

THERMAGE INC
Form S-1/A
October 24, 2006
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As filed with the Securities and Exchange Commission on October 24, 2006

Registration No. 333-136501

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

THERMAGE, INC.

(Exact name of Registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

3845
*(Primary Standard Industrial
Classification Code Number)*
25881 Industrial Boulevard

68-0373593
*(I.R.S. Employer
Identification Number)*

Hayward, California 94545

(510) 782-2286

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

Stephen J. Fanning

President and Chief Executive Officer

Thermage, Inc.

25881 Industrial Boulevard

Hayward, California 94545

(510) 782-2286

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

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

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

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

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

If 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.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1) (2)	Amount of Registration Fee
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Common Stock \$0.001 par value

\$89,700,000

\$9,598 (3)

- (1) In accordance with Rule 457(o) under the Securities Act of 1933, the number of shares being registered and the proposed maximum offering price per share are not included in this table.
- (2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457 under the Securities Act of 1933.
- (3) Of this amount, the registrant previously paid \$9,229 as a registration fee with this Registration Statement on Form S-1, Registration No. 333-136501, filed on August 10, 2006.

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 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus dated October 24, 2006

PROSPECTUS

6,000,000 Shares

Common Stock

This is our initial public offering. We are selling 6,000,000 shares of our common stock.

We expect the initial public offering price to be between \$11.00 and \$13.00 per share of common stock. Currently, no public market exists for our common stock. Our common stock has been approved for listing on the Nasdaq Global Market under the symbol THRM.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 8 of this prospectus.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase up to an additional 900,000 shares of common stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallocments.

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

The shares of common stock will be ready for delivery on or about _____, 2006.

Merrill Lynch & Co.

Thomas Weisel Partners LLC

Wachovia Securities

C. E. Unterberg, Towbin

Maxim Group LLC

The date of this prospectus is _____, 2006.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights the most important features of this offering and the information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors and our financial statements and related notes included in this prospectus.

Our Company

We design, develop, manufacture and market medical devices for the non-invasive treatment of wrinkles. Our Thermage procedure can be performed on any part of the body where treatment of wrinkles is desired. Our ThermaCool system uses patented monopolar radiofrequency, or RF, energy to heat and shrink collagen and tighten the dermis and subcutaneous tissue while simultaneously cooling and protecting the surface of the skin. The heating and shrinking of the collagen can cause a healing process to begin, which may further tighten the skin and reduce wrinkles over the next two to six months. The Thermage procedure is normally performed in a medical office setting as a single treatment that takes from 20 minutes to two hours, depending on the treatment area. The Thermage procedure provides patients seeking wrinkle reduction a non-invasive alternative to more expensive surgical procedures that can involve weeks of recovery. We offer, and are continuing to develop, a variety of ThermaTips designed to optimize the Thermage procedure for new conditions and different parts of the body.

In 2002, we received U.S. Food and Drug Administration, or FDA, clearance for the treatment of wrinkles around the eyes, or periorbital wrinkles and rhytids, and commercially launched our ThermaCool system. We market the ThermaCool system, including our single-use ThermaTips, in the United States to physicians through a direct sales force and internationally in 70 countries through a network of distributors. Our sales force trains physicians on the proper use of the ThermaCool system and maintains frequent interaction with these customers to promote repeat sales of our ThermaTips. As of June 30, 2006, we had an installed base of over 1,800 ThermaCool RF generators and had sold over 275,000 ThermaTips, which we estimate represent an approximately equal number of Thermage procedures performed.

The Market for Aesthetic Procedures to Treat the Skin

The American Society for Aesthetic Plastic Surgery reports that in 2005, total expenditures for aesthetic procedures were approximately \$12.4 billion. From 2000 to 2005, the total number of aesthetic procedures increased from approximately 5.7 million to over 11.4 million procedures, representing a 15% compounded annual growth rate. Non-invasive aesthetic procedures were primarily responsible for the overall increase, rising from approximately 4.3 million to approximately 9.3 million procedures over the same period, representing a 17% compounded annual growth rate. Furthermore, patients are seeking treatment for wrinkles in larger numbers. For example, skin tightening, which represents the fastest growing segment of the aesthetic laser market, is projected to grow at a 31% compounded annual growth rate over the next five years, according to the Millennium Research Group. We believe there are several factors contributing to the rapid growth of non-invasive aesthetic and skin tightening procedures, including:

aging of the U.S. population;

emergence of non-traditional practitioners;

broader range of and accessibility to safe and effective treatments;

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market shift towards less-invasive procedures;

changing practitioner economics; and

increasing acceptance of aesthetic procedures.

Similar market trends also exist outside the United States, where demand for non-invasive aesthetic procedures has also experienced strong growth.

Widely-adopted treatment options for wrinkle reduction fall generally into one of two categories: either a single invasive procedure involving significant recovery time, but with a long-lasting, pronounced effect; or a procedure that is either minimally-invasive or non-invasive involving minimal recovery time, but requiring frequent repeat treatments for a modest effect. We believe that the ideal treatment option falls between these two extremes, providing lasting, noticeable effects from a single procedure that involves little or no downtime.

The Thermage Solution

We believe that our Thermage procedure provides a compelling alternative for the treatment of wrinkles that fills a need not met by currently available surgical procedures and minimally and non-invasive treatments. Our ThermoCool system consists of an RF generator, a cooling module to deliver cryogen to help protect the outer layer of the skin from over-heating and a handpiece that regulates epidermis cooling and monitors treatment data. Our system also includes a variety of single-use ThermoTips that attach to the handpiece and are selected by physicians based on the procedure to be performed and the size of the area to be treated. The Thermage procedure is typically performed in a medical office setting by, or under the supervision of, qualified physicians, including not only plastic surgeons and dermatologists, but also physicians who do not traditionally perform cosmetic surgery, such as general and family practitioners, obstetricians and gynecologists, and general and vascular surgeons.

Our solution provides a number of benefits for physicians and patients:

controlled heating of collagen;

non-invasive, non-ablative alternative to surgery;

single-procedure treatment;

compelling physician economics; and

ease of use.

Our Thermage Procedure

In order to perform our Thermage procedure, the physician chooses a single-use ThermoTip based on the procedure to be performed and the size of the area to be treated. We currently offer four treatment tip sizes with a combination of pulse counts, pulse durations and heating profiles for a variety of uses:

Body-By-Thermage, which involves the use of a larger tip, such as the 3.0 cm² tip, designed for the treatment of large areas;

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Eyes-By-Thermage, which involves the use of a small, 0.25 cm² tip, designed for the treatment of eyelids; and

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Face-By-Thermage, which involves the use of 3.0 cm², 1.5 cm² or 1.0 cm² tip sizes, designed for the treatment of the face and neck.

After choosing the tip and attaching it to the handpiece, the physician places the tip against the patient's skin and depresses the handpiece button. Information from the handpiece is sent to the console in order to control RF delivery. The ThermoTip device transmits RF energy to the skin while serving as a contact membrane for the delivery of cryogen, which cools and helps protect the skin's surface. Thermage procedure times vary with the size of the treatment area; a procedure for a full face typically requires multiple passes and takes approximately 60 minutes.

In our clinical studies of the Thermage procedure, performed primarily on the face, most patients displayed modest wrinkle reduction from a single treatment, over a measurement period of six months. Patients may notice immediate improvement in their appearance and are typically able to resume normal activities directly after having the procedure. Over the subsequent two to six months, patients may experience further tightening of the treated skin as new collagen strands grow.

As with other non-invasive, energy-based devices, the effect of the Thermage procedure varies from patient to patient and can be influenced by a number of factors, including the area of the body being treated, the age and skin laxity of the patient and operator technique. Thermage patients may experience temporary swelling and reddening of the skin and, in rare instances, patients may experience burns, blisters, skin discoloration or skin depressions.

Business Strategy

Our goal is to become a leading provider of non-ablative medical devices to the aesthetics market by:

Driving Increased ThermoTip Usage. We maintain an active, continuous relationship with our customer base to generate and fulfill demand for our single-use ThermoTips. We work collaboratively with our customer base to increase ThermoTip usage by expanding clinical applications and augmenting and facilitating the marketing efforts of our physician customers.

Developing New Applications and ThermoTips. We intend to expand our line of ThermoTips for additional applications and conditions. We recently received FDA clearance to market the TherMassager, an accessory to our ThermoCool system, for the temporary improvement in the appearance of cellulite and for therapeutic massage, which we currently intend to commercially launch in 2007. We are in the process of seeking, and intend to continue to seek, clearances from the FDA to strengthen our marketing efforts with regard to specific areas of the body, such as arms, the abdomen, hands and other locations on the body where wrinkle reduction is desired.

Investing in Intellectual Property and Patent Protection. We will continue to invest in expanding our intellectual property portfolio in the aesthetics market, and we intend to file for additional patents to strengthen our intellectual property rights. When necessary, we will pursue companies that we believe infringe our patents.

Broadening our Physician Customer Base. We intend to continue to penetrate the traditional aesthetic practitioner specialties, which include dermatologists and plastic surgeons. We are also seeking to selectively expand our direct sales efforts in non-core physician specialties and physician-directed medi-spas with track records of safe and successful aesthetic treatments.

Expanding our International Presence. We are focused on increasing our market penetration overseas and building global brand-recognition. We intend to add distributors to increase sales and strengthen our relationships with physicians in international markets.

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Seeking Growth Opportunities via Complementary Products, Technologies or Businesses. We intend to pursue opportunities to expand our core business by identifying opportunities to offer complementary proprietary products for the aesthetics market.

Risks Associated with Our Business

Our business is subject to numerous risks, as discussed more fully in the section entitled *Risk Factors* immediately following this summary. We are wholly dependent upon the success of our ThermaCool system and our ThermaTip product line, have a limited operating history and may be unable to accurately predict our future performance. Our business currently is not profitable, and we may not be able to achieve profitability. We have limited regulatory clearances. To expand our marketing claims in the United States and abroad, we will need to obtain additional regulatory clearances, which may require the support of clinical trials, the success of which we cannot predict. Our growth will depend on both patient demand for our procedures and physician adoption of the ThermaCool system. Our industry is highly competitive, and we compete against many companies that are more established in the market and have greater resources. In order to keep pace with the rapid innovation in our industry, we must continuously develop compelling new products for which we can obtain intellectual property protection.

Recent Developments

A brief summary of certain of our preliminary unaudited financial results for the three months ended September 30, 2006 is set forth below. This summary is not meant to be a comprehensive statement of our financial results for this period. In the three months ended September 30, 2006, our net revenue was approximately \$12.5 million, our cost of revenue was approximately \$3.5 million, our total operating expenses were approximately \$10.7 million, our loss from operations was approximately \$1.6 million and our net loss was approximately \$1.5 million. Our cash and cash equivalents as of September 30, 2006 was approximately \$10.5 million.

Our net revenue for the three months ended September 30, 2006 increased \$4 million, or 47%, from revenue for the three months ended September 30, 2005. Gross margin percent in the three months ended September 30, 2006 was 72% compared to 70% in the three months ended September 30, 2005. Operating expenses in the three months ended September 30, 2006 increased \$1.9 million, or 22%, from operating expenses in the three months ended September 30, 2005. The factors that primarily influenced results of operations during the first two quarters of 2006 were also the primary factors influencing third quarter performance. Additionally, seasonality and costs incurred in preparing for an initial public offering impacted our third quarter results.

You should read this data together with our financial statements and related notes included elsewhere in this prospectus and the information under *Selected Financial Data* and *Management's Discussion and Analysis of Financial Condition and Results of Operations*. The foregoing discussion of our expectations regarding our results for the third quarter of 2006 are not necessarily indicative of results to be expected for the year ending December 31, 2006 or for any other interim period or for any future year.

Company Information

We were incorporated in California in 1996. In September 2001, we reincorporated in Delaware. Our principal executive offices are located at 25881 Industrial Boulevard, Hayward, California 94545. Our telephone number is (510) 782-2286. Our website is located at www.thermage.com. The information contained on, or that can be accessed through, our website is not a part of this prospectus. Unless the context requires otherwise, the terms *we*, *our*, *us*, *the Company* and *Thermage* in this prospectus refer to Thermage, Inc.

Thermage, ThermaCool and ThermaCool TC are registered trademarks in the United States and several other countries. ThermaTip is an unregistered trademark. All other trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

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THE OFFERING

Common stock offered by us	6,000,000 shares
Common stock to be outstanding after this offering	22,370,450 shares
Use of proceeds	We intend to use the net proceeds received by us from this offering for sales and marketing initiatives, research and development, repayment of existing debt and general corporate purposes. See Use of Proceeds.
Proposed Nasdaq Global Market symbol	THRM

The number of shares of common stock that will be outstanding after this offering is based on 16,370,450 shares outstanding as of June 30, 2006, and excludes:

617,607 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$4.50 per share;

3,145,579 shares of common stock issuable upon the exercise of outstanding options under our 1997 Stock Option Plan at a weighted-average exercise price of \$1.70 per share;

234,756 shares of common stock reserved for issuance as of June 30, 2006 under our 1997 Stock Option Plan;

2,750,000 shares of common stock to be reserved for issuance under our 2006 Equity Incentive Plan; and

250,000 shares of common stock to be reserved for future issuance under our 2006 Employee Stock Purchase Plan. Unless otherwise indicated, all information in this prospectus assumes:

the conversion of all outstanding shares of our preferred stock into shares of our common stock;

the filing of our amended and restated certificate of incorporation prior to completion of this offering; and

that the underwriters do not exercise their overallotment option.

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The summary financial data for each of the years ended December 31, 2003, 2004 and 2005 and the balance sheet data as of December 31, 2004 and 2005 are derived from our audited annual financial statements included elsewhere in this prospectus. The summary balance sheet data as of December 31, 2003 is derived from our audited financial statements not included in this prospectus. The summary financial data as of June 30, 2006 and for the six months ended June 30, 2005 and 2006 are derived from our unaudited interim financial statements included elsewhere in this prospectus. The unaudited interim financial statements have been prepared on the same basis as our audited annual financial statements and, in our opinion, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the results of operations for the six months ended June 30, 2005 and 2006. The historical results are not necessarily indicative of the results to be expected for any future periods and the results for the six months ended June 30, 2006 should not be considered indicative of results expected for the full fiscal year.

You should read the following financial information together with the information under Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

The pro forma per share data give effect to the conversion of all outstanding convertible preferred stock into common stock prior to the closing of this offering and adjustments to eliminate charges associated with our preferred stock warrant liability.

Statements of Operations Data

<i>(in thousands of dollars, except share and per share data)</i>	Years Ended December 31,			Six Months Ended	
	2003	2004	2005	June 30,	2006
		(restated)⁽¹⁾		2005	2006
Net revenue	\$ 24,910	\$ 50,384	\$ 40,655	\$ 22,817	\$ 27,062
Cost of revenue	12,566	12,452	12,309	6,286	7,679
Gross margin	12,344	37,932	28,346	16,531	19,383
Operating expenses					
Sales and marketing	8,945	15,596	19,997	10,118	12,150
Research and development	6,569	8,490	8,908	4,287	4,940
General and administrative	3,612	8,873	7,414	3,962	4,657
Litigation settlement gain			(1,646)	(1,646)	
Total operating expenses	19,126	32,959	34,673	16,721	21,747
Income (loss) from operations	(6,782)	4,973	(6,327)	(190)	(2,364)
Interest and other income	205	177	340	143	240
Interest and other expense	(7)	(14)	(1,549)	(13)	(1,628)
Income (loss) before income taxes and cumulative effect of change in accounting principle	(6,584)	5,136	(7,536)	(60)	(3,752)
Provision for income taxes		(103)			
Net income (loss) before cumulative effect of change in accounting principle	(6,584)	5,033	(7,536)	(60)	(3,752)
Cumulative effect of change in accounting principle			(697)		
Net income (loss)	\$ (6,584)	\$ 5,033	\$ (8,233)	\$ (60)	\$ (3,752)
Net income (loss) allocable to common stockholders	\$ (6,584)	\$ 313	\$ (8,233)	\$ (60)	\$ (3,752)
Net income (loss) per share basic and diluted:					
Before cumulative effect of change in accounting principle			\$ (2.06)	\$ (0.02)	
Cumulative effect of change in accounting principle			(0.19)		

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Net income (loss) per share basic	\$	(2.85)	\$	0.10	\$	(2.25)	\$	(0.02)	\$	(0.91)
Net income (loss) per share diluted	\$	(2.85)	\$	0.06	\$	(2.25)	\$	(0.02)	\$	(0.91)
Weighted average shares outstanding used in calculating net income (loss) per common share:										
Basic	2,307,238	3,023,225	3,664,990	3,562,659	4,132,187					
Diluted	2,307,238	5,319,754	3,664,990	3,562,659	4,132,187					
Pro forma net loss per share basic					\$	(0.39)			\$	(0.16)