On April 15, 2003, we received notice of a determination by Nasdaq's Listing Qualifications staff that we failed to comply with the minimum bid price rules for continued listing set forth in Nasdaq's rules. Specifically, the notice stated that we have not regained compliance with the minimum $1.00 closing bid price per share requirement (noting that pursuant to the October 8, 2002, notice from the Nasdaq Listing Qualifications staff, we were provided 180 calendar days, or until April 7, 2003, to regain compliance with this requirement) and we do not qualify with the $5,000,000 shareholders equity, $50,000,000 market value of listed securities or $750,000 net income from continuing operations requirement for an additional 180 calendar day compliance period to comply with Nasdaq's rules. The April 15, 2003, notice further stated that as of December 31, 2002, we reported stockholders' equity of $2,847,000 and net losses from continuing operations of approximately $11,155,000, and as of April 14, 2003, the market value of our listed securities was $4,208,108. Accordingly, our common stock would be delisted from the Nasdaq SmallCap Market at the opening of business on April 24, 2003. Separately, Nasdaq informed us that listing fees of $22,500 and $18,000 under Rule 4310(c)(13) are owed to the Nasdaq SmallCap Market.

We requested an oral hearing before a Nasdaq Listing Qualifications Panel to review the staff's determination. The request automatically stayed the delisting of our common stock. On April 23, 2003, we received formal notice from Nasdaq that a hearing to consider our appeal would be held on May 29, 2003. On May 29, 2003, Dr. Jeffrey F. Poore, our former President and Chief Executive Officer; Randall A. Mackey, our Chairman of the Board; and Dr. David M. Silver, a director of the company, attended an oral hearing before a Nasdaq Listing Qualifications Panel in Washington, D.C. At the hearing Dr. Poore presented to the panel a definitive plan both for regaining compliance with the particular

deficiencies cited in the April 15, 2003, letter from the Nasdaq Listing Qualifications staff and sustaining long-term compliance with the Nasdaq Marketplace Rules, including all applicable maintenance criteria. On June 24, 2003 we received notification from the Nasdaq Listing Qualifications Panel that we were to be delisted from the Nasdaq Stock Market effective June 26, 2003. Our securities trade on the Over-the-Counter Bulletin Board effective June 26, 2003. Because our securities are delisted from the Nasdaq SmallCap Market and now trade on the Over-the-Counter Bulletin Board, additional sales requirements on broker-dealers will adversely affect the ability of purchasers to sell our securities and the trading price of our securities could decline.

Moreover, because our securities currently trade on the Over-the-Counter Bulletin Board, they are subject to the rules promulgated under the Securities Exchange Act of 1934, as amended, which impose additional sales practice requirements on broker-dealers that sell securities governed by these rules to persons other than established customers and "accredited investors" (generally, individuals with a net worth in excess of $1,000,000 or annual individual income exceeding $200,000 or $300,000 jointly with their spouses). For such transactions, the broker-dealer must determine whether persons that are not established customers or accredited investors qualify under the rule for purchasing such securities and must receive that person's written consent to the transaction prior to sale. Consequently, these rules may adversely affect the ability of purchasers to sell our securities and otherwise affect the trading market in our securities.

Because our shares may be deemed "penny stocks," you may have difficulty selling them in the secondary trading market.

The Commission has adopted regulations which generally define a "penny stock" to be any non-Nasdaq equity security that has a market price (as therein defined) less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transactions by broker-dealers involving a penny stock (unless exempt), rules promulgated under the Securities Exchange Act of 1934 require delivery, prior to a transaction in a penny stock, of a risk disclosure document relating to the penny stock market. Disclosure is also required to be made about compensation payable to both the broker-dealer and the registered representative and current quotations for the securities. Furthermore, monthly statements are required to be sent disclosing recent price information for the penny stocks.

There are a large number of shares underlying our callable secured convertible notes and warrants that may be available for future sale, and the sale of these shares may depress the market price of our common stock.

As of August 31, 2006, we had 199,956,828 shares of our common stock issued and outstanding and $3,157,170 in callable secured convertible notes outstanding that may be converted into an estimated 526,195,000 shares of common stock at current market prices, and outstanding warrants to purchase 29,059,392 shares of our common stock. Additionally, we have an obligation to sell $500,000 callable secured convertible notes that may be converted into an estimated 83,333,333 shares of common stock at current market prices and issue warrants to purchase 4,000,000 shares of common stock in the near future. In addition, the number of shares of common stock issuable upon conversion of the outstanding callable secured convertible notes may increase if the market price of our stock declines. All the shares, including all of the shares issuable upon conversion of the notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

The continuously adjustable conversion price feature of our callable secured convertible notes could require us to issue a substantially greater number of shares, which will cause dissolution to our existing stockholders.

Our obligation to issue shares upon conversion of our callable secured convertible notes is essentially limitless. The following is an example of the amount of shares of common stock that are issuable upon conversion of $1,500,000 principal amount of callable secured convertible notes (excluding accrued interest), based on market prices 25%, 50%, and 75% below the market price, as of September 6, 2006 of $.006.

% Below Market	Price Per Share	With 40% Discount	Number of Shares Issuable	% of Outstanding*
25%	$.0045	$.0027	555,555,556	227.8%
50%	$.003	$.0018	833,333,333	416.8%
75%	$.0015	$.0009	1,666,666,667	833.5%

*Based on 199,956,828 shares outstanding.

As illustrated, the number of shares of common stock issuable upon conversion of our callable secured convertible notes will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

The continuously adjustable conversion price feature of our secured convertible notes may encourage investors to make short sales in our common stock, which could have a depressive effect on the price of our common stock.

The callable secured convertible notes are convertible into shares of our common stock at a 40% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholders convert and sell material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholders could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

The issuance of shares upon conversion of the callable secured convertible notes and exercise of outstanding warrants may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion of callable secured convertible notes and exercise of warrants may result in substantial dissolution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholders may not convert their callable secured convertible notes and/or exercise their warrants if such conversion or exercise price would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued, which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

In the event that our stock price declines, the shares of common stock allocated for conversion of the callable secured convertible notes and registered under this prospectus may not be adequate and we may be required to file a subsequent registration statement covering additional shares. If the shares we have allocated are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection therewith.

Based on our current market price and the potential decrease in our market price as a result of the issuance of shares upon conversion of the callable secured convertible notes, we have made a good faith estimate as the amount of shares of common stock that we are required to register and allocate for conversion of the callable secured convertible notes. Accordingly, we have allocated and registered 60,000,000 shares to cover the conversion of the callable secured convertible notes. In the event that our per share stock price decreases below $.006, the shares of common stock we have allocated for conversion of the callable secured convertible notes and are registering hereunder may not be adequate. If the shares we have allocated to the registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

If we are required for any reason to repay our outstanding callable secured convertible notes, we would be required to deplete our working capital, if available, or raise additional funds. Our failure to repay the callable secured convertible notes, if required, could result in legal action against us, which could require us to curtail or cease our operations.

On April 27, 2005, we entered into a securities purchase agreement for the sale of an aggregate of $2,500,000 principal amount of callable secured convertible notes. These callable secured convertible notes are due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. As of August 31, 2006, a total of $842,830 of these callable secured convertible notes have been converted into 166,666,667 shares of our common stock, reducing the outstanding principal amount of the notes to $1,657,170. On February 28, 2006, we entered into a securities purchase agreement for the sale of an aggregate $1,500,000 in principal amount of callable secured convertible notes. These callable secured convertible notes are due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. Although we currently have $1,000,000 in callable secured convertible notes outstanding pursuant to the securities purchase agreement we entered into on February 28, 2006, we are obligated to sell additional callable secured convertible notes to the convertible noteholders in the aggregate amount of $500,000. Any event of default such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or to have such registration statement declared effective, breach of any covenant, representation or warranty in the securities purchase agreement or related convertible notes, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against us in excess of $50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company, and the delisting of our common stock could require the early repayment of the callable secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured within the specified grace period. We anticipate that the full amount of callable secured convertible notes will be converted into shares of our common stock, in accordance with the terms of the callable secured convertible notes. If we are required to repay the

callable secured convertible notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the notes when required, the noteholders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

If we are unable to obtain additional capital, we would be required to eliminate certain activities that would adversely effect our operations.

We may require substantial funds for various purposes, including continuing research and development, expanding clinical trials, completing the FDA approval process for our products (including the Photon(TM) laser system), and manufacturing and marketing our existing products. We will need to seek additional capital, possibly through public or private sales of our securities, in order to fund our activities on a long-term basis. Adequate funds may not be available when needed or on terms acceptable to us. Insufficient funds may require us to delay further, scale back or eliminate certain or all of our research and development programs or to license third parties to commercialize products or technologies that we would otherwise seek to develop ourselves, which may materially adversely affect our continued operations.

Our research activities may not result in any commercially profitable products.

The science and technology of medical products, including lasers, is rapidly evolving. Our medical systems may require significant further research, development, testing and regulatory clearances. They are also subject to the risks of failure inherent in the development of products based on innovative technologies. These risks include the possibility that any or all of the proposed products will prove to be ineffective or unsafe; that they fail to receive necessary regulatory clearances; that the proposed products are uneconomical; that others hold proprietary rights which preclude us from marketing such products; or that others market better products. Accordingly, we are unable to predict whether our research and development activities will result in any commercially profitable products. Further, due to the extended testing and regulatory review process required, we may be unable to sell our current and proposed products. There is also no guarantee that we will be able to develop and sell a glaucoma surgery system.

We are uncertain of obtaining FDA approval for our Photon(TM) laser system and further development of the Photon(TM) is on hold until our financial situation improves, and we may lose our rights to manufacture or sell the Photon(TM) laser system if we are unable to agree on the correct method of calculating royalty payments under a license agreement.

We are subject to substantial regulation by the Food and Drug Administration or FDA and other federal and state regulatory agencies. FDA regulations require us to obtain either 510(k) clearance or premarketing approval prior to marketing a product in the United States. We are also subject to foreign regulation and must receive various types of approvals from foreign government agencies prior to selling our products in some countries. The clearance and approval processes for both the FDA and foreign regulatory authorities are costly, time consuming and uncertain. In addition, we are required to obtain FDA approval before exporting a device that has not received FDA marketing clearance or approval. We may never be able to obtain these required government approvals. Delays or failure to obtain such approvals would materially and adversely effect us, as would changes in existing requirements. We have received 510(k) clearance from the FDA for our ultrasonic surgery systems allowing us to sell both devices in the United States. We have also received 510(k) clearance to market our Blood Flow Analyzer(TM).

In May 1995, we were granted an investigational device exemption for our Photon(TM) laser system allowing us to conduct clinical studies in support of our application with the FDA to obtain approval to market the system. During the clinical trials, we discovered that the Photon(TM) laser system may not effectively remove hard (dense or impacted) cataracts. In May 1998, we received FDA clearance to conduct clinical tests on soft cataracts. We believe the FDA will approve our 510(k) predicate device application for the Photon(TM) laser system because in the United States most cataracts are removed before tissue hardens. We received an FDA warning letter in August 2000 concerning deficiencies in the Phase I clinical trials and, after making several submissions to the FDA, we received a letter from the FDA in February 2001 stating that the deficiencies had been corrected and the clinical trials could continue.

We have completed the authorized clinical studies and, in October 2001, made a supplemental submission to the FDA regarding the 510(k) application. We received a preliminary review from the FDA of our supplemental submission in December 2001 and submitted additional clinical information to the FDA on February 6, 2002. On May 7, 2002, we received a letter from the FDA requesting further clinical information. We have generated additional clinical information in response to the letter and are uncertain if we will make a submission to the FDA with the additional clinical information. Because of the "going concern" status of the company, management has focused efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow to the company. As reflected in the results for the fiscal year ended December 31, 2003, diagnostic products are currently our major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when our financial position improves. Our focus is not on any specific diagnostic product or products, but rather on our entire group of diagnostic products.

We have also received FDA approval to manufacture and export the Photon(TM) laser system internationally. However, we have not yet obtained approval from some foreign countries to market the laser product where approval is necessary. We anticipate that many contemplated applications of our currently existing and planned products will be subject to the lengthy regulatory approval process, including preclinical studies, clinical trials and extensive regulatory review. This process could take many years and require the expenditure of substantial resources.

The Photon(TM) laser system is protected under a United States patent issued to Daniel M. Eichenbaum, M.D. in 1987 and subsequently assigned to PhotoMed International, Inc. and a Japanese patent issued to us in 1997. The United States patent expired in September 2004. We secured the exclusive worldwide rights to this patent from PhotoMed by means of a license agreement dated July 7, 1993. The license agreement expired when the United States patent rights expired in September 2004. PhotoMed and Dr. Eichenbaum brought legal action against us on September 11, 2000 involving an amount of royalties that are allegedly due and owing to them from the sale of equipment by us under the license agreement. We have paid $15,717, which we believe brings all payments current as of the date of the last payment on January 7, 2005. We have been working with PhotoMed and Dr. Eichenbaum to insure that the royalty calculations have been correctly made on the royalties paid as well as the proper method of calculations for the future.

It is anticipated that once the parties agree on the correct royalty calculations, the legal action will be dismissed. An issue in dispute concerning the method of calculating royalties is whether royalties should be paid on returned equipment. Since July 1, 2001, only one Photon(TM) laser system has been sold and no systems returned. Thus, the amount of royalties due, according to our calculations, is $981. We made payment of this amount of Photomed and Dr. Eichenbaum on January 5, 2005 and, as a result, seek to have the legal action

dismissed. However, if the parties are unable to agree on a method of calculating royalties, there is risk that PhotoMed and Dr. Eichenbaum may amend the complaint to request termination of the license agreement and, if successful, we would lose our rights to manufacture or sell the Photo(TM) laser system.

Our products may become obsolete due to rapid technological change.

Our market is subject to rapid technological change. Development by others of new or improved products, processes or technologies may make our products obsolete or less competitive. Accordingly, we must continue investing in research and development on our existing products and to develop new products. Despite such investment, our current or proposed products may be unsuccessful.

Our Photon(TM) laser system could receive competition from other laser systems that are well financed with well- recognized trade names.

Our Photon(TM) laser system will potentially receive competition from other laser systems, such as excimer, holmium (Ho:YAG), Erbium (Er:YAG), Nd:YLF (Neodymium:Yttrium-Lithium-Fluoride) or lasers of other wave lengths. Competition may also come from other medical devices and other surgical techniques. Further, the cataract surgical device industry is dominated by a small number of large competitors that are well established in the marketplace, have experienced management, are well financed and have a well recognized trade name related to their product lines. We may be unable to penetrate the existing market and acquire a sufficient market share to be profitable. Significant competitive factors that will affect future sales include regulatory approvals, performance, pricing, timely product shipment, safety, customer support, convenience of use and patient and general market acceptance.

Our new products may incur unexpected production problems, which would impact our sales and profits.

New ventures, particularly those involved in a highly technical industry such as the medical industry, have substantial inherent risks. These risks are in three general areas: technical, mechanical and human. Notwithstanding any pre-production planning, new products can incur unexpected problems in full-scale production, which cannot always be foreseen or accurately predicted. Designs can become unworkable, for unpredicted reasons. Quality control and component sourcing failures can also be expected from time to time. Any business, including ours, is substantially dependent upon the capabilities and performance of both management, engineering and sales personnel. Mistakes in judgment or performance can be costly and, in certain instances, disabling. Therefore, management skill, experience, character and reliability are of significant importance.

Mistakes may occur in the design and manufacture of our products, which could prevent or limit the sales of such products.

The high-technology product line requires us to deal with suppliers and subcontractors supplying highly specialized parts, operating highly sophisticated and narrow tolerance equipment and performing highly technical calculations. Components must be custom designed and manufactured, which is not only complicated and expensive, but can also require a number of months to accomplish. Slight mistakes in either the design or manufacture can result in unsatisfactory parts that may not be correctable. Because our business requires

the talents of various professions, mistakes from very slight oversights or miscommunications can occur, resulting not only in costly delays and lost orders, but also in disagreements regarding liability and, in any event, extended delays in production. Moreover, we rely on suppliers that are related to each other for parts and equipment. When dealing with related suppliers the terms on which parts and equipment are purchased may not be as favorable as could be obtained from unrelated third-party suppliers.

We are dependent upon a limited number of key suppliers for components and parts used in our products and the interruption in the supply of these components and parts could impede our ability to deliver our products to market.

We currently purchase components and parts used in our products from a limited number of key suppliers. Although we maintain alternative suppliers, our reliance on our principal suppliers could result in delays associated with redesigning a product due to an inability to obtain an adequate supply of required components and parts, and reduced control over pricing, quality and timely delivery. The loss of any of these principal suppliers or the inability of a supplier to meet performance and quality specifications, requested quantities or delivery schedules could cause our revenues to decline. In addition, any interruption or discontinuance in the supply of components or parts could have an adverse effect on our business, results of operation and financial condition. Further, a significant price increase from any of our principal suppliers could cause our profitability to decline if we cannot increase the prices of our products to our customers. Our principal suppliers include Capistrano Labs, U.S. Ultrasound and Anello.

No independent marketing studies have been made to confirm the commercial demand for the Photon(TM) laser system, the Blood Flow Analyzer(TM), and the P40, P45 and P60 Ultrasound Biomicroscopes.

We believe that there is substantial commercial demand for our Photon(TM) laser system, our Blood Flow Analyzer(TM), and our P40, P45 and P60 Ultrasound Biomicrocopes for the eyes at a profitable price. However, this belief is solely based on our management's experience and judgment. At this time, there have been no independent marketing studies by independent

professional marketing firms to reliably confirm the extent of this demand, the price ranges within which it exists and the amount of promotion necessary to exploit whatever demand does exist.

Our Photon(TM) laser system may not be accepted in the marketplace because it does not remove hard cataracts.

Our products may not be accepted in the marketplace. Such acceptance will depend on a number of factors including receiving regulatory approvals, demonstrating the safety, and advantages of our products over existing systems and techniques. Our Photon(TM) laser system may never gain market acceptance since the system does not effectively remove hard (dense or impacted) cataracts. Further, we may be unable to successfully market our products even if they perform successfully in clinical applications. Our Precisionist ThirtyThousand(TM) Workstation(TM) may not gain acceptance unless we can reduce or eliminate the vacuum surge and develop additional, complementary surgical devices for installation in that host system. Vacuum surge is a phenomenon that occurs when the tip of the ultrasonic needle is obstructed by target tissue, allowing pressure to build up and, if the pressure is not released, a rush of fluid goes from the chamber of the eye into the needle to equalize the pressure. The result can be complications to the eye such as posterior capsule rupture, iris capture and chamber collapse. We believe this phenomenon affects all other

ultrasonic cataract removal systems currently on the market.

Our pending patents may not be perfected and our present or future patents may infringe upon the patents of others, which could restrict or prevent the manufacture and sale of our products.

We depend on our ability to license and obtain patents and on the adherence to confidentiality agreements executed by employees, consultants and third-parties to maintain the proprietary nature of our technology and to operate without infringing on the proprietary rights of others. A United States patent issued in 1987 to Daniel M. Eichenbaum, M.D. protects our laser probe. These patent rights expired in September 2004. Patents have also been granted to the Blood Flow Analyzer(TM) in the United States and the United Kingdom; to the Dicon(TM) Topographer in the United States; and to the Dicon(TM) Perimeter in the United States, the United Kingdom, Germany and Switzerland. The pending patents may not be perfected. Also, our present or future products may be found to infringe upon the patents of others. If our products are found to infringe on the patents, or otherwise impermissibly utilize the intellectual property of others, our development, manufacture and sale of such products could be severely restricted or prohibited. We may be required to obtain licenses to utilize such patents or proprietary rights of others and acceptable terms may be unavailable. If we do not obtain such licenses, the development, manufacture or sale of products requiring such licenses would be materially adversely affected. In addition, we could incur substantial costs in defending ourselves against challenges to our patents or infringement claims made by third parties or in enforcing any patents we may obtain.

Because patents only provide limited protection, others could produce and distribute products similar to the Photon(TM) laser system and the Blood Flow Analyzer(TM).

We rely on the protections for our products that we hope to realize under the United States and foreign patent laws. However, patents provide limited protections. We have a United States and Japanese patent on the hand held probe design and applications for various foreign patents are either pending or planned, and the patents for the Blood Flow Analyzer(TM) for the eyes are reported by Ocular Blood Flow, Ltd. to have been approved in the United States and the United Kingdom. Similar devices, however, could be designed that do not infringe on our patent rights, but that are similar enough to compete against our patented products. Moreover, it is possible that an unpatented but prior existing device or design may exist that has never been made public and therefore is not known to us or the industry in general. Such a device could be introduced into the market without infringing on our current patent. If any such competing non-infringing devices are produced and dis tributed, our profit potential would be seriously limited, which would seriously impair our viability.

Some of our products may be denied reimbursement by third-party payors, such as government programs and private insurance plans.

We anticipate that our medical devices will generally be purchased by ophthalmologists and hospitals that will then bill various third-party payors, such as government programs and private insurance plans, for the health care services provided to their patients. Government agencies generally reimburse at a fixed rate based on the procedure performed. Some of the potential procedures for which our medical devices may be used, however, may be denied reimbursement as elective. In addition, third-party payors may deny reimbursement if they determine that the use of our products was unnecessary, inappropriate, not cost-effective, experimental or used for a non-approved indication. Certain purchasers of our Blood Flow Analyzer,(TM), for example, have had difficulty in obtaining reimbursement from insurance carriers. Even if we receive FDA clearances for our products, third-party payors may nevertheless deny

reimbursement. Furthermore, third-party payors increasingly challenge the prices charged for medical products and services. Reimbursement from third-party payors may be unavailable or if available, that reimbursement may be limited when compared with reimbursement for competitive procedures, thereby materially adversely affecting our ability to profitably sell products. The market for our products could also be adversely affected by recent federal legislation that reduces reimbursements under the capital cost pass-through system utilized in connection with the Medicare program. Failure by hospitals and other users of our products to obtain reimbursement from third-party payors or changes in government and private third-party payors' policies toward reimbursement for procedures employing our products would have a material adverse effect on us.

Congress may introduce legislation that could result in price limits and utilization controls on our products.

Members of Congress have introduced legislation to change aspects of the delivery and financing of health care services. Such legislation to control or reduce public (Medicare and Medicaid) and private spending on health care, to reform the methods of payment for health care goods and services by both the public and private sectors, and to provide universal access to health care may be passed. We cannot predict what form this legislation may take or the effect of such legislation on our business. It is possible that the legislation ultimately enacted by Congress will contain provisions resulting in price limits and utilization controls which may reduce the rate of increase in the growth of the ophthalmic laser market or otherwise adversely affect our business. It is also possible that future legislation could result in modifications to the nation's public and private health care insurance systems that will affect reimbursement policies in a manner adverse to us. We also cannot predict what other legislation relating to our business or the health care industry may be enacted, including legislation relating to third-party reimbursement, or what effect legislation may have on the results of our operations.

Our product liability insurance could be inadequate to cover liabilities if we face significant product liability claims against us.

The nature of our business exposes it to risk from product liability claims and there can be no assurance that we can avoid significant product liability exposure. We maintain product liability insurance providing coverage up to $2,000,000 per claim with an aggregate policy limit of $2,000,000. There is substantial doubt that this amount of insurance would be adequate to cover liabilities should we face significant claims. A successful products liability claim brought against us could have a material adverse effect on our business, operating results and financial condition. Further, product liability insurance is becoming increasingly expensive, and there can be no assurance that we will successfully maintain adequate product liability insurance at acceptable rates, or at all. Should we be unable to maintain adequate product liability insurance, our ability to market our products would be significantly impaired. Any losses that we may suffer from future liability claims or a voluntary or involuntary recall of our products and the damage that any product liability litigation or voluntary or involuntary recall may do to the reputation and marketability of our products would have a material adverse effect on our business, operating results and financial condition.

Our future products sales in foreign countries could be adversely affected by a significant increase in value of the U.S. dollar against local currencies, economic and political instability, and changes in the regulatory processes and other regulations.

We anticipate that a significant portion of our future product sales will be in foreign countries. Because we quote prices for our products and accept payment on sales principally in U.S. dollars, any significant increase in the value of the U.S. dollar against local currencies may make our products less competitive with foreign products. The economic and political instability of some foreign countries also may affect the ability of ophthalmologists and others to purchase our products, or the ability of potential customers to pay for the procedures for which our products are used. In addition, other specific risks in doing business in foreign countries include changes in the regulatory processes affecting our products, in controls governing foreign payments by our customers, and in regulations, taxes and customs duties or requirements that may be imposed on the purchase of our products. The foreign countries where our products are sold include but are not limited to Argentina, Australia, Bangladesh, Borneo, Brazil, Canada, China, Czechoslovakia, Egypt, France, Germany, Greece, Hong Kong, India, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, New Zealand, Pakistan, Peru, Poland, Puerto Rico, Russia, Saudi Arabia, Spain, Sri Lanka, Taiwan, Thailand, Turkey, United Kingdom, and United Arab Emirates. Certain of countries may experience political, economic or social instability, which could adversely affect our sales.

The market price of our securities could fluctuate significantly.

Our common stock was delisted on The Nasdaq SmallCap Market, effective June 26, 2003, and currently trades on the OTC Bulletin Board. Factors such as announcements by us of the regulatory status of products, quarterly variations in our financial results, the gain or loss of material contracts, changes in management, regulatory changes, trends in the industry or stock market and announcements by competitors, among other things, could cause the market price of such securities to fluctuate significantly.

We may issue preferred shares with preferences in an equal or prior rank to existing preferred shares.

Our certificate of incorporation authorizes the issuance of shares of "blank check" preferred stock, which will have such designations, rights and preferences as our board of directors may determine from time to time. Accordingly, our Board of Directors is empowered, without stockholder approval (but subject to applicable government regulatory restrictions), to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock. Those terms and conditions may include preferences on an equal or prior rank to existing preferred stock. Those shares may be issued on such

terms and for such consideration as the board then deems reasonable and such stock shall then rank equally in all aspects of the series and on the preferences and conditions so provided, regardless of when issued. In the event of such issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of our company. As of August 31, 2006, the following preferred shares were issued and outstanding: 5,627 shares of Series A preferred stock convertible into 6,753 common shares; 8,986 shares of Series B preferred stock convertible into 10,783 common shares; no shares of Series C preferred stock; 5,000 shares of Series D preferred stock convertible into 8,750 common shares; 250 shares of Series E preferred stock convertible into 13,333 common shares; 4,598.75 shares of Series F preferred stock convertible into 245,267 common shares; and 588,235 shares of Series G preferred stock convertible into 588,235 common shares.

Our preferred shares have rights that amount to a preference over the shares of

this offering.

Our preferred shares have dividend and liquidation rights that amount to preferences over the shares of this offering. We must pay any cash dividends to our holders of preferred shares before paying cash dividends to the holders of the shares of this offering. The dividend rights of our preferred shares are as follows: for Series A and Series B preferred shares, $.24 per share per annum payable, at our option, in cash from surplus earnings; for Series C preferred shares, 12% noncumulative preferred shares payable, at our option, in common stock or cash from surplus earnings; and for Series D, E, F and G preferred shares, 8% noncumulative preferred dividends payable, at our option, in common stock or cash from surplus earnings. Upon our liquidation, we must pay preferential distributions to our preferred shareholders before paying any distributions to holders of the shares of this offering. The liquidation rights of our preferred shares are as follows: for Series A preferred shares, $1.00 per share, plus accrued and unpaid dividends; for Series B preferred shares, $4.00 per share, plus accrued and unpaid dividends; for Series C preferred shares, the stated value of $100.00 per share, plus declared but unpaid dividends; for Series D preferred shares, the stated value of $1.75 per share, plus declared but unpaid dividends; for Series E, F, and G preferred shares, the greater of (i) the amount of distributions such shares would have received had the holders converted such preferred shares into common stock immediately prior to liquidation, or (ii) the stated value of $100.00 per share, plus declared but unpaid dividends.

Exercise of outstanding options and warrants will dilute existing stockholders and could decrease the market price of our common stock

As of August 31, 2006, we had issued and outstanding 199,956,828 shares of our common stock, shares of Series A, B, D, E, F and G preferred stock convertible into 873,071 shares of common stock, and outstanding options and warrants to purchase 36,166,892 additional shares of common stock. The existence of the outstanding preferred shares, options and warrants may adversely affect the market price of our common stock and the terms under which we could obtain additional equity capital. Included in the outstanding options is 4,500,000 options issued to Raymond P.L. Cannefax, our President and Chief Executive Officer, under the terms of his employment agreement with us. These options are exercisable at $.01 per share and vest in 12 equal monthly installments of 375,000 shares, beginning on February 5, 2006 until such shares are fully vested.

We do not expect to pay any cash dividends in the foreseeable future.

We issued a stock dividend on our Series A preferred stock and Series B preferred stock on January 8, 1996, to stockholders of record as of December 31, 1994. We have not paid any cash dividends on our common shares and do not expect to declare or pay any cash or other dividends in the foreseeable future so that we may reinvest earnings, if any, into the development of the business. The holders of our Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock, Series E preferred stock, Series F preferred stock and Series G preferred stock are entitled to noncumulative cash dividends paid out of surplus earnings.

We may have continuing liability following our rescission offer in 1996 to Series B preferred shareholders.

We issued 493,000 shares of Series B preferred stock in 1994 and 1995. The Series B shares may not have been sold in compliance with certain aspects of California corporate law and federal and state securities laws. Concurrently with our July 1996 public offering, we provided the Series B shareholders with a rescission offer to repurchase all Series B preferred shares or rescission shares owned by the Series B shareholders. The Series B shareholders were

offered the right to rescind their purchases and receive a refund of the price paid by them of $4.00 per share plus an amount equal to the interest thereon at rates ranging from 6% to 12% per annum from the date the rescission shares were purchased to July 25, 1996, the date our public offering closed and each rescinding shareholder was paid by us. The original purchasers of approximately 93% of the Series B shares (460,250 shares) rejected the rescission offer by responding as requested in the rescission offer or by failing to return a response within 30 days of receiving the rescission offer. Two shareholders owning a combined total of 32,750 shares accepted the rescission offer. We purchased the 32,750 shares from the two shareholders accepting the rescission offer from the proceeds from our public offering.

The rescission offer was designed to reduce any type of contingent liability we may be subject to in connection with its private placement of Series B preferred stock. However, the rescission offer may not have fully relieved us from exposure to contingent liability under federal or state securities laws. Not every state statutorily provides for voluntary rescission offers. In addition, other states, although authorizing rescission offers, do

not completely limit the liability of the offeror. Thus, we may have continuing liability in certain states following the rescission offer. Other than the payments in 1996 to the two shareholders accepting the rescission offer, we have made no additional payments thereunto as no other shareholder has accepted the rescission offer. Moreover, there has been no litigation by a shareholder involving the private offering of Series B preferred stock or the rescission offer. As of August 31, 2006, a total of 484,014 shares of Series B preferred stock have been converted into 580,817 shares of common stock. There are a total of 8,986 shares of Series B preferred stock issued and outstanding, which are convertible into 10,783 shares of common stock.

We have indemnification agreements with certain officers and directors that may require us to indemnify them in a civil or criminal action.

Our certificate of incorporation eliminates in certain circumstances the liability of directors for monetary damages for breach of their fiduciary duty as directors. We have entered into indemnification agreements with certain directors and officers. Each such indemnification agreement provides that we will indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any civil or criminal action or administrative proceeding arising out of his performance of his duties as a director or officer, other than an action instituted by the director or officer. The indemnification agreements will also require that we indemnify the director or other party thereto in all cases to the fullest extent permitted by applicable law. Each indemnification agreement will permit the director or officer that is party thereto to bring suit to seek recovery of amounts due under the indemnification agreement and to recover the expenses of such a suit if he or she is successful.

Our Board of Directors has the right to issue additional shares of common stock and to create a new series of preferred stock that could dilute holders of common stock.

Our board of directors has the inherent right under applicable Delaware law, for whatever value the board deems adequate, to issue additional common shares up to the limit of shares authorized by the certificate of incorporation, and, upon such issuance, all holders of shares of common stock, regardless of when they are issued, thereafter generally rank equally in all aspects of that class of stock, regardless of when issued. Our board of directors likewise has

the inherent right, limited only by applicable Delaware law and provisions of the Certificate of Incorporation to increase the number of preferred shares in a series, to create a new series of preferred shares and to establish preferences and all other terms and conditions in regard to such newly-created series. Any of those actions will dilute the holders of common shares and also affect the relative position of the holders of any series of any class. Current stockholders have no rights to prohibit such issuances nor inherent "preemptive" rights to purchase any such stock when offered.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering.

In addition, we have received total gross proceeds of $1,000,000 from the sale of the callable secured convertible notes on February 28, 2006 and the investors are obligated to provide us with an additional $500,000 upon the effectiveness of a registration statement to register the shares of common stock underlying the callable secured convertible notes and the warrants. The $500,000 in additional proceeds to be provided by the investors after the registration statement is declared effective will be used for the purchase of inventory, marketing and sales, increasing the number of our direct sales representatives, and working capital.

DIVIDEND POLICY

We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Dividends paid in cash pursuant to outstanding shares of our Series A, Series C, Series D, Series E, Series F and Series G preferred stock are only payable from our surplus earnings and are noncumulative and therefore, no deficiencies in dividend payments from one year will be carried forward to the next. We currently intend to retain future earnings, if any, to fund the development and growth of our proposed business and operations. Any payment of cash dividends in the future on the common stock will be dependent upon our financial condition, results of operations, current and anticipated cash requirements, plans for expansion, restrictions, if any, under any debt obligations, as well as other factors that our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our capitalization on an actual basis as of December 31, 2005 and June 30, 2006.

	December 31, 2005	June 30, 2006
Long-term obligations	$ 2,038,000	$ 2,670,000
Stockholders' equity:		

Series A Preferred Stock, $.001 par value per share; 500,000 shares authorized, 5,627 issued and outstanding.....	-	-
Series B Preferred Stock, $.001 par value per share; 500,000 shares authorized, 8,986 issued and outstanding.....	-	-
Series C Preferred Stock, $.001 par value per share; 30,000 shares authorized, 0 issued and outstanding.....,,.....	-	-
Series D Preferred Stock, $.001 par value per share; 1,140,000 shares authorized, 5,000 issued and outstanding.....	-	-
Series E Preferred Stock, $.001 par value per share; 50,000 shares authorized, 250 issued and outstanding.....	-	-
Series F Preferred Stock, $.001 par value per share; 50,000 shares authorized, 5,623.75 and 4,597 issued and outstanding, respectively....	-	-
Series G Preferred Stock, $.001 par value per share; 2,000,000 shares authorized, 588,235 issued and outstanding.....	1,000	1,000
Common Stock, $.001 par value per share; 60,000,000 shares authorized, 96,389,295 and 199,956,828 issued and outstanding, respectively.....	96,000	197,000
Additional paid-in-capital, common stock.....	60,586,000	61,873,000
Accumulated deficit.....	(62,196,000)	(63,705,000)
Total stockholders' equity	(1,513,000)	(634,000)
Total capitalization.....	$ 525,000	$ 673,000

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our authorized capital stock consists of 800,000,000 shares of common stock, $.001 par value per share, and 5,000,000 shares of preferred stock, $.001 par value per share. We have created seven classes of preferred stock, designated as Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock, Series E preferred stock, Series F preferred stock and Series G preferred stock.

Our common stock and Class A warrants trade on the Over-the-Counter Bulletin Board under the respective symbols of "PMED.OB" and "PMEDW.OB." Prior to July 22, 1996, there was no public market for the common stock. From July 22, 1996 to June 25, 2003, our common stock and Class A warrants were listed on the Nasdaq SmallCap Market. Since June 25, 2003, our common stock has traded on the Over-the-Counter Bulletin Board. As of September 6, 2006, the closing sale price of the common stock was $.006 per share. The following are the high and low sale prices for the common stock by quarter as reported by Nasdaq from January 1, 2000 to June 25, 2003 and by the Over-the-Counter Bulletin Board since June 25, 2003.

Period (Calendar Year)	Common Stock Price Range High	Low
2004		
First Quarter	$ .21	$ .15
Second Quarter	.16	.07
Third Quarter	.12	.09
Fourth Quarter	.12	.08
2005		
First Quarter	.10	.08
Second Quarter	.09	.07
Third Quarter	.10	.001
Fourth Quarter	.048	.001
2006		
First Quarter	.047	.001
Second Quarter	.014	.006
Third Quarter (through September 8, 2006)	.007	.004

Our Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock, Series E preferred stock, Series F preferred stock and Series G preferred stock are not publicly traded. As of August 31, 2006, there were 4,781 record holders of common stock, six record holders of Series A preferred stock, four record holders of Series B preferred stock, no record holders of Series C preferred stock, one record holder of Series D preferred stock, one record holder of Series E preferred stock, 18 record holders of Series F preferred stock, and one record holder of Series G preferred stock.

We have never paid any cash dividends on our common stock and does not anticipate paying any cash dividends on our common stock in the foreseeable future. We must pay cash dividends to holders of our Series A preferred, Series B preferred, Series C preferred, Series D preferred stock, Series E preferred, Series F preferred stock and Series G preferred stock before it can pay any cash dividend to holders of our common stock. Dividends paid in cash pursuant to outstanding shares of our Series A, Series B, Series C, Series D, Series E, Series F and Series G preferred stock are only payable from our surplus earnings, and are noncumulative and therefore, no deficiencies in dividend payments from one year will be carried forward to the next.

We currently intend to retain future earnings, if any, to fund the development and growth of our proposed business and operations. Any payment of cash dividends in the future on the common stock will be dependent upon our financial condition, results of operations, current and anticipated cash requirements, plans for expansion, restrictions, if any, under any debt obligations, as well as other factors that our board of directors deems relevant. We issued 6,764 shares of our Series A preferred and 6,017 shares of our Series B preferred on January 8, 1996 as a stock dividend to Series A and Series B preferred shareholders of record as of December 31, 1994.

SELECTED FINANCIAL DATA

The following table sets forth our selected financial data for the years ended December 31, 2004 and 2005, and the six months ended June 30, 2005 and 2006. The selected financial data as of and for the six months ended June 30, 2005 and 2006 are derived from our unaudited quarterly financial statements,

which have been reviewed by Chrisholm, Bierwolf & Nilson. The following financial information should be read in conjunction with the Financial Statements, and related notes thereto.

Summary Financial Information

	For the year ended December 31,		For the six months June 30,	
Statement of Operations Data:	2004	2005	2005	
Net Sales	$3,062,000	$2,201,000	$1,413,000	$1
Net cost of sales	1,217,000	1,599,000	692,000	
Operating expenses	2,237,000	2,782,000	1,476,000	
Operating loss	(392,000)	(2,180,000)	(755,000)	
Other income (expense)	456,000	(3,209,000)	(2,846,000)	(1
Net income (loss)	64,000	(5,389,000)	(3,601,000)	(1
Net income (loss) applicable to common shareholders	10,000	(5,389,000)	(3,601,000)	(1
Net income (loss) per common share	$0.00	$(0.13)	$(0.13)	
Shares used in computing net loss per share	25,405,000	42,033,000	27,745,000	150

Balance Sheet Data:	As of December 31, 2005	As of June 30, 2006
Current assets	$1,331,000	$1,912,000
Current liabilities	1,177,000	1,239,000
Working capital (deficit)	154,000	673,000
Total assets	1,702,000	2,275,000
Accumulated deficit	(62,196,000)	(63,705,000)
Stockholder's equity	(1,513,000)	(1,634,000)

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This report contains forward-looking statements and information relating to the Company that is based on beliefs of management as well as assumptions made by, and information currently available to management. These statements reflect its current view respecting future events and are subject to risks, uncertainties and assumptions, including the risks and uncertainties noted throughout the document. Although the Company has attempted to identify important factors that could cause the actual results to differ materially, there may be other factors that cause the forward-looking statements not to come true as anticipated, believed, projected, expected or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, projected, estimated, expected or intended.

Critical Accounting Policies

Revenue Recognition. The Company recognizes revenue in compliance with

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

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

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

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

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

Recoverability of Inventory. Since its inception, the Company has purchased several complete lines of inventory. In some circumstances the Company has been able to utilize certain items acquired and others remain unused. On a quarterly basis, the Company attempts to identify inventory items that have shown relatively no movement or very slow movement. Generally, if an item has shown little or no movement for over a year, it is determined not to be recoverable and a reserve is established for that item. In addition, if the Company identifies products that have become obsolete due to product upgrades or enhancements, a reserve is established for such products. The Company intends to make efforts to sell these items at significantly discounted prices. If items are sold, the cash received would be recorded as revenue, but there would be no cost of sales on such items due to the reserve that has been recorded. At the time of sale, the inventory would be reduced for the item sold and the corresponding inventory reserve would also be reduced.

Recoverability of Goodwill and Other Intangible Assets. The Company's intangible assets consist of goodwill, product and technology rights, engineering and design costs, and patent costs. Intangibles with a determined life are amortized on a straight-line basis over their determined useful life

and are also evaluated for potential impairment if events or circumstances indicate that the carrying amount may not be recoverable. Intangibles with an indefinite life, such as goodwill, are not amortized but are tested for impairment on an annual basis or when events and circumstances indicate that the asset may be impaired. Impairment tests include comparing the fair value of a reporting unit with its carrying net book value, including goodwill. To date, the Company's determination of the fair value of the reporting unit has been based on the estimated future cash flows of that reporting unit.

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

General

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

The Company is engaged in the design, development, manufacture and sale of high technology diagnostic and surgical eye care products. Given the "going concern" status of the Company, management has focused efforts on those products and activities that will, in its opinion, achieve the most resource efficient short-term cash flow. As seen in the results for the three months ended June 30, 2006, diagnostic products have been the major focus and the Photon(TM) and other extensive research and development projects have been put on hold pending future evaluation when the Company's financial position improves. The Company does not focus on a specific diagnostic product or products but, instead, on the entire diagnostic product group.

Results of Operations

Six Months Ended June 30, 2006, Compared to Six Months Ended June 30, 2005

Net sales for the six months ended June 30, 2006 decreased by $231,000, or 16%, to $1,182,000 as compared to $1,413,000 for the same period of 2005. This reduction in sales was primarily due to reduced sales of the P40, P45 and P60 UBM Ultrasound Biomicroscopes and the P37 A/B Scan Ocular Ultrasound Diagnostics.

For the six months ended June 30, 2006, sales from our diagnostic products totaled $1,026,000, or 87% of total revenues, compared to $1,172,000, or 83% of total revenues for the same period of 2005. The remaining 13% of sales, or $156,000 during the six months ended June 30, 2006 was from parts, disposables, and service revenue.

Sales of the P40, P45 and P60 UBM Ultrasound Biomicroscopes decreased to $253,000 during the six months ended June 30, 2006, or 21% of total quarterly revenues for the period, compared to $677,000, or 48% of total revenues, for the same period last year. Sales of the Blood Flow Analyzer(TM) increased by $23,000 to $85,000, or 7% of total revenues, for the six months ended June 30, 2006, compared to net sales of $63,000, or 4% of total revenues, during the same

period in 2005. Sales from the P37 A/B Scan Ocular Ultrasound Diagnostic increased to $120,000, or 10% of total revenues, for the six month period ended June 30, 2006, down compared to $80,000, or 6% of total revenues, for the same period last year. Combined sales of the LD 400 and TKS 5000 autoperimeters and the CT 200 Corneal Topographer were $540,000, or 46% of the total revenues, for the six months ended June 30, 2006, compared to $352,000, or 25% of total revenues, for the same period of 2005.

Our sales have been lower during the six months ended June 30, 2006 due to a variety of reasons. Sales of the P40, P45 and P60 UBM Ultrasound Biomicroscope decreased primarily as a result of ongoing software development and hardware configuration problems with the new P60, which received FDA 510(k) premarket approval on May 26, 2005 that allows the device to be sold in the United States. The hardware configuration problems have since been resolved and we continue to work on resolving the software development problems. We anticipate reversing the downward trend in sales through additional efforts to gain more widespread support for the P60 as a result of increased clinical awareness, product development and improved marketing plans.

Sales of surgical products are at a standstill pending FDA approval of the Photon(TM) laser system. In the six month period ended June 30, 2006, we realized no sales in the surgical line consisting of the Precissionist Thirty Thousand(TM) and the Photon(TM) laser system. There were also no sales in the surgical line for the comparable period of 2005.

Gross profit for the six months ended June 30, 2006 decreased by 5% to 46% of total revenues, compared to 51% of total revenues for the same period in 2005. The decrease in gross profit was mainly due to the ongoing development expenses of the new P60 UBM and the costs associated with the physical move of our production and warehouse operations and corporate offices into a reduced area in our leased office and warehouse space in order to realize savings in the monthly rent of such facilities. There was no increase or decrease to cost of sales as a result of a change to the reserve for obsolete inventory in 2006.

Marketing and selling expenses decreased by $180,000, or 49%, to $185,000, for the six months ended June 30, 2006, from $365,000 for the comparable period in 2005. The reduction was due primarily to a reduced number of sales representatives and lower travel related and associated sales expenses.

General and administrative expenses decreased by $138,000, or 21%, to $514,000 for the six months ended June 30, 2006, from $652,000 for the comparable period in 2005. The decrease in general and administrative expenses was primarily due to the expenses associated with the financing obtained in June 2006.

In addition, during the first quarter of 2005, we issued 515,206 shares of common stock to two shareholders that had purchased shares of our Series G convertible preferred stock in a private offering. Under the terms of the private offering, the Company was required to file a registration statement with the Securities and Exchange Commission for the purpose of registering the common shares issuable to the Series G preferred stockholders upon conversion of their Series G preferred shares and exercise of their warrants. The shares were issued as a penalty for the Company not having a registration statement declared effective within 120 days of the initial closing of the private offering.

Also during 2005, we collected $1,000 in receivables that were previously allowed in the allowance for doubtful accounts. During 2005, we increased allowance for doubtful accounts by $100,000.

Research, development and service expenses decreased by $202,000, or

44%, to $257,000 for the six months ended June 30, 2006, compared to $459,000 in the same period of 2005. Most of the increase was due to the costs of development and compliance with regulatory requirements in releasing the new P60 UBM.

Due to our ongoing cash flow difficulties, most of our vendors and suppliers were contacted during 2004 and 2005 with attempts to negotiate reduced payments and settlement of outstanding accounts payable. While some vendors refused to negotiate and demanded payment in full, some vendors were willing to settle for a reduced amount. The accounts payable forgiven by vendors and suppliers resulted in a gain of $12,000 and $206,000 during the years ended December 31, 2005 and 2004, respectively. In 2006 we are continuing our negotiations with some vendors and suppliers.

Liquidity and Capital Resources

We used $445,000 in cash in operating activities for the six months ended June 30, 2006, compared to $1,665,000 for the six months ended June 30, 2005. The decrease in cash used for operating activities for the six months ended June 30, 2006 was primarily attributable to our net loss and decreases in accounts payable and accrued liabilities and an increase in inventory, specifically for the P60 UBM. We used $16,000 in investing activities for the six months ended June 30, 2006, compared to zero for the six months ended June 30, 2005. Net cash received in financing activities was $986,000 for the six months ended June 30, 2006, versus cash provided from financing activities of $2,622,000 in the same period in 2005. We had working capital of $673,000 as of June 30, 2006, compared to working capital of $1,565,000 as of June 30, 2005. In January 2005, we sold 2,000,000 shares of our common stock to an accredited investor for $150,000 in cash. In the past, we have relied heavily upon sales of our common and preferred stock to fund operations. There can be no assurance that such equity funding will be available on terms acceptable to us in the future.

As of June 30, 2006, we had net operating loss carry-forwards (NOLs) of approximately $53 million. These loss carry- forwards are available to offset future taxable income, if any, and have begun to expire in 2001 and extend for twenty years. Our ability to use net operating loss carryforwards (NOLs) to offset future income is dependant upon certain limitations as a result of the pooling transaction with Vismed and the tax laws in effect at the time of the NOLs can be utilized. The Tax Reform Act of 1986 significantly limits the annual amount that can be utilized for certain of these carryforwards as a result of change of ownership.

As of June 30, 2006, we had accounts payable of $390,000, a significant portion of which was over 90 days past due, compared to accounts payable of $346,000 as of June 30, 2005. We have contacted many of the vendors or companies that have significant amounts of payables past due in an effort to delay payment, renegotiate a reduced settlement payment, or establish a longer-term payment plan. While some companies have been willing to renegotiate the outstanding amounts, others have demanded payment in full. Under certain conditions, including but not limited to judgments rendered against us in a court of law, a group of creditors could force us into bankruptcy due to our inability to pay the liabilities arising out of such judgments at that time. In addition to the accounts payable noted above, we also have non-cancelable capital lease obligations and operating lease obligations that required the payment of approximately $194,000 in 2005, and $14,000 in 2006.

We have taken numerous steps to reduce costs and increase operating

efficiencies. These steps consist of the following:

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

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

3. We have reduced its direct sales force to four representatives, which has resulted in less payroll, travel and other selling expenses.

Because we have significantly fewer sales representatives, our ability to generate sales has been reduced.

We have taken measures to reduce the amount of uncollectible accounts receivable such as more thorough and stringent credit approval, improved training and instruction by sales personnel, and frequent direct communication with the customer subsequent to delivery of the system. The allowance for doubtful accounts was 17% of total outstanding receivables as of June 30, 2006 and 20% as of December 31, 2005 c