Company Description

PhotoMedex, Inc. ("PhotoMedex" or "the Company") is a global skin health company addressing a worldwide aesthetic industry valued at $34 billion annually. The Company provides dermatologists, professional aestheticians, and consumers with the equipment and skin care products they need to treat psoriasis, vitiligo, acne, and UV damage, among other skin conditions. In December 2011, PhotoMedex merged with Radiancy Inc. (www.radiancy.com), which brought to PhotoMedex the no!no!® line of home-use consumer products for hair removal, acne treatment, and skin rejuvenation. Radiancy also markets capital home-use products to physicians, salons, and med spas for hair removal, acne treatment, skin tightening and rejuvenation, and psoriasis care. In addition to a synergistic product line, PhotoMedex and Radiancy possess a proprietary consumer marketing engine built upon direct-to-consumer sales and creative marketing programs that drive brand awareness. PhotoMedex's Common Stock is listed on the NASDAQ Global Select Market under the ticker "PHMD" as well as on the Tel-Aviv Stock Exchange (TASE) under the ticker "PHMD.TA."

Key Points

- The Company's no!no!® Hair removal devices have experienced widespread retail success. To date, over 300,000 no!no!® Hair units have been sold through home shopping TV in the U.S. and over four million units have been sold worldwide. no!no!® holds a 53% market share in Japan based on brick-and-mortar retail sales, and in November 2012, a U.S. home shopping channel generated record one-day sales of $10.5 million for no!no!® Hair products.

- In late 2012, PhotoMedex launched a direct-to-consumer and physician education campaign in the U.S. for psoriasis and vitiligo patients. The “Live Clear. Live Free.” campaign includes radio, TV, and direct mail marketing as well as increased patient and physician resources, such as insurance guidance, informative websites, and a 24/7 call center staffed with clinical specialists. It is designed to accelerate awareness of the Company’s XTRAC® Excimer Laser treatment, improve psoriasis and vitiligo patient care, and reduce healthcare costs.

- During the first nine months of 2012, PhotoMedex reported greater revenues than for the entirety of 2011. If fourth quarter results match the Company’s published expectations, PhotoMedex’s annual revenue in 2012 could represent a 65% increase over 2011 (Source: PhotoMedex’s December 13, 2012, Press Release).

- PhotoMedex’s global presence includes a direct sales force in the U.S., specialty distributors and retail venues in over 55 countries, online sales, home shopping TV channels, targeted infomercials and print media worldwide, as well as over 250 issued and pending patents globally and more than 90 U.S. regulatory clearances.

- As of September 30, 2012, the Company held cash, cash equivalents, and short-term investments of $54.8 million. In addition, PhotoMedex repurchased 424,244 shares of its Common Stock during the third quarter 2012 at an average price of $12.59 per share for a total of $5.3 million.

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*As of November 13, 2012.
Recent Events and Financial Results

An overview of the Company’s recent news announcements is provided below, referring the reader to PhotoMedex’s website for complete press releases (www.photomedex.com).

- On December 17, 2012, PhotoMedex announced the signing of a two-year extension with Ya-Man Ltd. (6630-TYO), the exclusive distributor of the Company’s no!no!® brand in Japan. The new agreement calls for minimum order quantities and advertising budgets consistent with the existing agreement, which was due to expire on December 31, 2012.

- On December 13, 2012, the Company announced that it expected revenue for the fourth quarter 2012 to increase by more than 80% year over year and range between $52 million and $54 million. This compared with previous guidance for fourth quarter revenue to increase by more than 60% over the same quarter of 2011, and range between $46 million and $48 million. The Company attributed the quarterly revenue outperformance to the efficiency of holiday advertising in the Consumer business segment, which is yielding sales above prior forecasts, as well as better-than-expected results in the Company’s Physician Recurring and Professional business segments.

The Company further reported in its December 13, 2012, press release that annual revenues for 2012 were expected in the range of $218 million to $220 million, which, if achieved, could represent a gain of more than 65% over 2011.

- On November 29, 2012, PhotoMedex announced the launch of a national direct-to-consumer and physician education campaign for patients suffering from psoriasis or vitiligo. The “Live Clear. Live Free.” campaign is designed to accelerate awareness of the XTRAC® excimer laser treatment, improve patient care, expedite information sharing, and reduce healthcare costs for these challenging skin diseases. The “Live Clear. Live Free.” marketing campaign and the XTRAC® therapy is further described on page 6 and page 8, respectively.

- On November 6, 2012, PhotoMedex, announced that no!no!® Hair broke another beauty sales record when consumers purchased approximately 42,000 units for a total of $10.5 million of retail sales in a 24-hour period on the major television home shopping channel in the U.S. The no!no!® Hair removal device was featured in a beauty event led by beauty and makeup experts Jennifer Crawford and Cynde Watson. Ms. Crawford has been a television spokesperson for the brand since 2009. Ms. Watson is a former Miss New Jersey and has advised cosmetic companies such as Sephora and Bobbi Brown Cosmetics. As part of the one-day beauty event, the brand launched a limited edition no!no!® Professional Hair Removal Glam Set, which was leopard-print and included a faux snakeskin special case with mirror as well as other complementary no!no!® products.

After five years on home shopping television, no!no!® Hair continues to break records, as more than 300,000 no!no!® Hair units have been sold through home shopping television in the U.S. and over four million units have been sold worldwide to date.

- On October 15, 2012, PhotoMedex announced that the no!no!® Hair removal device exceeded sales expectations on QVC UK during the weekend of October 6-7, 2012, where the product was featured as “Today’s Special Value (TSV).” Nearly 9,000 units reflecting retail sales of £1.35 million (~$2.16 million) were sold over the weekend, which featured eight live TSV airings and three overnight reruns in a 24-hour period.

- On October 2, 2012, the Company announced that new market data commissioned by Ya-Man and compiled by market research firm GfK Japan found that no!no!® Hair is the leading women’s hair removal device in Japan, accounting for 53% of sales value for women’s hair removal devices sold in-store during the six months ended March 31, 2012. On a unit basis, no!no!® Hair accounted for 34% of product sales in this category.
On September 5, 2012, PhotoMedex announced that the Company’s XTRAC® Excimer Laser was favorably featured in articles that appeared in two dermatology medical trade journals in August 2012. The Journal of Drugs in Dermatology’s article entitled “Treatment of Psoriasis and Long-term Maintenance Using 308 nm Excimer Laser, Clobetasol Spray, and Calcitriol Ointment” concluded that the targeted UVB laser therapy is a promising method of treatment, especially for patients who have failed systemic therapy and traditional phototherapy. Additionally, an article entitled “Managing Scalp Psoriasis” in the Dermatologist stated that the excimer laser offers a promising alternative to topical therapies.

On August 18, 2012, PhotoMedex announced that the Company’s Board of Directors authorized the repurchase up to $25 million of its Common Shares in the open market over the next 12 months. The shares are to be purchased with cash on hand.

On July 12, 2012, PhotoMedex announced that no!no!® Hair was featured in a beauty event led by beauty expert Jennifer Crawford and soap opera star Kassie DePaiva. The event, which lasted only 24 hours, ended with no!no!® Hair being sold out and an on-screen counter that showed over 41,000 units sold for $249.95.

On July 3, 2012, Radiancy announced that it entered into an agreement resulting in the settlement and dismissal with prejudice of all pending litigation matters between Radiancy and TRIA Beauty, Inc. According to the Company, the settlement does not materially impact the PhotoMedex’s business while eliminating the associated legal and litigation costs.

On June 11, 2012, PhotoMedex announced that it was joining both the Russell 3000® and the Russell Microcap® Indexes when Russell Investments reconstituted its family of U.S. Indexes on June 25, 2012. Inclusion in the Russell 3000 and Microcap Indexes is determined by a company’s total market capitalization.

On May 1, 2012, the Company announced that its application to the Tel-Aviv Stock Exchange (TASE) was accepted for the ticker symbol “PHMD.TA.”

On April 27, 2012, PhotoMedex announced the closing of concurrent registered offerings of 3,023,432 shares of its Common Stock at $13.23 per share. The gross proceeds to PhotoMedex from the offerings were approximately $40 million, before deducting underwriting discounts, commissions, and other offering expenses.

On April 5, 2012, PhotoMedex rang the Closing Bell at the NASDAQ stock exchange, a milestone celebrating a banner year in 2011. On March 30, 2012, the Company reported that 2011 annual revenues increased by 89%, gross profit increased 97%, and adjusted net income increased 95%. Revenues for 2011 were $132.1 million.

On April 3, 2012, PhotoMedex announced that it had sold more than one million units of its NEOVA® SmartSunscreen DNA Damage Control SILC SHEER 2.0 SPF 40, a treatment sunscreen designed to provide advanced protection from the risks of skin cancer and premature aging and the cosmetic benefit of a perfect finish.

On March 15, 2012, the Company announced that no!no!® Hair earned the nomination of “Most Innovative Product” by multi-channel retailer HSN at the HSN 2011 Partner Recognition Gala held in St. Petersburg, Florida.
Financial Results

On November 7, 2012, PhotoMedex reported its financial results for the three- and nine-month periods ended September 30, 2012. Highlights of these results are presented below.

It is important to note that on December 13, 2011, Radiancy, Inc. became a majority-owned subsidiary of PhotoMedex in a reverse merger. In accordance with generally accepted accounting principles (GAAP), the related consolidated statements of operations for the periods prior to December 31, 2011, do not include activity from the pre-merged PhotoMedex.

*Three Months Ended September 30, 2012*

In the third quarter 2012, PhotoMedex reported revenues of $56.7 million, an increase of 63% over the third quarter 2011 but a 4% decrease from the second quarter 2012. The largest segment by revenues was the Company’s Consumer business, which generated $49.6 million in sales for the quarter. Consumer sales were derived from direct-to-consumer channels [$30 million in revenue], distributor consumer channels [$9.4 million], and global retail and home shopping channels [$10.2 million]. Compared to the second quarter 2012, distributor revenues were up 34%, retail and home shopping television were up 5%, and direct-to-consumer was down 11%.

As well, the current quarter’s revenues of $56.7 million included $6.4 million in revenues from pre-merged PhotoMedex. In the year-ago third quarter of 2011, revenues were $34.7 million, which did not include any revenues from pre-merged PhotoMedex.

The Company generated a gross profit of $45.4 million in the third quarter 2012, with an 80.1% gross margin. In the year-ago period, gross margin was 76.6%. In the second quarter 2012, gross margin was 79%. Margins continue to expand due to several cost reduction steps that the Company has recently performed, including using ocean freight more often to deliver products and consolidating manufacturing.

Net income in the third quarter 2012 was $7.5 million or $0.35 per diluted share—a 77% increase over the year-ago quarter and a 79% increase over the second quarter 2012. Net income in the third quarter 2011 was $4.2 million or $0.32 per diluted share.

As of September 30, 2012, the Company held cash, cash equivalents, and short-term investments of $54.8 million. In addition, PhotoMedex repurchased 424,244 shares of its Common Stock during the third quarter 2012 at an average price of $12.59 per share for a total of $5.3 million.

*Nine Months Ended September 30, 2012*

For the first nine months of 2012, PhotoMedex reported revenues of nearly $165.9 million versus revenues of $103.3 million for the same nine-month period of 2011. The 2012 sales include $20.6 million from pre-merged PhotoMedex, while the 2011 sales do not include any revenues from pre-merged PhotoMedex.

Year-to-date net income was $16.6 million, or $0.81 per diluted share, as of September 30, 2012, versus net income of $2.3 million, or $0.20 per diluted share, for the comparable period of 2011.
Company Background

Publicly traded PhotoMedex, Inc. and closely held Radiancy Inc. announced their intent to merge in July 2011. The reverse acquisition transaction was completed in December 2011, whereby Radiancy became a majority-owned subsidiary of PhotoMedex. Under generally accepted accounting rules, Radiancy was deemed to be the financial acquirer for financial statement purposes. PhotoMedex and Radiancy (collectively, “the Company”) each emphasize the development of physician-endorsed skin care products based on science. Once cleared for use, these products are commercialized through a systematic, proprietary marketing program that the Company views as integral to its business success.

Following the merger, PhotoMedex reorganized its business into three operating units to capitalize on the Company’s management structure and the markets or customers served:

(1) the consumer segment, which is the largest business unit and which works to transfer professional technologies into the home-use arena through the no!no® product line;

(2) the physician recurring segment, which commercializes the XTRAC® Excimer Laser, a noninvasive, FDA-cleared solution for psoriasis and vitiligo, and NEOVA®, a topical therapy combining DNA repair enzymes and copper peptide complexes to prevent premature skin aging; and

(3) the professional segment, which generates revenues from capital equipment, such as the XTRAC® lasers, Light and Heat Energy (LHE®) brand products, and the Omnilux™ and Lumière Light Therapy system.

An overview of the Company’s key technologies is provided on pages 7-9.

PhotoMedex’s strategic focus is built upon three key components that the Company believes provides it with a competitive advantage: a skilled direct sales force to target the physician and professional segments, expertise in global consumer marketing, and a full product life cycle model. The product life cycle model combines the Company’s ability to develop and commercialize innovative products from concept through regulatory and physician acceptance with the infrastructure and knowledge to market directly to unique target markets.

Skilled Direct Sales Force to Target Physician and Professional Channels

The December 2011 merger between PhotoMedex and Radiancy allowed the companies to blend their technologies and unique expertise in order to strengthen revenue lines, enable cross-selling, and drive development opportunities for future growth. To this end, 2012 financial performance has already exceeded that of 2011, as described on page 4.

PhotoMedex has long been active in physician sales, having developed a portfolio of capital equipment and topical formulations that are sold primarily to dermatologists and other aesthetic professionals at salons and med spas. These products comprise medical lasers for skin diseases such as psoriasis and vitiligo, phototherapies for acne and sun damage, therapeutic skin care, and surgical laser systems, among other products.

One of PhotoMedex’s competitive advantages is an experienced, physician-targeted sales force that is currently selling into 3,000 U.S. locations. Radiancy is now capitalizing on this skilled sales force in order to drive greater adoption of its line of proprietary LHE® products. These products, which provide skin rejuvenation, acne treatment, hair removal, and other services for dermatologists and med spas, generated pre-merger annual revenue for Radiancy of approximately $5 million despite only being sold by a limited sales force of a few individuals (Source: PhotoMedex). The Company believes that the combination of this product line with PhotoMedex’s domestic U.S. sales infrastructure can expand use of the LHE® products in multiple sales channels.
Expertise in Global Consumer Marketing

Radiancy brings to PhotoMedex a highly advanced consumer sales engine accompanied by creative marketing programs, well-tested and successful direct-to-consumer marketing strategies, and a global distributor and retail network. Prior to merging with PhotoMedex, Radiancy posted revenues of approximately $126 million and adjusted net income of approximately $35 million for the trailing 12 months ended September 30, 2011. The vast majority of this revenue was generated through consumer sales of Radiancy’s patented line of no!no!® hair and skin care products. The no!no!® products are sold at roughly 5,000 retail outlets across 55 countries, through infomercials and print/radio/other television advertising worldwide, online, and on home shopping channels, and at Company-owned stores and kiosks.

Demonstrating the success of these strategies, the no!no!® line has consistently broken sales records and is believed to hold the largest market share of any home-use aesthetic device, measured at 26% based on 2010 retail sales data. The Company is also a leading brand of home-use device disposables (Source: Medical Insight, Inc.’s Home-Use Devices: Rapidly Moving into the Mainstream, August 2011). In addition, new market data commissioned by Ya-Man Ltd., the Company’s Japan distributor, and compiled by GfK Japan in October 2012 found that no!no!® Hair is the leading women’s hair removal device in Japan. Based on data collected from retailers for the six months ended March 31, 2012, the Company’s no!no!® Hair product accounts for 53% of the cumulative retail value of all women’s hair removal devices sold in store in Japan. Importantly, this data is limited to only brick-and-mortar stores and does not include other retail avenues in Japan, such as home shopping, catalog, or direct to consumer, where PhotoMedex has less competition; thus, the Company believes it is possible that its market share in Japan is even higher when all channels are included. Capitalizing on the strength of its consumer marketing in Japan, PhotoMedex has also recently launched its no!no!® line for men.

Beyond the no!no!® line, PhotoMedex capitalizes upon Radiancy’s consumer marketing expertise to further patient awareness of its XTRAC® Excimer Laser and NEOVA® topical skin care products, which were traditionally only marketed to physicians and aesthetic professionals. By incorporating a direct-to-consumer element, PhotoMedex aims to increase brand awareness and drive patients into physicians’ practices in search of these products. As well, Radiancy’s experience effectively penetrating culturally distinct regions with targeted advertising further benefits the expansion of PhotoMedex’s non-device technologies into global consumer channels. The recently launched “Live Clear. Live Free.” promotional campaign for XTRAC® (as described below) is a prime example of PhotoMedex incorporating consumer marketing strategies into its physician and professional products.

Live Clear. Live Free.

In late 2012, PhotoMedex launched a nationwide education campaign targeted at U.S. consumers and physicians, with the intent of raising awareness of the Company’s XTRAC® tools to treat psoriasis and vitiligo patients. As part of the “Live Clear. Live Free.” Campaign, national direct-to-consumer radio and television advertising began airing in November 2012, supported by a direct mail campaign. A 24/7 call center staffed with clinical specialists provides insurance guidance, answers questions on XTRAC® therapy, and expedites appointments with physicians. In addition, the XTRAC® website, www.LiveXTRACClear.com, has been equipped with patient and physician resources, and new patient education materials were delivered to all 300 authorized XTRAC® practices nationwide.

In addition to providing patients with key information about their skin diseases and treatment options, “Live Clear. Live Free.” seeks to drive awareness of XTRAC® care among a wider physician base beyond just dermatologists commonly treating psoriasis and vitiligo patients.

Blending Corporate Cultures

Ultimately, due to the sales channel and product line synergies, both PhotoMedex and Radiancy maintain that the combination of these two businesses has enabled a revenue and earnings growth potential that neither firm would be able to achieve independently. The companies have also developed complementary corporate cultures over the years, with shared commitments to innovation, product quality, and meeting the evolving needs of customers. As
well, both firms emphasize the development of products and technologies that are backed by science and clinical support. Between the two businesses, the Company holds more than 90 clearances from the U.S. Food and Drug Administration (FDA) under Section 510(k) of the Food, Drug, and Cosmetic Act, indicating that PhotoMedex/Radiancy has permission to commercialize such products in the U.S. based on having submitted safety and efficacy information to the FDA.

**Full Product Life Cycle Model**

Over its 15-year history, Radiancy has introduced a portfolio of professional-grade consumer products for hair removal, acne treatment, skin rejuvenation, and facial skin tightening. These products—marketed globally under the no!no!® brand—are built upon the same technology platforms that are used in medical devices for physicians and aestheticians. Radiancy has been able to bring the clinical solutions used by physicians and med spas to the consumer home-use market by successfully miniaturizing equipment into handheld products and engaging in a multi-faceted worldwide sales and marketing strategy. Under this type of “full product life cycle model,” the development of medical technology through regulatory agencies and acceptance by dermatologists can lead to an effective new technology for consumer use. Figure 1 summarizes this model.

![Figure 1](Image)

**Sources:** PhotoMedex, Inc. and Crystal Research Associates, LLC

Once an idea is generated, it is refined and tested through the development stage, which includes leveraging the knowledge of PhotoMedex’s Scientific Advisory Board. The Company’s marketing organization then works to encourage physician adoption of the new process/product. While many companies may stop at this point, PhotoMedex’s full product life cycle encourages the Company to continue to innovate and broaden its market opportunity by further miniaturizing professional technologies for home-use.

Optimizing technologies for consumer use involves many considerations, including understanding and matching consumer expectations and providing superior customer service, eliminating the need for consumers to calibrate or safety test devices in the way that professionals are required to do for in-office capital equipment, and setting price points that are favorable for the Company but affordable for consumers. These key elements were the basis for the no!no!® product line, which received the Consumer Survey of Product Innovation’s 2011 “Product of the Year” award in the At Home Beauty Treatment category (Source: Electronic Retailer magazine, July 2011), as well as was nominated as “Most Innovative Product” at the HSN 2011 Partner Recognition Gala in Florida.

**Key Technology Platforms**

The Company believes that it is one of few aesthetic dermatology companies to have succeeded in taking professional technologies geared toward physicians and med spas and adapting them for the home-use market. Figure 2 (page 8) highlights a selection of the Company’s professional- and consumer-use products, which are overviewed following the Figure, noting that this is not an exhaustive listing of PhotoMedex’s product portfolio but represents the Company’s current key areas of focus.


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<th>Professional Technologies</th>
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<td>Lumière</td>
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<td>FSD (Facial Skin Treatment Device)</td>
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Sources: PhotoMedex, Inc. and Crystal Research Associates, LLC.

- **Thermicon Heat Transfer Technology.** In this technique, a patented thermodynamic wire gently singes and burns off the hair above the skin’s surface. It also conducts heat pulses into the skin to destroy the hair follicle, which enables longer-lasting hair removal. This technology drives Radiancy’s home-use no!no!® Hair Removal 8800™ device, which is designed to reduce hair growth. Product variations include devices designed for men and for sensitive, small areas such as the face, among other versions.

- **LHE® Technology.** LHE® combines direct heat and a full-spectrum light source to give a greater treatment advantage for psoriasis and acne care, skin tightening, skin rejuvenation, wrinkle reduction, collagen renewal, vascular and pigmented lesion treatments, and hair removal. Using LHE®, the Mistral intelligent phototherapy medical device (which retails for $50,000) can treat a larger spot size than a laser with less discomfort. As well, Radiancy’s research finds that LHE® offers meaningful results for thin, light hair. The technology is also used in the no!no!® Skin, a handheld consumer product sold worldwide under the no!no!® brand. The no!no!® Skin is a 510(k)-cleared product that has been clinically shown to reduce acne by 81% over 24 hours.

- **XTRAC® Excimer Laser.** XTRAC® received an FDA clearance in 2000 and has since become a widely recognized treatment among dermatologists for psoriasis and other skin conditions for which there are no cures. The machine delivers narrow ultraviolet B (UVB) light to affected areas of skin, leading to psoriasis remission in an average of 8 to 12 treatments and of vitiligo after 48 treatments. XTRAC® is endorsed by the National Psoriasis Foundation, and its use for psoriasis is covered by nearly all major insurance companies, including Medicare. Nearly 65% of companies now offer reimbursement for vitiligo as well, a figure that is increasing.

In August 2012, the XTRAC® Excimer Laser was featured in articles that appeared in two dermatology medical trade journals. The *Journal of Drugs in Dermatology*’s “Treatment of Psoriasis and Long-term Maintenance Using 308 nm Excimer Laser, Clobetasol Spray, and Calcitriol Ointment” (11[8]:994-996, 2012) profiled two cases demonstrating effective treatment with excimer laser in conjunction with topical medications. The authors concluded that UVB laser therapy could be a promising method of treatment, especially for many who have failed systemic therapy and traditional phototherapy. In the *Dermatologist’s* “Managing Scalp Psoriasis” article (20[8]:28-31, 2012), a number of treatments for scalp psoriasis including phototherapy were reviewed, and the use of the 308 nm excimer laser was found to offer a promising alternative to topical therapies and conventional phototherapy.
• NEOVA®. This line of topical formulations is designed to prevent premature skin aging due to UV-induced DNA damage. The therapy seeks to repair photo-damaged skin using a novel combination of two key ingredients: DNA repair enzymes and the Company’s Copper Peptide Complex®. The NEOVA® line includes DNA Damage Control SILC SHEER SPF 45, an award-winning tinted sunscreen. The DNA repair enzymes of this sunscreen are clinically shown to reduce UV damage by 45% and increase UV protection by 300% in one hour.

• Light-emitting Diode (LED) Technology. PhotoMedex’s LED technology is used in both its Omnilux™ and Lumière Light Therapy systems. Omnilux is FDA cleared to treat wrinkles, acne, minor muscle pain, and pigmented lesions, and is applicable to all skin types. Lumière is designed for use in non-medical applications and combines the LED light with a line of topical lotions to improve the appearance of fine lines, wrinkles, skin tone, and blemishes, giving aesthetic professionals a complete non-invasive skin care solution.

Market Dynamics

In recent years, specialized medical professionals, such as dermatologists, obstetricians, and gynecologists, have expanded their services to include medical aesthetics in order to increase profitability. In 2012, Medical Insight valued the global aesthetic market at roughly $34 billion annually, which includes retail and direct-to-consumer sales as well as revenues derived from physicians, dermatologists, plastic surgeons, and aestheticians who use professional-grade equipment at salons and med spas. As more individuals are working at home or unemployed, direct sales channels such as home shopping networks, infomercials, and e-commerce have become the primary means of distribution for these products—harnessing 60% of total market share (Source: Kline & Company, Inc.’s At-home Skin Care Devices 2011: U.S. Market Analysis and Opportunities, July 2011).

Growth in the number of aesthetic procedures and sales of home-use beauty products worldwide is fueled by the following trends: (1) baby boomers’ desire to maintain a youthful appearance amid an aging global population; (2) an emerging middle class in many countries; (3) an increasing availability of technologies with scientifically supported safety and efficacy; (4) younger populations (in their 20s and 30s) who seek preventive solutions to aging; and (5) a widening range of home beauty products (e.g., hair removal, skin rejuvenation, and acne reduction).

Competitive Advantages

PhotoMedex’s competitive advantages include the perceived strength of its technologies as well as its marketing platform. PhotoMedex and Radiancy’s technologies are clinically supported, hold regulatory clearances, are associated with low costs of goods and high margins, and have large addressable market opportunities. As well, each platform has unique advantages to distinguish it from competitive offerings. For instance, the no!no!® Hair home-use products are designed as an alternative to the use of lasers or intense pulsed light (IPL) hair removal treatments. Both professional and home-use laser hair removal techniques are ineffective for blond, white, gray, or red hair, as these follicles lack the melanin that attracts laser light. Laser-based hair removal is also not well suited for darker skin colors where there is insufficient contrast between the melanin in the skin and the melanin in the hair to direct the laser. The no!no!® Hair’s heat transfer technology, however, can be used for all skin color and hair types and is virtually painless.

Additionally, the Company believes that its marketing budget/resources are a key advantage. Radiancy uses a multifaceted sales and marketing strategy customized to both the potential and needs of unique global markets. Distribution occurs through direct sales activity as well as through strategic agreements with specialty distributors.

Intellectual Property

According to the Company, its intellectual property (IP) position is a key competitive advantage that may serve as a barrier to entry for competitors in its target markets. The merger between PhotoMedex and Radiancy created an IP portfolio consisting of 146 issued patents, 111 patent applications, and 213 trademarks around the world. In the U.S. alone, PhotoMedex’s business is protected by 48 patents.
Headquarters and Employees

Following the merger with Radiancy, the Company retained the PhotoMedex name and corporate headquarters in
Montgomeryville, Pennsylvania. The Company also possesses a North American consumer sales, marketing, and
customer support facility in Orangeburg, New York, which was previously Radiancy’s headquarters, as well as a
location for clinical research and development, operations, and sales and marketing in Hod Hasharon, Israel, and
an office in London for sales, marketing, and administration for Europe. At a Carlsbad, California, facility,
PhotoMedex performs XTRAC® Excimer Laser manufacturing, has an insurance reimbursement department, and

PhotoMedex’s Common Stock is listed on the NASDAQ under the ticker “PHMD” and on the Tel-Aviv Stock
Exchange (TASE) under the ticker “PHMD.TA.” In June 2012, PhotoMedex joined the Russell 3000® and the Russell
Microcap® Indexes. PhotoMedex employs approximately 200 individuals worldwide. In addition, PhotoMedex has
access to more than 600 full-time equivalent (FTE) outsourced employees working at call centers, fulfillment
centers, and contract manufacturers.
Key Points to Consider

- PhotoMedex is a global skin health company addressing a worldwide aesthetic industry valued at $34 billion annually. The Company provides dermatologists, professional aestheticians, and consumers with the equipment and skin care products they need to treat psoriasis, vitiligo, acne, hair growth, and UV damage, among other skin conditions.

- PhotoMedex’s strategic focus is built upon three key components: a skilled direct sales force to target the physician and the professional segments, expertise in global consumer marketing, and a full product-life-cycle model incorporating the ability to develop and commercialize innovative products from concept through regulatory and physician acceptance.

- In December 2011, PhotoMedex merged with Radiancy, combining the companies’ product lines, proprietary marketing program, sales channels, infrastructure, and intellectual property. The combined company emphasizes the development and commercialization of physician-endorsed skin care products based on technologies that are clinically supported, hold regulatory clearances, are associated with low costs of goods and high margins, and have large addressable market opportunities.

- Following the merger, the Company reorganized into three operating units: (1) consumers, which is the largest business unit; (2) physician recurring, which commercializes the XTRAC® Excimer Laser and the NEOVA® topical therapies; and (3) professional, which generates revenues from capital equipment, such as the XTRAC® lasers, LHE® brand products, and the Omnilux™ and Lumière Light Therapy system.

- PhotoMedex capitalizes on Radiancy’s consumer marketing expertise to further patient awareness of its XTRAC® Excimer Laser and NEOVA® topical skin care products, which have traditionally been marketed only to physicians and aesthetic professionals. By incorporating a direct-to-consumer element, PhotoMedex aims to increase brand awareness and drive patients into physicians’ practices in search of these products.

- The Company’s innovative line of no!no!® Hair removal devices have experienced widespread retail success. More than 300,000 no!no!® Hair units have been sold through home shopping television in the U.S. and over four million units have been sold worldwide to date. The current record for one-day sales of no!no!® Hair was set in November 2012, when 42,000 units were sold in a 24-hour beauty event on a U.S. home shopping network—generating $10.5 million in retail sales in one day.

- In Japan, no!no!® Hair has reached a 53% market share based on retail sales in brick-and-mortar stores. In the UK in October 2012, nearly 9,000 units of no!no!® Hair were sold during a televised event on QVC UK, for retail sales of £1.35 million (~$2.16 million) in one weekend.

- PhotoMedex’s global presence includes a direct sales force in the U.S., specialty distributors and retail venues in over 55 countries, online sales, home shopping TV channels, Company-owned stores/kiosks in certain countries, and targeted infomercials and print media disseminated worldwide. In addition, the Company holds 257 issued and pending patents globally, 91 regulatory clearances to market products in the U.S. (known as 510(k) clearances), and a solid product pipeline.

- Company leadership is skilled in consumer, physician, and professional product development and sales, as well as in marketing professional aesthetics devices made for consumers. Management is supported by an experienced Board of Directors and a comprehensive Scientific Advisory Board, whose members bring broad dermatological and aesthetic medical expertise to PhotoMedex.

- As of September 30, 2012, the Company held cash, cash equivalents, and short-term investments of $54.8 million. In addition, PhotoMedex repurchased 424,244 shares of its Common Stock during the third quarter 2012 at an average price of $12.59 per share for a total of $5.3 million.
This Quarterly Update has been prepared by PhotoMedex, Inc. (“PhotoMedex” or “the Company”) with the assistance of Crystal Research Associates, LLC (“CRA”) based upon information provided by the Company. CRA has not independently verified such information. Some of the information in this update relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. Such statements can only be predictions and the actual events or results may differ from those discussed due to the risks described in PhotoMedex’s statements on Forms 10-K, 10-Q, and 8-K, as well as other forms filed from time to time.

The content of this report with respect to PhotoMedex has been compiled primarily from information available to the public released by the Company through news releases, Annual Reports, and U.S. Securities and Exchange Commission (SEC) filings. PhotoMedex is solely responsible for the accuracy of this information. Information as to other companies has been prepared from publicly available information and has not been independently verified by PhotoMedex or CRA. Certain summaries of activities and outcomes have been condensed to aid the reader in gaining a general understanding. CRA assumes no responsibility to update the information contained in this report. In addition, CRA has been compensated by the Company in cash of forty thousand dollars and twenty-five thousand warrants for its services in creating the base Executive Informational Overview® (EIO), for updates, and for printing costs. For more complete information about the risks involved in an investment in the Company, please see PhotoMedex’s most recent Form 10-K filed with the SEC on March 30, 2012, available here: http://www.sec.gov/Archives/edgar/data/711665/000071166512000006/0000711665-12-000006-index.htm.

Investors should carefully consider the risks and information about PhotoMedex’s business, as described in the Company’s Form 10-K filed with the SEC on March 30, 2012. Investors should not interpret the order in which considerations are presented in this or other filings as an indication of their relative importance. The risks and uncertainties overviewed in PhotoMedex’s Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not presently known to PhotoMedex or that it currently believes to be immaterial may also adversely affect the Company’s business. If any such risks and uncertainties develops into an actual event, PhotoMedex’s business, financial condition, and results of operations could be materially and adversely affected, and the trading price of the Company’s shares could decline.

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Crystal Research Associates is led by veteran Wall Street sell-side analyst Jeffrey Kraws, who is well known by the international financial media for his years of work on Wall Street and for providing consistent award-winning analyses and developing long-term relationships on both the buy-side and sell-side. He has been consistently ranked on Wall Street among the Top Ten Analysts for pharmaceutical stock performance in the world for almost two decades as well as ranked as the Number One Stock Picker in the world for pharmaceuticals by Starmine and for estimates from Zacks. Additionally, Mr. Kraws has been 5-Star Ranked for top biotechnology stock performance by Starmine.

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